FRESENIUS

2019

- FINANCIAL STATEMENTS
- MANAGEMENT REPORT
- REPORT OF THE SUPERVISORY BOARD

Fresenius SE & Co. KGaA Bad Homburg v.d.H.

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, 2019

Assets

	Note	Dec 31, 2019		Dec 31, 2018	
		kEUR	kEUR	kEUR	kEUR
A. Fixed Assets	(4)				
I. Intangible assets			11.596		7.402
II. Tangible assets			122.477		90.513
III. Financial assets			11.192.041		11.172.337
			11.326.114		11.270.252
B. Current assets					
I. Accounts receivable and other assets	(5)				
1. Trade accounts receivable		-		2	
2. Accounts receivable from related parties		3.376.281		2.756.986	
3. Other assets		181.495	3.557.776	202.548	2.959.536
II. Cash and cash equivalents	(6)		2.251		49.025
			3.560.027		3.008.561
C. Deferred expense	(7)		46.008		55.257
			14.932.149		14.334.070

Liabilities and shareholders' equity

	Note	Dec 31, 2019	Dec 31, 2018
		kEUR	kEUR
A. Shareholders' equity			
I. Subscribed capital	(8, 9, 10, 11, 12)		
Ordinary shares		557.380	556.225
II. Capital reserves	(13)	3.309.150	3.277.432
III. Other reserves	(14)	2.626.396	2.514.395
IV. Retained earnings	(15)	469.134	445.916
		6.962.060	6.793.968
B. **Special reserve for government investment grants**	(16)	4	5
C. Accruals	(17)		
1. Pensions and similar obligations		84.257	72.986
2. Accruals for income taxes		171.955	135.156
3. Other accruals		36.050	36.496
		292.262	244.638
D. Liabilities	(18)		
1. Senior notes		2.400.000	2.200.000
2. Convertible bonds		500.000	1.000.000
3. Bank loans		2.138.369	1.410.022
4. Trade accounts payable		5.275	5.271
5. Accounts payable to related parties		2.512.055	2.526.902
6. Other liabilities		117.830	148.106
		7.673.529	7.290.301
E. Deferred income	(19)	4.294	5.158
		14.932.149	14.334.070

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

Profit and Loss Statement January 1 to December 31, 2019

		Note	2019	2018
			kEUR	kEUR
1.	Income from participations	(22)	760.092	507.881
2.	Sales	(23)	70.696	63.739
3.	Other operating income	(24)	141.028	304.407
4.	Cost of materials	(25)	-18.267	-15.316
5.	Personnel expenses	(26)	-50.891	-45.151
6.	Depreciation and amortization on intangible assets and on property, plant and equipment	(27)	-9.467	-6.098
7.	Other operating expenses	(28)	-173.681	-196.337
8.	Net interest	(29)	-88.633	-48.751
9.	Income taxes	(30)	-50.146	-75.757
10.	After tax profit		580.731	488.617
11.	Other taxes		-533	-64
12.	Net income		580.198	488.553
13.	Retained earnings brought forward		936	363
14.	Increase of other reserves		-112.000	-43.000
15.	Retained earnings		469.134	445.916

Notes Fresenius SE & Co. KGaA

(1) General information

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

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

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

(2) Structure

The Fresenius Group is as of December 31, 2019, divided into four legally independent business segments:

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

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

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

(3) Accounting principles and standards of valuation

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

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

The following useful lives were used for calculating depreciation:

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

Assets with purchase cost of up to €250.00 are fully written off in the year of addition.

Depreciable movable non-current assets with a value of more than €250.00 and less than €1,000.00 are grouped into a collective item which is dissolved through profit and loss by one fifth in the year of capitalization and the following four years each.

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

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

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

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

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

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

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

The **pension obligation** is determined according to actuarial principles on the basis of biometric probabilities (Richttafeln Heubeck 2018 G) using the Projected Unit Credit-Method. Future expected remuneration and pension increases are taken into account in calculating the obligation. Remuneration is currently adjusted depending on age by between 3% and 4% and pensions by 1.75%. The company specific fluctuation rate that is also taken into consideration for the calculation has been between 0% and 18% depending on age cohort. The actuarial interest rate applicable to the pension obligation was 2,71%. This interest rate is based on the last-ten-year-average interest rate for an estimated remaining life of 15 years as determined and published by the German Federal Bank (Deutsche Bundesbank). Until December 31, 2015 the actuarial interest rate was based on the last seven year-average discount rate. According to Section 253 (6) HGB the difference from this legal change amounts to €12,835,985.

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

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

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

Liabilities are valued at their settlement amounts.

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

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

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

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

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

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

Derivative financial instruments are measured at fair value at balance sheet date. According to German Commercial Law accounting principles and standards of valuation any remeasurement losses are recognized in earnings while remeasurement gains are not taken into account. When the conditions for hedge accounting are met, the underlying asset and the hedging instrument are considered together.

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

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

Notes on balance sheet

(4) Fixed assets

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

	Acquisition costs					Write-ups/Depreciation				Carrying amount	
€ in thousands	As of Jan. 01, 2019	Additions	Disposals	Reclassifica-tions	As of Dec. 31, 2019	Cumulated write-ups and depreci-ation as of Jan. 01, 2019	Additions (depreciation)	Disposals (Write-ups / depreciation)	Cumulated write-ups and deprecia-tion as of Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2018
Intangible Assets											
Concessions, industrial and similar rights and assets as well as licenses acquired for consideration	10,919	7,693	581	67	18,098	3,517	2,985	0	6,502	11,596	7,402
	10,919	7,693	581	67	18,098	3,517	2,985	0	6,502	11,596	7,402
Tangible Assets											
Land, leasehold and buildings including buildings on third party property	119,384	30,977	0	37,311	187,672	72,269	4,273	0	76,542	111,130	47,115
Plant and machinery	1,391	126	0	0	1,517	736	104	0	840	677	655
Other fixtures and fittings, tools and equipment	15,957	4,070	1,443	798	19,382	11,831	2,105	1,432	12,504	6,878	4,126
Payments on account and tangible assets in course of construction	38,617	3,351	0	-38,176	3,792	0	0	0	0	3,792	38,617
	175,349	38,5234	1,443	-67	212,363	84,836	6,482	1,432	89,886	122,477	90,513
Financial assets											
Shares in related parties	9,513,780	140,000	113,858	0	9,539,922	187	0	0	187	9,539,735	9,513,593
Loans to related parties	1,658,744	10,000	16,438	0	1,652,306	0	0	0	0	1,652,306	1,658,744
	11,172,524	150,000	130,296	0	11,192,228	187	0	0	187	11,192,041	11,172,337
Fixed assets	11,358,792	196,217	132,320	0	11,422,689	88,540	9,467	1,432	96,575	11,326,114	11,270,252

Tangible assets

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

Financial assets

As of December 31, 2019, 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 2019 was 31.64% (previous year 30.75%). 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, 2019. Through Fresenius ProServe GmbH, Fresenius SE & Co. KGaA holds 100% in HELIOS Kliniken GmbH and in Helios Health GmbH (100% stakeholder of the Quirónsalud Group) as well as a 77% stake in VAMED AG.

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

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

All of the subscribed capital of Fresenius Netcare GmbH is indirectly held via Fresenius Versicherungsvermittlungs GmbH. In the fiscal year 2019 Fresenius Netcare GmbH was granted a loan of €10,000 thousand.

Through Fresenius Finance Holdings Ltd. Fresenius SE & Co. KGaA indirectly wholly owns Fresenius Finance Ireland PLC and Fresenius Finance Ireland II PLC. In the fiscal year 2019 Fresenius SE & Co. KGaA contributed €140,000 thousand to the additional paid-in capital of Fresenius Finance Holdings Ltd.

Disposals of shares in related parties of €113,858 thousand correspond to a reduction in the capital of Fresenius US Finance I Inc. This resulted in foreign exchange gains of €19,899 thousand for the Company that are included in other operating income in the profit and loss statement.

(5) Accounts receivable and other assets

	Dec. 31, 2019	Dec. 31, 2018
€ in thousands		
Trade accounts receivable	-	2
(amount with a remaining term of more than one year)	(0)	(0)
Accounts receivable from related parties	3,376,281	2,756,986
(amount with a remaining term of more than one year)	(7,037)	(10,330)
Other assets	181,495	202,548
(amount with a remaining term of more than one year)	(61,900)	(107,900)
	3,557,776	2,959,536

Accounts receivables from related parties include €3,372,901 thousand mainly consisting of loans and financing related accounts in the context of inhouse banking (cash pool) (previous year €2,749,630 thousand) as well as €3,380 thousand of trade accounts receivables (previous year €7,356 thousand).

Other assets mainly contain stock options (call options) with a value of €61,900 thousand held for hedging market price fluctuations of the derivative embedded in the convertible bond as well as €1,432 thousand VAT receivable, and social security related receivables of €41 thousand (previous year €5 thousand). Also included are receivables from corporation tax law (Körperschaftsteuer) and solidarity surcharge (Solidaritätszuschlag) of €107,868 thousand (previous year €85,786 thousand) which is the expected amount of outstanding tax assessments for the current and previous years whereby the years 2018 and 2019 are particularly affected.

(6) Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks of €2,251 thousand (previous year €49,025 thousand).

(7) Deferred expense

The deferred expenses of €46,008 thousand (previous year €55,257 thousand) mainly consist of discounts with a net book value of €43,917 thousand as of December 31, 2019 (previous year: €52,903 thousand).

The placement of a convertible bond in January 2017 resulted in a discount of €61,900 thousand that will be released on a straight line basis over the lifetime of the convertible bond. As of December 31, 2019, it is included in deferred expenses with a value of €36,108 thousand.

The bonds issued in January 2019 resulted in a discount of €7,895 thousand that will be released on a straight line basis over the lifetime of the bond. As of December 31, 2019, it is included in deferred expenses with a value of €6,945 thousand.

Moreover discounts of €864 thousand from Senior Notes that were taken over from Fresenius Finance B.V. in 2016 are included in deferred expenses as of December 31, 2019 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 2019, 1,154,825 stock options were exercised.

The subscribed capital developed as follows:

	2019	2018
€ in thousands		
As of January 1	556,225	554,710
Increase due to exercise of stock options	1,155	1,515
As of December 31	557,380	556,225

Consequently, as of December 31, 2019 the subscribed capital of Fresenius SE & Co. KGaA consisted of 557,379,979 bearer ordinary shares. The shares are issued as non-par value shares. The proportionate amount of the subscribed capital is €1.00 per share.

(9) Own shares

Fresenius SE & Co. KGaA did not purchase 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 a profit-sharing bonus for the previous year as far as given performance targets for the given year or for a period of four years are met. For the year 2018 the targets were not met. Should the targets for the period 2018 to 2021 be met, own shares will be distributed subsequently in 2022 for 2018.

As of December 31, 2019, no own shares were held.

(10) Notification by shareholders

The following table shows the notifications disclosed in 2019 in accordance with Section 40 (1) of the German Securities Trading Act (WpHG).

Notifying party	Registered office	Date of exceeding or falling below	Reporting threshold	Percentage of voting rights	Number of voting rights	Attribution pursuant to WpHG
					26,393,079	Section 34
					864,143	Section 38 (1) No. 1
BlackRock, Inc.	Wilmington, DE, United States	September 9, 2019	Falling below 5%	4.98	508,789	Section 38 (1) No. 2

In cases where holdings reached, exceeded or fell below the thresholds on several occasions, only the most recent notification is mentioned.

The Else Kröner-Fresenius-Stiftung as major shareholder informed Fresenius SE & Co. KGaA on December 18, 2018, that it holds 148,298,594 ordinary shares of Fresenius SE & Co. KGaA representing 26.6% of the subscribed capital on December 31, 2019. All WpHG-notifications by shareholders in 2019 are published on the website of the Company www.fresenius.com/shareholder-structure.

(11) Authorized capital

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

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

The number of shares must increase in the same proportion as the subscribed capital. A subscription right must be granted to the shareholders in principle. In defined cases, the general partner is authorized, with the consent of the Supervisory Board, to decide on the exclusion of the shareholders' subscription right (e. g. to eliminate fractional amounts). For cash contributions, the authorization can only be exercised if the issue price is not significantly below the stock exchange price of the already listed shares at the time the issue price is fixed with final effect by the general partner. Furthermore, in case of a capital increase against cash contributions, the proportionate amount of the shares issued with exclusion of subscription rights may not exceed 10% of the subscribed capital. An exclusion of subscription rights in the context of the use of other authorizations concerning the issuance or the sale of the shares of Fresenius SE & Co. KGaA or the issuance of rights which authorize or bind to the subscription of shares of Fresenius SE & Co. KGaA has to be taken into consideration during the duration of the Authorized Capital until its utilization. In the case of a subscription in kind, the subscription right can be excluded only in order to acquire a company, parts of a company or a participation in a company.

The authorizations granted concerning the exclusion of subscription rights can be used by Fresenius Management SE only to such extent that the proportional amount of the total number of shares issued with exclusion of the subscription rights does not exceed 10% of the subscribed capital. An exclusion of subscription rights in the context of the use of other authorizations concerning the issuance or the sale of the shares of Fresenius SE & Co. KGaA or the issuance of rights which authorize or bind to the subscription of shares of Fresenius SE & Co. KGaA has to be taken into consideration during the duration of the Authorized Capital until its utilization.

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

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

	2019	2018
€ in thousands		
Brought forward from previous Authorized Capital I at January 1	125,000	114,852
Revocation of previous Authorized Capital I due to resolution of the Annual General meeting	0	-114,852
Creation of a new Authorized Capital I due to resolution of the Annual General meeting	0	125,000
Reduction due to issuance of bearer ordinary shares		0
As of December 31	125,000	125,000

(12) Conditional Capital

The following Conditional Capitals exist in order to fulfill the subscription rights under the stock option plans of Fresenius SE & Co. KGaA: **Conditional Capital II** (Stock Option Plan 2008) and **Conditional Capital IV** (Stock Option Plan 2013). Another **Conditional Capital III** exists for the authorization to issue option bearer bonds and / or convertible bonds.

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

	Ordinary shares
in €	
As of January 1, 2019	4,735,083
As of December 31, 2019	4,735,083

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

	Ordinary shares
in €	
As of January 1, 2019	4,296,814
Decrease due to exercise of stock options	-843,877
As of December 31, 2019	3,452,937

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

	Ordinary shares
in €	
As of January 1, 2019	48,971,202
As of December 31, 2019	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, 2019	24,257,969
Decrease due to exercise of stock options	-310,948
As of December 31, 2019	23,947,021

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

As of December 31, 2019, Fresenius SE & Co. KGaA had two share-based compensation plans in place: the Fresenius SE & Co. KGaA Long Term Incentive Program 2013 (**2013 LTIP**) which is based on stock options and phantom stocks and the Long Term Incentive Plan 2018 (**LTIP 2018**) which is solely based on performance shares. On June 30, 2017, the term of the options granted under the Fresenius AG Stock Option Plan 2003 expired. Currently, solely LTIP 2018 can be used to grant performance shares.

2018 LTIP

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

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

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

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

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

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

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

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

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

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

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

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

2013 LTIP.

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

2013 SOP

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

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

In connection with the stock split in 2014, the total volume of not yet granted subscription rights increased in the same proportion as the subscribed capital (factor 3) as far as options had 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 occurred 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 determined the stock options granted to members of Fresenius Management SE's Management Board, whereas the Management Board of Fresenius Management SE determined the other participants in the 2013 SOP and the stock options granted to them.

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

Options granted have an eight-year term but can be exercised only after a four-year vesting period. The exercise of options is subject to the condition precedent, in each case, that the annual success target within a four-year waiting period is achieved. The success target is achieved in each case if, after the granting of the options to the respective entitled person, either (i) the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, has increased by at least 8% per annum in comparison to the previous year in each case within the waiting period, or (ii) – if this is not the case – the compounded annual growth rate of the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, during the four years of the waiting period amounts to at least 8%. In the event that the success target within the four-year waiting period is not achieved for the individual years or for the compounded annual growth rate, the options issued in each case are forfeited in proportion to the non-achievement of the success target within the waiting period, i. e. by one quarter, two quarters, three quarters, or completely. The performance targets for the years 2013 to 2019 were met.

The adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS (currency adjusted) and changes thereto compared to the adjusted net income according to IFRS (without currency adjustment) of the relevant comparison year shall be verified with binding effect in each case by the auditors of Fresenius SE & Co. KGaA on the basis of the audited consolidated financial statements. Upon exercise of vested options, Fresenius SE & Co. KGaA has the right to grant treasury shares in lieu of increasing capital by the issuance of new shares.

After the expiration of the waiting period, all options in respect of which the success target has been achieved may be exercised at any time outside the designated blackout periods.

The last options were granted in 2017.

<u>2013 PSP</u>

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

The holders of phantom stocks, that had been 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 determined the phantom stocks granted to members of Fresenius Management SE's Management Board, whereas the Management Board of Fresenius Management SE determined the other participants in the 2013 PSP and the phantom stocks granted to them.

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

The exercise of phantom stock is subject to the condition precedent, in each case, that the annual success target within a four-year waiting period is achieved. The success target is achieved in each case if, after the granting of the subscription rights to the respective entitled person, either (i) the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, has increased by at least 8% per annum in comparison to the previous year in each case within the waiting period, or (ii) – if this is not the case – the compounded annual growth rate of the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, during the four years of the waiting period amounts to at least 8%. In the event that the success target within the four-year waiting period is not achieved for the individual years or for the compounded annual growth rate, the phantom stock awards issued in each case are forfeited in proportion to the non-achievement of the success target within the waiting-period, i.e. by one quarter, two quarters, three quarters, or completely. The performance targets for the years 2013, to 2019 were met.

The adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS (currency adjusted) and changes thereto compared to the adjusted net income according to IFRS (without currency adjustment) of the relevant comparison year shall be verified with binding effect in each case by the auditors of Fresenius SE & Co. KGaA on the basis of the audited consolidated financial statements.

After the expiration of the waiting period, all exercisable phantom stock will be deemed to be exercised and cashed out on March 1 following the end of the waiting period (or the following banking day).

The last phantom stocks were granted in 2017.

Stock Option Plan 2008

During 2008, Fresenius SE adopted the 2008 Plan to grant subscription rights to members of the Management Board and executive employees of the Company and affiliated companies. Under the 2008 Plan, originally, up to 6.2 million options could be issued, which carried the entitlement to exclusively obtain 6.2 million ordinary shares.

For stock options that were granted before the stock split 2014 came into effect, the entitlement of the participants to receive new shares through the exercise of stock options increased in the same proportion as the subscribed capital (factor 3). The participants were then 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 had a seven-year term but could be exercised only after a three-year vesting period. The vesting of options granted was mandatorily subject to the condition, in each case, that the annual success target within the three year vesting period was achieved. For each such year, the success target was achieved if the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA, adjusted for extraordinary effects, had 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. The adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA was calculated on the basis of the calculation method of the accounting principles according to U.S. GAAP. For the purposes of the 2008 Plan, the adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA was determined and verified with binding effect by Fresenius SE & Co. KGaA's auditor during the audit of the consolidated financial statements. The performance targets were met in all years. If all conditions were fulfilled, stock options could 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. On December 2, 2019, the term of the options granted under the 2008 Plan expired.

Transactions during 2019

On September 9, 2019, Fresenius SE & Co. KGaA awarded 795,741 performance shares under the LTIP 2018, the total fair value at the grant date being €36 million, including 198,415 performance shares or €9 million awarded to the members of the Management Board of Fresenius Management SE. The fair value per performance share at the grant date was €45.36.

During the fiscal year 2019, Fresenius SE & Co. KGaA received cash of €33 million from the exercise of 1,154,825 stock options. The average stock price of the ordinary share at the exercise date was €48.23. The exercise of these stock options resulted in a cash inflow of €33 million for Fresenius SE Co. KGaA.

Out of 8,435,555 outstanding stock options issued under the 2013 LTIP, 4,245,296 were exercisable at December 31, 2019. The members of the Fresenius Management SE Management Board held 1,434,375 stock options. 631,021 phantom stocks issued under the 2013 LTIP were outstanding at December 31, 2019. The members of the Fresenius Management SE Management Board held 114,762 phantom stocks and the employees of Fresenius SE Co. KGaA €62,695 phantom stocks. At December 31, 2019, the Management Board members of Fresenius Management SE held 331,849 performance shares and employees of Fresenius SE & Co. KGaA held 993,600 performance shares under the LTIP 2018.

Stock option transactions are summarized as follows:

	Stock options
	Number
Number as of December 31, 2018	9,932,343
less forfeited options	-341,963
less exercises	-1,154,825
Number as of December 31, 2019	8,435,555

(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:

	2019	2018
€ in thousands		
As of January 1	3,277,432	3,234,846
Increase due to exercise of stock options	31,718	42,586
As of December 31	3,309,150	3,277,432

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:

	2019	2018
€ in thousands		
As of January 1	2,514,395	2,471,395
Additions to other reserves from net income of the period	112,000	43,000
As of December 31	2,626,395	2,514,395

According to the restrictions in Section 253 (6) HGB, an amount of €12,836 thousand of other reserves shall not be distributed.

