FRESENIUS

# Fresenius SE & Co. KGaA

## Bad Homburg v.d.H.

## 2015

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

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

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

# Balance Sheet as of December 31, 2015

## Assets

| | Note | Dec 31, 2015 | | Dec 31, 2014 | |
|---|---|---|---|---|---|
| | | kEUR | kEUR | kEUR | kEUR |
| **A. Fixed Assets** | (3) | | | | |
| **I. Intangible assets** | | | 1,220 | | 1,221 |
| **II. Tangible assets** | | | 54,594 | | 57,071 |
| **III. Financial assets** | | | 8,397,575 | | 8,372,800 |
| | | | 8,453,389 | | 8,431,092 |
| **B. Current assets** | | | | | |
| **I. Accounts receivable and other assets** | (4) | | | | |
| 1. Trade accounts receivable | | - | | 0 | |
| 2. Accounts receivable from related parties | | 2,382,300 | | 2,502,337 | |
| 3. Other assets | | 52,508 | 2,434,808 | 62,669 | 2,565,006 |
| **II. Cash and cash equivalents** | (5) | | 144,423 | | 281,361 |
| | | | 2,579,231 | | 2,846,367 |
| **C. Deferred expense** | (6) | | 32,832 | | 41,441 |
| | | | 11,065,452 | | 11,318,900 |

## Liabilities and shareholders' equity

| | Note | Dec 31, 2015 | Dec 31, 2014 |
|---|---|---|---|
| | | kEUR | kEUR |
| **A. Shareholders' equity** | | | |
| **I. Subscribed capital** | (7, 8, 9, 10, 11) | | |
| Ordinary shares | | 545,728 | 541,533 |
| **II. Capital reserves** | (12) | 2,779,211 | 2,694,955 |
| **III. Other reserves** | (13) | 2,107,395 | 2,002,395 |
| **IV. Retained earnings** | (14) | 300,199 | 239,216 |
| | | 5,732,533 | 5,478,099 |
| **B. Special reserve for investment government grants** | (15) | 8 | 9 |
| **C. Accruals** | (16) | | |
| 1. Pensions and similar obligations | | 52,700 | 44,827 |
| 2. Accruals for income taxes | | 70,571 | 68,753 |
| 3. Other accruals | | 32,577 | 25,110 |
| | | 155,848 | 138,690 |
| **D. Liabilities** | (17) | | |
| 1. Convertible bonds | | 500,008 | 500,044 |
| 2. Bank loans | | 916,863 | 1,070,476 |
| 3. Trade accounts payable | | 4,213 | 2,258 |
| 4. Accounts payable to related parties | | 3,695,688 | 4,067,504 |
| 5. Other liabilities | | 60,291 | 61,820 |
| | | 5,177,063 | 5,702,102 |
| | | 11,065,452 | 11,318,900 |

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

## Profit and Loss Statement
## January 1 to December 31, 2015

| | | Note | 2015 | 2014 |
|---|---|---|---|---|
| | | | kEUR | kEUR |
| 1. | Income from participations | (20) | 547,959 | 631,295 |
| 2. | Other operating income | (21) | 311,366 | 213,044 |
| 3. | Personnel expenses | (22) | -40,396 | -31,584 |
| 4. | Depreciation and amortization on intangible assets and on property, plant and equipment | (23) | -4,672 | -4,407 |
| 5. | Other operating expenses | (24) | -305,256 | -204,177 |
| 6. | Net interest | (26) | -44,523 | -62,620 |
| 7. | Write-offs of financial assets | | 0 | -742 |
| 8. | Profit from ordinary activities | | 464,478 | 540,809 |
| 9. | Income taxes | (27) | -59,694 | -62,142 |
| 10. | Other taxes | | -527 | -482 |
| 11. | Net income | | 404,257 | 478,185 |
| 12. | Retained earnings brought forward | | 942 | 31 |
| 13. | Increase of other reserves | | -105,000 | -239,000 |
| 14. | Retained earnings | | 300,199 | 239,216 |

## Notes Fresenius SE & Co. KGaA

### (1) Structure

The Fresenius Group is as of December 31, 2015, 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 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 list of investments of Fresenius SE & Co. KGaA, registered in Bad Homburg v.d.H., will be shown in the enclosure to the Notes.

### (2) Accounting principles and standards of valuation

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

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

The following useful lives were used for calculating depreciation:

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

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

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

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

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

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

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

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

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

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

The **pension obligation** is determined according to actuarial principles on the basis of biometric probabilities as in the reference tables by Dr. Klaus Heubeck 2005 (RT 2005 G) using the Projected Unit Credit-Method. Future expected remuneration and pension increases are taken into account in calculating the obligation. Remuneration is currently adjusted depending on age by between 3% and 4% and pensions by 1.75%. The company specific fluctuation rate that is also taken into consideration for the calculation has been between 0% and 18%. The actuarial interest rate applicable to the pension obligation was 3.89%. This interest rate is based on the last-seven-year-average discount rate for an estimated remaining life of 15 years as determined and published by the German Federal Bank (Deutsche Bundesbank).

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

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

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

**Liabilities** are valued at their settlement amounts.

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

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

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

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

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

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

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

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

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

## Notes on balance sheet

### (3) Fixed assets

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

| | Acquisition and manufacturing costs | | | | |
|---|---|---|---|---|---|
| | As of Jan. 01, 2015 | Additions | Disposals | Reclassifications | As of Dec. 31, 2015 |
| *€ in thousands* | | | | | |
| Intangible Assets | | | | | |
| Concessions, industrial and similar rights and assets as well as licenses acquired for consideration | 2,308 | 320 | 0 | 0 | 2,628 |
| | 2,308 | 320 | 0 | 0 | 2,628 |
| Tangible Assets | | | | | |
| Land, leasehold and buildings including buildings on third party property | 113,139 | 21 | 0 | 0 | 113,160 |
| Plant and machinery | 620 | 251 | 0 | 0 | 871 |
| Other fixtures and fittings, tools and equipment | 13,563 | 1,513 | 1,579 | 5 | 13,502 |
| Payments on account and tangible assets in course of construction | 361 | 143 | 0 | -5 | 499 |
| | 127,683 | 1,928 | 1,579 | 0 | 128,032 |
| Financial assets | | | | | |
| Shares in related parties | 7,404,094 | - | 0 | 0 | 7,404,094 |
| Loans to related parties | 952,831 | 1,593 | 0 | 0 | 954,424 |
| | 8,356,925 | 1,593 | 0 | 0 | 8,358,518 |
| Fixed assets | 8,486,916 | 3,841 | 1,579 | 0 | 8,489,178 |

| | Write-ups / Depreciation | | | | | Carrying amount | |
|---|---|---|---|---|---|---|---|
| *€ in thousands* | Cumulated depreciation as of Jan. 01, 2015 | Additions (depreciation) | Write-ups | Disposals (depreciation) | Cumulated depreciation as of Dec. 31, 2015 | Dec. 31, 2015 | Dec. 31, 2014 |
| Intangible Assets | | | | | | | |
| Concessions, industrial and similar rights and assets as well as licenses acquired for consideration | 1,087 | 321 | 0 | 0 | 1,408 | 1,220 | 1,221 |
| | 1,087 | 321 | 0 | 0 | 1,408 | 1,220 | 1,221 |
| Tangible Assets | | | | | | | |
| Land, leasehold and buildings including buildings on third party property | 60,280 | 2,771 | 0 | 0 | 63,051 | 50,109 | 52,859 |
| Plant and machinery | 451 | 56 | 0 | 0 | 507 | 364 | 169 |
| Other fixtures and fittings, tools and equipment | 9,881 | 1,524 | 0 | 1,525 | 9,880 | 3,622 | 3,682 |
| Payments on account and tangible assets in course of construction | 0 | 0 | 0 | 0 | 0 | 499 | 361 |
| | 70,612 | 4,351 | 0 | 1,525 | 73,438 | 54,594 | 57,071 |
| Financial assets | | | | | | | |
| Shares in related parties | 187 | 0 | 0 | 0 | 187 | 7,403,907 | 7,403,907 |
| Loans to related parties | -16,062 | 0 | -23,182 | 0 | -39,244 | 993,668 | 968,893 |
| | -15,875 | 0 | -23,182 | 0 | -39,057 | 8,397,575 | 8,372,800 |
| Fixed assets | 55,824 | 4,672 | -23,182 | 1,525 | 35,789 | 8,453,389 | 8,431,092 |

**Financial assets**

As of December 31, 2015, 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 2015 was 30.91% (previous year 31.09%). 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, 2015. Through Fresenius ProServe GmbH, Fresenius SE & Co. KGaA holds 100% in HELIOS Kliniken GmbH and a 77% stake in VAMED AG.