(15) Retained earnings

Accumulated profits from the prior year of €936 thousand are included in retained earnings in accordance with the decision taken at the Annual General Meeting on May 17, 2019.

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

(16) Special reserve for government investment grants

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

(17) Accrued expenses

The **pension obligation** has been determined according to the method described under Note (3) "Accounting principles and standards of valuation". Included in accrued expenses is an obligation of €24,726 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 acquisition cost of these securities at the date of issuance reflects their fair value.

	Dec. 31, 2019
€ in thousands	
Amount to be paid for partial retirement agreements	528
Fair value of matching securities	313
Funded status (surplus of obligations over assets)	215
Acquisition cost of securities	313

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, 2019
€ in thousands	
Amount to be paid for obligations from the demography fund	2,893
Fair value of matching insurance	2,893
Funded status (surplus of assets over obligations)	0
Acquisition cost of insurance	2,599

The statement of income includes €52 thousand of netted expense and income, from the valuation of the insurance product and the corresponding provision.

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

Other accruals mainly include accruals for personnel expenses of €21,361 thousand (previous year: €21,404 thousand) as well as for invoices outstanding of €6,144 thousand (previous year: €3,997 thousand) and accruals to cover foreign currency risks of €3,012 thousand (previous year: €4,376 thousand).

(18) **Liabilities**

	Dec. 31, 2019				Dec. 31, 2018			
		Thereof with a remaining term of				Thereof with a remaining term of		
	Total	up to 1 year	1 year to 5 years	over 5 years	Total	up to 1 year	1 year to 5 years	over 5 years
€ in thousands								
Senior notes	2,400,000	500,000	900,000	1,000,000	2,200,000	800,000	950,000	450,000
Convertible bonds	500,000	0	500,000	0	1,000,000	500,000	0	500,000
Bank loans	2,138,369	382,223	1,212,369	543,777	1,410,022	78,537	679,243	652,242
Trade accounts payable	5,275	5,275	0	0	5,271	5,271	0	0
Accounts payable to related parties	2,512,055	2,109,573	281,046	121,436	2,526,902	2,148,014	270,009	108,879
Other liabilities	117,830	55,930	61,900	0	148,106	40,105	46,101	61,900
	7,673,529	3,053,001	2,955,315	1,665,213	7,290,301	3,571,927	1,945,353	1,773,021

Senior Notes

The following table shows the liabilities from the Senior Notes as of December 31, 2019.

Issuer		Nominal Value	Maturity Date	Interest Rate
Fresenius SE & Co. KGaA	2013/2020	€500 million	July 15, 20	2.875%
Fresenius SE & Co. KGaA	2014/2021	€450 million	Feb. 1, 21	3.00%
Fresenius SE & Co. KGaA	2014/2024	€450 million	Feb. 1, 24	4.00%
Fresenius SE & Co. KGaA	2019/2025	€500 million	Feb. 15, 25	1.875%
Fresenius SE & Co. KGaA	2019/2029	€500 million	Feb. 15, 29	2.875%

On January 21, 2019, Fresenius SE & Co. KGaA issued bonds with an aggregate volume of €1.0 billion. The bonds consist of 2 tranches with maturities of 6 and 10 years. The coupon of the 6-year tranche of €500 million is 1.875% and was issued at a price of 99.257%. The €500 million tranche with a 10-year maturity has a coupon of 2.875% and was issued at a price of 99.164%. The proceeds were used for general corporate purposes including refinancing of the bonds issued by Fresenius SE & Co. KGaA in the amount of €300 million due on February 1, 2019 and €500 million due on April 15, 2019. These were redeemed at maturity.

On January 15, 2020, Fresenius SE & Co. KGaA issued bonds in the amount of €750 million. The bonds have a maturity of eight years and a coupon of 0.750%. The bonds were issued at a price of 99.514%. The proceeds were used for general corporate purposes, including refinancing of existing financial liabilities.

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%. The convertible bonds, due on September 24, 2019 were repaid as scheduled.

Moreover, on January 31, 2017, Fresenius SE & Co. KGaA issued €500 million of equity-neutral convertible bonds due 2024. The convertible bonds will not bear any interest. The issue price was fixed at 101% of the nominal value. The proceeds were used to fund the acquisition of IDCSalud Holding S.L.U. (Quirónsalud) and for general corporate purposes. The coupon was fixed at 0%. On December 31, 2019 the conversion price was €106.4928.

The fair value of the derivative embedded in the convertible bonds of Fresenius SE & Co. KGaA was 2 million at December 31, 2019. Fresenius SE & Co. KGaA purchased stock options (call options) with a corresponding fair value to hedge future fair value fluctuations of this derivative. 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 €62 million each following the “Einfrierungsmethode”.

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

Bank loans

Schuldschein Loans

At December 31, 2019 Fresenius SE & Co. KGaA had €1,827 million (previous year: €1,283 million) liabilities from Schuldschein Loans.

On September 23, 2019, Fresenius SE & Co. KGaA issued €700 million of Schuldschein Loans in tranches of 4, 7 and 10 years with fixed and variable interest rates. The proceeds were used for general corporate purposes including refinancing of the convertible bonds issued by Fresenius SE & Co. KgaA in the amount of €500 million due on September 24, 2019.

In order to optimize the capital structure and to further reduce financing costs, two floating rate tranches of Schuldschein Loans due originally on April 2, 2020 in the amount of €55 million and €101 million have been terminated and prepaid as per April 2, 2019.

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

Commercial-Paper-Program

Fresenius SE & Co. KGaA has a commercial paper program under which Fresenius SE & Co. KGaA and Fresenius Finance Ireland PLC can issue up to €1,000 million in short-term notes. As of December 31, 2019, the commercial paper program was not utilized by Fresenius SE & Co. KGaA (previous year: utilized by €5 million).

Accounts payable to related parties

Accounts payable to related parties comprise loans and financing accounts with affiliated companies in the context of inhouse banking (cash pool) in an amount of €2,507,592 thousand (previous year €2,522,334 thousand).

Included in this item are liabilities of €4,693 thousand (previous year €3,908 thousand) in favor of the general partner Fresenius Management SE. Moreover, liabilities of €38,059 thousand (previous year €34,451 thousand) in favor of Fresenius Management SE are included in pension liability and other liabilities.

Other liabilities

Other liabilities primarily include €61,900 thousand liabilities from the derivative embedded in the convertible bond (previous year €107,900 thousand) as well as interest liabilities, and tax liabilities.

Tax liabilities amount to €710 thousand (previous year €663 thousand).

(19) Deferred income

Deferred income of €4,294 thousand (previous year €5,158 thousand) relates mainly to premiums.

The placement of the convertible bond in January 2017 resulted in a premium of €5,000 thousand that will be released on a straight line basis over the lifetime of the convertible bond. As of December 31, 2019, it is included in deferred income with a value of €2,917 thousand.

Moreover, a premium of €2,253 thousand resulted from a senior note and shall be released on a straight line basis over the term of the senior note. As of December 31, 2019, it is included in deferred income with a value of €1,226 thousand.

(20) Contingent liabilities

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

	2019	2018
€ in thousands		
Contingencies from indemnity agreements and guarantees	6,633,706	6,698,943
(thereof amount in favor of and from affiliated companies)	(6,628,509)	(6,695,969)
Commitments from retirement provisions	16,355	16,265
(thereof amount to affiliated companies)	(16,355)	(16,265)
	6,650,061	6,715,208

Commitments from retirement provisions comprise liabilities for joint commitments resulting from transferring pension obligations to affiliated companies of the business segments.

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

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

Commercial-Paper-Program

Fresenius SE & Co. KGaA guarantees the commercial paper issued by Fresenius Finance Ireland PLC under the Commercial-Paper-Program. As of December 31, 2019, the commercial paper program was utilized by Fresenius Finance Ireland PLC in the amount of €953 million.

Senior Notes

Fresenius SE & Co. KGaA guarantees the Senior Notes of Fresenius US Finance II, Inc. and Fresenius Finance Ireland PLC, all of them directly or indirectly wholly-owned subsidiaries of Fresenius SE & Co. KGaA.

The following table shows these liabilities of these subsidiaries as of December 31, 2019.

Issuer	Nominal Value	Maturity Date	Interest Rate
Fresenius US Finance II, Inc. 2014/2021	US$300 million	Feb. 1, 21	4.25%
Fresenius US Finance II, Inc. 2015/2023	US$300 million	Jan. 15, 23	4.50%
Fresenius Finance Ireland PLC 2017/2022	€700 million	Jan. 31, 22	0.875%
Fresenius Finance Ireland PLC 2017/2024	€700 million	Jan. 30, 24	1.50%
Fresenius Finance Ireland PLC 2017/2027	€700 million	Feb. 1, 27	2.125%
Fresenius Finance Ireland PLC 2017/2032	€500 million	Jan. 30, 32	3.00%

All bonds of Fresenius US Finance II, Inc. and Fresenius Finance Ireland PLC, may be redeemed prior to their maturity at the option of the issuers at a price of 100% plus accrued interest and a premium calculated pursuant to the terms of the indentures under observance of certain notice periods. The holders have the right to request that the issuers repurchase the bonds at 101% of principal plus accrued interest upon the occurrence of a change of control followed by a decline in the rating of the respective bonds.

Fresenius SE & Co. KGaA has agreed to a number of covenants to provide protection to the holders of bonds issued before 2017, which partly restrict the scope of action of Fresenius SE & Co. KGaA and its subsidiaries (excluding Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) and its subsidiaries). These covenants include restrictions on further debt that can be raised, the mortgaging or sale of assets, the entering into sale and leaseback transactions as well as mergers and consolidations with other companies. Some of these restrictions were suspended automatically as the rating of the respective bonds reached investment grade status. As of December 31, 2019, the Fresenius Group was in compliance with all of its covenants.

2013 Credit Agreement

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

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

In August 2017, the Credit Agreement was refinanced and replaced with new facilities resulting in a total credit facility of approximately €3,800 million.

In August 2019, the Revolving Credit Facility of the Credit Agreement was increased by €100 million to expand the financial cushion.

Fresenius SE & Co. KGaA is now the sole guarantor.

As of December 31, 2019, the 2013 Senior Credit Agreement consisted of:

- Revolving credit facilities of US$ 500 million and €1,100 million which will be due on September 28, 2022. The US-Dollar facility can be used by Fresenius US Finance I LLC., Fresenius Finance Ireland II PLC and Fresenius SE & Co. KGaA. The Euro facilities are available to Fresenius Ireland PLC and Fresenius SE & Co. KGaA. The revolving credit facilities were not utilized at December 31, 2019.
- A term loan of US$ 515 million, borrowed by Fresenius Finance Ireland II PLC and scheduled to mature on September 28, 2022. Quarterly repayments of US$ 15 million began on December 28, 2017 with the remaining balance outstanding due on the maturity date.
- A term loan of €775 million, borrowed by Fresenius Finance Ireland PLC and also scheduled to mature on September 28, 2022. Quarterly repayments of €25 million began on December 28, 2017 with the remaining balance outstanding due on the maturity date.
- A non-amortizing term loan of €750 million which is scheduled to mature on September 28, 2021. This loan was borrowed by Fresenius Finance Ireland PLC.

(21) Other financial commitments

	2019	2018
€ in thousands		
Commitments from building leases, and leasing commitments		
due 2020 (prior year 2019)	11,873	10,922
due 2021-2024 (prior year 2020-2023)	25,961	26,591
due after 2024 (prior year after 2023)	6,379	8,678
	44,213	46,191
Commitments from ongoing capital expenditures	11,684	24,994
	55,897	71,185

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

	2019	2018
€ in thousands		
Income from profit transfer agreements	599,991	398,837
Income from participations	162,984	109,044
(thereof amount from affiliated companies)	(162,984)	(109,044)
Expenses from loss transfer agreements	-2,883	-
	760,092	507,881

(23) Sales

	2019	2018
€ in thousands		
Sales from personnel services	51,787	46,901
(thereof amount from affiliated companies)	18,909	16,838
	70,696	63,739

(24) Other operating income

Other operating income of €141,028 thousand in total (previous year €304,407 thousand) is comprised primarily of foreign currency gains of €117,246 thousand (previous year €282,756 thousand), cost transfers to group companies excluding own services of €21,948 thousand (previous year €19,606 thousand), as well as other income from other accounting periods mainly income from the dissolution of short-term accruals of €991 thousand (previous year €1,429 thousand). The total income from other accounting periods was €1,259 thousand in the fiscal year (previous year €1,846 thousand).

The main reason for the decrease in other operating income is a decrease in foreign currency gains. The main part with an amount of €153,057 thousand results from the contribution to the capital reserve of Kabi AG of US Dollar loans to a U.S. based affiliated company at their fair value in 2018.

(25) Cost of materials

Cost of materials of €18,267 thousand (previous year €15,316 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

	2019	2018
€ in thousands		
Salaries and wages	38,280	32,449
Social security and costs of retirement pensions and social assistance	12,611	12,702
(thereof amount of retirement pensions)	(7,358)	(7,892)
	50,891	45,151

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

	2019	2018
Wage earners	17	19
Salaried employees	343	327
Apprentices	173	157
	533	503

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

Depreciation of intangible assets and property, plant and equipment of €9,467 thousand (previous year €6,098 thousand) is regular depreciation.

(28) Other operating expenses

Other operating expenses of €173,681 thousand in total (previous year €196,337 thousand) were primarily foreign currency losses of €97,937 thousand (previous year €125,222 thousand). Also included are IT-related expenses, insurance premiums and consulting expenses, as well as the costs of Fresenius Management SE for business management activities of €11,641 thousand (previous year €11,972 thousand) that are passed on. Total expenses from other accounting periods were €1,076 thousand in the fiscal year (previous year €849 thousand).

(29) Net interest

	2019	2018
€ in thousands		
Interest income from long-term loans	31,165	49,868
(thereof amount from affiliated companies)	(30,921)	(49,821)
Other interest and similar income	41,784	65,186
(thereof amount from affiliated companies)	(19,564)	(50,610)
Interest and similar expenses	-161,582	-163,805
(thereof amount from affiliated companies)	(-26,103)	(-23,359)
(thereof expense from interest accrued for provisions)	(-2,305)	(-2,219)
	-88,633	-48,751

(30) Income Taxes

Income taxes in the amount of €50,146 thousand (previous year €75,757 thousand) resulted from current income tax of €33,898 thousand for the year 2019 (previous year €52,888 thousand) as well as tax expense from other accounting periods in the amount of €16,248 thousand (previous year tax income from other accounting periods of €22,869 thousand).

The deferred tax for the Tax Group is calculated with a tax rate of 30.5%, which is the tax rate expected to be applicable at the time the temporary differences reverse. Deferred tax liabilities arise from differences in the valuation of accounts receivables and from other assets not recognized for tax purposes. Differences in the valuation of pensions and other provisions generate deferred tax assets that exceed the amount of deferred tax liabilities.

(31) Derivatives

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

Foreign exchange risk

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

Fresenius SE & Co. KGaA entered into foreign exchange forward contracts with external partners to hedge foreign currency risks from accounts receivable and liabilities as well as highly probable forecasted transactions from the Company and its affiliates. On the balance sheet date, the Company had mainly US$ and € currency derivatives with a nominal value of €738,486 thousand and a positive fair value of €3,828 thousand with a maximum maturity of 12 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, 2019, the notional amount of these transactions totaled €78,006 thousand. The offsetting cash flows will level after 12 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 €267,046 thousand (liability). External foreign currency hedging contracts for the individual loan receivables and payment obligations with a nominal value of €259,230 thousand on December 31, 2019 had a positive fair value of €876 thousand. The changes in value of both the loan receivables and payment obligations and the foreign currency hedging contracts have been recognized as income ('Durchbuchungsmethode'). The offsetting cash flows will nearly level after 6 months the latest.

The rest of the currency derivative contracts can have positive and negative fair values. Positive fair values of €1,670 thousand were not recognized for financial reporting purposes. Negative fair values amounting to €3,012 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 €178,031 thousand and a positive fair value on the balance sheet date of €1,111 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 €1,111 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.

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

(32) Compensation of the Management Board and Supervisory Board

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

The compensation of the Management Board is, as a whole, performance-based and geared towards promoting sustainable corporate development. It is composed of three elements:

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

The cash compensation paid to the Management Board for the performance of its responsibilities was €15,468 thousand (2018: €15,760 thousand). Thereof, €6,166 thousand (2018: €6,051 thousand) is not performance-based and €9,302 thousand (2018: €9,709 thousand) is performance-based. The amount of the performance-based compensation depends on the achievement of targets relating to the net income of the Fresenius Group and business segments. As a long-term incentive component, the members of the Management Board received performance shares in the equivalent value of €11,232 thousand.

The total compensation of the Management Board was €26,872 thousand (2018: €27,322 thousand).

The total compensation paid to the Supervisory Boards of Fresenius SE & Co. KGaA and Fresenius Management SE and their committees was €4,285 thousand in 2019 (2018: €5,185 thousand). Of this amount, €2,775 thousand was fixed compensation (2018: €2,775 thousand), €160 thousand was compensation for committees services (2018: €160 thousand), and €1,350 thousand was variable compensation (2018: €2,250 thousand).

In 2019, based on pension commitments to former members of the Management Board, €1,154 thousand (2018: €1,101 thousand) was paid. The pension obligation for these persons amounted to €24,863 thousand in 2019 (2018: €22,319 thousand).

In the fiscal years 2019 and 2018, 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

With the exception of the issuance of bonds as described in note 18, (Liabilities), there have been no significant changes in the Fresenius Group's operating environment following the end of the fiscal year 2019 until February 19, 2020. No other events of material importance on the assets and liabilities, financial position, and results of operations of the Group have occurred following the end of the fiscal year.

(34) Corporate Governance

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

(35) Consolidated Financial Statements

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

Auditor´s Fees

The fees for the auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, are disclosed in the company´s consolidated financial statements. They contain audit-related fees and other fees mainly related to the review of quarterly financial statements, audit services in connection with financing activities as well as audits with respect to implementation activities in the IT.

(36) Proposal for the distribution of earnings

The General Partner and the Supervisory Board of Fresenius SE & Co. KGaA propose to the Annual General Meeting that the earnings for 2019 of Fresenius SE & Co. KGaA be distributed as follows

Payment of a dividend of €0,84 per ordinary share on the 557,379,979 ordinary shares entitled to dividend	€468,199,182.36
Balance to be carried forward	€935,018.35
Retained earnings	€469,134,200.71

(37) Responsibility Statement

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

Bad Homburg v.d.H., February 19, 2020

Fresenius SE & Co. KGaA,

represented by:

Fresenius Management SE, its General Partner

The Management Board

S. Sturm Dr. F. De Meo R. Empey Dr. J. Götz

M. Henriksson R.Powell Dr. E. Wastler

BOARDS

SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

Name	Occupation	Year of birth	Initial appointment	Membership of statutory supervisory boards and comparable domestic or foreign supervisory bodies: External positions as at Dec. 31, 2019	Membership of statutory supervisory boards and comparable domestic or foreign supervisory bodies: Fresenius Group company positions as at Dec. 31, 2019
Dr. Gerd Krick Chair	Chairman of the Supervisory Board of Fresenius SE & Co. KGaA	1938	2003		Fresenius Management SE (Chair) Fresenius Medical Care Management AG VAMED AG, Austria (Chair)
Prof. Dr. med. D. Michael Albrecht	Medical Director and Spokesman of the Management Board of the University Hospital Carl Gustav Carus Dresden	1949	2011	Dresden International University (DIU) GÖK Consulting AG Universitätsklinikum Aachen	
Stefanie Balling	Full-time Works Council Member Fresenius Medical Care Deutschland GmbH	1968	2016		
Bernd Behlert	Full-time Works Council Member Helios Vogtland-Klinikum Plauen GmbH	1958	2018		Helios Vogtland-Klinikum Plauen GmbH
Michael Diekmann Deputy Chair	Member of various Supervisory Boards	1954	2015	Allianz SE[1] (Chair) Siemens AG[1]	Fresenius Management SE
Konrad Kölbl	Full-time Works Council Member VAMED-KMB Krankenhausmanagement and Betriebsführungsges. m.b.H.	1959	2007		VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H., Austria
Frauke Lehmann	Full-time Works Council Member Helios Kliniken Schwerin GmbH	1963	2016		Helios Kliniken Schwerin GmbH (Deputy Chair)
Prof. Dr. med. Iris Löw-Friedrich	Chief Medical Care Officer und Executive Vice President, Head of Development, UCB S.A.	1960	2016	Evotec AG[1]	
Klaus-Peter Müller	Honorary Chairman of the Supervisory Board of Commerzbank AG	1944	2008		Fresenius Management SE
Oscar Romero de Paco	Production staff member Fresenius Kabi España S.A.U.	1974	2016		

The term of office expires at the end of the Annual General Meeting 2021

[1] Stock-listed company

BOARDS

SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

Name	Occupation	Year of birth	Initial appointment	Membership of statutory supervisory boards and comparable domestic or foreign supervisory bodies: External positions as at Dec. 31, 2019	Membership of statutory supervisory boards and comparable domestic or foreign supervisory bodies: Fresenius Group company positions as at Dec. 31, 2019
Hauke Stars	Member of the Executive Board Deutsche Börse AG	1967	2016	Clearstream International S.A., Luxembourg (Deutsche Börse AG Group mandate) Eurex Frankfurt AG (Deutsche Börse AG Group mandate) Kühne + Nagel International AG, Switzerland [1]	
Niko Stumpfögger Deputy Chair	Secretary of the Trade Union ver.di, Head of Company and Industry Politics in Health Care and Social Affairs	1955	2007		

The term of office expires at the end of the Annual General Meeting 2021

[1] Stock-listed company

COMMITTEES OF THE SUPERVISORY BOARD

Nomination Committee	Audit Committee	Joint Committee [1]
Dr. Gerd Krick (Chair)	Klaus-Peter Müller (Chair)	Dr. Dieter Schenk (Chair)
Michael Diekmann	Konrad Kölbl	Michael Diekmann
Klaus-Peter Müller	Dr. Gerd Krick	Dr. Gerd Krick
	Hauke Stars	Dr. Karl Schneider (until December 31, 2019)
	Niko Stumpfögger	Klaus-Peter Müller (as of January 1, 2020)

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

BOARDS

MANAGEMENT BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

					Membership of statutory supervisory boards and comparable domestic or foreign supervisory bodies	
Name	Segment	Year of birth	Initial appointment	Term expires	External positions as at Dec. 31, 2019	Fresenius Group company positions as at Dec. 31, 2019
Stephan Sturm	Chairman	1963	2005	2021	Deutsche Lufthansa AG [1]	Fresenius Kabi AG (Chair) Fresenius Medical Care Management AG (Chair) VAMED AG, Austria (Deputy Chair)
Dr. Francesco De Meo	Business Segment Fresenius Helios	1963	2008	2021		
Rachel Empey	Chief Financial Officer	1976	2017 [2]	2025	Inchcape, plc, Great Britain [1] (Non-Executive Director)	Fresenius Kabi AG (Deputy Chair) Fresenius Medical Care Management AG (Deputy Chair)
Dr. Jürgen Götz	Chief Legal and Compliance Officer, and Labor Relations Director	1964	2007	2020		
Mats Henriksson	Business Segment Fresenius Kabi	1967	2013	2022		Fenwal, Inc., USA FHC (Holdings) Ltd., Great Britain Fresenius Kabi Austria GmbH, Austria (Chair) Fresenius Kabi Compounding LLC, USA Fresenius Kabi España S.A.U., Spain Fresenius Kabi Pharmaceuticals Holding, Inc., USA Fresenius Kabi USA LLC, USA Labesfal – Laboratórios Almiro, S.A., Portugal Quercus Acquisition, Inc., USA
Rice Powell	Business Segment Fresenius Medical Care	1955	2013	2022		Fresenius Medical Care Holdings, Inc., USA (Chair) Vifor Fresenius Medical Care Renal Pharma Ltd., Switzerland [1] (Deputy Chair)
Dr. Ernst Wastler	Business Segment Fresenius Vamed	1958	2008	2020		Vamed-KMB Krankenhausmanagement und Betriebsführungsges. m. b. H., Austria (Chair)

[1] Stock-listed company
[2] Initial appointment until July 31, 2020

BOARDS

SUPERVISORY BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

Name	Occupation	Year of birth	Initial appointment	Membership of statutory supervisory boards and comparable domestic or foreign supervisory bodies	
				External positions as at Dec. 31, 2019	Fresenius Group company positions as at Dec. 31, 2019
Dr. Gerd Krick Chair	Chairman of the Supervisory Board of Fresenius SE & Co. KGaA	1938	2010		Fresenius Medical Care Management AG Fresenius SE & Co. KGaA [1] (Chair) VAMED AG, Austria (Chair)
Dr. Kurt Bock	Former Chief Executive Officer BASF SE	1958	2016	BMW Group [1] FUCHS PETROLUB SE [1] (Chair) Münchener Rückversicherungs-Gesellschaft [1]	
Michael Diekmann	Member of various Supervisory Boards	1954	2015	Allianz SE [1] (Chair) Siemens AG [1]	Fresenius SE & Co. KGaA [1] (Deputy Chair)
Wolfgang Kirsch (since January 1, 2020)	Former Chairman of the Supervisory Board of DZ Bank AG	1955	2020	Adolf Würth GmbH & Co. KG Würth Finance International B.V., Netherlands	
Klaus-Peter Müller	Honorary Chairman of the Supervisory Board of Commerzbank AG	1944	2010		Fresenius SE & Co. KGaA [1]
Dr. Dieter Schenk Deputy Chair	Lawyer and Tax Consultant	1952	2010	HWT invest AG (formerly Bank Schilling & Co. AG; Chair) Gabor Shoes AG (Chair) TOPTICA Photonics AG (Chair) Else Kröner-Fresenius-Stiftung (Chair of Foundation Board)	Fresenius Medical Care AG & Co. KGaA [1] (Chair) Fresenius Medical Care Management AG (Deputy Chair)
Dr. Karl Schneider (until December 31, 2019)	Former Spokesman of Südzucker AG	1927	2010	Else Kröner-Fresenius-Stiftung (Deputy Chair of Foundation Board)	

The term of office expires at the end of the Annual General Meeting 2021

[1] Stock-listed company

MANAGEMENT REPORT FOR FRESENIUS SE & CO. KGAA

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

FUNDAMENTAL INFORMATION ABOUT THE GROUP

The group's business model

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

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

- **Fresenius Medical Care** offers services and products for patients with chronic kidney failure. As of December 31, 2019, Fresenius Medical Care treated 345,096 patients at 3,994 dialysis clinics. Dialyzers and dialysis machines are among the most important product lines. In addition, Fresenius Medical Care offers dialysis-related services, among others, in the field of Care Coordination.

- **Fresenius Kabi** specializes in intravenously administered generic drugs (IV drugs), clinical nutrition, and infusion therapies. The company is also a supplier of medical devices and products of transfusion technology. In addition, Fresenius Kabi develops products with a focus on oncology and autoimmune diseases within the biosimilars segment of Fresenius Kabi.

- **Fresenius Helios** is Europe's leading private hospital operator. The company comprises Helios Germany and Helios Spain (Quirónsalud). At the end of 2019, Helios Germany operated a total of 86 hospitals, around 125 outpatient clinics, and 8 prevention centers. In Spain, Quirónsalud operated 47 hospitals, 71 outpatient centers, and around 300 occupational risk prevention centers at the end of 2019. In addition, Quirónsalud is active in Latin America with 4 hospitals and as a provider of medical diagnosis.

- **Fresenius Vamed** manages projects and provides services for hospitals as well as other health care facilities worldwide and is a leading post-acute care provider in Central Europe. The portfolio ranges along the entire value chain – from project development, planning, and turnkey construction, via maintenance and technical management, to total operational management.

Fresenius has an international sales network and maintains more than 90 production sites. Large production sites are located in the United States, China, Japan, Germany, and Sweden.

Important markets and competitive position

Fresenius operates in about 90 countries through its subsidiaries. The **main markets** are Europe with 43% and North America with 41% of sales, respectively.

Fresenius Medical Care holds the leading position worldwide in dialysis care as it serves about 10% of all dialysis patients, as well as in dialysis products, with a market share of about 36%. Fresenius Kabi is among the leading for large parts of its product portfolio 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 Europe's leading private hospital operator. Helios Germany and Helios Spain are the largest private hospital operators in their respective home markets., **Fresenius Vamed** is one of the world's leading companies in its field.

External factors

Overall, the legal and economic factors for the Fresenius Group were largely unchanged in 2019. The life-saving and life-sustaining products and therapies that the Group offers are of intrinsic importance for people worldwide. Therefore, the business development of our company is fundamentally stable and relatively independent of economic cycles.

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

In 2019, the Fresenius Group was involved in various legal disputes resulting from business operations. Although it is not possible to predict the outcome of these disputes, none is expected to have a significant adverse impact on the assets and liabilities, financial position, and results of operations of the Group.

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

Management and control

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

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

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

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

The Supervisory Board must meet at least twice per calendar half-year. The Supervisory Board of Fresenius SE & Co. KGaA has two permanent **committees**: the Audit Committee, consisting of five members, and the Nomination Committee, consisting of three members. The members of the committees are listed in the exhibit to the notes. The Company's annual corporate governance declaration pursuant to Section 289f of the German Commercial Code (HGB) describes the procedures of the Supervisory Board's committees. The declaration can also be found on the website
www. fresenius.com/corporate-governance.

The description of both the **compensation system** and individual amounts paid to the Management Board and Supervisory Board of Fresenius Management SE, and the Supervisory Board of Fresenius SE & Co. KGaA, are included in the Compensation Report exhibit to the Management Report. The Compensation Report is part of the Group's Management Report.

Capital, shareholders, articles of association

The subscribed capital of Fresenius SE & Co. KGaA amounted to 557,379,979 ordinary shares as of December 31, 2019 (December 31, 2018: 556,225,154).

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

Fresenius Management SE, as general partner, is authorized, subject to the consent of the Supervisory Board of Fresenius SE & Co. KGaA: to increase the subscribed capital of Fresenius SE & Co. KGaA by a total amount of up to €125 million, until May 17, 2023, through a single or multiple issuance of new bearer ordinary shares against cash contributions and/ or contributions in kind **(Authorized Capital I).** In principle, the shareholders shall be granted a subscription right. In certain cases, however, the right of subscription can be excluded.

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

- The subscribed capital is conditionally increased by up to €4,735,083.00 through the issuance of new bearer ordinary shares **(Conditional Capital I).** The conditional capital increase will only be executed to the extent that convertible bonds for ordinary shares have been issued under the 2003 Stock Option Plan and the holders of these convertible bonds exercise their conversion rights.

- The subscribed capital is conditionally increased by up to €4,296,814.00 through the issuance of new bearer ordinary shares **(Conditional Capital II).** The conditional capital increase will only be executed to the extent that subscription rights have been issued under the 2008 Stock Option Plan, the holders of these subscription rights exercise their rights, and the Company does not use its own shares to service the subscription rights or does not exercise its right to make payment in cash.

- The general partner is authorized, with the approval of the Supervisory Board, until May 17, 2023, to issue option bearer bonds and/ or convertible bearer bonds, once or several times, for a total nominal amount of up to €2.5 billion. To fulfill the granted subscription rights, the subscribed capital of Fresenius SE & Co. KGaA was increased conditionally by up to €48,971,202.00 through issuance of new bearer ordinary shares **(Conditional Capital III).** The conditional capital increase shall only be implemented to the extent that the holders of convertible bonds issued for cash, or of warrants from option bonds issued for cash, exercise their conversion or option rights and as long as no other forms of settlement are used.

- The share capital is conditionally increased by up to €24,257,969.00 by the issuance of new ordinary bearer shares (**Conditional Capital IV).** The conditional capital increase will only be implemented to the extent that subscription rights have been, or will be, issued in accordance with the Stock Option Program 2013 and the holders of subscription rights exercise their rights, and the Company does not grant own shares to satisfy the subscription rights.

The Company is authorized, until May 17, 2023, to purchase and use its **own shares** up to a maximum amount of 10% of the subscribed capital. In addition, when purchasing its 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, 2019.

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 12, 2019, that it held 148,298,594 ordinary shares of Fresenius SE & Co. KGaA. This corresponds to an equity interest of 26.6% as of December 31, 2019.

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

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

Goals and strategy

Demographic change is posing fundamental challenges to societies. People worldwide are not only living longer, the pace of population aging is also increasing significantly. Thus, countries around the world are facing major challenges with respect to their health and social systems. As people across the world get older, diminished well-being as well as chronically ill and critically ill patients are becoming a major global public health challenge[1]. A longer life, however, also offers opportunities for individuals and societies. The extent to which these opportunities can be leveraged depends heavily on one factor: health.

In line with our corporate purpose "Forward thinking health care to improve the quality of life of patients", Fresenius develops profitable, innovative, and affordable solutions for these megatrends. Our aspiration is to offer better medicine and health care services to ever more people. Every business decision we make is consistently guided by the well-being of our patients. It is at the center of everything we do. However, economic success is not an end in itself for Fresenius; it rather enables us to keep investing in better medicine.

Our strategic focus

Fresenius invests in and manages a diversified portfolio of health care businesses that create value. With our four business segments we focus on a defined number of health care areas. We continuously develop those business areas and strive to assume leading positions in the respective health care markets and segments. Fresenius has defined strategic priorities to pursue its goal to strengthen the position of the Company as a leading global provider of products and therapies for critically and chronically ill patients:

- **Profit from megatrends**: gearing businesses towards the megatrends health and demographics
- **Create value**: long-term value creation by allocating capital to profitable growth areas
- **Act responsibly**: commitment to responsible management and ethical business principles
- **Collaborate**: fostering intragroup cooperation to leverage synergies

Our core competencies

Quality

At Fresenius, the patient always comes first. We commit ourselves to strive for the highest quality in our products, services, and therapies. All business segments make an overall contribution to increasing the quality and efficiency of health care. This enables access to high-quality and affordable medical care for a growing number of people.

For Fresenius Medical Care, customer health and product safety mean creating a safe and healthy clinical environment. The quality and safety of its products and services are the foundation of Fresenius Medical Care's success. Fresenius Kabi's corporate philosophy "caring for life" describes the company's commitment to improving the quality of life of its patients. The quality and safety of its products and services is hence of paramount importance to Fresenius Kabi. Fresenius Helios places great importance on high standards of treatment quality, hygiene, patient safety, and care in its hospitals. At Fresenius Vamed, quality processes are designed based on established standards.

Innovation

Fresenius' goal is to continue building on its strength in technology, its competence and quality in patient care, and its ability to manufacture cost-effectively. Developing products and systems that provide a high level of safety and user-friendliness and enable tailoring to individual patient needs is an inherent part of our strategy of sustainable and profitable growth. We will continue to develop ever more effective products and treatment methods for critically and chronically ill patients to offer best-in-class medical standards.

In 2019, Fresenius Medical Care, for example, strengthened its position in home dialysis and became a world leader by acquiring the U.S.-based medical technology and services company NxStage. Fresenius Medical Care also strives to identify new opportunities in value-added technologies and approaches on an ongoing basis, for example through the Fresenius Medical Care Ventures fund. Fresenius Kabi is currently developing biosimilars with a focus on oncology and autoimmune diseases, making affordable treatments accessible for even more patients. Fresenius Helios' goal is to foster knowledge sharing across its international hospital network and use innovation to develop the best health care services and therapies for its patients. Moreover, Fresenius Helios is driving forward initiatives focused on occupational medicine for employees, prevention programs, or the reduction of waiting times for appointments with specialists, for example by offering digital services. Fresenius Vamed's goal is to realize further projects in integrated health care services and to support patient-oriented health care systems more efficiently.

Improve profitability

Fresenius is committed to continuously improving Group profitability. We foster intragroup coordination and collaboration, seeking both sales growth and efficiency. To contain costs, we particularly concentrate 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. We continue to identify specific measures that optimize our portfolio and make Fresenius an even more effective or-

[1] WHO 2018 „Aging and health"

ganization.

By focusing on our operating cash flow and employing efficient working capital management, we will increase our investment flexibility and improve our balance sheet ratios. Another goal is to optimize our weighted average cost of capital (WACC) by deliberately employing a balanced mix of equity and debt funding.

In the present capital market conditions, we believe we optimize our cost of capital if we hold the net debt / EBITDA ratio within a range of 3.0 to 3.5 (including IFRS 16 adoption).

Drive internationalization

Fresenius' goal is to ensure and expand its long-term position as a leading international provider of products and services in the health care industry. To this end, and to geographically expand our business, we plan to grow organically as well as through selective small to medium-sized acquisitions, complementing our existing portfolio. We are constantly seeking new above-average growth opportunities in developing as well as in emerging countries. Our aim is to strengthen our activities in these regions and successively introduce further products from our portfolio into these markets.

Fresenius Medical Care is the worldwide leader in dialysis, with a strong market position in the United States. Future opportunities in dialysis will arise from further expansion in dialysis care and products worldwide. Fresenius Kabi is the market leader in infusion therapy in Europe and Latin America.

In Europe and the key markets in Asia-Pacific (including China) and Latin America, Fresenius Kabi is the leader in the clinical nutrition market. 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 United States and other growth markets. Market share is to be expanded further through the launch of new products in the field of IV drugs, infusion therapy, clinical nutrition, and medical devices / transfusion technology.

With 86 hospitals, Fresenius Helios operates in nearly all of Germany. Building on this, Fresenius Helios is now in the position to develop new patient care models. To benefit from the trend towards outpatient treatment, Helios Germany has been expanding outpatient service offerings in a separate division. Helios Spain has attractive growth opportunities through the expansion and construction of hospitals, and potential for further consolidation in the highly fragmented private hospital market in Spain. Helios exploits upcoming opportunities for cross-border synergies in areas such as laboratory services and joint purchasing. The cross-border exchange of experience and knowledge is gradually creating the economic prerequisites for the further internationalization of our hospital business.

Fresenius Vamed will further expand its position as a global specialist for projects and services for hospitals and other health care facilities. With the integration of Fresenius Helios' German inpatient rehabilitation business, Fresenius Vamed is strengthening its position as one of the leading providers of private rehabilitation services in Europe. Furthermore, the collaboration with Fresenius Helios will be further intensified. This applies, for example, to technical services or purchasing, where Fresenius Helios is cooperating with Fresenius Vamed for selected products.

Corporate performance criteria

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

Research and development

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

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

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

As part of the 2019 investment year, research and development activities were intensified and additional investments made in our research and development centers.

We opened our new research and development center for biosimilars in Eysins in the Swiss canton of Vaud. The new development center is an important step in expanding our capacity to develop new biosimilar products. At the same time, Fresenius Kabi is also expanding its enteral nutrition research and development activities in Wuxi.

Research and development **expenses**[1] were €677 million (2018: €649 million), approximately 6.8% of our product sales (2018: 6.7%). Research services provided by third parties are mainly used by Fresenius Kabi, especially in the field of biosimilars.

As of December 31, 2019, there were 3,412 employees in research and development (2018: 3,042). Of that number, 1,200 were employed at Fresenius Medical Care (2018: 970) and 2,200 at Fresenius Kabi (2018: 2,072).

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

Employees

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

The **number of employees** of Fresenius SE & Co. KGaA at the end of 2019 was 549 (December 31, 2018: 521).

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**.

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 try to encourage long-term retention with attractive development programs.

At Fresenius, qualifications and experience are the only things that matter in the selection of personnel. Consequently, at Fresenius we have the aspiration that women and men with comparable qualifications will continue to have the same career opportunities. As of December 31, 2019, the proportion of female employees within the Fresenius Group was 68%. Women also held 32% of senior management positions, based on the number of worldwide participants in the Long Term Incentive Plan 2018 (LTIP 2018). Detailed information on the statutory targets for the participation of women and men in management positions is available within the Corporate Governance Declaration pursuant to 289f of the German Commercial Code (HGB) on our website, see www.fresenius.com/corporate-governance.

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

Profit-sharing

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

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

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

Changes to the management board

Dr. Jürgen Götz, Chief Legal and Compliance Officer, and Labor Relations Director, has asked the Supervisory Board of Fresenius Management SE not to renew his current contract after the end of the appointment period. He will therefore leave the Management Board of Fresenius Management SE at his own request on June 30, 2020.

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.

[1] Before revaluations of biosimilars contingent purchase price liabilities

ECONOMIC REPORT

Health care industry

The health care sector is one of the world's largest industries and we are convinced that it shows excellent growth opportunities.

The main **growth factors** are:

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

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

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

At the same time, the **cost of health care** is rising and claiming an ever-increasing share of national income. Health care spending averaged 8.8% of GDP in the OECD countries in 2018, with an average of US$3,994 spent per capita.

As in previous years, United States had the highest per capita spending (US$10,586). Germany ranked fourth among the OECD countries with US$5,986.

In Germany, 85% **of health spending** was funded by public sources in 2018, above the average of 74% in the OECD countries.

Most of the OECD countries have enjoyed large gains in **life expectancy** over the past decades, thanks to improved living standards, public health interventions, and progress in medical care. In 2017, average life expectancy in the OECD countries was 80.7 years.