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

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

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

Loans to related parties include mainly US-Dollar loans to American affiliated companies. Some of these loans are hedged against exchange rate fluctuations and bound in a hedging relationship. €23.2 million foreign exchange gains have been recognized in other operating income as of December 31, 2015 following the “Durchbuchungsmethode”. This effect is shown as a write-up in the statement of changes in fixed assets. In the profit and loss statement, other operating expenses includes losses from the hedging instruments in the same amount that offset the foreign exchange gains.

### (4) Accounts receivable and other assets

| | Dec. 31, 2015 | Dec. 31, 2014 |
|---|---|---|
| *€ in thousands* | | |
| Trade accounts receivable | - | 0 |
| (amount with a remaining term of more than one year) | (0) | (0) |
| Accounts receivable from related parties | 2,382,300 | 2,502,337 |
| (amount with a remaining term of more than one year) | (19,383) | (22,144) |
| Other assets | 52,508 | 62,669 |
| (amount with a remaining term of more than one year) | (46,000) | (46,000) |
| | 2,434,808 | 2,565,006 |

Accounts receivables from related parties consist of loans and finance-related accounts (cash pool) of €2,381,470 thousand (previous year €2,502,001 thousand) as well as trade accounts receivables of € 830 thousand (previous year €336 thousand).

Other assets mainly contain stock options (call options) held for hedging market price fluctuations of the derivative embedded in the convertible bond (€46,000 thousand) as well as VAT receivable (€1,792 thousand), claims for tax credits, which relate to the tax calculation for the years 2010 to 2013 (€1,608 thousand), and social security related receivables of €6 thousand (previous year €4 thousand).

### (5) Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks of €144,423thousand (previous year €281,361 thousand).

### (6) Deferred expense

The deferred expenses of €32,832 thousand (previous year €41,441 thousand) mainly consist of a discount with a net book value of €31,364 thousand (previous year: €39,727 thousand) arising from the placement of a convertible bond in March 2014. This placement resulted in a discount of €46 million that is shown in deferred expenses and is depreciated linearly over the lifetime of the convertible bond.

Furthermore it includes the prepayment of the Directors&Officers-Insurance (D&O-Insurance).

### (7) Subscribed capital

During the fiscal year 2015, 4,195,350 stock options were exercised. Consequently, as of December 31, 2015 the subscribed capital of Fresenius SE & Co. KGaA consisted of

545,727,950 bearer ordinary shares. The shares are issued as non-par value shares. The proportionate amount of the subscribed capital is €1.00 per share.

The subscribed capital developed as follows:

| | 2015 | 2014 |
|---|---|---|
| *€ in thousands* | | |
| As of January 1 | 541,533 | 179,695 |
| Increase due to exercise of stock options before the stock split | 0 | 476 |
| Capital increase from company funds with issuance of new shares (Stock split) | 0 | 360,341 |
| Increase due to exercise of stock options after the stock split | 4,195 | 1,021 |
| As of December 31 | 545,728 | 541,533 |

## (8) Own shares

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

The basis for distributing the shares is an agreement negotiated between the Works Council and the Management Board in February 2012. The agreement awards €2,335.00 of profit-sharing to each full-time employee for 2014 as well as the employer contribution for social security payments. Half of the profit-sharing payment was settled in shares and half in cash which covers the tax and social contributions. The price determination to determine the numbers allocated shares in the profit-sharing program was made on June 10, 2015.

To be eligible for the program, employees must have had three years of continuous employment at Fresenius SE & Co. KGaA on December 31, 2014, its direct affiliated companies or affiliated companies of Fresenius Kabi and certain other affiliated companies as identified in the Works Council agreement. At that time, eligible employees must have not been under notice or in an executive position, as defined by Fresenius. Intercompany transfers are counted in full.

As part of the Fresenius SE & Co. KGaA profit-sharing program for 2014, the following ordinary shares were purchased and distributed to employees, and the remaining, not distributed, shares re-sold:

| | Date | Number | Price in € per share |
|---|---|---|---|
| Purchase | June 8, 2015 | 46,000 | 55.88 |
| Disbursement | June 10, 2015 | 46,000 | 55.59 |
| Purchase | June 12, 2015 | 251 | 55.62 |
| Disbursement | June 17, 2015 and September 23, 2015 | 229 | 55.59 |
| Sale | October 6, 2015 | 22 | 60 |

Purchased shares with a nominal value of €46,250 and committed shares with a nominal value of €46,229 represented each 0.0085% of the subscribed capital.

The proceeds from the sale on October 6, 2015 have increased corporate funding.

As of December 31, 2015, no own shares were held.

## (9) Notification by shareholders

The following table shows the notifications disclosed in 2015 in accordance with Section 26 (1) of the German Securities Trading Act (WpHG). In cases where holdings reached, exceeded or fell below the thresholds on several occasions, only the most recent notification is mentioned.

| Notifying party | Registered office | Date of exceeding or falling below | Reporting threshold | Percentage of voting rights | Number of voting rights[1] | Attribution pursuant to WpHG |
|---|---|---|---|---|---|---|
| Allianz Global Investors GmbH | Frankfurt/ Main, Germany | December 21, 2015 | Exceeding 3% | 4.68 | 25,529,195 | sections 21, 22 |
| Allianz Deutschland AG | Munich Germany | December 21, 2015 | Falling below 3% | 0.75 | 4,091,429 | sections 21, 22 |
| Allianz Lebensver-sicherungs-AG | Stuttgart, Germany | December 21, 2015 | Falling below 3% | 0.75 | 4,091,429 | sections 21, 22 |
| BlackRock, Inc. | Wilmington, DE, United States | October, 14 2015 | Falling below 5% | 4.95 | 26,982,613<br>11,722,287<br>16,886,142 | section 21 (1)<br>thereof pursuant to section 22 (1) sentence 1 No. 1<br>thereof pursuant to section 22 (1) sentence 1 No. 6 in connection with sentence 2 |
| BlackRock Holdco 2, Inc. | Wilmington, DE, United States | October 9, 2015 | Falling below 5% | 4.98 | 27,119,342<br>11,758,809<br>17,007,346 | section 21 (1)<br>thereof pursuant to section 22 (1) sentence 1 No. 1<br>thereof pursuant to section 22 (1) sentence 1 No. 6 in connection with sentence 2 |
| BlackRock Financial Management, Inc. | Wilmington, DE, United States | October 9, 2015 | Falling below 5% | 4.98 | 27,119,342<br>11,758,809<br>187,701<br>16,882,202 | section 21 (1)<br>thereof pursuant to section 22 (1) sentence 1 No. 1<br>thereof pursuant to section 22 (1) sentence 1 No. 6<br>thereof pursuant to section 22 (1) sentence 1 No. |
| BlackRock Advisors Holdings, Inc. | New York, NY, United States | February 27, 2015 | Falling below 3% | 2.91 | 15,773,307<br>6,997,108<br>5,317<br>10,376,321 | section 21 (1)<br>thereof pursuant to section 22 (1) sentence 1 No. 1<br>thereof pursuant to section 22 (1) sentence 1 Nr. 2 in connection with sentence 2<br>thereof pursuant to section 22 (1) sentence 1 No. 6 in connection with sentence 2 |
| BlackRock International Holdings, Inc. | New York, NY, United States | February 27, 2015 | Falling below 3% | 2,91 | 15,773,307<br>6,997,108<br>5,317<br>10,376,321 | section 21 (1)<br>thereof pursuant to section 22 (1) sentence 1 No. 1<br>thereof pursuant to section 22 (1) sentence 1 Nr. 2 in connection with sentence 2<br>thereof pursuant to section 22 (1) sentence 1 No. 6 in connection with sentence 2 |
| BR Jersey International Holdings L.P. | St. Helier, Jersey, Channel Islands | February 27, 2015 | Falling below 3% | 2.91 | 15,773,307<br>6,997,108<br>5,317<br>10,376,321 | section 21 (1)<br>thereof pursuant to section 22 (1) sentence 1 No. 1<br>thereof pursuant to section 22 (1) sentence 1 Nr. 2 in connection with sentence 2<br>thereof pursuant to section 22 (1) sentence 1 No.6 in connection with sentence 2 |
| Henderson Group Holdings Asset Management Limited | London, Great Britain | February 25, 2015 | Falling below 3% | 3.006 | 16,292,484<br>16,292,484 | section 21 (1)<br>thereof pursuant to section 22 (1) sentence 1 No. 6 in connection with sentence 2 |
| HGI Asset Management Group Limited | London, Great Britain | February 25, 2015 | Falling below 3% | 3.006 | 16,292,484<br>16,292,484 | section 21 (1)<br>thereof pursuant to section 22 (1) sentence 1 No. 6 in connection with sentence 2 |
| Henderson Global Group Limited | London, Great Britain | February 25, 2015 | Falling below 3% | 3.006 | 16,292,484<br>16,292,484 | section 21 (1)<br>thereof pursuant to section 22 (1) sentence 1 No. 6 in connection with sentence 2 |
| Henderson Holdings Group Limited | London, Great Britain | February 25, 2015 | Falling below 3% | 3.006 | 16,292,484<br>16,292,484 | section 21 (1)<br>thereof pursuant to section 22 (1) sentence 1 No. 6 in connection with sentence 2 |
| HGI Group Limited | London, Great Britain | February 25, 2015 | Falling below 3% | 3.006 | 16,292,484<br>16,292,484 | section 21 (1)<br>thereof pursuant to section 22 (1) sentence 1 No. 6 in connection with sentence 2 |

The voting rights of the individual BlackRock companies are attributed to the controlling company BlackRock, Inc.

1The total amount stated does not necessarily equal the sum of the detailed attributed holdings. This results from voting rights having multiple attributions within the BlackRock group structure.

The Else Kröner-Fresenius-Stiftung as major shareholder informed Fresenius SE & Co. KGaA on December 18, 2015, that it holds 144.695.094 ordinary shares of Fresenius SE & Co. KGaA representing 26.51% of the subscribed capital on December 31, 2015.

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

## (10) Authorized capital

As of December 31, 2015, the general partner, Fresenius Management SE, is authorized, with the approval of the Supervisory Board, until May 15, 2019, to increase Fresenius SE & Co. KGaA's subscribed capital by a total amount of up to €120,960,000 through a single or multiple issues of new bearer ordinary shares against cash contributions and / or contributions in kind **(Authorized Capital I).**

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

The authorizations granted concerning the exclusion of subscription rights can be used by Fresenius Management SE only to such extent that the proportional amount of the total number of shares issued with exclusion of the subscription rights does not exceed 20% of the subscribed capital. An exclusion of subscription rights in the context of the use of other authorizations concerning the issuance or the sale of the shares of Fresenius SE & Co. KGaA or the issuance of rights which authorize or bind to the subscription of shares of Fresenius SE & Co. KGaA has to be taken into consideration during the duration of the Authorized Capital until its utilization.

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

| | 2015 | 2014 |
|---|---|---|
| *€ in thousands* | | |
| Brought forward from previous Authorized Capital I at January 1 | 120,960 | 40,320 |
| Revocation of previous Authorized Capital I due to resolution of the Annual General Meeting | 0 | -40,320 |
| Creation of a new Authorized Capital I due to resolution of the Annual General Meeting | 0 | 120,960 |
| As of December 31 | 120,960 | 120,960 |

## (11) Conditional Capital

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

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

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

| | Ordinary shares |
|---|---|
| *in €* | |
| As of January 1, 2015 | 5,773,056 |
| Decrease due to exercise of stock options | -511,069 |
| As of December 31, 2015 | 5,261,987 |

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

| | Ordinary shares |
|---|---|
| *in €* | |
| As of January 1, 2015 | 10,901,188 |
| Decrease due to exercise of stock options | —3,684,281 |
| As of December 31, 2015 | 7,216,907 |

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

| | Ordinary shares |
|---|---|
| *in €* | |
| As of January 1, 2015 | 48,971,202 |
| As of December 31, 2015 | 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, 2015 | 25,200,000 |
| As of December 31, 2015 | 25,200,000 |

## Description of the Fresenius SE & Co. KGaA stock option plans in place

As of December 31, 2015, Fresenius SE & Co. KGaA had three stock option plans in place: the Fresenius AG Stock Option Plan 2003 (2003 Plan) which is based on convertible bonds, the stock option based Fresenius SE Stock Option Plan 2008 (2008 Plan) and the Fresenius SE & Co. KGaA Long Term Incentive Program 2013 (2013 LTIP) which is based on stock options and phantom stocks. In 2015, stock options were solely granted under the 2013 LTIP.

2013 LTIP

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

2013 SOP

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

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

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

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

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

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

by one quarter, two quarters, three quarters, or completely. The performance targets for 2013, 2014 and 2015 were met.

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

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

2013 PSP

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

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

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

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

The exercise of phantom stock is subject to the condition precedent, in each case, that the annual success target within a four-year waiting period is achieved. The success target is achieved in each case if, after the granting of the subscription rights to the respective entitled person, either (i) the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to U.S. GAAP, adjusted for extraordinary effects and on a constant currency basis, has increased by at least 8% per annum in comparison to the previous year in each case within the waiting period, or (ii) – if this is not the case – the compounded annual growth rate of the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to U.S. GAAP, adjusted for extraordinary effects and on a constant currency basis, during the four years of the waiting period amounts to at least 8%. In the event that the success target within the four-year waiting period is not achieved for the individual years or for the compounded annual growth rate, the phantom stock awards issued in each case are forfeited in proportion to the non-achievement of the success target within the waiting-period, i. e. by one quarter, two quarters, three quarters, or completely. The performance targets for 2013, 2014 and 2015 were met.

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

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

Stock Option Plan 2008

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

For stock options that were granted before the stock split 2014 came into effect, the entitlement of the participants to receive new shares through the exercise of stock options increased in the same proportion as the subscribed capital (factor 3). The participants are now entitled to receive three bearer ordinary shares of Fresenius SE & Co. KGaA. The maximum number of ordinary shares to be issued increased accordingly. The exercise price was reduced proportionally.

The options granted have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is mandatorily subject to the condition, in each case, that the annual success target within the three year vesting period is achieved. For each such year, the success target is achieved if the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA, adjusted for extraordinary effects, has increased by at least 8% compared to the respective adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA of the previous fiscal year. For each year in which the success target has not been met, one-third of the options granted shall forfeit. The adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA shall be calculated on the basis of the calculation method of the accounting principles according to U.S. GAAP. For the purposes of the 2008 Plan, the adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA is determined and will be verified with binding effect by Fresenius SE & Co. KGaA’s auditor during the audit of the consolidated financial statements. The performance targets were met in all years. If all conditions are fulfilled, stock options may be exercised throughout the year with the exception of certain pre-determined blackout periods.

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

Stock Option Plan 2003

During 2003, Fresenius AG adopted the 2003 Plan for members of the Management Board and executive employees. This incentive plan which is based on convertible bonds was replaced by the 2008 Plan and no convertible bonds have been granted since 2008. Under the 2003 Plan, eligible employees have the right to acquire ordinary shares of Fresenius SE & Co. KGaA. The bonds expire in 10 years and one third of them can be exercised beginning after two, three and four years after the grant date, respectively.