Health care structures are being reviewed and cost-cutting potential identified in order to contain the steadily rising **health care expenditures**. However, such measures cannot compensate for the cost pressure. Market-based elements are increasingly being introduced into the health care system to create incentives for cost- and quality-conscious behavior. Overall treatment costs will be reduced through improved quality standards. In addition, ever-greater importance is being placed on disease prevention and innovative reimbursement models linked to treatment quality standards.

Our most important **markets** developed as follows:

The dialysis market

In 2019, the global **dialysis market** (products and services) was worth approximately €80 billion. In constant currency, the global dialysis market grew by about 4%.

Worldwide, approximately 4.3 million **patients with chronic renal failure** were treated in 2019. Of these patients, around 3.5 million received dialysis treatments and about 815,000 were living with a transplanted kidney. About 89% were treated with hemodialysis and 11% with peritoneal dialysis. Fresenius medical Care reported strong growth in home hemodialysis and now treats more than 25.000 patients at home in North America.

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 2019. In the United States, Japan, and Western and Central Europe, patient growth was slower than in economically weaker regions, where growth is mostly above 6%.

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

Dialysis care

In 2019, the global **dialysis care market** (including renal pharmaceuticals) was worth around €66 billion.

About 10% of worldwide dialysis patients were treated by Fresenius Medical Care. With 3,994 dialysis

Source: OECD Health Data 2019; data on the dialysis market is based on company research, Database for China 2016 clinics and 345,096 dialysis atients in around 50 countries, Fresenius Medical Care operates by far the largest and most international network of clinics. In the United States, Fresenius Medical Care treated approximately 38% of dialysis patients in 2019. The market for dialysis care in the United States is already highly consolidated.

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

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

Dialysis products

In 2019, the **global dialysis products market** was worth around €14 billion.

Fresenius Medical Care is the leading provider of dialysis products in the world, with a market share of about 36%.

Fresenius Medical Care is the leading supplier worldwide of hemodialysis products, with a **market share** of 41% and has a market share of approximately 16% in the worldwide market of products for peritoneal dialysis.

Care Coordination

The field of **Care Coordination** currently includes health services relating to vascular surgery, coordinated delivery of pharmacy services, and outpatient care, for example.

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

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

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

The global market for generic IV drugs, biopharmaceuticals, clinical nutrition, infusion therapy, and medical devices/ transfusion technology was worth about €97 billion in 2019. Thereof, the global market for generic IV drugs was worth about €38 billion[2]. Fresenius Kabi was able to enter additional market segments of the global addressable market due to targeted investments and the expansion of our product portfolio, in the areas of complex formulations, liposomal solutions, and pre-filled syringes, among other items.

The **market for IV drugs** grew by 2% worldwide and by 3% in the important European Market. The market growth is mainly achieved through products that are brought to market when the original drug goes off-patent, as well as through original off-patent products that are offered at steady prices due to a unique selling proposition. Additionally, market growth is based on price increases for single molecules by individual competitors. In the United States, the most important generic IV drug market for Fresenius Kabi, the company is one of the leading suppliers. Competitors include Pfizer, Sanofi, Sandoz, and Teva Pharmaceutical Industries, and Hikma.

The **biopharmaceutical market segment** is one of the fast-growing segments in the health care business. The relevant market for the targeted original biopharmaceuticals, all in the therapeutic areas of oncology and autoimmune diseases, is worth about €37 billion and grew by 13%.

In 2019, the global **market for clinical nutrition** was worth about €9 billion. In Europe, the market grew by about 4%. In Latin America, the clinical nutrition market saw growth of up to 10%. In Asia-Pacific, the market for enteral nutrition grew by about 10%. In the area of parenteral nutrition, Fresenius Kabi’s important market for three-chamber

[1] Market data based on company research and refers to Fresenius Kabi’s relevant 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.
[2] Market definition adjusted as in prior year: among other items, sales volume of non-patented branded drugs is included.

bags grew by 10% in Asia-Pacific. In Africa, these two segments also showed positive growth. There is growth potential in clinical nutrition worldwide, because nutrition therapies are often not yet sufficiently used in patient care, although studies have proven their medical and economic benefits. In cases of health- or age-induced nutritional deficiencies, for example, the administration of clinical nutrition can reduce hospital costs through shorter stays and less nursing care. In the market for clinical nutrition, Fresenius Kabi is one of the leading companies worldwide. In parenteral nutrition, the company is the leading supplier worldwide. In the market for enteral nutrition, Fresenius Kabi is one of the leading suppliers in Europe, Latin America, and China. In parenteral nutrition, competitors include Baxter, B. Braun, JW Pharma, and Kelun Pharma. In the market for enteral nutrition, Fresenius Kabi competes with, among other companies, Abbott, Nestlé, and Danone.

In 2019, Fresenius Kabi considers its global **market for infusion therapy** to have been worth about €6 billion. In Europe, the market for infusion therapies grew by around 1%, with growth in Latin America, Africa, and Asia-Pacific of up to 5% in individual regions. After the strong growth in 2018 due to the recovery of the previous supply shortages, the U.S. market showed a slight decline in 2019. Infusion therapies (e.g., electrolytes) are part of the medical standard in hospitals worldwide. Market growth is mainly driven by increasing product demand in emerging markets. Fresenius Kabi is the market leader in infusion therapy in Europe and Latin America. Competitors include B. Braun and Baxter.

In 2019, the global **market for medical devices** was worth about €4 billion and grew by 4%. In the medical devices market, the main growth drivers are IT-based solutions that focus on application safety and therapy efficiency. 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 2019, the global **market for transfusion technology** was worth about €3 billion and grew by about 4%. In the transfusion technology market, the areas of plasma collection, therapeutic apheresis, and cell therapy are experiencing positive growth. The decline in the demand for blood bags triggered by new treatment methods in Europe and the United States in recent years is coming to an end. In transfusion technology, Fresenius Kabi is one of the world's leading companies. Competitors include Haemonetics, Macopharma, and Terumo.

The hospital market[1]

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

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

The economic situation of the German hospitals worsened compared with the previous year. In 2018, about 40% of the hospitals recorded losses. A further 9% broke even, and 51% were able to generate a profit for the year. In 2017, about 30% recorded losses and about 60% were profitable.

The often difficult economic and financial situation of the hospitals is accompanied by **significant investment needs** driven by medical and technological advances, higher quality requirements, and necessary modernizations. Moreover, the federal states failed to meet their statutory obligation to provide sufficient financial resources in the past. This results into a continuously increasing investment backlog. The German Hospital Institute (DKI)[3] estimates that the annual investment requirement at German hospitals is at least €6.8 billion. This is about two and a half times the funding for investment currently being provided by the federal states.

Helios Germany is the country's leading hospital operator in terms of sales, with a share of about 5.4%[4] in the acute care market. The hospitals of Helios Germany compete mainly with individual hospitals or local and regional hospital associations. Among private hospital chains, our main competitors are Asklepios, Rhön-Klinikum, and Sana Kliniken.

The so-called change in value figure is relevant for the increase in the **reimbursement of hospital treatments**. It is used to compensate for rising costs in the hospital market, particularly with regard to personnel and material costs. The change in value figure is redetermined each year for the following year. For 2019 it was 2.65% (2018: 2.97%).

On January 1, 2019, the Act to Strengthen Nursing

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[1] Most recent market data available: German Federal Statistical Office, 2017 data; German Hospital Institute (DKI), Krankenhausbarometer 2019;
[2] The market is defined by the total costs of the German acute care hospitals (gross), less academic research and teaching.
[3] German Hospital Institute (DKI), Krankenhausbarometer 2019
[4] Measured by 2018 sales in relation to gross total costs of acute care hospitals minus scientific research and teaching in Germany (latest available data: Federal Statistical office, 2017 data)

Staff (PpSG) entered into force. In contrast to 2018, in 2019, each additional or increased nurse position at the bed was completely refinanced by the health insurers. In addition, since 2019, a regulation setting a minimum level for nursing staff has applied to hospitals in Germany for the following areas: geriatrics, intensive care, cardiology, and trauma surgery.

The **private Spanish hospital market** volume was about €15 billion[1] in 2018. In particular, the increasing number of privately insured patients is opening up growth opportunities for private operators. Private supplemental insurance in Spain is relatively inexpensive. It is required in order to make use of services in private hospitals. Among other factors, the comparatively short waiting times for scheduled treatments make private hospitals attractive.

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

Quirónsalud is the market leader in Spain, with a market share of approximately 12% in the private hospital market in terms of sales. Quirónsalud competes with a large number of stand-alone private hospitals, as well as with smaller regional hospital chains such as Asisa, HM Hospitales, Hospiten, Ribera, Salud Sanitas, and Vithas.

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

The **market for projects and services for hospitals and other health care facilities** is very fragmented. Therefore, an overall market size cannot be determined. The market is country-specific and depends, to a large extent, on factors such as public health care policies, government regulation, and levels of privatization, as well as demographics and economic and political conditions. In **markets with established health care systems** and mounting cost pressure, the challenges for health care facilities is to increase their efficiency. Here, demand is especially high for sustainable planning and energy-efficient construction, optimized hospital processes, and the outsourcing of medical-technical support services to external specialists. This enables hospitals to concentrate on their core competency – treating patients. In addition to offering services for health care facilities world-wide, Fresenius Vamed itself is active as a post-acute care provider in several countries, including Germany, Austria, Switzerland, the Czech Republic, and the United Kingdom. Through the integration of the post-acute care business of Fresenius Helios, Fresenius Vamed has become a leading provider in this field in Central Europe. In **emerging markets**, the focus is on building and developing infrastructure and improving the level of health care.

Fresenius Vamed has no **competitors** that cover its comprehensive portfolio of services across the entire life cycle. As a result, Fresenius Vamed has a unique selling proposition of its own. Depending on the service, the company competes with international companies and consortia, as well as with 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 2019. 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

In 2019, Fresenius made significant investments in all business segments to lay the foundation for future growth. We achieved our Group sales and earnings targets for fiscal year 2019. Hence, the Management Board is of the opinion that the Fresenius Group's performance in 2019 was successful overall.

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

Fresenius Medical Care's sales (adjusted[1]) in constant currency increased by 5% to €17,329 million (2018: €16,026 million). On an adjusted basis[2] net income attributable to shareholders of Fresenius Medical Care increased by 2% (- 2% in constant currency) to €1,369 million (2018: €1,341 million).

Fresenius Kabi achieved organic sales growth of 4%. EBIT[3] increased by 5% (increased by 3% in constant currency) to €1,200 million (2018: €1,139 million).

Organic sales growth of Fresenius Helios was 5%. EBIT[4] decreased by 4% to €1,015 million (decreased by 3%[5] in constant currency; 2018: €1,052 million). Fresenius Vamed achieved organic sales growth of 16%. EBIT[4] grew by 19% (6%[5]) to €131 million (2018: €110 million).

[1] On an adjusted basis: 2018 adjusted for divestitures of Care Coordination activities; 2019 adjusted for IFRS 16 effect, excluding effects from NxStage transaction
[2] 2018 before special items (gain related to divestitures of Care Coordination activities, FCPA-related charge), after adjustments; 2019 before special items (transaction related expenses, gain related to divestiture of Care Coordination activities, expenses associated with the cost optimization program), adjusted for IFRS 16 effect, excluding effects from NxStage transaction.
[3] On a comparable basis: before special items and adjusted for IFRS 16 effect
[4] Adjusted for IFRS 16 effect
[5] Adjusted for the post-acute care business transferred from Fresenius Helios to Fresenius Vamed as July1, 2018

Results of operations, financial position, assets and liabilities

Results of operations

Net income of Fresenius SE & Co. KGaA in the fiscal year 2019 was €580 million (previous year €489 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 €342 million (previous year €353 million) to the net income from participations.

The profit and loss transfer agreement with Fresenius Kabi AG yielded earnings of €258 million (previous year €44 million). The increase in relation to the previous year results from higher earnings in Germany and higher dividend income from foreign Kabi affiliated companies.

Other significant income from participations came from a €110 million Fresenius Medical Care AG & Co. KGaA dividend (previous year €100 million).

In addition to earnings from dividends and from profit and loss transfer agreements, Fresenius SE & Co. KGaA receives €71 million of income from rents and from providing personnel services (previous year €63 million). Other operating income includes €117 million (previous year €283 million) of foreign currency gains while €98 million (previous year €125 million) of foreign currency losses are included in other operating expenses. The main part of the decrease in foreign currency gains results from a gain in the previous year of €153 million arising from the contribution to the capital reserve of Kabi AG of US Dollar loans to a U.S. based affiliated company at their fair value.

The General Partner and Supervisory Board of Fresenius SE & Co. KGaA will propose a dividend increase to the Annual General Meeting. For 2019, a dividend of €0.84 per ordinary share shall be paid to shareholders. This is an increase of 5%. The total dividend distribution will increase by 5% to €468.2 million (previous year €445.0 million).

Cash flow statement

	2019	2018
	million €	million €
Net Income	580	489
Depreciation and amortization of non-current assets and financial assets	9	6
Increase in pension liabilities	11	12
Interest result	89	49
Income from investments	-760	-508
Non-cash-effective foreign exchange gains from contributions in kind	0	-153
Cash flow	**-71**	**-105**
Increase in accruals for income taxes and other accrued expenses	36	29
Increase/decrease in trade accounts payable	-	-
Decrease in other operating assets and liabilities	-	-52
Increase/ Decrease in working capital	**36**	**-23**
Cash flows from operating activities	**-35**	**-128**
Payments for contributions to equity of subsidiaries and for loans to subsidiaries	-150	-424
Proceeds from capital reductions in subsidiaries and loans to subsidiaries	130	16
Payments for investments in intangible assets and property plant and equipment	-46	-39
Proceeds from the disposal of intangible and tangible fixed assets	1	0
Interest received	73	115
Dividends received	518	742
Cash flows from investing activities	**526**	**410**

Cash flow statement (continued)	2019	2018
	million €	million €
Proceeds from bank loans	1,971	127
Repayment of bank loans	-1,542	-463
Change in financing activities with related parties	-393	596
Proceeds from the exercise of stock options	33	44
Interest paid	-162	-164
Dividends paid	-445	-416
Cash flows from financing activities	**-538**	**-276**
Change of cash and cash equivalents	**-47**	**6**
Cash and cash equivalents at the beginning of the year	49	43
Cash and cash equivalents at the end of the year	2	49

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, 2019, Fresenius SE & Co. KGaA complied with the covenants under all the credit agreements.

Financial position

Total assets of Fresenius SE & Co. KGaA increased by €598 million to €14,932 million (previous year €14,334 million).

On the asset side, accounts receivable from related parties increased from €2,756 million to €3,376 million, due mainly to the following changes:

- Fresenius Kabi received a loan of €893 million from Fresenius SE & Co. KGaA. (previous year €666 million).
- In addition, loans and financing accounts with affiliated companies in the context of inhouse banking (cash pool) increased.

On the liability side, liabilities have increased from €7,290 million to €7,6742 million. The €500 million convertible bonds due on September 2019 were repaid as scheduled. For refinancing and for general company purposes, the company issued €700 million of Schuldschein Loans. Moreover, bonds in the amount of €300 million and €500 million that had become due, were refinanced with bonds with an aggregate volume of €1.0 billion.

The equity ratio decreased from 47.4% to 46.6%

Investments, divestments and acquisitions

Total investments in property, plant and equipment and intangible assets were €46 million in 2019.

Changes in the financial assets in the fiscal year 2019 mainly resulted from following transactions:

- In the fiscal year 2019 Fresenius SE & Co. KGaA contributed €140 million to the additional paid-in capital of Fresenius Finance Holdings Ltd.
- Disposals of shares in related parties of €114 million correspond to a reduction in capital of Fresenius US Finance I Inc. This resulted in foreign exchange gains of €20 million for the Company.
- Moreover Fresenius Netcare GmbH, an indirect affiliated company of Fresenius SE & Co. KGaA, was granted a loan of €10 million.

Overall assessment of the business situation

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

Outlook

This Group Management Report contains forward-looking statements, including statements on future sales, expenses, and investments, as well as potential changes in the health care sector, our competitive environment, and our financial situation. These statements were made on the basis of the expectations and assessments of the Management Board regarding events that could affect the Company in the future, and on the basis of our mid-term planning. Such forward-looking statements are subject, as a matter of course, to risks, uncertainties, assumptions, and other factors, so that the actual results, including the financial position and profitability of Fresenius, could therefore differ materially – positively or negatively – from those expressly or implicitly assumed or described in these statements. For further information, please see our Opportunities and Risk Report on pages 18 ff.

General and mid-term outlook

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

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

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

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

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

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

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

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

The outlook takes account of all events known at the time the annual financial statements were prepared that could influence our operating performance in 2020 and beyond. Significant risks are discussed in the Opportunities and Risk Report. As in the past, we will do our utmost to achieve and – if possible – exceed our targets.

Future markets

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

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

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

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

Fresenius Vamed is expecting to grow in the life cycle and PPP project areas, both with regard to the project and the services business. Moreover, the company intends to further expand its position with follow-up orders, as well as to enter new target markets. Furthermore, Fresenius Vamed will continue to strengthen its position as a leading post-acute care provider in Central Europe.

Health Care sector and markets

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

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

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

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

The dialysis market

The global dialysis market is expected to grow by about 4% at constant exchange rates in 2020.

The number of dialysis patients worldwide is expected to rise by approximately 6% in 2020, 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 from under 1% to just over 3%. In economically weaker regions, the growth rates are even higher.

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

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

We expect the global market for generic IV drugs, biopharmaceuticals, clinical nutrition, infusion therapy, and medical devices / transfusion technology to grow by around 5% in 2020.

In 2020, the **market for generic IV drugs** is expected to grow by approximately 3% worldwide. The demand for generic drugs is likely to grow because of their significantly lower price in comparison to the originator drugs' price. The growth dynamic will continue to be driven by originator drugs going off patent, as well as by original off-patent products that are offered at steady prices due to a unique selling proposition. A factor working in the opposite direction is the price erosion for original off-patent drugs and generic drugs that are already on the market.

We expect Fresenius Kabi's relevant **market for biopharmaceuticals** to grow by around 8% in 2020.

In 2020, we expect worldwide growth of 4% in the **clinical nutrition market**. Growth perspectives are supported by increasing awareness of the need for early nutritional intervention, which is reflected in the latest guidelines and the increased practice of mandatory malnutritional screening. We see additional potential in the still underlying high percentage of people affected by malnutrition who do not yet have access to nutritional services. Continued high growth potential is projected in Asia-Pacific, Latin America, and Africa. We assume growth of up to 10% in individual countries.

We expect the market for infusion therapy in Europe to grow by 1% over the prior year's level in 2020. Despite a slightly growing blood volume substitutes market, continuous price pressure in the tender-driven standard-solutions business is expected to affect growth. Outside Europe, we also estimate the market for infusion therapy to grow by approximately 1% in 2020, whereby Latin America is expected to grow by up to 8%.

In 2020, the **market for medical devices** is expected to grow by up to 3% and the **market for transfusion technology** by up to 4%.

The hospital market

The number of hospital admissions in Germany declined slightly in 2017. No reliable figures are available yet for 2018 and 2019. However, we assume a further decline in inpatient hospital admissions and an increase in outpatient treatments as a result of the increasing provision of outpatient services. As a result of the measures initiated by Helios Germany to expand outpatient services and the continued implementation of the clustering strategy, we expect a slight increase in inpatient hospital treatment in 2020.

The so-called change in value figure is relevant for the increase in the **reimbursement of hospital treatments** in Germany. For 2020 it was set at 3.66%. In addition, the hospital funding system provides for various increases and reductions for acute hospitals. For surplus services agreed in advance with the health insurance companies, hospitals have to accept the so-called fixed cost degression discount on surplus services of up to 35%. The exact amount of the discount is negotiated between the hospitals and the health insurance companies.

As a result of the Act to Strengthen Nursing Staff (PpSG), the nursing costs will be excluded from the DRG from 2020; instead, the costs for patient-oriented nursing care will be fully reimbursed by the health insurance funds via separate nursing budgets at prime costs. Measures to relieve the burden on nursing care are also to be financially supported to a

[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. Percentage increase based on market value (price x volume).

Source: Company research; German Hospital Institute (DKI) 2019, Krankenhausbarometer 2019 certain extent from 2020. In addition, the regulation setting a minimum level for nursing staff has been extended to the areas of heart surgery, neurology, neurological stroke units, and early neurological rehabilitation as of 2020. In order to factor medical outcomes into the remuneration, the Federal Joint Committee defines quality indicators. The specific financial terms and details are currently being worked out in a consistent overall concept. However, we do not expect any adverse effects from this since the Helios Group is well prepared for quality-based remuneration thanks to its clear focus on quality and transparency of medical outcomes.

The future expectations with respect to their economic situation vary among the German hospitals: according to the Krankenhaus-Barometer 2019 survey by the German Hospital Institute (DKI), only one sixth (17%) of the hospitals expect their economic situation to improve in 2020, whereas 44% expect it to worsen.