**Transactions during 2015**

In 2015, Fresenius SE & Co. KGaA awarded 2,260,465 stock options under the 2013 LTIP, including 337,500 options to members of the Management Board of Fresenius Management SE, at a weighted-average exercise price of €60.76, a weighted-average fair value of €14.77 each and a total fair value of €33 million, which will be amortized over the four year vesting period. Thereof 337,500 stock options were granted to members of the Management Board of Fresenius Management SE. At the exercise date, all exercised stock options will be recognized in equity at the exercise price. Fresenius SE & Co. KGaA also awarded 296,199 phantom stocks under the 2013 LTIP, including at a measurement date (December 31, 2015) fair value of €63.43 each and a total fair value of €19 million, which will be revalued if the fair value changes, and amortized over the four-year vesting period. Thereof 73,307 and 26,554 phantom stocks with a combined market value of €6 million were granted to members of the Management Board of Fresenius Management SE and to employees of Fresenius SE & Co. KGaA respectively.

During the fiscal year 2015, Fresenius SE & Co. KGaA received cash of €88 million from the exercise of 4,195,350 stock options. The average stock price of the ordinary share at the exercise date was €58.77. The intrinsic value of convertible bonds and stock options exercised in 2015 was €152 million.

533,072 convertible bonds were outstanding and exercisable under the 2003 Plan at December 31, 2015. The members of the Fresenius Management SE Management Board held no more convertible bonds. At December 31, 2015, out of 3,802,820 outstanding and exercisable stock options issued under the 2008 Plan, 560,460 were held by the members of the Fresenius Management SE Management Board. 6,313,417 stock options issued under the 2013 LTIP were outstanding at December 31, 2015. The members of the Fresenius Management SE Management Board held 967,500 stock options. 920,387 phantom stocks issued under the 2013 LTIP were outstanding at December 31, 2015. Thereof the members of the Fresenius Management SE Management Board held 236,729 phantom stocks while employees of Fresenius SE & Co. KGaA held 74,662 phantom stocks.

Stock option transactions are summarized as follows:

| | Stock options |
|---|---|
| | *Number* |
| Number as of December 31, 2014 | 12,903,766 |
| plus new issues | 2,260,465 |
| less forfeited options | -319,572 |
| less exercises | -4,195,350 |
| Number as of December 31, 2015 | 10,649,309 |

## (12) 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:

| | 2015 | 2014 |
|---|---|---|
| *€ in thousands* | | |
| As of January 1 | 2,694,955 | 3,012,026 |
| Reduced due to conversion into subscribed capital | 0 | -360,341 |
| Increase due to exercise of stock options | 84,256 | 43.270 |
| As of December 31 | 2,779,211 | 2,694,955 |

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).

### (13) Other reserves

Other reserves developed as follows:

| | 2015 | 2014 |
|---|---|---|
| *€ in thousands* | | |
| As of January 1 | 2,002,395 | 1,763,395 |
| Additions to other reserves from net income of the period | 105,000 | 239.000 |
| As of December 31 | 2,107,395 | 2.002.395 |

According to the restrictions in Section 268 (8) HGB, €26,9 thousand shall not be distributed. This amount relates exclusively to the fair value of the securities held to cover partial retirement agreement obligations in case of insolvency. 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.

### (14) Retained earnings

Accumulated profits from the prior year of €942 thousand are included in retained earnings in accordance with the decision taken at the Annual General Meeting on May 20, 2015.

### (15) 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”.

### (16) Accrued expenses

**The pension obligation** has been determined according to the method described under Note (2) “Accounting principles and standards of valuation”. Included in this item is an obligation of €13,533 thousand in favor of Fresenius Management SE for pension obligations related to its Management Board members.

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

| | Dec. 31, 2015 |
|---|---|
| *€ in thousands* | |
| Amount to be paid for partial retirement agreements | 217 |
| Fair value of matching securities | 74 |
| Funded status (surplus of obligations over assets) | 143 |
| Acquisition cost of securities | 48 |

In the statement of income, net interest includes €73 of netted expense and income from the valuation of the securities and the provision.

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, 2015 |
|---|---|
| *€ in thousands* | |
| Amount to be paid for obligations from the demography fund | 1,518 |
| Fair value of matching insurance | 1,518 |
| Funded status (surplus of assets over obligations) | 0 |
| Acquisition cost of insurance | 1,401 |

The statement of income includes €38 thousand of netted expense and income, respectively, from the valuation of the insurance product and the provision.

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

**Other accruals** mainly include accruals for personnel expenses of €20,916 thousand (previous year: €12,668 thousand) as well as accruals to cover contingent losses from interest rate swaps and foreign currency risks of €5,194 thousand (previous year: €2,121 thousand) and for invoices outstanding of €2,073 thousand (previous year: €6,647 thousand).

## (17) Liabilities

Dec. 31, 2015

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

Dec. 31, 2014

| | Total | Thereof with a remaining term of up to 1 year | 1 year to 5 years | over 5 years |
|---|---|---|---|---|
| *€ in thousands* | | | | |
| Convertible bonds | 500,044 | 44 | 500,000 | 0 |
| Bank loans | 1,070,476 | 45,476 | 1,025,000 | 0 |
| Trade accounts payable | 2,258 | 2,258 | 0 | 0 |
| Accounts payable to related parties | 4,067,504 | 806,197 | 1,601,816 | 1,659,491 |
| Other liabilities | 61,820 | 15,718 | 46,102 | 0 |
| | 5,702,102 | 869,693 | 3,172,918 | 1,659,491 |

### Convertible bonds, equity-neutral

On March 18, 2014, Fresenius SE & Co. KGaA placed €500 million equity-neutral convertible bonds due 2019. The bonds were issued at par. The coupon was fixed at 0%.On December 31, 2015 the conversion price was €49.6611.

At December 31, 2015, the negative fair value of the derivative embedded in the convertible bonds was €228 million. Fresenius SE & Co. KGaA has purchased stock options (call options) to secure against future fair value fluctuations of this derivative. The positive fair value of the call options at December 31, 2015 was €228 million as well. The embedded derivative and the call options build a hedge relationship and are accounted for at a book value of €46 million each following the “Einfrierungsmethode”.

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

### Convertible bonds within the Stock Option Plan

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

### Bank loans

### Schuldschein Loans

At December 15, 2015 Fresenius SE & Co. KGaA had €917 Million (previous year: €1,025 Million) liabilities from Schuldschein Loans.

In March 2015, Fresenius SE & Co. KGaA voluntarily terminated floating rate tranches of Schuldschein Loans due in 2015 and 2018 in the amount of €172 million ahead of time. Furthermore, the Company made a termination offer to investors of its fixed rate €156 million Schuldschein Loans maturing in April 2016 which was accepted for €48 million. The respective repayments were made on April 7, 2015. Furthermore, in April 2015, new Schuldschein Loans with maturities in 2018 and 2022 were issued in a total amount of €112 million.

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

### Commercial-Paper-Program

Fresenius SE & Co. KGaA has a commercial paper program under which up to €1,000 million in short-term notes can be issued. As of December 31, 2015, the commercial paper program was not utilized.

### Accounts payable to related parties

Accounts payable to related parties comprise loans and financing accounts with affiliated companies (cash pool) in an amount of €3,695,673 thousand (previous year €4,067,500 thousand) and trade accounts payable amounting to €15 thousand (previous year €4 thousand).

Included in this item are liabilities of €4,908 thousand (previous year €3,236 thousand) in favor of the general partner Fresenius Management SE. Moreover, liabilities of €28,948thousand (previous year €11,467 thousand) in favor of Fresenius Management SE are included in pension liability and other liabilities.

### Other liabilities

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

Tax liabilities amount to €1,144 thousand (previous year €483 thousand).