Moreover, investment needs are growing while government support is declining. The Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) forecasts that more hospitals will respond to economic pressures by joining together into networks and bundling their services. Networks offer opportunities for individual hospitals to reduce costs, for example in purchasing.

We expect the private hospital market in **Spain** to continue to grow by 2% to 3% in 2020. The continuing increase in the number of privately insured patients should also open up opportunities for private operators in the future.

Relevant indicators, for example nationwide health care spending and bed density, indicate the further market development potential in the Spanish health care system compared with other EU countries. This also provides opportunities for the establishment of new hospitals. In addition, the highly fragmented private Spanish hospital market offers further consolidation potential.

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

For 2020, 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 and a continued rise in demand. This is due to demographic developments and an increasing need for investment and modernization in public health care facilities. Demand is particularly strong for services, i.e., the maintenance and repair of medical and hospital technology, facility management, technical or overall operational management, and the optimization of infrastructural processes – especially within the framework of public-private partnership models. Additional growth opportunities arise from the fact that public institutions are increasingly outsourcing non-medical services to private service providers. In addition, an expansion of the range of post-acute services in Europe is expected.

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

Economic outlook of Fresenius SE & Co. KGaA for the year 2020

For the fiscal year 2020 the company expects lower net income mainly due to lower dividend income from foreign affiliated companies. Retained earnings are expected to increase slightly

Dividend

The dividend increases provided by Fresenius in the last 26 years show impressive continuity. Our dividend policy aims to align dividends with earnings-per-share growth (before special items) and thus broadly maintains a payout ratio of 20% to 25%. Fresenius intends to continue its profit-driven dividend policy in 2020.

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 many years of experience, as well as our regularly leading market position, serve as a solid basis for a realistic 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. To be successful over the long term, we consolidate and improve on what we have already achieved and create new opportunities. 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 dialog with research groups and scientific institutions to explore new prospects, 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 15.

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 recorded in the risk management system.

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

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

Responsibilities for **processes and monitoring risks** have been assigned as follows:

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

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

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

Fresenius has ensured that the organizational structure and systems for identifying, assessing, and controlling risks, and for developing countermeasures, are designed appropriately and that they are properly functional. However, there can be no absolute certainty that this will enable all risks to be fully identified and managed.

Internal financial reporting controls

Numerous measures and internal controls assure the correctness and reliability of accounting processes and financial reporting, including the 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.,

- local entity
- region
- business segment
- Group

financial data and key figures are reported, discussed, and compared with the prior-year figures, budget, and latest forecast on a monthly basis. In addition, all parameters, assumptions, and estimates that are of relevance for the externally reported Group and segment results are discussed intensively with the department responsible for preparing the

Group's consolidated financial statements. These matters are also reviewed and discussed quarterly by the Supervisory Board's Audit Committee.

Control mechanisms, such as automated and manual reconciliation procedures, are further precautions put in place to assure that financial reporting is reliable and that transactions are correctly accounted for. All consolidated entities report according to Group-wide standards, which are determined at the head office. These are regularly adjusted to allow for changes made to the accounting regulations. The consolidation proposals are supported by the IT system. In this context, reference is made to the comprehensive consolidation of internal Group balances. To prevent abuse, we take care to maintain a strict separation of functions. **Management control and evaluations** also help to ensure that risks with a direct impact on financial reporting are identified and that controls are in place to minimize them. Moreover, changes in accounting principles are closely 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 more 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**.

In the third quarter of 2019, Fresenius Medical Care identified a significant weakness in its accounting-related internal control system relating to revenue recognition in North America. It affected the determination of the transaction price for certain legally disputed service compensation arrangements. Remedies have already been initiated and Fresenius Medical Care has taken steps to strengthen its control system.

Risk areas

Overall economic risks and risks due to the operating framework

At present, the development of the **global economy** presents no significant risk to the Fresenius Group. In 2020, we expect overall economic growth to continue. Moreover, Fresenius is affected only to a small extent by general economic fluctuations. We expect demand for our life-saving and life-sustaining products and services to continue to grow. Furthermore, Fresenius is striving for balanced distribution of its business in the main global regions and between established and emerging markets.

The risk situation for each business segment depends in particular on the development of their respective relevant markets. **Country-specific political, legal, and financial conditions** are therefore monitored and evaluated carefully, particularly in the current macroeconomic environment. This applies, for example, to countries with budget problems as a result of their debt burden, in particular with regard to our accounts receivable. This applies in particular to any initiatives by the U.S. administration with regard to potential changes to the current health care programs.

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

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 in the reimbursement of dialysis treatments, for example, could have a considerable impact on our business. In 2019, approximately 33% of Fresenius Medical Care's sales worldwide were attributable to U.S. federal health care benefit programs, such as **Centers of Medicare and Medicaid (CMS)**. A reduction in reimbursement rates or reimbursed services could result in significantly lower sales and operational results.

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

As part of the PPS, our dialysis clinics in the United States participate in the **Quality Improvement Program (QIP)**. Medicare reimbursement benefits can be reduced by up to 2% based on the previous year's benefits if clinics do not meet the quality standards of the QIP. Underlying quality measures are reviewed, extended, and amended annually by the CMS. A material failure by Fresenius Medical Care to achieve the minimum client quality standards under the QIP could materially and adversely affect our business, financial condition, and results of operations.

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

- The CMS Comprehensive ESRD Care Model allows dialysis providers and physicians to form ESRD Seamless Care Organizations (ESCOs) that seeks to deliver better health outcomes for ESRD patients with chronic kidney failure while lowering the CMS' costs. ESCOs that achieve the program's minimum quality requirements and generate reductions in treatment costs for CMS above certain threshold values will receive a share of the cost savings. However, ESCOs that include dialysis chains with more than 200 facilities are required to share in the risk of cost increases and reimburse CMS a share of any such increases. In 2019, Fresenius Medical Care's operating result was adversely affected by the impact of a reduction in patients enrolled in the ESCO program and a decrease in the cost savings rate based on reports under discussion for current and prior program years.

- In addition, Fresenius Medical Care has entered into per capita sub-capitations and risk-based and value-based agreements with certain insurers to provide health care to private and Medicare Advantage patients with end-stage renal disease. These agreements provide for the establishment of a basic amount per patient per month. If we provide complete care at costs below the basic amount, we retain the difference. However, if the costs of complete care exceed the basic amount, we may be obliged to pay the difference to the insurer.

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

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

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

- Second, Fresenius Medical Care introduces new initiatives in order to achieve efficiency increases and better patient outcomes by increasing care upon initiation of dialysis, increasing the percentage of patients using home dialysis, and generating additional cost reductions in its clinics.

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

The U.S. administration also announced its decision to end subsidies, known as cost-sharing reduction (CSR) payments, to health insurance companies to help pay out-of-pocket costs of low-income Americans, in 2017. Some private insurers have stated that they will need much higher premiums and may withdraw from the insurance exchanges created under the Affordable Care Act if the subsidies were eliminated. We cannot predict how the ongoing litigation in this regard might be determined. As a result, significant increases in insurance premiums and a reduction in the availability of insurance through such exchanges could reduce the number of Fresenius Medical Care's privately insured patients and shift such patients to Medicare and Medicaid. Because Medicare and Medicaid reimbursement rates are generally lower than the reimbursement rates paid by private insurers, a shift of privately insured patients to Medicare and Medicaid could have a material adverse impact on the result of operations of Fresenius Medical Care.

Further requirements for dialysis clinics and changes in reimbursement from government and private insurers for our entire product and service portfolio in the United States could have a material adverse effect on our business and operating results. For example, the ballot initiatives introduced at the state level could result in further regulation of clinic staffing requirements, state inspection requirements, and a cap on private insurer margins. Such additional state regulations would increase the cost of operating dialysis clinics and create additional costs. This could have a material adverse effect on our business in the affected states.

In addition, a portion of dialysis treatment in the United States is reimbursed by **private health insurance companies** and **integrated care organizations**, with reimbursements generally higher than the reimbursements provided by the government health care program. As a result, payments from private health insurers contribute a significant portion to Fresenius Medical Care's profits. In 2019, approximately 34% of Fresenius Medical Care's sales from health care services were attributable to private health insurance companies in the North American segment. If these organizations in the United States manage to push through a reduction in the reimbursements, or the share of reimbursements by private health insurers, it would significantly reduce the sales revenues and operating earnings for the products and services of Fresenius Medical Care.

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

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

The same applies to the hospital market in Germany, where the **DRG system** (Diagnosis-Related Groups) is intended to increase the efficiency of hospitals while reducing health care spending. Patients are largely assigned to hospitals by the public health and pension insurers. It is therefore important for Helios Germany that the contracts between its hospitals and the insurers and health care institutions are maintained. We not only monitor legislative changes intensively, but also work together with governmental health care institutions. As a result of the Act to Strengthen Nursing Staff (PpSG), from 2020, nursing costs will be deducted from the standardized base rates (DRG), and the costs for direct patient care will instead be fully reimbursed by the health insurance companies via separate care budgets. In 2019, each additional or increased nurse position at the bed was completely refinanced by the health insurers.

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

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

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

Changes in the law, the reimbursement method, and the health care programs 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 our business operations as well as net assets, financial position, and results of operations. Generally, our aim is to counter such possible regulatory risks through enhanced performance and cost reductions.

Development of new products and therapies

The **introduction of new products and services**, or the development of advanced 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. These enable us to keep abreast of developments in alternative treatment methods and to evaluate and adjust our corporate strategy, if necessary.

Operating risks

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

- The quality, safety, and efficacy of medical and pharmaceutical products, supplies, and therapies;
- The operation and licensing of hospitals, other health care facilities, manufacturing facilities, and laboratories;
- The planning, construction, equipment, and management of pharmaceutical and medical-technological production facilities;
- The planning, construction, equipping, and management of health care facilities;
- Permits from public authorities and monitoring of clinical and non-clinical research and development activities;

- Product releases and approvals for new products and product modifications;
- Checks and reviews by enforcement authorities of compliance with applicable pharmaceutical legislation;
- Compliance with due diligence obligations, warranty obligations, and product liability regulations;
- The accurate reporting of and billing for reimbursements by government and private insurers;
- The labeling and designation of pharmaceutical products and their marketing;
- Attracting qualified personnel;
- Compensation of medical personnel and financial arrangements with physicians and other referral sources;
- Access to, collection, publication, use, and security of health information and other protected data

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

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

<u>Production, products, and services</u>

Compliance with **product specifications and manufacturing regulations** is ensured by our quality management systems, which are structured in accordance with the internationally recognized **quality standards ISO 9001** and **ISO 13485** and take into account relevant international and national 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 requirements and regulations in all areas – from management and administration to production and clinical services, all the way to patient satisfaction. Our production facilities comply with the Good Manufacturing Practice (GMP) of the markets they supply. Our facilities are audited by local public health authorities, such as the U.S. Food and Drug Administration (FDA) or the European Medicines Agency (EMA), and other authorities. If an authority detects any deficiencies, Fresenius will immediately take appropriate rectifying measures.

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

In addition, **production** could be adversely affected by events such as natural disasters, infrastructure disruptions, regulatory rulings, or supply disruptions, e.g., of raw materials, or technical failures.

Potential risks arising from the start-up of **new production sites or the introduction of new technologies** are countered through careful planning, regular analysis, and continual progress reviews. Providing **medical services** in our hospitals, rehabilitation clinics, and dialysis clinics is generally subject to inherent risks. For example, disruptions to processes, including causes such as natural disasters or technical failures, involve risks for patients and the clinic. In addition, there are operational risks, for example regarding hygiene. We counteract these risks with strict operating procedures, continual personnel training, and patient-oriented work procedures. Furthermore, we are constantly striving to improve the standard of patient treatment through our quality management systems.

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

<u>Procurement</u>

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

We counter the risk of poor-quality purchased raw materials, semi-finished products, and components mainly by requiring our suppliers to meet strict quality standards. This includes a structured qualification process, which comprises audits, document and advance sample inspections, as well as regular quality controls of deliveries. We only purchase high-quality products with proven safety and suitability from qualified suppliers that conform to our specifications and standards.

Competition

Growing **competition**, among other things induced by the reentry of competitors into the U.S. market for generic IV drugs after production halts, can have a material adverse effect on the future pricing and sale of our products and services. The introduction of generic or patented drugs by competitors may have an impact on the sales and operational results of our products.

In the United States, most hospitals are members of one or more **group purchasing organizations (GPOs)** which award contracts to pharmaceutical manufacturers through a competitive bidding process. Currently, there are three main GPOs in the United States – Vizient, Premier and Health Trust. Fresenius Kabi derives a large percentage of its revenue from sales to hospitals that purchase products in accordance with these GPO contracts. To win and retain contracts with GPOs, Fresenius Kabi must be a reliable supplier of a high-quality product line, remain price-competitive, and comply with all applicable laws and regulations. GPOs also have purchasing agreements with other manufacturers, and the bidding process for products is highly competitive. Most of the agreements Fresenius has with GPOs in the United States can be terminated at short or medium notice. If Fresenius Kabi does not succeed in fulfilling and maintaining its existing contracts or if new contracts are concluded on less favorable terms, this could have an adverse effect on our sales, financial position, and operational results.

The main customers in the area of transfusion technology are plasma companies and blood centers. There are four major plasma companies globally. Blood centers are more fragmented, but they have consolidated in recent years in response to lower demand for red cells resulting from blood-saving efforts at hospitals. Fresenius Kabi remains competitive by providing innovation, award-winning customer services, and continuously improving its cost structure and efficiency.

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, financial position, and operational results.

Referrals from Physicians

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

Payment default

As a rule, we assess the creditworthiness of new customers in order to limit the risk of **late payment and defaults** by customers. We also conduct follow-up assessments and review credit lines on an ongoing basis. We monitor receivables outstanding from existing customers, and assess the risk of default. This particularly applies to countries with budgetary problems and countries exposed to political risks. In 2019, we again worked on the status of our receivables, by taking measures such as factoring.

Personnel

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

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

To ensure a sustainable supply of qualified staff, we offer, for example, targeted programs for young academic talent with subsequent retention programs, as well as comprehensive apprenticeships for students who just graduated high school.

With more than 4,950 apprentices and dual students, Fresenius is one of the biggest training companies in Germany. The number of our study program offerings has further increased. In 2019 we offered the programs Digital Business Management, Industrial Safety, Environmental Technology, Business Engineering and Medical Technology in cooperation with the Baden-Württemberg Cooperative State University for the first time. We provide information about our apprenticeship and study program offerings on our career website, as well as at our respective training locations through various marketing activities and vocational orientation offers (e.g., vocational information days, Night of Apprenticeship, high school student internships, Apprentices’ Navigation System).

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

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

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

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

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 try to avoid negative impacts of these risks. However, we limit ourselves to non-exchange-traded, marketable instruments, used exclusively to hedge our underlying transactions and not for trading or speculative purposes. The majority of our transactions are conducted with banks that have a high rating.

The Fresenius Group's foreign **exchange risk management** is based on a policy approved by the Management Board that defines the targets, organization, and handling of the risk management processes. In particular, the policy assigns responsibilities for the determination of currency risks, the execution of hedging transactions, and the regular risk management reporting. These responsibilities correspond to the decision-making structures in the other business processes of the Group. Decisions on the use of derivative financial instruments in **interest rate management** are made 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, 2019, approximately 60% of the Fresenius Group's debt was protected against increases in interest rates either by fixed-rate financing arrangements or by interest rate hedges; consequently, 40% was exposed to interest rate risks. A sensitivity analysis shows that a rise of 0.5 percentage points in the reference rates relevant for Fresenius would have an impact of approximately 1% 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 €130 million on Group sales, about €24 million on EBIT, and about €7 million on Group net income.

As a globally active company, we have production facilities in all the main currency areas. In the service businesses, our revenue and cost base largely coincide. The Fresenius Group uses a Cash-Flow-at-Risk (CFaR) model in order to estimate and quantify such **transaction risks** from foreign currencies. The foreign currency cash flows that are reasonably expected to occur within the following 12 months, less any hedges, form the basis for the analysis of the currency risk. As of December 31, 2019, the Fresenius Group's cash flow at risk was €59 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 €59 million.

Recoverability of assets

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

Taxes and duties

As a global corporation, Fresenius is subject to numerous **tax 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 adjustments resulting from tax audits, and additional customs, import duties and trade barriers could lead to higher tax duties payments.

Debt and liquidity

Fresenius' debt as of December 31, 2019 was €27,258 million including the lease liabilities according to IFRS 16. The **debt** could limit the Company's ability to pay dividends, arrange refinancing, be in compliance with its credit covenants, or implement the corporate strategy. If the conditions on the relevant financial markets deteriorate significantly, financing risks could arise for Fresenius. We reduce these risks through a high proportion of mid- and long-term funding with a balanced maturity profile. Some of our major financing agreements contain covenants requiring us to comply with certain financial ratios and additional financial criteria. Non-compliance with these covenants could result in a default and acceleration of the debt under the respective agreements. We counteract this risk by taking the relevant performance indicators into account in our Group planning and continuously monitoring their development. This enables us to take countermeasures at an early stage.

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

Inflation risk

As an international company, we are exposed to varying **inflation rates and price developments**. We are also active in high-inflation countries such as Argentina. Due to the development of inflation in Argentina, our subsidiaries operating there have applied IAS 29, Financial Reporting in Hyperinflationary Economies, since July 1, 2018.

Risks associated with research and development and product approval

The **development of new products and therapies** always carries the risk that the ultimate goal might not be achieved, or it might take longer than planned. This is particularly true for the Fresenius Kabi biosimilar products. The development of biosimilar products entails additional risks, such as significant development costs and the still-developing regulatory and approval processes. Regulatory approval of new products requires comprehensive, cost-intensive preclinical and clinical studies. Furthermore, there is a risk that regulatory authorities either do not grant, or delay, product approval, or withdraw an existing approval. In addition, adverse effects of our products that may be discovered after regulatory approval or registration may lead to a partial or complete withdrawal from the market, due either to legal or regulatory actions or our voluntary decision to stop marketing a product.

In January 2018, for example, the Coordination Group for Mutual Recognition and Decentralized Procedures – human (CMDh) at the European Medicines Agency (EMA) recommended that drugs containing hydroxyethyl starch (HES) be withdrawn from the market. This position was not taken unanimously and was therefore referred to the European Commission for a decision. In April 2018, the Standing Committee of the European Commission referred the matter back to the Pharmacovigilance Risk Assessment Committee (PRAC) of the EMA. The PRAC maintained its recommendation to suspend regulatory approvals. As a result, the CMDh of the EMA took the position in July 2018 that regulatory approvals would be maintained under the condition that risk-minimizing measures are implemented. These include controlled distribution to accredited hospitals / centers, training and direct communication with health care professionals, and warnings on the packaging. In July 2018, the European Commission approved this position. These required risk-minimization measures for the HES products were initiated in 2019. Based on the results of a consumer study, the effectiveness of the measures will be reassessed in 2020.

Similar measures could also be taken by authorities in non-EU countries. The Fresenius Group spreads its risk widely by conducting development activities in various product segments. We also counteract risks from research and development projects by regularly analyzing and assessing development trends and examining the progress of research projects. We also strictly comply with the legal regulations for clinical and chemical-pharmaceutical research and development.

With IV drugs, it is also crucial that new products are continually brought to the market in a timely manner. Therefore, we monitor the development of new products on the basis of detailed project plans and focus on achieving specific milestones. In this way, we can take countermeasures if defined targets are called into question.

Fresenius Medical Care as well as Fresenius Kabi are subject to typical patent risks. This includes an inadequate protection by patents of the technologies and products that we developed. Competitors may copy our products without bearing comparable research and development costs.

Risks from acquisitions

The **acquisition and integration** of companies carries risks that can adversely affect the net assets, financial position, and results of operations of Fresenius. Acquisition processes often include closing conditions, including but not limited to antitrust clearance, fulfillment of representations and warranties, and adherence to laws and regulations. Non-compliance with such closing conditions by either party to an acquisition could lead to litigation between the parties or with others and thus claims against Fresenius.

Following an acquisition, the acquired company's structure must be integrated while clarifying legal questions and contractual obligations. Marketing, patient services, and logistics must also be unified. During the integration phase, there is the risk that key managers will leave the company and that both the course of ongoing business processes and relationships with customers and employees will be harmed. In addition, change-of-control clauses may be claimed. The integration process may prove more difficult or require more time and resources than expected. Risks can arise from the operations of the newly acquired company that Fresenius regarded as insignificant or was unaware of. An acquisition may also prove to be less beneficial than initially expected. **Future acquisitions** may be a strain on the finances and management of our business. Moreover, as a consequence of an acquisition, Fresenius may become directly or indirectly liable towards third parties, or claims against third parties may turn out to be non-assertable.