## (18) Contingent Liabilities

According to our judgment the affected companies can meet the underlying obligations in any case and assertion of the claim is currently not expected.

| | 2015 | 2014 |
|---|---|---|
| *€ in thousands* | | |
| Contingencies from indemnity agreements and guarantees | 5,125,375 | 5,994,113 |
| (thereof amount in favor of and from affiliated companies) | (5,125,375) | (5,994,113) |

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

## Senior Notes

Fresenius SE & Co. KGaA guarantees the liabilities of Fresenius Finance B.V. and Fresenius US Finance II, Inc. – both wholly-owned subsidiaries of Fresenius SE & Co. KGaA. The following table shows these liabilities of the two companies as of December 31, 2015.

| Issuer | Nominal Value | Maturity Date | Interest Rate |
|---|---|---|---|
| Senior Notes | | | |
| Fresenius Finance B.V. 2013/2020 | €500 million | July 15, 20 | 2.875% |
| Fresenius Finance B.V. 2012/2019 | €500 million | Apr. 15, 19 | 4.25% |
| Fresenius Finance B.V. 2014/2019 | €300 million | Feb. 1, 19 | 2.375% |
| Fresenius Finance B.V. 2014/2021 | €450 million | Feb. 1, 21 | 3.00% |
| Fresenius Finance B.V. 2014/2024 | €450 million | Feb. 1, 24 | 4.00% |
| 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% |

The Senior Notes of Fresenius Finance B.V. and of Fresenius US Finance II, Inc. are guaranteed by Fresenius SE & Co. KGaA, Fresenius Kabi AG and Fresenius ProServe GmbH. The holders have the right to request that the issuers repurchase the Senior Notes at 101% of principal plus accrued interest upon the occurrence of a change of control followed by a decline in the rating of the respective Senior Notes. All other Senior Notes of Fresenius Finance B.V. and of Fresenius US Finance II, Inc. may be redeemed prior to their maturity at the option of the issuers at a price of 100% plus accrued interest and a premium calculated pursuant to the terms of the indentures under observance of certain notice periods.

Fresenius SE & Co. KGaA has agreed to a number of covenants which restrict the scope of action of Fresenius SE & Co. KGaA and its subsidiaries (excluding Fresenius Medical Care AG & Co. KGaA and its subsidiaries) to provide protection to the bondholders. These covenants consist of restrictions on further debt that can be raised, the mortgaging or sale of assets, the entering into sale and leaseback transactions as well as mergers or consolidations with other companies. Some of these restrictions are lifted automatically when the rating of the respective Senior Notes reaches investment grade. In the event of non-compliance with certain terms of the Senior Notes, the bondholders (owning in aggregate more than 25% of the outstanding Senior Notes) are entitled to call the Senior Notes and demand immediate repayment plus interest. As of December 31, 2015, 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. In February 2014, for example, additional facilities in the amount of €1,200 million were drawn down and used to fund the acquisition of hospitals from Rhön-Klinikum AG. Furthermore, scheduled amortization payments have been made.

As of December 31, 2015, the 2013 Senior Credit Agreement consisted of:

- Revolving credit facilities in the aggregate principal amount of US$300 million and €900 million with a final repayment date on June 28, 2020. Those revolving credit facilities are available for Fresenius US Finance I, Inc., Fresenius Finance II B.V. and Fresenius SE & Co. KGaA. They have not been utilized at December 31, 2015.

- Term loan facilities in the aggregate principal amount of US$781 million and €1,057 million (together Term Loan A) which were borrowed by Fresenius US Finance I, Inc. and Fresenius Finance II B.V. respectively. Term Loan A amortizes and is repayable in unequal quarterly installments with a final maturity on June 28, 2020.

- Term loan facilities (Term Loan B) in the principal amount of US$489 million were borrowed by Fresenius US Finance I, Inc.. Term Loan B amortizes and is repayable in quarterly installments, whereby the majority of the amortization is due on June 28, 2019.

The 2013 Senior Credit Agreement is guaranteed by Fresenius SE & Co. KGaA, Fresenius ProServe GmbH, Fresenius Kabi AG and certain U.S. subsidiaries of Fresenius Kabi AG. Obligations under the 2013 Senior Credit Agreement are secured by pledges of capital stock of certain material subsidiaries of Fresenius Kabi AG, and upon funding of the incremental facilities are additionally secured by a pledge of the capital stock of HELIOS Kliniken GmbH, in favor of the lenders.

On January 29, 2015, a Term Loan B facility of €297 million was voluntarily prepaid. On February 12, 2015, the revolving credit facilities and the Term Loan A tranches were extended ahead of time by two years to a new maturity date on June 28, 2020. These tranches would have otherwise matured in June 2018.

### (19) Other financial commitments

| | 2015 | 2014 |
|---|---|---|
| *€ in thousands* | | |
| Commitments from building leases, and leasing commitments | | |
| due 2016 (prior year 2015) | 8,087 | 6,180 |
| due 2017-2020 (prior year 2016-2019) | 10,136 | 6,877 |
| due after 2020 (prior year after 2019) | 0 | 0 |
| | 18,223 | 13,057 |
| Commitments from ongoing capital expenditures | 404 | 138 |
| (thereof amount to affiliated companies) | (0) | (0) |
| Other Commitments | 16,117 | 16,511 |
| (thereof amount to affiliated companies) | (16,117) | (16,511) |
| | 34,744 | 29,706 |

Other financial commitments comprise liabilities for joint commitments from the transfer of pension obligations to operating divisions of the business segments and future payment-obligations from subsidiaries resulting from acquisitions.

According to our judgment the affected companies can meet the underlying obligations in any case and assertion of the claim is currently not expected.

## Notes on the profit and loss statement

### (20) Income from participations

| | 2015 | 2014 |
|---|---|---|
| *€ in thousands* | | |
| Income from profit transfer agreements | 463,115 | 547,113 |
| Income from participations | 84,844 | 84,182 |
| (thereof amount from affiliated companies) | (84,844) | (83,491) |
| | 547,959 | 631,295 |

### (21) Other operating income

Other operating income of €311,366 thousand in total (previous year €213,044 thousand) is comprised primarily of foreign currency gains of €236,941 thousand (previous year €130,938 thousand), of cost transfers to group companies of €72,746 thousand (previous year €65,006 thousand), sales of property, plant and equipment from other accounting periods of € 10 thousand (previous year €286 thousand), as well as other income from other accounting periods mainly income from the dissolution of short-term accruals of €739 thousand (previous year €696 thousand). The main reason for the increase in other operating income is an increase in foreign currency gains.

The total income from other accounting periods was €1,097 thousand in the fiscal year (previous year €780 thousand).

### (22) Personnel expenses

| | 2015 | 2014 |
|---|---|---|
| *€ in thousands* | | |
| Salaries and wages | 32,291 | 25,324 |
| Social security and costs of retirement pensions and social assistance | 8,105 | 6,260 |
| (thereof amount of retirement pensions) | (4,401) | (2,823) |
| | 40,396 | 31,584 |

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

| | 2015 | 2014 |
|---|---|---|
| Wage earners | 19 | 19 |
| Salaried employees | 278 | 263 |
| Apprentices | 137 | 139 |
| | 434 | 421 |

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

Depreciation of intangible assets and property, plant and equipment of €4,672 thousand (previous year €4,407 thousand) is regular depreciation.

### (24) Other operating expenses

Other operating expenses of €305,256 thousand in total (previous year €204,177 thousand) were primarily foreign currency losses of €237,946 thousand (previous year €132,429 thousand). Also included are IT-related expenses, insurance premiums and consulting expenses, as well as the costs of Fresenius Management SE for the compensation of its Management Board that is passed on.

Total expenses from other accounting periods were €1,142 thousand in the fiscal year (previous year €1,149 thousand).

### (25) Earnings before interest and taxes (EBIT)

| | 2015 | 2014 |
|---|---|---|
| *€ in thousands* | | |
| Profit on ordinary activities | 464,478 | 540,809 |
| Net interest | 44,523 | 62,620 |
| Write-offs on financial assets and marketable securities | 0 | 742 |
| Other taxes | -527 | -482 |
| **EBIT** | **508,474** | **603,689** |

### (26) Net interest

| | 2015 | 2014 |
|---|---|---|
| *€ in thousands* | | |
| Interest income from long-term loans | 69,644 | 80,397 |
| (thereof amount from affiliated companies) | (69,592) | (80,397) |
| Other interest and similar income | 49,553 | 39,740 |
| (thereof amount from affiliated companies) | (48,382) | (38.086) |
| Interest and similar expenses | -161,711 | -180,787 |
| (thereof amount from affiliated companies) | (-108,714) | (-117,714) |
| Expense from interest accrued for provisions | -2,009 | -1,970 |
| | -44,523 | -62,620 |

### (27) Income Taxes

Income taxes in the amount of €59,694 thousand (previous year €62,142 thousand) resulted from current tax expense of €52,007 thousand (previous year €44,818 thousand) as well as taxes from other accounting periods in the amount of €7,687 thousand (previous year €17,324 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.