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

Information technology risks

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

The loss of sensitive data or the **non-compliance with data protection laws, regulations, and standards** could damage our competitive position, our reputation, and the entire company. Moreover, significant penalties could be imposed against Fresenius or one of its subsidiaries in case of a data protection breach. To comply with all legal requirements, we have implemented comprehensive data protection management systems, which provide the appropriate technical and organizational measures and controls for the protection of personal data. Fresenius SE & Co. KGaA and all business segments maintain data protection organizations, including a data protection officer, based on their corporate structure. Data protection guidelines describe the binding requirements for data protection and data handling in all business segments.

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

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

Fresenius implemented a Cyber Emergency Response Team to defend cyber attacks and to detect risks and threats at an early stage as well as to mitigate or minimize potential resulting damages.

Compliance and legal risks

Compliance Risks

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

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

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

Each business segment has appointed a Chief Compliance Officer to oversee the development, implementation, and monitoring of the relevant business segment's Compliance Management System. In line with their organizational and business structure, the business segments have established compliance responsibilities at the respective organizational levels. The Corporate Compliance department of Fresenius SE & Co. KGaA supports the compliance officers in each business segment with standardized tools, processes, and methods, and reports to the Chief Legal and Compliance Officer, and Labor Relations Director of Fresenius SE & Co. KGaA .

Our compliance programs set binding rules of conduct for our employees. We believe that we have taken adequate measures to ensure that national and international rules are observed and complied with. Despite our comprehensive Compliance Program we cannot fully exclude any misconduct of individual employees or business partners that might cause damage to the company.

Legal risks

Risks that arise from **legal disputes** or administrative proceedings 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. This is especially true for legal disputes in the USA where costs for legal defense and claims for damages can be exceptionally high. Legal actions can also result in an inability to insure risks of this type at acceptable terms in the future. Products from the health care industry can also be subject to recall actions, which could have a negative effect on our reputation, the financial position, and results of operations.

The Fresenius Group is routinely involved in various legal disputes or administrative proceedings arising in the ordinary course of its business. However, although the outcome cannot be predicted, we currently do not expect any material adverse effect on our net assets, financial position, and results of operations from the legal matters currently pending.

Other risks

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

- Political, social, or economic instability, especially in developing and emerging countries;
- Civil unrest, armed conflict, or outbreaks of disease; e.g. pandemics, for instance caused by the Corona virus;
- Natural disasters, terrorist attacks, and other unforeseen events;
- Different labor law conditions and difficulties in meeting the global demand for qualified personnel;
- Different and less stable regulations protecting intellectual property;
- Delays in the transport and delivery of our products.

Risks involving management and control systems, were, based on our established risk management and controlling processes, not considered to be significant.

Assessment of overall risk

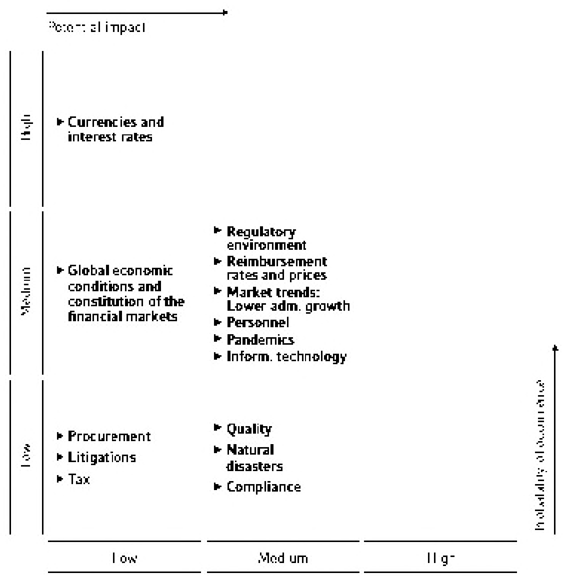
The basis for evaluating overall risk is the risk management employed by Fresenius, which is regularly audited by management. Potential risks for Fresenius include factors beyond our direct control. These also include the macroeconomic development, which we constantly monitor. They also include factors immediately within our control, such as operating risks, which we anticipate and to which we react with appropriate measures, as required. There are currently no recognizable risks regarding future performance that appear to present a long-term and material threat to the Fresenius Group's net assets, 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 opposite shows the significant risks that could lead to deviations from the expected business performance within the one-year forecast period. Compared with last year, the risk of pandemics was incorporated due to the latest developments regarding the Corona virus. Furthermore, the probability for IT risks was increased from low to medium because of an increasing number of cyber attacks. In addition, the probability of risks regarding the quality of our products and services has been decreased from medium to low based on the investments and measures taken to enhance quality assurance. Moreover, risks related to Compliance are shown separately that have been included in Litigation so far. Due to constantly increasing regulatory requirements and tightening penalties, the potential impact of Compliance risks was increased to medium. Apart from that, no changes have occurred in the classification and the potential effects of risks. Within the regulatory environment, due to possible initiatives by the U.S. administration, we are exposed to risks relating to changes to the existing health care programs. In relation to reimbursement rates, possible changes to patient structures in the United States increase the risk in relation to reimbursements by private health insurance schemes.

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

RISKS AFFECTING THE ONE-YEAR FORECAST PERIOD



Potential impact	Description of impact
High	Significant negative impact on the one-year forecast
Medium	Moderate negative impact on the one-year forecast
Low	Insignificant negative impact on the one-year forecast

Probability of occurrence	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 22),
- Risks arising from the financing of health systems and potential changes in reimbursement systems (Risks in the healthcare sector see page 20),

Risks arising from the regulatory environment and compliance with laws and regulations (Overall economic risks and risks due to the operating frameworksee page 20).

Bad Homburg v.d.H., February 19, 2020

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 dated February 7, 2017 as well as under consideration of the declaration of conformity of Fresenius SE & Co. KGaA of December 2019, and also includes the disclosures as required pursuant to the applicable statutory regulations, notably in accordance with the German Commercial Code.

COMPENSATION OF THE MANAGEMENT BOARD

The Supervisory Board of Fresenius Management SE is responsible for determining the compensation of the Management Board. The Supervisory Board is assisted in this task by a personnel committee which is also responsible for the tasks of a compensation committee. The personnel committee of Fresenius Management SE was composed of Dr. Gerd Krick, Dr. Dieter Schenk, and Dr. Karl Schneider.

The Annual General Meeting of Fresenius SE & Co. KGaA approved the compensation system for the members of the Management Board of the general partner on May 18, 2018 with an approval rate of approximately 63%. The next Annual General Meeting vote on the compensation system is planned for the Annual General Meeting in 2021.

The objective of the compensation system is to enable the members of the Management Board to participate reasonably in the sustainable development of the company's business and to reward them based on their duties and performance as well as their successes in managing the company's economic and financial position, giving due regard to the peer environment.

The compensation of the Management Board is, as a whole, performance-based and geared towards promoting sustainable corporate development. It is composed of three elements:

- Non-performance-based compensation (fixed compensation and fringe benefits)
- Short-term performance-based compensation (one-year variable compensation (bonus))
- Components with long-term incentive effects (multi-year variable compensation comprising performance shares), and postponed payments of the one-year variable compensation / of the bonus)

In addition, there are pension commitments for the members of the Management Board.

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

COMPENSATION ELEMENTS

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

PERFORMANCE-BASED COMPENSATION

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

The fixed compensation was generally paid in monthly installments in the fiscal year 2019. Mr. Rice Powell was paid a part of his fixed compensation from Fresenius Medical Care North America in 24 installments. Moreover, the members of the Management Board received fringe benefits. These consisted mainly of insurance premiums, the private use of a company car, special payments such as rent supplements and reimbursement of certain other charges, tuition fees, and costs for the operation of intrusion detection systems, as well as contributions to pension and health insurance.

The performance-based compensation will be granted for the fiscal year 2019 as a short-term cash component (one-year variable compensation) and as compensation components with long-term incentive effects (performance shares and postponed payments of the one-year variable compensation).

In the fiscal year 2019, in accordance with his agreement with the Supervisory Board of Fresenius Management SE, Mr. Stephan Sturm has acquired shares of the company in the value of the net amount of his one-year variable compensation for the fiscal year 2018 and will hold them for at least three years. Thereby, the orientation of his compensation towards sustainable corporate development was enhanced voluntarily.

In order to appropriately take into account the business development of Fresenius Medical Care during the fiscal year 2018, in the fiscal year 2019, Mr. Rice Powell acquired shares in Fresenius Medical Care AG & Co. KGaA for a portion of his bonus for the fiscal year 2018 and will hold them for at least three years, pursuant to his commitment.

The amount of the one-year variable compensation in each case is dependent on certain target parameters oriented on the net income attributable to Fresenius SE & Co. KGaA and/or to the relevant business segments being achieved. In the case of the members of the Management Board with functional responsibility for the entire Group – such members being Mr. Stephan Sturm, Ms. Rachel Empey, and Dr. Jürgen Götz – the amount of the one-year variable compensation is based in its entirety on the respective net income attributable to Fresenius SE & Co. KGaA (after deduction of noncontrolling interest). For Mr. Mats Henriksson and Dr. Francesco De Meo, approximately half of the amount of the one-year variable compensation depends on the development of the net income attributable to Fresenius SE & Co. KGaA and for the remainder on the development of the net income of the business segment (in each case after deduction of noncontrolling interest) for which the respective member of the Management Board is responsible. Approximately half of the amount of the one-year variable compensation of Dr. Ernst Wastler is oriented on the net income attributable to Fresenius SE & Co. KGaA (after deduction of noncontrolling interest), as well as on the net income before tax and extraordinary income/expenditures of the VAMED Group. Mr. Rice Powell receives his compensation exclusively from Fresenius Medical Care.

The service agreements with Fresenius Management SE do not provide for a discretionary bonus.

For the fiscal years 2019 and 2018, 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	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Stephan Sturm	**1,100**	1,100	**55**	102	**1,866**	1,868[3]	**3,021**	3,070
Dr. Francesco De Meo	**630**	630	**32**	25	**1,403**	1,415	**2,065**	2,070
Rachel Empey	**600**	600	**198**	231	**812**	812	**1,610**	1,643
Dr. Jürgen Götz	**510**	490	**45**	41	**950**	950	**1,505**	1,481
Mats Henriksson	**660**	660	**114**	107	**1,369**	1,356	**2,143**	2,123
Rice Powell[1]	**1,340**	1,270	**256**	195	**1,970**	2,376[4]	**3,566**	3,841
Dr. Ernst Wastler	**550**	525	**76**	75	**932**	932	**1,558**	1,532
Total	**5,390**	5,275	**776**	776	**9,302**	9,709	**15,468**	15,760

[1] Mr. Rice Powell received his compensation only from Fresenius Medical Care, of which Fresenius SE & Co. KGaA held around 31.64% of the total subscribed capital. As a member of the Management Board of Fresenius Management SE, his compensation has to be included in the compensation report of the Fresenius Group.
[2] Includes insurance premiums, private use of a company car, contributions to pension and health insurance, as well as other benefits. As compensation for long-term incentives from her former employer that were forfeited due to her change to Fresenius, Ms. Rachel Empey receives a fixed, additional special payment of € 166,667 for each full year of service, limited to three such payments.
[3] In the fiscal year 2019, in accordance with his agreement with the Supervisory Board of Fresenius Management SE, Mr. Stephan Sturm has acquired shares of the company in the value of the net amount of his one-year variable compensation for the fiscal year 2018 and will hold them for at least three years. Thereby, the orientation of his compensation towards sustainable corporate development was enhanced voluntarily.
[4] In order to appropriately take into account the business development of Fresenius Medical Care during the fiscal year 2018, in the fiscal year 2019, Mr. Rice Powell acquired shares in Fresenius Medical Care AG & Co. KGaA for a portion of his bonus for the fiscal year 2018 and will hold them for at least three years, pursuant to his commitment.

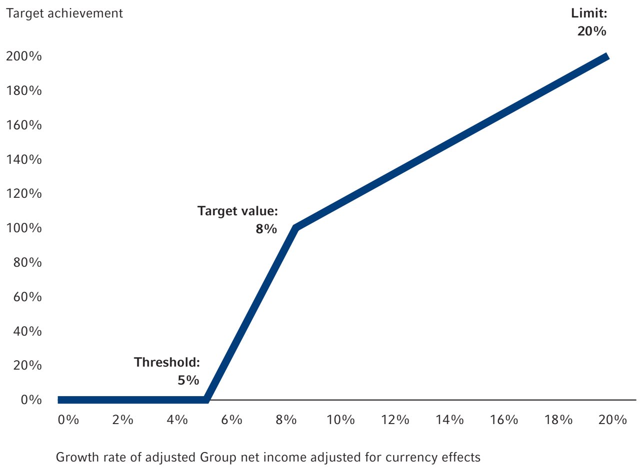
In the fiscal year 2019, the one-year variable compensation, excluding the payment to Mr. Rice Powell, amounted to €7,332 thousand. This equals 98% of the total one-year variable compensation. The remaining part in an amount of €172 thousand was converted into a component based on a multi-year assessment and the payment was postponed by two years.

To ensure that the overall system of compensation of the members of the Management Board is oriented towards long-term and sustained corporate development, the compensation system provides that the share of long-term variable compensation components is at least equal in its amount to half of the total variable compensation components granted to the respective member of the Management Board. As a means of ensuring this minimum ratio in favor of the compensation components oriented towards the long term, it is expressly provided that the Supervisory Board may determine that the one-year variable compensation to be paid as a rule annually is converted (pro rata) into a variable compensation component based on a multi-year assessment, in order to also take account of any negative developments within the performance period. This is done in such a way that the maturity of the yearly one-year variable compensation earned on a variable basis is postponed at the discretion of the Supervisory Board, either on a pro rata basis or in its entirety, by two years. At the same time, it is ensured that any payment is made to the member of the Management Board after expiration of such multi-year period only if (i) no subsequent adjustment of the net income (adjusted for extraordinary effects) attributable to Fresenius SE & Co. KGaA (after deduction of noncontrolling interest) decisive for assessing the one-year variable compensation beyond an amount equal to a tolerance range of 10% is made, and (ii) the amount of net income attributable to Fresenius SE & Co. KGaA (adjusted for extraordinary effects) in the two relevant subsequent years is not substantially less than the net income attributable to Fresenius SE & Co. KGaA (adjusted for extraordinary effects, after deduction of noncontrolling interest) of the respective preceding fiscal years. In the event of the aforementioned conditions for payment being missed only to a minor and/or partial extent, the Supervisory Board may resolve on a corresponding pro rata payment of the converted portion of the one-year variable compensation. No interest is payable on the converted one-year variable compensation claim from the time when it first arises until the time of its effective payment. In this way, the one-year variable compensation can be converted pro rata or in its entirety into a genuine variable compensation component on a multi-year assessment basis, which also participates in any negative developments during the relevant performance period.

In the fiscal year 2019, as a further component with long-term incentive effect, the Management Board members were granted performance shares under the Fresenius SE & Co. KGaA Long Term Incentive Plan 2018 (LTIP 2018). Mr. Rice Powell was granted performance shares under the Fresenius Medical Care Management Board Long-Term Incentive Plan 2019 (MB LTIP 2019) of Fresenius Medical Care AG & Co. KGaA. Based on the LTIP 2018, both members of the Management Board and other executives were granted performance shares. In accordance with the division of powers under stock corporation law, grants to members of the Management Board were made by the Supervisory Board of Fresenius Management SE, and grants to other executives were made by the Management Board. The number of performance shares for Management Board members to be granted was determined by the Supervisory Board at the Supervisory Board's own due discretion, provided that generally all Management Board members received the same amount of performance shares, with the exception of the Chairman of the Management Board, who received approximately double the respective amount of performance shares.

The vesting of the performance shares granted under the LTIP 2018 is subject to several conditions, such as the expiration of a four-year performance period, the absence of a compliance violation, the achievement or exceeding of two performance targets and the continuation of the service or employment relationship. The number of performance shares

GROWTH RATE OF
ADJUSTED GROUP NET INCOME
ADJUSTED FOR CURRENCY EFFECTS



may change over a period of four years, depending on the level of achievement of the performance targets. This could entail the entire loss of all performance shares or also – at maximum – the doubling of their number.

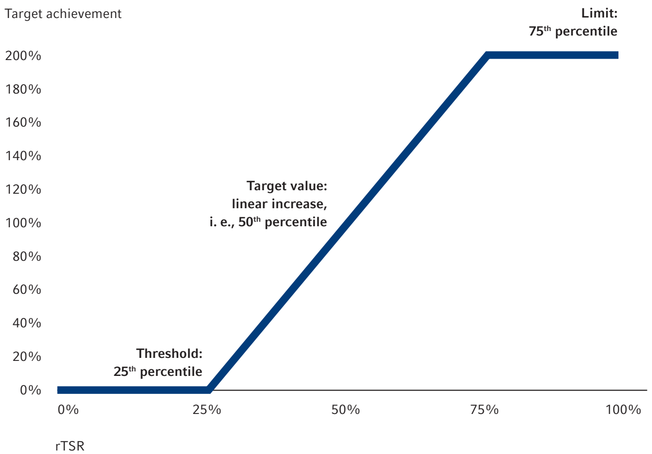
The LTIP 2018 has two equally weighted performance targets: firstly, the growth rate of the adjusted net income (adjusted for currency effects) and, secondly, the relative Total Shareholder Return based on the STOXX Europe 600 Health Care Index. Disbursement entitlement requires that at least one of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

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

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

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

RELATIVE TOTAL SHAREHOLDER RETURN
(STOXX EUROPE 600 HEALTH CARE)



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

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

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

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

Until the end of the fiscal year 2017, benefits under LTIP 2013 of Fresenius SE & Co. KGaA were granted as another component with long-term incentive effect, which resulted in an inflow in the 2019 fiscal year and may result in an inflow in the future. The benefits consisted, on the one hand, of share-based compensation with cash settlement (phantom stocks) and on the other hand of stock options on the basis of the Stock Option Plan 2013 of Fresenius SE & Co. KGaA. Based on the LTIP 2013, both members of the Management Board and other executives were granted stock options and phantom stocks. In accordance with the division of powers under stock corporation law, grants to members of the Management Board were made by the Supervisory Board of Fresenius Management SE, and grants to other executives were made by the Management Board. The number of stock options and phantom stocks for Management Board members to be granted was determined by the Supervisory Board at the Supervisory Board's own due discretion, provided that generally all Management Board members received the same amount of stock options and phantom stocks, with the exception of the Chairman of the Management Board, who received double the respective amount of stock options and phantom stocks. At the time of the grant, the participants in LTIP 2013 had the right to elect whether they wished to receive stock options and phantom stocks in a ratio of 75 : 25, or in a ratio of 50 : 50.

Exercise of the stock options and the phantom stocks granted under LTIP 2013 of Fresenius SE & Co. KGaA is subject to several conditions, such as expiry of a four-year waiting period, observance of blackout periods, achievement of the specified performance target, and continuance of the service or employment relationship. The vested stock options can be exercised within a period of four years. The vested phantom stocks are settled on March 1 of the year following the end of the waiting period.

The amount of the cash settlement pursuant to the Phantom Stock Plan 2013 is based on the volume-weighted average market price of the share of Fresenius SE & Co. KGaA during the three months preceding the exercise date.

The respective performance target has been reached if the adjusted consolidated net income of the company (net income attributable to the shareholders of the company) has increased by a minimum of 8% per year in comparison to the previous year within the waiting period, after adjustment for foreign currency effects. The performance target has also been achieved if the average annual growth rate of the adjusted consolidated net income of the company during the four-year waiting period is at least 8%, adjusted for foreign currency effects. If, with respect to one or more of the four reference periods within the waiting period, neither the adjusted consolidated net income of the company has increased by a minimum of 8% per year in comparison to the previous year, after adjustment for foreign currency effects, nor the average annual growth rate of the adjusted consolidated net income of the company during the four-year waiting period is at least 8%, adjusted for foreign currency effects, the respective granted stock options and phantom stocks are forfeited on a pro-rata basis according to the proportion of the performance target that has not been achieved within the waiting period, i.e., by one fourth, by two fourths, by three fourths, or completely. If a member of the Management Board leaves the company, the stock options and phantom stocks are forfeited as a matter of principle.

The principles of the LTIP 2018 and the LTIP 2013 of Fresenius SE & Co. KGaA and of the MB LTIP 2019 of Fresenius Medical Care AG & Co. KGaA are described in more detail in note 35 of the notes of the Fresenius Group, Share-based compensation plans.

Furthermore, through fiscal year 2017, the members of the Management Board, with the exception of Ms. Rachel Empey and Mr. Rice Powell, were granted an entitlement to further share-based compensation with cash settlement (further phantom stocks) in the equivalent value of €100 thousand per Management Board member. With regard to the performance target and waiting period, the same conditions that pertain to the phantom stocks granted under LTIP 2013 apply to them.

For the fiscal years 2019 and 2018, the value of performance shares issued and the value of the postponed performance-based compensation, is shown in the following table.