### (28) 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 hand. 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 €492,949 thousand and fair value of €-907 thousand with a maximum maturity of 30 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, 2015, the notional amount of these transactions totaled €150,557 thousand. The offsetting cash flows will level after 30 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 €151,785 thousand (asset). External foreign currency hedging contracts for the individual loans receivables and payment obligations had a negative net fair value of €786 thousand. The changes in value of both the loan receivables and payment obligations and the foreign currency hedging contracts have been recognized as income ('Durchbuchungsmethode'). The offsetting cash flows will nearly level after 10 months the latest.

The rest of the currency derivative contracts can have positive and negative fair values. Positive fair values of €1,442 thousand were not recognized for financial reporting purposes. Negative fair values amounting to €1,563 thousand were recognized as provision for contingent losses.

### Interest rate risk

At December 31, 2015, the Company had entered into interest rate swap transactions with banks with a nominal value of €200,000 thousand and a negative fair value on the balance sheet date of €2,490 thousand. These interest rate swaps were used to hedge variable interest rate payments from the syndicated credit agreement. These transactions generally build a hedge that is not revaluated for financial reporting purposes until maturity ('Einfrierungsmethode'). In the fiscal year this interest rate swaps became ineffective and the conditions for hedge accounting are therefore not met any more. Consequently a provision for contingent losses of €2,490 thousand has been built.

In 2015 five interest rate swaps with a nominal amount of US$500,000 thousand and a negative fair value of €5,239 thousand (US$5,876 thousand) were cash settled at the debt issuance date as planned. These interest rate swaps were used to achieve preestablished interest rate benchmarks for Senior Notes issuances of Fresenius Group companies.

### 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.

## (29) Compensation of the Management Board and Supervisory Board

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

The Management Board’s compensation is, as a whole, performance-oriented and was composed of three elements in the fiscal year 2015:

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

The cash compensation paid to the Management Board for the performance of its responsibilities was €13,998 thousand (2014: €11,462 thousand). Thereof, €6,055 thousand (2014: €5,016 thousand) is not performance-based and €7,943 thousand (2014: €6,446 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 337,500 stock options under the Fresenius SE Co. KGaA Stock Option Plan 2013 and 149,400 stock options under the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2011 and a share-based compensation with cash settlement in an amount of €5,843 thousand.

The total compensation paid to the Management Board was €27,065 thousand (2014: €18,759.)

The total compensation paid to the Supervisory Boards of Fresenius SE & Co. KGaA and Fresenius Management SE and their committees was €3,648 thousand in 2015 (2014: €2,961 thousand). Of this amount, €206 thousand was fixed compensation (2014: €206 thousand), €100 thousand was compensation for committees services (2014: €100 thousand), and €3,342 thousand was variable compensation (2014: €2,655 thousand).

In 2015, based on pension commitments to former members of the Management Board, €1,081 thousand (2014: €1,049 thousand) was paid. The pension obligation for these persons amounted to €17,835 thousand in 2015 (2014: €18,465 thousand).

In the fiscal years 2015 and 2014, 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.

### (30) 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).

### (31) Consolidated Financial Statements

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

## (32) 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 2015 of Fresenius SE & Co. KGaA be distributed as follows:

| | |
|---|---|
| Payment of a dividend of € 0.55 per ordinary share on the 545,727,950 ordinary shares entitled to dividend | €300,150,372,50 |
| Balance to be carried forward | €48,177.52 |
| Retained earnings | €300,198,550.02 |

## (33) 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 24, 2016

Fresenius SE & Co. KGaA,

represented by:

Fresenius Management SE, its General Partner

The Management Board

Dr. U. M. Schneider Dr. F. De Meo Dr. J. Götz

M. Henriksson R. Powell S. Sturm Dr. E. Wastler

# BOARDS

## SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

### Dr. Gerd Krick

Former Chairman of Fresenius AG

Chairman

Offices
**Supervisory Board**
Fresenius Management SE (Chairman)
Fresenius Medical Care AG & Co. KGaA (Chairman)
Fresenius Medical Care Management AG
VAMED AG, Austria (Chairman)

### Prof. Dr. med. D. Michael Albrecht

Medical Director and Spokesman of the Management Board of the Universitätsklinikum Carl Gustav Carus Dresden

Offices
**Supervisory Board**
GÖK Consulting AG
Universitätsklinikum Aachen

### Prof. Dr. h. c. Roland Berger

Management Consultant

Offices
**Supervisory Board**
Deutsche Oppenheim Family Office AG
(until July 15, 2015; Deputy Chairman)
Fresenius Management SE
Rocket Internet SE
Schuler AG
WMP EuroCom AG (Deputy Chairman)

**Board of Directors**
Geox S.p.A., Italy
RCS Mediagroup S.p.A., Italy (until April 23, 2015; Vice President)

### Michael Diekmann

Former Chairman of the Management Board of Allianz SE

Deputy Chairman (since May 20, 2015)

Offices
**Supervisory Board**
BASF SE (Deputy Chairman)
Fresenius Management SE (since May 20, 2015)
Linde AG (Deputy Chairman)
Siemens AG

**Board of Directors**
Allianz Australia Ltd. (Non-Executive Director)

### Dario Anselmo Ilossi

Trade Union Officer FEMCA Cisl – Energy, Fashion, and Chemicals

### Konrad Kölbl

Full-time Works Council Member

Member of the Manual Workers' Works Council of VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H.

Chairman of the Group Works Council of VAMED AG

Deputy Chairman of the European Works Council of Fresenius SE & Co. KGaA

Corporate Offices
**Supervisory Board**
VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H., Austria

### Klaus-Peter Müller

Chairman of the Supervisory Board of Commerzbank AG

Offices
**Supervisory Board**
Commerzbank AG (Chairman)
Fresenius Management SE
Linde AG

**Board of Directors**
Parker Hannifin Corporation, USA

### Dieter Reuß

Full-time Works Council Member

Chairman of the Joint Works Council of Fresenius SE & Co. KGaA / Bad Homburg site

Deputy Chairman of the General Works Council of Fresenius SE & Co. KGaA

### Gerhard Roggemann

Senior Advisor and Advisory Counsel to the Frankfurt branch
Edmond de Rothschild Private Merchant Banking LLP, London

Offices
**Supervisory Board**
Deutsche Beteiligungs AG (Deputy Chairman)
Deutsche Börse AG (Deputy Chairman until May 13, 2015)
GP Günter Papenburg AG (Chairman)
WAVE Management AG (Deputy Chairman)

## SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

### Stefan Schubert

Hospital nurse and full-time Works Council Member

Chairman of the Works Council of HELIOS Klinik Bad Schwalbach and of HELIOS Klinik Idstein

Chairman of the Group Works Council of Wittgensteiner Kliniken GmbH

Member of the European Works Council of Fresenius SE & Co. KGaA

Corporate Offices
**Supervisory Board**
Wittgensteiner Kliniken GmbH (until November 16, 2015)

### Rainer Stein

Full-time Works Council Member

Chairman of the Group Works Council of HELIOS Kliniken GmbH

Chairman of the European Works Council of Fresenius SE & Co. KGaA

Corporate Offices
**Supervisory Board**
HELIOS Kliniken GmbH (until September 7, 2015)

### Niko Stumpfögger

Secretary of the Trade Union ver.di, Head of Company and Industry Politics in Health Care and Social Affairs

Deputy Chairman

Offices
**Supervisory Board**
HELIOS Kliniken GmbH (until September 7, 2015; Deputy Chairman)

## COMMITTEES OF THE SUPERVISORY BOARD

### Audit Committee

Prof. Dr. h. c. Roland Berger (Chairman)
Konrad Kölbl
Dr. Gerd Krick
Gerhard Roggemann
Rainer Stein

### Nomination Committee

Dr. Gerd Krick (Chairman)
Prof. Dr. h. c. Roland Berger
Michael Diekmann (since May 20, 2015)

### Joint Committee [1]

Dr. Dieter Schenk (Chairman)
Michael Diekmann (since May 20, 2015)
Dr. Gerd Krick
Dr. Karl Schneider

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

# MANAGEMENT BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

## Dr. Ulf M. Schneider

### Chairman

Corporate Offices
**Supervisory Board**
FPS Beteiligungs AG (until July 20, 2015; Chairman)
Fresenius Kabi AG (Chairman)
Medical Care Management AG (Chairman)
HELIOS Kliniken GmbH (until September 7, 2015; Chairman)

**Board of Directors**
Fresenius Kabi USA, Inc., USA

Offices
**Board of Directors**
E. I. Du Pont de Nemours and Company, USA

## Dr. Francesco De Meo

### Business Segment Fresenius Helios

Corporate Offices
**Supervisory Board**
HELIOS Beteiligungs AG (Chairman)
HELIOS Kliniken Schwerin GmbH (Chairman)

## Dr. Jürgen Götz

### Chief Legal and Compliance Officer, and Labor Relations Director

Corporate Offices
**Supervisory Board**
FPS Beteiligungs AG (until July 20, 2015; Deputy Chairman)
HELIOS Kliniken GmbH (until September 7, 2015)
Wittgensteiner Kliniken GmbH (until November 16, 2015; Chairman)

## Mats Henriksson

### Business Segment Fresenius Kabi

Corporate Offices
**Supervisory Board**
Fresenius Kabi Austria GmbH, Austria (Chairman)
Fresenius Kabi España S.A.U., Spain
Labesfal – Laboratórios Almiro, S.A., Portugal

**Administrative Board**
Fresenius Kabi Italia S.p.A., Italy (Chairman)

**Board of Directors**
Fenwal, Inc., USA
Fenwal Canada Holdings, Inc., USA (until January 30, 2015)
Fenwal Holdings, Inc., USA (until January 31, 2015)
FHC (Holdings) Ltd., Great Britain
Fresenius Kabi Asia Pacific Ltd., Hong Kong (until September 15, 2015)
Fresenius Kabi Pharmaceuticals Holding, Inc., USA
Fresenius Kabi (Singapore) Pte Ltd., Singapore
Fresenius Kabi USA, Inc., USA
Sino-Swed Pharmaceutical Corp, Ltd., China

## Rice Powell

### Business Segment Fresenius Medical Care

Corporate Offices
**Administrative Board**
Vifor Fresenius Medical Care Renal Pharma Ltd., Switzerland (Deputy Chairman)

**Board of Directors**
Fresenius Medical Care Holdings, Inc., USA (Chairman)

## Stephan Sturm

### Chief Financial Officer

Corporate Offices
**Supervisory Board**
FPS Beteiligungs AG (until July 20, 2015)
Fresenius Kabi AG (Deputy Chairman)
Fresenius Kabi España S.A.U., Spain (until March 12, 2015)
HELIOS Kliniken GmbH (until September 7, 2015)
Labesfal – Laboratórios Almiro, S.A., Portugal (until March 12, 2015)
VAMED AG, Austria (Deputy Chairman)
Wittgensteiner Kliniken GmbH (until November 16, 2015)

**Administrative Board**
Fresenius Kabi Groupe France S.A., France (until March 12, 2015)

**Board of Directors**
FHC (Holdings) Ltd., Great Britain (until March 12, 2015)

Offices
**Supervisory Board**
Deutsche Lufthansa AG (since April 29, 2015)

## Dr. Ernst Wastler

### Business Segment Fresenius Vamed

Corporate Offices
**Supervisory Board**
Charité CFM Facility Management GmbH (Deputy Chairman)
VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H., Austria (Chairman)

## SUPERVISORY BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

### Dr. Gerd Krick

Chairman

### Prof. Dr. h. c. Roland Berger

### Michael Diekmann (since May 20, 2015)

### Klaus-Peter Müller

### Dr. Dieter Schenk

Lawyer and Tax Consultant

Deputy Chairman

Offices

**Supervisory Board**
Bank Schilling & Co. AG (since May 1, 2015; Chairman since May 5, 2015)
Fresenius Medical Care AG & Co. KGaA (Deputy Chairman)
Fresenius Medical Care Management AG (Deputy Chairman)
Gabor Shoes AG (Chairman)
Greiffenberger AG (Deputy Chairman)
TOPTICA Photonics AG (Chairman)

**Foundation Board**
Else Kröner-Fresenius-Stiftung (Chairman)

### Dr. Karl Schneider

Former Spokesman of Südzucker AG

Offices

**Foundation Board**
Else Kröner-Fresenius-Stiftung (Deputy Chairman)

## Management Report for Fresenius SE & Co. KGaA

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

## Fundamental information about the group

### The group's business model

Fresenius is a global health care group in the legal form of an SE & Co. KGaA (a partnership limited by shares). We offer products and services for dialysis, hospitals, and outpatient medical care. In addition, Fresenius focuses on hospital operations. We also manage projects and provide services for hospitals and other health care facilities worldwide. The operating business comprises four **business segments**, all of which are legally independent entities managed by the operating parent company Fresenius SE & Co. KGaA. The business segments have a regional and decentralized structure.

- **Fresenius Medical Care** offers services and products for patients with chronic kidney failure. As of December 31, 2015, Fresenius Medical Care treated 294,381 patients at 3,418 dialysis clinics. Dialyzers, dialysis machines, and renal pharmaceuticals are among the most important product lines. In addition, Fresenius Medical Care offers dialysis-related services, among others in the field of Care Coordination.

- **Fresenius Kabi** specializes in intravenously administered generic drugs (IV drugs), clinical nutrition, and infusion therapies. The company is also a supplier of medical devices and products of transfusion technology. The company sells its products mainly to hospitals.

- **Fresenius Helios** is the largest hospital operator in Germany. At the end of 2015, Fresenius Helios operated a total of 111 hospitals with more than 34,000 beds in Germany. In addition to 87 acute care hospitals, including seven maximum care hospitals in Berlin-Buch, Duisburg, Erfurt, Krefeld, Schwerin, Wiesbaden, and Wuppertal, the HELIOS Group has 24 post-acute care clinics.

- **Fresenius Vamed** manages projects and provides services for hospitals and other health care facilities worldwide. The portfolio ranges along the entire value chain – from project development, planning, and turnkey construction, via maintenance, and technical management, to total operational management.

- The segment **Corporate / Other** comprises the holding activities of Fresenius SE & Co. KGaA and the IT service provider Fresenius Netcare, which operates mainly for Group companies. In addition, Corporate / Other includes the consolidation measures conducted among the business segments. Fresenius has an international sales network and maintains approximately 90 production sites. Large production sites are located in the United States, China, Japan, Germany, and Sweden. Production plants are also located in other European countries and in Latin America, Asia-Pacific, and South Africa.

Important markets and competitive position

Fresenius operates in about 80 countries through its subsidiaries. The **main markets** are North America and Europe with 46% and 38% of sales, respectively.

**Fresenius Medical Care** holds the leading position worldwide in dialysis care as it serves about 10% of all dialysis patients, as well as in dialysis products, with a market share of about 34%. **Fresenius Kabi** holds leading market positions in Europe and has significant market shares in the growth markets of Asia-Pacific and Latin America. In the United States, Fresenius Kabi is one of the leading suppliers of generic IV drugs. **Fresenius Helios** is the largest hospital operator in Germany. **Fresenius Vamed** is one of the world's leading companies in its field.

Legal and economic factors

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

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

There were no legal aspects that significantly affected business performance in 2015.

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

Management Board's rules of procedure require it to obtain the approval of the Supervisory Board of Fresenius Management SE for specific activities.

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

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

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

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

Capital, shareholders, articles of association

The subscribed capital of Fresenius SE & Co. KGaA amounted to 545,727,950 ordinary shares as of December 31, 2015 (December 31, 2014: 541,532,600).