The stated values for the year 2019 correspond to the fair value of the performance shares at the time of grant, namely a value of €45.36 per performance share of Fresenius SE & Co. KGaA and a value of US$ 69.71 per performance share of Fresenius Medical Care AG & Co. KGaA (2018: €67.45 per performance share of Fresenius SE & Co. KGaA and US$94.11 per performance share of Fresenius Medical Care AG & Co. KGaA).

At the end of the fiscal year 2019, the members of the Management Board held a total of 331,849 performance shares (2018: 133,434) and 138,385 phantom stocks (2018: 211,302) of Fresenius SE & Co. KGaA and 92,700 performance shares (2018: 55,463) and 10,596 phantom stocks (2018: 15,586) of Fresenius Medical Care AG & Co. KGaA. Furthermore, they held a total of 1,434,375 stock options (2018: 1,519,515) of Fresenius SE & Co. KGaA as well as 256,781 stock options (2018: 256,781) of Fresenius Medical Care AG & Co. KGaA.

LONG-TERM INCENTIVE COMPONENTS

	Performance shares [1]		Postponed payment of the one-year variable compensation		Total	
	Value, € in thousands		Value, € in thousands		Value, € in thousands	
	2019	2018	**2019**	2018	**2019**	2018
Stephan Sturm	**2,500**	2,500	**0**	0	**2,500**	2,500
Dr. Francesco De Meo	**1,300**	1,300	**103**	115	**1,403**	1,415
Rachel Empey	**1,300**	1,300	**0**	0	**1,300**	1,300
Dr. Jürgen Götz	**1,300**	1,300	**0**	0	**1,300**	1,300
Mats Henriksson	**1,300**	1,300	**69**	56	**1,369**	1,356
Rice Powell	**2,232**	2,391	**0**	0	**2,232**	2,391
Dr. Ernst Wastler	**1,300**	1,300	**0**	0	**1,300**	1,300
Total	**11,232**	11,391	**172**	171	**11,404**	11,562

[1] The amounts comprise all performance shares including performance shares and share based awards of Fresenius Medical Care AG & Co. KGaA that were granted in 2019 and 2018.

The development and the status of the stock options of the Management Board in the fiscal year 2019 are shown in the following table:

	Stephan Sturm	Dr. Francesco De Meo	Rachel Empey	Dr. Jürgen Götz	Mats Henriksson	Rice Powell[1]	Dr. Ernst Wastler	**Total[2]**
Options outstanding on January 1, 2019								
Number	456,390	247,500	28,125	270,000	247,500	256,781	270,000	**1,519,515**
Average exercise price in €	54.52	61.65	64.69	56.97	56.15	66.06	56.97	**57.01**
Options exercised during the fiscal year								
Number	85,140	0	0	0	0	0	0	**85,140**
Average exercise price in €	26.11							**26.11**
Average stock price in €	48.07							**48.07**
Options outstanding on December 31, 2019								
Number	371,250	247,500	28,125	270,000	247,500	256,781	270,000	**1,434,375**
Average exercise price in €	61.03	61.65	64.69	56.97	56.15	66.06	56.97	**58.84**
Average remaining life in years	4.3	4.2	5.9	3.9	3.8	3.0	3.9	**4.1**
Range of exercise prices in €	33.10 to 74.77	36.92 to 74.77	64.69	33.10 to 74.77	33.10 to 74.77	49.76 to 76.99	33.10 to 74.77	**33.10 to 74.77**
Exercisable options on December 31, 2019								
Number	135,000	112,500	0	135,000	135,000	256,781	135,000	**652,500**
Average exercise price in €	43.55	51.15		43.55	43.55	66.06	43.55	**44.86**

[1] Mr. Rice Powell holds stock options under the Fresenius Medical Care Stock Option Plan 2011.
[2] Only stock options of Fresenius SE & Co. KGaA, excluding stock options of Mr. Rice Powell

The following table shows the total compensation of the Management Board of the general partner of Fresenius SE & Co. KGaA for the years 2019 and 2018:

	Cash compensation (without long-term incentive components)		Long-term incentive components		Total compensation (including long-term incentive components)	
€ in thousands	**2019**	2018	**2019**	2018	**2019**	2018
Stephan Sturm	**3,021**	3,070	**2,500**	2,500	**5,521**	5,570
Dr. Francesco De Meo	**2,065**	2,070	**1,403**	1,415	**3,468**	3,485
Rachel Empey	**1,610**	1,643	**1,300**	1,300	**2,910**	2,943
Dr. Jürgen Götz	**1,505**	1,481	**1,300**	1,300	**2,805**	2,781
Mats Henriksson	**2,143**	2,123	**1,369**	1,356	**3,512**	3,479
Rice Powell	**3,566**	3,841	**2,232**	2,391	**5,798**	6,232
Dr. Ernst Wastler	**1,558**	1,532	**1,300**	1,300	**2,858**	2,832
Total	**15,468**	15,760	**11,404**	11,562	**26,872**	27,322

The entitlement to cash payment of a share-based compensation (performance shares and phantom stocks) only arises after the expiry of a four-year vesting period, just as stock options can only be exercised after a vesting period of four years. Their value is recognized over the vesting period as expense in the respective fiscal year. The expenses attributable to the fiscal years 2019 and 2018 are stated in the following table.

EXPENSES FOR LONG-TERM INCENTIVE COMPONENTS

	Performance shares/ Phantom stocks		Stock options		Total expenses for share-based compensation	
€ in thousands	**2019**	2018	**2019**	2018	**2019**	2018
Stephan Sturm	**913**	-46	**909**	1,033	**1,822**	987
Dr. Francesco De Meo	**569**	-101	**616**	774	**1,185**	673
Rachel Empey	**223**	52	**75**	75	**298**	127
Dr. Jürgen Götz	**650**	-117	**568**	691	**1,218**	574
Mats Henriksson	**713**	-134	**482**	605	**1,195**	471
Rice Powell	**2,588**[1]	391[1]	**327**	659	**2,915**	1,050
Dr. Ernst Wastler	**650**	-117	**568**	691	**1,218**	574
Total	**6,306**	-72	**3,545**	4,528	**9,851**	4,456

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

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

With regard to the compensation granted to the members of the Management Board starting fiscal year 2018, the service agreements with Fresenius Management SE provide for a cap regarding both every single variable compensation amount and overall compensation. Furthermore, they include an allocation cap in the amount of €6,000 thousand for Ms. Rachel Empey, Dr. Francesco De Meo, Dr. Jürgen Götz, Mr. Mats Henriksson, and Dr. Ernst Wastler and €9,000 thousand for Mr. Stephan Sturm.

Under the compensation system, the amount of the fixed and the total compensation of the members of the Management Board was, and will be, assessed giving particular regard to the relevant comparison values of other DAX companies and similar companies of comparable size and performance from the relevant industrial sector.

COMMITMENTS TO MEMBERS OF THE MANAGEMENT BOARD IN THE EVENT OF THE TERMINATION OF THEIR APPOINTMENT

There are individual contractual pension commitments for the Management Board members Mr. Stephan Sturm, Dr. Francesco De Meo, and Dr. Jürgen Götz based on their service agreements with the general partner of Fresenius SE & Co. KGaA. The Management Board member Dr. Ernst Wastler has a pension commitment from VAMED AG, Vienna; Fresenius SE & Co. KGaA has issued a guarantee for the commitments thereunder. The Management Board member Mr. Mats Henriksson has an individual contractual pension commitment from Fresenius Kabi AG. The Management Board member Mr. Rice Powell has received an individual contractual pension commitment from Fresenius Medical Care Management AG. Furthermore, he has acquired non-forfeitable entitlements from participating in pension plans for employees of Fresenius Medical Care North America, and during the fiscal year 2019, he participated in the U.S.-based 401(k) Savings Plan. This plan generally enables employees in the United States to invest part of their gross income into retirement plans. The Management Board member Ms. Rachel Empey does not have a pension commitment. With regard to the pension commitments for acting Management Board members as of December 31, the Fresenius Group had pension obligations of €46,870 thousand as of December 31, 2019 (2018: €36,882 thousand). The additions to pension liability in the fiscal year 2019 amounted to €9,988 thousand (2018: €4,940 thousand).

The pension commitments are as follows:

€ in thousands	As of January 1, 2019	Additions	**As of December 31, 2019**
Stephan Sturm	6,518	1,741	**8,259**
Dr. Francesco De Meo	3,713	1,103	**4,816**
Rachel Empey	0	0	**0**
Dr. Jürgen Götz	3,258	918	**4,176**
Mats Henriksson	5,416	1,317	**6,733**
Rice Powell	12,940	3,309	**16,249**
Dr. Ernst Wastler	5,037	1,600	**6,637**
Total	36,882	9,988	**46,870**

Each of the pension commitments provides for a pension and survivor benefit, depending on the amount of the most recent fixed compensation, from the 63rd year of life (or 65th year for Mr. Rice Powell), or, in the case of termination because of professional or occupational incapacity, from the time of ending active work. In deviation from this, Mr. Rice Powell has this entitlement already upon reaching the age of 63 if he has been a member of the Management Board of Fresenius Medical Care Management AG for at least ten years at the time of his final retirement from active employment; in this case, the benefits are reduced by 0.5% per calendar month that he leaves active employment before reaching the age of 65.

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

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

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

In the event of the death of one of the Management Board members, the widow receives a pension equivalent to 60% of the pension entitlement accruing at the time of death. In addition, biological children of the deceased Management Board member and/or, in individual cases, biological children of the deceased Management Board member's wife who were adopted by the deceased Management Board member as children, receive an orphan's pension equivalent to 20% of the pension entitlement accruing at the time of death until completion of their vocational training, but at the most until the age of 25 years. However, all surviving dependents' pensions are capped at an aggregate 90% of the Management Board member's pension entitlement.

If a Management Board member's service as a member of the Management Board of Fresenius Management SE (or Mr. Rice Powell as a member of the Management Board of Fresenius Medical Care Management AG) ends before the age of 63 years (or 65 years for Mr. Rice Powell) for reasons other than professional or occupational incapacity, the rights to the said pension benefits vest, but the pension payable upon the occurrence of a pensionable event is reduced pro rata according to the actual length of service as a Management Board member compared to the potential length of service until the age of 63 years (or 65 years for Mr. Rice Powell).

The pension commitment for Dr. Ernst Wastler provides for a normal pension, an early retirement pension, a professional incapacity pension, and a widow's and orphan's pension. The normal pension is payable at the earliest at the age of 60 years and the early retirement pension at the earliest at the age of 55 years. The pension benefits are equivalent to 1.2% per year of service based on the last fixed compensation, with a cap of 40%. The widow's pension (60%) and the orphan's pension (20% each) are capped in aggregate at not more than Dr. Ernst Wastler's pension entitlement at the time of death. Pensions, retirement, and other benefits from third parties are set off against the pension benefit if the credited periods of service overlap.

The Management Board member Mr. Mats Henriksson has solely a pension commitment from Fresenius Kabi AG from the period of his previous service. This pension commitment remained unaffected by the service agreement with Fresenius Management SE, beginning on January 1, 2013. It is based on the pension policy of the Fresenius companies, and provides for retirement, incapacity, and survivors' pensions. It does not set forth any deduction of other income or pension benefits. The widow's pension amounts to 60% of the incapacity or retirement pension to be granted at the time of death; the orphan's pension amounts to 10% (half-orphans) or 20% (orphans) of the incapacity or retirement pension to be granted at the time of death. The total entitlements of widows and orphans are limited to 100% of Mr. Mats Henriksson's pension entitlements.

A post-employment non-competition covenant was agreed upon for all Management Board members. If such a covenant becomes applicable, the Management Board members receive a waiting allowance that is generally equivalent to half of the respective annual fixed compensation for each year of respective application of the non-competition covenant, up to a maximum of two years.

The service agreements of the Management Board members do not contain any explicit provision for the event of a change of control.

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

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

MISCELLANEOUS

All members of the Management Board have received individual contractual commitments for the continuation of their compensation in the event of sickness for a maximum period of 12 months, provided that, after 6 months of sickness-related absence, any insurance benefits that may be paid are to be deducted from such continued compensation. In the event of death of a member of the Management Board, the surviving dependents will receive three monthly payments after the month in which the death occurred, at maximum, however, until the expiry of the respective employment agreement.

During the fiscal year 2019, 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, €1,154 thousand were paid in the fiscal year 2019 (2018: €1,101 thousand). The benefit obligation for these persons amounted to €24,863 thousand (2018: €22,319 thousand).

In the fiscal year 2019, €568 thousand (2018: €522 thousand) were paid to Dr. Ben Lipps as a result of a consultancy agreement entered into with Fresenius Medical Care Management AG. In 2019, an amendment to the agreement was made which provides for a one-off payment of €1,129 thousand for the remaining term of the agreement. This payment was also made in the fiscal year. All payments for services to be performed by him under the consulting agreement have thus been made.

TABLES DISPLAYING THE VALUE OF BENEFITS GRANTED AND ALLOCATIONS

The German Corporate Governance Code dated February 7, 2017 stipulates that specific information shall be presented in the compensation report pertaining to the benefits granted for the year under review as well as the allocations and service costs in/for the year under review. The model tables provided in the appendix of the German Corporate Governance Code shall be used to present the information.

The following tables contain disclosures on both the value of the benefits granted and on the allocations. They conform to the structure and to the specification of the model tables. 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 the previous reporting year – or even several years. Through differentiation, the comparability of the respective development in compensation is also increased.

Benefits granted Value € in thousands	Stephan Sturm Chairman of the Management Board (since July 1, 2016) Board member since January 1, 2005				Dr. Francesco De Meo CEO Fresenius Helios Board member since January 1, 2008				Rachel Empey Chief Financial Officer Board member since August 1, 2017				Dr. Jürgen Götz Chief Legal and Compliance Officer, and Labor Relations Director Board member since July 1, 2007			
	2019	2019 min.	2019 max.	2018	**2019**	2019 min.	2019 max.	2018	**2019**	2019 min.	2019 max.	2018	**2019**	2019 min.	2019 max.	2018
Fixed compensation	**1,100**	1,100	1,100	1,100	**630**	630	630	630	**600**	600	600	600	**510**	510	510	490
Fringe benefits	**55**	55	55	102	**32**	32	32	25	**198**	198	198	231	**45**	45	45	41
Total non-performance-based compensation	**1,155**	1,155	1,155	1,202	**662**	662	662	655	**798**	798	798	831	**555**	555	555	531
One-year variable compensation [1]	**1,866**	1,750	2,300	1,868 [2]	**1,403**	1,050	1,750	1,415	**812**	760	1,000	812	**950**	700	950	950
Multi-year variable compensation/ components with long-term incentive effect	**2,500**	0	6,250	2,500	**1,403**	0	3,250	1,415	**1,300**	0	3,250	1,300	**1,300**	0	3,250	1,300
Thereof postponed one-year variable compensation	**0**	0	n. a.	0	**103**	0	n. a.	115	**0**	0	n. a.	0	**0**	0	n. a.	0
Thereof performance shares (LTIP 2018) (five-year term)	**2,500**	0	6,250	2,500	**1,300**	0	3,250	1,300	**1,300**	0	3,250	1,300	**1,300**	0	3,250	1,300
Total non-performance-based and performance-based compensation	**5,521**	2,905	9,705	5,570	**3,468**	1,712	5,662	3,485	**2,910**	1,558	5,048	2,943	**2,805**	1,255	4,755	2,781
Service cost	**468**	468	468	455	**336**	336	336	325	**0**	0	0	0	**251**	251	251	234
Value of benefits granted [5]	**5,989**	3,373	10,173	6,025	**3,804**	2,048	5,998	3,810	**2,910**	1,558	5,048	2,943	**3,056**	1,506	5,006	3,015

Benefits granted Value € in thousands	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			
	2019	2019 min.	2019 max.	2018	**2019**	2019 min.	2019 max.	2018	**2019**	2019 min.	2019 max.	2018
Fixed compensation	**660**	660	660	660	**1,340**	1,340	1,340	1,270	**550**	550	550	525
Fringe benefits	**114**	114	114	107	**256**	256	256	195	**76**	76	76	75
Total non-performance-based compensation	**774**	774	774	767	**1,596**	1,596	1,596	1,465	**626**	626	626	600
One-year variable compensation [1]	**1,369**	1,300	1,800	1,356	**2,211**	201	2,653	2,096 [3]	**932**	650	950	932
Multi-year variable compensation/ components with long-term incentive effect	**1,369**	0	3,250	1,356	**2,232 [4]**	0	n. a.	2,390 [4]	**1,300**	0	3,250	1,300
Thereof postponed one-year variable compensation	**69**	0	n. a.	56					**0**	0	n. a.	0
Thereof performance shares (LTIP 2018) (five-year term)	**1,300**	0	3,250	1,300					**1,300**	0	3,250	1,300
Total non-performance-based and performance-based compensation	**3,512**	2,074	5,824	3,479	**6,039**	1,797	n. a.	5,951	**2,858**	1,276	4,826	2,832
Service cost	**216**	216	216	210	**828**	828	828	674	**153**	153	153	153
Value of benefits granted [5]	**3,728**	2,290	6,040	3,689	**6,867**	2,625	n. a.	6,625	**3,011**	1,429	4,979	2,985

[1] For the one-year variable compensation, there are no target values or comparable values for Board members who receive their compensation from Fresenius Management SE. The one-year variable compensation is calculated on the basis of bonus curves that are valid for several years. For this reason, the allocation from the one-year variable compensation is stated for the years 2019 and 2018.

[2] In the fiscal year 2019, in accordance with his agreement with the Supervisory Board of Fresenius Management SE, Mr. Stephan Sturm has acquired shares of the company in the value of the net amount of his one-year variable compensation for the fiscal year 2018 and will hold them for at least three years. Thereby, the orientation of his compensation towards sustainable corporate development was enhanced voluntarily.

[3] In order to appropriately take into account the business development of Fresenius Medical Care during the fiscal year 2018, in the fiscal year 2019, Mr. Rice Powell acquired shares in Fresenius Medical Care AG & Co. KGaA for a portion of his bonus for the fiscal year 2018 and will hold them for at least three years, pursuant to his commitment.

[4] Mr. Rice Powell was granted share-based payments from the programs of Fresenius Medical Care as follows:
in 2019: €657 thousand from the Share Based Award – New Incentive Bonus Plan 2010 and €1,575 thousand from the Management Board Long-Term Incentive Plan 2019
in 2018: €977 thousand from the Share Based Award – New Incentive Bonus Plan 2010 and €1,413 thousand from the Long Term Incentive Program 2016 – Performance Share Plan 2016,

[5] Furthermore, an allocation cap in the amount of €6,000 thousand for Ms. Rachel Empey, Dr. Francesco De Meo, Dr. Jürgen Götz, Mr. Mats Henriksson, and Dr. Ernst Wastler and €9,000 thousand for Mr. Stephan Sturm applies.

Allocations Value € in thousands	**Stephan Sturm** Chairman of the Management Board (since July 1, 2016) Board member since January 1, 2005		**Dr. Francesco De Meo** CEO Fresenius Helios Board member since January 1, 2008		**Rachel Empey** Chief Financial Officer Board member since August 1, 2017		**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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Fixed compensation	**1,100**	1,100	**630**	630	**600**	600	**510**	490	**660**	660	**1,340**	1,270	**550**	525
Fringe benefits	**55**	102	**32**	25	**198**	231	**45**	41	**114**	107	**256**	195	**76**	75
Total non-performance-based compensation	**1,155**	1,202	**662**	655	**798**	831	**555**	531	**774**	767	**1,596**	1,465	**626**	600
One-year variable compensation	**1,866**	1,868	**1,403**	1,415	**812**	812	**950**	950	**1,369**	1,356	**1,970**	2,376	**932**	932
Multi-year variable compensation/ components with long-term incentive effect	**2,524**	965	**654**	2,545	**0**	0	**654**	965	**654**	2,979	**494**[1]	2,777[1]	**654**	965
Thereof postponed one-year variable compensation	**0**	0	**0**	0	**0**	0	**0**	0	**0**	0			**0**	0
Thereof Stock Option Plan 2008 (five-year term)														
Issue 2012	**1,870**									2,014				
Thereof Stock Option Plan 2013 (five-year term)														
Issue 2013				1,580										
Thereof Phantom Stock Plan 2013 (five-year term)														
Issue 2013		765		765				765		765				765
Issue 2014	**523**		**523**				**523**		**523**				**523**	
Thereof further phantom stocks														
Issue 2013		200		200				200		200				200
Issue 2014	**131**		**131**				**131**		**131**				**131**	
Other	**0**	0	**0**	0	**0**	0	**0**	0	**0**	0	**0**	0	**0**	0
Total non-performance-based and performance-based compensation	**5,545**	4,035	**2,719**	4,615	**1,610**	1,643	**2,159**	2,446	**2,797**	5,102	**4,060**	6,618	**2,212**	2,497
Service cost	**468**	455	**336**	325	**0**	0	**251**	234	**216**	210	**828**	674	**153**	153
Allocation including multi-year variable compensation/components with long-term incentive effect	**6,013**	4,490	**3,055**	4,940	**1,610**	1,643	**2,410**	2,680	**3,013**	5,312	**4,888**	7,292	**2,365**	2,650
Allocation for the year under review (not including multi-year variable compensation/components with long-term incentive effect)	**3,489**	3,525	**2,401**	2,395	**1,610**	1,643	**1,756**	1,715	**2,359**	2,333	**4,394**	4,515	**1,711**	1,685

Mr. Rice Powell had this allocation from the share-based compensation plans of Fresenius Medical Care:
in 2019: €150 thousand from the Share Based Award – New Incentive Bonus Plan 2010 issue 2015 and €344 thousand from the Long Term Incentive Program 2011 – Phantom Stock Plan 2011 issue 2014
in 2018: €131 thousand from the Share Based Award – New Incentive Bonus Plan 2010 issue 2014, €2,536 thousand from the Long Term Incentive Program 2011 – Stock Option Plan 2011 issue 2011, and €110 thousand from the Long Term Incentive Program 2011 – Phantom Stock Plan 2011 issue 2013.

COMPENSATION OF THE SUPERVISORY BOARD

The compensation of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in Section 13 of the articles of association of Fresenius SE & Co. KGaA.

Each member of the Supervisory Board shall receive an amount of €150 thousand annually for each full fiscal year as fixed compensation, payable after the end of the fiscal year. In addition, each member of the Supervisory Board shall receive variable success-oriented compensation for each full fiscal year that is oriented on the respective average growth rate of the net income attributable to shareholders of Fresenius SE & Co. KGaA for the compensation year and the two preceding fiscal years (three-year average growth of the net income attributable to shareholders of Fresenius SE & Co. KGaA).

The calculation of the amount of this variable compensation shall be made in accordance with the following formula:

Three-year average growth of net income attributable to shareholders of Fresenius SE & Co. KGaA	Variable compensation
> 0 to 2.5%	€30,000
> 2.5 to 5%	€60,000
> 5 to 7.5%	€90,000
> 7.5 to 10%	€120,000
> 10%	€150,000

A claim to grant variable compensation shall only accrue from the achievement of three-year annual growth of the net income attributable to shareholders of Fresenius SE & Co. KGaA of more than 0%. On the achievement of the five percentage corridors described above, the amounts of variable compensation shall each be provided in full, i. e., no interpolation shall take place within these corridors. The net income attributable to shareholders of Fresenius SE & Co. KGaA disclosed in the consolidated annual financial statements shall be authoritative in each case. This variable compensation is limited to a maximum amount of €150 thousand p. a. The disbursement of variable compensation shall generally be made annually, provided targets have been reached and in each case at the end of the calendar quarter in which the annual financial statements of the company are approved by the Annual General Meeting. If the Annual General Meeting approves a resolution providing higher compensation, this shall apply.

The Chairman of the Supervisory Board receives three times and his deputies one and a half times the fixed compensation of a member of the Supervisory Board.

A member of the Audit Committee of the Supervisory Board shall for their membership receive additional fixed compensation of €20 thousand and the Chairman of the Audit Committee twice this amount.

If a fiscal year does not encompass a full calendar year or if a member of the Supervisory Board is on the Supervisory Board only for a part of the fiscal year, the compensation shall be paid on a pro rata temporis basis. This applies accordingly to membership of the Audit Committee of the Supervisory Board.

The members of the Supervisory Board shall be refunded expenses incurred when exercising their functions, which also includes applicable value-added tax due for payment. Fresenius SE & Co. KGaA shall provide members of the Supervisory Board with insurance coverage to an appropriate extent for exercising Supervisory Board activities.

If a member of the Supervisory Board of Fresenius SE & Co. KGaA is at the same time a member of the Supervisory Board of the general partner Fresenius Management SE and receives compensation for his services on the Supervisory Board of Fresenius Management SE, compensation shall be reduced by half. The same applies with respect to the additional part of compensation for the Chairman, provided he is simultaneously the Chairman of the Supervisory Board of Fresenius Management SE; this applies to his deputies accordingly, provided the deputies are at the same time the deputies of the Chairman of the Supervisory Board of Fresenius Management SE. If a deputy of the Chairman of the Supervisory Board of Fresenius SE & Co. KGaA is at the same time the Chairman of the Supervisory Board of Fresenius Management SE, he shall not receive compensation for his service as Deputy Chairman of the Supervisory Board of Fresenius SE & Co. KGaA. According to Section 7 of the articles of association of Fresenius SE & Co. KGaA, the compensation of the Supervisory Board of Fresenius Management SE will be charged to Fresenius SE & Co. KGaA.

Additionally, in his capacity as Chairman of the Supervisory Board of Fresenius Management SE, Dr. Gerd Krick was reimbursed for the costs for the operation of an intrusion detection system in the amount of €1.2 thousand.

For the fiscal years 2019 and 2018, the compensation for the members of the Supervisory Boards of Fresenius SE & Co. KGaA and Fresenius Management SE (excluding expenses and reimbursements), including compensation for committee services, was as follows:

	Fixed compensation				Compensation for committee services				Variable compensation				Total compensation	
	Fresenius SE & Co. KGaA		Fresenius Management SE		Fresenius SE & Co. KGaA		Fresenius Management SE		Fresenius SE & Co. KGaA		Fresenius Management SE			
€ in thousands	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Dr. Gerd Krick	**225**	225	**225**	225	**20**	20	**20**	20	**45**	75	**45**	75	**580**	640
Michael Diekmann	**150**	150	**75**	75	**0**	0	**0**	0	**45**	75	**45**	75	**315**	375
Dr. Dieter Schenk	**0**	0	**225**	225	**0**	0	**10**	10	**0**	0	**90**	150	**325**	385
Niko Stumpfögger	**225**	225	**0**	0	**20**	7	**0**	0	**90**	150	**0**	0	**335**	382
Prof. Dr. med. D. Michael Albrecht	**150**	150	**0**	0	**0**	0	**0**	0	**90**	150	**0**	0	**240**	300
Bernd Behlert (since September 1, 2018)	**150**	50	**0**	0	**0**	0	**0**	0	**90**	50	**0**	0	**240**	100
Dr. Kurt Bock	**0**	0	**150**	150	**0**	0	**0**	0	**0**	0	**90**	150	**240**	300
Konrad Kölbl	**150**	150	**0**	0	**20**	20	**0**	0	**90**	150	**0**	0	**260**	320
Stefanie Balling	**150**	150	**0**	0	**0**	0	**0**	0	**90**	150	**0**	0	**240**	300
Frauke Lehmann	**150**	150	**0**	0	**0**	0	**0**	0	**90**	150	**0**	0	**240**	300
Prof. Dr. med. Iris Löw-Friedrich	**150**	150	**0**	0	**0**	0	**0**	0	**90**	150	**0**	0	**240**	300
Klaus-Peter Müller	**75**	75	**75**	75	**40**	40	**0**	0	**45**	75	**45**	75	**280**	340
Oscar Romero de Paco	**150**	150	**0**	0	**0**	0	**0**	0	**90**	150	**0**	0	**240**	300
Dr. Karl Schneider	**0**	0	**150**	150	**0**	0	**10**	10	**0**	0	**90**	150	**250**	310
Hauke Stars	**150**	150	**0**	0	**20**	20	**0**	0	**90**	150	**0**	0	**260**	320
Rainer Stein (up to August 31, 2018)	**0**	100	**0**	0	**0**	13	**0**	0	**0**	100	**0**	0	**0**	213
Total	**1,875**	1,875	**900**	900	**120**	120	**40**	40	**945**	1,575	**405**	675	**4,285**	5,185

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 2020. The policy covers the legal defense costs of a member of a representative body when a claim is made and, where relevant, any damages to be paid that are covered by the policy.

GLOSSARY

Financial terms[1]

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

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

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

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

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

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

Cash flow from financing activities is calculated from additions to equity plus proceeds from the exercise of stock options, less dividends paid, plus proceeds from debt increase (loans, bonds, etc.), less repayments of debt, plus the change in noncontrolling interest, plus proceeds from the hedge of exchange rate effects due to corporate financing.

Cash flow before acquisitions and dividends
Fresenius uses the cash flow before acquisitions and dividends as the financial measure for free cash flow. Cash flow before acquisitions and dividends is calculated by operating cash flow less investments (net). Net investments are calculated by payments for the purchase of property, plant and equipment less proceeds from the sale of property, plant and equipment.

Constant currencies
Constant currencies for income and expenses are calculated using prior-year average rates; constant currencies for assets and liabilities are calculated using the mid-closing rate on the date of the respective statement of financial position.

CSR (Corporate Social Responsibility)
CSR refers to the social responsibility of companies. Their operations can affect economic, social, and environmental conditions all over the world.

DSO (Days Sales Outstanding)
Indicates the average number of days it takes for a receivable to be paid.

EBIT (Earnings before Interest and Taxes)
EBIT does include depreciation and write-ups on property, plant and equipment.

EBIT is calculated by subtracting cost of sales, selling, general, and administrative expenses, and research and development expenses from sales.

EBIT margin
EBIT margin is calculated as the ratio of EBIT to sales.

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)
EBITDA is calculated from EBIT by adding depreciations recognized in income and deducting write-ups recognized in income, both on intangible assets as well as property, plant and equipment.

EBITDA margin
EBITDA margin is calculated as the ratio of EBITDA to sales.

[1] Integral Part of Management Report

GLOSSARY

Financial terms[1]

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-12-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.

ROE (Return on Equity)
Measure of a corporation's profitability revealing how much profit a company generates with the money shareholders have invested.

ROE is calculated by fiscal year's net income / total equity × 100.

ROIC (Return on Invested Capital)
Calculated by: (EBIT - taxes) / Invested capital.

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

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

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

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

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

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

[1] Integral Part of Management Report

REPORT OF THE SUPERVISORY BOARD

Dr. Gerd Krick
Chairman

REPORT OF THE SUPERVISORY BOARD

In 2019, the Supervisory Board of Fresenius SE & Co. KGaA fulfilled its obligations in accordance with the provisions of the law, the articles of association, and the rules of procedure. It regularly advised the Management Board of the general partner, Fresenius Management SE, regarding the management of the Company and supervised the management in accordance with its Supervisory Board responsibilities.

COOPERATION BETWEEN THE MANAGEMENT AND THE SUPERVISORY BOARD

Carrying out its monitoring and advisory activities, the Supervisory Board was regularly kept informed by the management in a timely and comprehensive oral and written manner about, among other things:

- all important matters relating to business policy,
- the course of business,
- profitability,
- the situation of the Company and of the Group,
- corporate strategy and planning,
- the risk situation,
- risk management and compliance, and
- important business events.

Based on the reports provided by the Management Board of the general partner, the Supervisory Board discussed all significant business transactions in both the Audit Committee and in its plenary meetings. The Management Board of the general partner discussed the Company's strategic direction with the Supervisory Board. The Supervisory Board passed resolutions within its legal and company statutory authority.

The Supervisory Board of Fresenius SE & Co. KGaA convened for four regular meetings in 2019 – in March, May, October, and December. Before the meetings, the Management Board of the general partner sent detailed reports and comprehensive approval documents to the members of the Supervisory Board. At the meetings, the Supervisory Board discussed in detail the sales and earnings growth, based on the reports provided by the general partner's Management Board. They also discussed significant company decisions.

All matters requiring Supervisory Board approval were submitted with sufficient time for proper scrutiny. After reviewing the related approval documents and following detailed consultation with the Management Board of the general partner, the Supervisory Board approved all matters submitted to it.

The Supervisory Board was also informed about any important business events occurring between meetings. In addition, the Chairman of the general partner's Management Board regularly informed the Chairman of the Supervisory Board in separate meetings about the latest development of the business and forthcoming decisions and discussed them with him.

With the exception of Prof. Dr. Löw-Friedrich and Ms. Stars, both of whom were unable to attend the Supervisory Board meeting in December, all of the meetings of the Supervisory Board and the Audit Committee in 2019 were attended by all current members of the Supervisory Board and the Audit Committee of Fresenius SE & Co. KGaA. Thus, every member of the Supervisory Board of Fresenius SE & Co. KGaA attended more than half of the Supervisory Board Meetings and meetings of the committees to which they belong in 2019.

Participation in meetings of the Supervisory Board and the Audit Committee is reported individually for each member on the Company's website. Information on this can be found under "Supervisory Board".

MAIN FOCUS OF THE SUPERVISORY BOARD'S ACTIVITIES

In 2019, the Supervisory Board mostly focused its monitoring and consulting activities on business operations and investments carried out by the business segments. The Supervisory Board thoroughly reviewed and discussed all business activities of significance to the Company with the Management Board of the general partner. The Supervisory Board also dealt with the following items:

- 2020 budget
- medium-term planning of the Fresenius Group
- business segment strategies (particularly the business outlook for Fresenius Kabi and Fresenius Vamed)
- completion of the FCPA investigation at Fresenius Medical Care

At its meetings and within the Audit Committee, the Supervisory Board also kept itself regularly informed about the Group's risk situation and risk management activities as well as compliance.

At the meeting on March 14, 2019, the Supervisory Board dealt intensively with the audit and approval of the financial statements, the consolidated financial statements (IFRS) as well as the management report and Group management report of Fresenius SE & Co. KGaA. The results for 2018 were discussed on the basis of a detailed report provided by the Chairman of the Audit Committee and statements by the auditor. At the same meeting, a resolution was passed on profit distribution proposed by the general partner, Fresenius Management SE, and the Group Non-financial Report for 2018. In addition, the business segments reported in detail on the course of business in the first two months of the fiscal year. The focus was on Fresenius Kabi. The final planning for the years 2019 to 2021 was also presented. Another item discussed was the agenda of the Annual General Meeting of Fresenius SE & Co. KGaA on May 17, 2019. Finally, the Supervisory Board conducted its annual efficiency review at this meeting.

At its meeting on May 17, 2019, immediately following the Annual General Meeting, the Supervisory Board passed resolutions on the appointment of the auditor of the annual and consolidated financial statements as well as the auditor of the Group Non-financial Report for 2019. In addition, the Management Board reported on business performance for the months January through April 2019.

At the Supervisory Board meeting on October 11, 2019, the members of the Supervisory Board were informed in detail about business performance from January through September 2019. The focus was on the Fresenius Vamed business segment. The Management Board of the general partner reported on the conclusion of the FCPA investigation at Fresenius Medical Care, and compliance, regulatory topics, and legal risks. Furthermore, as a precautionary measure to avoid possible uncertainties in connection with the announced amendment to the German Corporate Governance Code, a resolution was passed on the declaration of conformity with the German Corporate Governance Code.

The meeting of the Supervisory Board on December 5, 2019, focused on the development of business in 2019. Plans for the years 2020 to 2022 for the Group and separately for all four segments were also presented. The Chairman of the Audit Committee reported in detail on the status of preparation of the financial statements. Furthermore, a resolution was again passed on the declaration of conformity with the German Corporate Governance Code.

CORPORATE GOVERNANCE

On October 29, 2019, and December 20, 2019, the Supervisory Board and the Management Board of the general partner jointly issued a Declaration of Conformity in accordance with the German Corporate Governance Code under Section 161 of the German Stock Corporation Act (AktG).

The Management Board of the general partner and the Supervisory Board of Fresenius SE & Co. KGaA have a duty to act in the best interests of the Company. In performing their activities, they do not pursue personal interests or bestow unjustified benefits on others. Any secondary activities or dealings with the Company by members of the corporate bodies must immediately be reported to, and approved by, the Supervisory Board.

There were no conflicts of interest of Supervisory Board members in 2019.

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

The members of the Supervisory Board independently take on necessary training and further education measures required for their tasks. They keep themselves regularly informed, through internal and external sources, about the latest requirements with regard to their supervisory activities. The Supervisory Board at all times ensures that its members are suitably qualified, keep their professional knowledge up to date, and further develop their judgment and expertise. Fresenius provides appropriate support in this regard. External experts as well as experts from the Company provide information about important developments, for example about relevant new laws and precedents, or changes in the IFRS accounting and auditing standards. In addition, the Company holds an onboarding event for new members of the Supervisory Board.

For more information on Corporate Governance at Fresenius, please see the Corporate Governance Declaration and Report on pages 136 to 163 of the Annual Report. Fresenius has disclosed the information on related parties on page 256 of the Annual Report.

GROUP NON-FINANCIAL REPORT

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the Group Non-financial Report for 2019. This was done in accordance with a resolution of the Supervisory Board of May 17, 2019, and the subsequent appointment.

The Group Non-financial Report and the audit report of the appointed auditor were made available to each member of the Supervisory Board of the Company in good time. At their meetings on March 11 and 12, 2020, the Audit Committee and then the Supervisory Board discussed all the documents in detail.

The auditor delivered a detailed report on the results of the audit at each of these meetings. The Audit Committee and the Supervisory Board approved the auditor's findings. The Audit Committee's and the Supervisory Board's own review also found no objections to the Group Non-financial Report. At its meeting on March 12, 2020, the Supervisory Board approved the Group Non-financial Report presented by the general partner.

The Group Non-financial Report is published on pages 91 to 135 of the Annual Report and the auditor's findings are published on page 134 f. of the Annual Report.

WORK OF THE COMMITTEES

The Audit Committee held three meetings and four conference calls in 2019. 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 2018 and discussions with the auditor about their reports and the terms of reference of the audit. Another matter dealt with by the Audit Committee was its recommendation to the Supervisory Board regarding which auditing firm to propose as auditor for the annual financial statements and consolidated financial statements for 2019. The Supervisory Board proposed to the 2019 Annual General Meeting,

a) to elect KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as auditor of the annual financial statements and consolidated financial statements for the 2019 fiscal year and as auditor for the possible audit review of the half-yearly financial report for the first half of 2019 and other interim financial information within the meaning of Section 115 (7) WpHG for 2019, and

b) to appoint PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as auditors for the possible review of interim financial information for the 2020 fiscal year prepared before the 2020 Annual General Meeting.

This proposal was based on a recommendation to this effect by the Audit Committee. The Audit Committee also dealt with the following items in detail:

- the 2019 quarterly reports,
- monitoring reports on progress of acquisitions,
- Compliance and Internal Audit with a focus on the accounting-based internal control system of Fresenius Medical Care,
- review of the risk management system, the internal control system, and the internal auditing system, and
- approval of non-auditing services provided by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin.

The Chairman of the Audit Committee reported regularly in subsequent Supervisory Board meetings on the work of the committee.

The Chairman of the Audit Committee maintains a regular dialog between the Supervisory Board and the Audit Committee, on the one hand, and auditors, on the other, even outside of meetings.

The Company's Nomination Committee did not meet in 2019.

The Joint Committee is responsible for approving certain important transactions of Fresenius SE & Co. KGaA and certain legal transactions between the Company and the Else Kröner-Fresenius-Stiftung. In 2019, no transactions were carried out that required its approval. For this reason, it did not meet in 2019.

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 137 to 163 and page 267 f. of the Annual Report.

PERSONNEL

Dr. Karl Schneider resigned from the Joint Committee as of December 31, 2019. Mr. Klaus-Peter Müller was appointed his successor with effect from January 1, 2020. Otherwise, there were no changes to the composition of the Management Board of the general partner Fresenius Management SE and the Supervisory Board of Fresenius SE & Co. KGaA and its committees in 2019.

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the accounting records, the annual financial statements prepared in accordance with the accounting principles of the German Commercial Code (HGB), and the Company's management report for 2019. The firm was elected as auditor in accordance with a resolution passed at the Annual General Meeting of Fresenius SE & Co. KGaA on May 17, 2019, and was subsequently commissioned by the Supervisory Board. The Company's financial statements, management report, and the consolidated financial statements were prepared in accordance with IFRS accounting principles and with the regulations governing such statements under Section 315e of the German Commercial Code (HGB). The auditors of KPMG issued their unqualified audit opinion for these statements.

The financial statements, the consolidated financial statements, the management reports, and the auditor's reports were submitted to each member of the Company's Supervisory Board within the required time. At their meetings on March 11 and 12, 2020, the Audit Committee and then the Supervisory Board discussed all the documents in detail.

The auditor gave a detailed report on the results of the audit at each of these meetings. The auditor found no weaknesses in the risk management system or the internal control system with regard to the accounting process. The auditor attended all meetings of the Supervisory Board and all meetings and conference calls of the Audit Committee.

The Audit Committee and the Supervisory Board approved the auditor's findings. Independent reviews by the Audit Committee and the Supervisory Board raised no objections to the Company's financial statements and management report or the consolidated financial statements and the Group management report. At its meeting on March 12, 2020, the Supervisory Board approved the financial statements and management reports presented by the general partner and the statements contained therein with respect to future development.

The Supervisory Board concurs with the general partner's proposal for the 2019 profit distribution.

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

Bad Homburg v. d. H., March 12, 2020

The Supervisory Board of Fresenius SE & Co. KGaA

Dr. Gerd Krick
Chairman