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

Fresenius Management SE, as general partner, is authorized, subject to the consent of the Supervisory Board of Fresenius SE & Co. KGaA:

- to increase the subscribed capital of Fresenius SE & Co. KGaA by a total amount of up to €120.96 million, until May 15, 2019, through a single or multiple issuance of new bearer ordinary shares against cash contributions and / or contributions in kind (**Authorized Capital I**). Shareholders' pre-emptive rights of subscription can be excluded.

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

- The subscribed capital is conditionally increased by up to €5,261,987.00 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 €7,216,907.00 through the issuance of new bearer ordinary shares (**Conditional Capital II**). The conditional capital increase will only be executed to the extent that subscription rights have been issued under the 2008 Stock Option Plan, the holders of these subscription rights exercise their rights, and the Company does not use its own shares to service the subscription rights or does not exercise its right to make payment in cash.

- The general partner is authorized, with the approval of the Supervisory Board, until May 15, 2019, to issue option bearer bonds and / or convertible bearer bonds, once or several times, for a total nominal amount of up to €2.5 billion. To fulfill the granted subscription rights, the subscribed capital of Fresenius SE & Co. KGaA was increased conditionally by up to €48,971,202.00 through issuance of new bearer ordinary shares (**Conditional Capital III**). The conditional capital increase shall only be implemented to the extent that the holders of convertible bonds issued for cash, or of warrants from option bonds issued for cash, exercise their conversion or option rights and as long as no other forms of settlement are used.

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

The Company is authorized, until May 15, 2019, to purchase and use its **own shares** up to a maximum amount of 10% of the subscribed capital. In addition, when purchasing own shares, the Company is authorized to use equity derivatives with possible exclusion of any tender right. The Company had not utilized these authorizations as of December 31, 2015.

**Direct and indirect ownership interests** in Fresenius SE & Co. KGaA are listed in Note 9 of the Notes. As the largest shareholder, Else Kröner-Fresenius-Stiftung informed the Company on December 18, 2015, that it held 144,695,094 ordinary shares of Fresenius SE & Co. KGaA. This corresponds to an equity interest of 26.51% as of December 31, 2015.

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

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

## Goals and strategy

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

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

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

  Fresenius Medical Care is the worldwide leader in dialysis, with a strong market position in the United States. Future opportunities in dialysis will arise from further international expansion in dialysis care and products, as well as the expansion in the field of Care Coordination. In this area, Fresenius Medical Care offers additional services for dialysis patients. These include, e. g., vascular care services, laboratory services as well as hospitalist and intensivist services. In 2015, Fresenius Medical Care has significantly strengthened this area through several acquisitions. By expanding its business, the company addresses a growing need for integrated patient care.

  Fresenius Kabi is the market leader in infusion therapy and clinical nutrition in Europe and in the key markets in Asia-Pacific and Latin America. In the United States, Fresenius Kabi is one of the leading players in the market for generic IV drugs. In addition, Fresenius Kabi is one of the most important providers of transfusion technology. Fresenius Kabi plans to roll out products from its existing portfolio to the growth markets and to launch existing products in the United States. Market share is to be expanded further through the launch of new products in the field of IV drugs and medical devices for infusion therapy and clinical nutrition, as well as in transfusion technology.

With 111 hospitals, Fresenius Helios is operating in nearly the whole of Germany. Building on this, Fresenius Helios is now in the position to develop new patient care models and take advantage of further growth opportunities arising from the privatization process in the German hospital market.

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

- **Strengthen innovation**: Fresenius' strategy is to continue building on its strength in technology, its competence and quality in patient care, and its ability to manufacture cost-effectively. We want to develop products and systems that provide a high level of safety and user-friendliness and enable tailoring to individual patient needs. We intend to continue to meet our requirements of best-in-class medical standards by developing and offering more effective products and treatment methods for the critically and chronically ill.

- **Enhance profitability**: Last but not least, it is our goal to improve Group profitability. To contain costs, we are concentrating particularly on making our production plants more efficient, exploiting economies of scale, leveraging the existing marketing and distribution infrastructure more intensively, and practicing strict cost control. By focusing on our operating cash flow and employing efficient working capital management, we will increase our investment flexibility and improve our balance sheet ratios. Another goal is to optimize our weighted average cost of capital (WACC) by deliberately employing a balanced mix of equity and debt funding. In the present capital market conditions, we optimize our cost of capital if we hold the net debt / EBITDA ratio within a range of 2.5 to 3.0.

We report on our goals in detail in the Outlook section on pages 19 ff.

### 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 as well as 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
- Infusion and nutrition therapies
- Generic IV drugs
- Medical devices

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

Research and development **expenses** were €464 million (2014: €369 million), approximately 5.2% of our product sales (2014: 4.8%). Fresenius Medical Care increased its R & D spending by 37%, Fresenius Kabi increased its R & D spending by 22%.

As of December 31, 2015, there were 2,247 employees in research and development (2014: 2,107). Of that number, 671 were employed at Fresenius Medical Care (2014: 628) and 1,576 at Fresenius Kabi (2014: 1,479).

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

## Employees

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

The number of employees of Fresenius SE & Co. KGaA remained unchanged at 433 on December 31, 2015 (December 31, 2014: 433).

### Human resources management

We are constantly adapting our human resources tools to meet new requirements arising from demographics, the transformation to a service economy, skills shortages, and the compatibility of job and family life. For example, we offer **flexible working hours**.

Part of our identity as a health care company includes creating the right conditions to foster the **health of the employees**.

### 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 and regularly participate in recruiting events and careers fairs. In addition, we encourage long-term retention with attractive development programs.

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

Fresenius promotes the long-term, sustainable **advancement of women**. At Fresenius, qualifications are the only thing that matters in the selection of personnel. Consequently, at Fresenius women and men with comparable qualifications will continue to have the same career opportunities. As of December 31, 2015, the proportion of female employees within the Fresenius Group was 68%. Women also held 30% of senior management positions, based on the number of worldwide participants in the stock option plans. Detailed information on the statutory targets for the participation of women and men in management positions is available within the Corporate Governance Declaration pursuant to Section 289a of the German Commercial Code (HGB) on www.fresenius.com (˝Corporate Governance˝ section).

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
- Stock option 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.

**Responsibility, environmental management, sustainability**

We orient our activities within the Fresenius Group to longterm goals, and thus ensure that our work is aligned to the needs of patients and employees, as well as shareholders and business partners, in a sustainable manner. Our **responsibility as a health care group** goes beyond our business operations. We are committed to protecting nature as the basis of life and using its resources responsibly. It is our mission to constantly improve our performance in the areas of environmental protection, occupational health and technical safety, and product responsibility and logistics, and to comply with legal requirements.

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

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

## Report on economic position

### Health care industry

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

The main **growth factors** are:

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

In the **emerging countries**, 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 8.9% of GDP in the OECD countries in 2013, with an average of US$ 3,453 spent per capita.

As in previous years, the United States had the highest per capita spending (US$ 8,713). Germany ranked sixth among the OECD countries with per capita spending of US$ 4,819.

In Germany, 76% of **health spending** was funded by public sources in 2013, above the average of 73% in the OECD countries.

Most of the OECD countries have enjoyed large gains in **life expectancy** over the past decades, thanks to improved living standards, public health interventions, and progress in medical care. In 2013, average life expectancy in the OECD countries was 80.5 years.

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Source: OECD Health Data 2015 (2013 data most recent available)

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:

<u>The dialysis market</u>

In 2015, the global **dialysis market** (products and services) was worth approximately US$ 73 billion. In constant currency, the global dialysis market grew by 4%.

Worldwide, approximately 3.5 million **patients with chronic renal failure** were treated in 2015. Of these patients, around 2.8 million received dialysis treatments and about 709,000 were living with a transplanted kidney. About 88% were treated with hemodialy sis and 12% with peritoneal dialysis.

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

The number of **dialysis patients** worldwide increased by about 6% in 2015. The United States, Japan, and Western and Central Europe recorded below-average growth in the number of patients in 2015. In economically weaker regions, growth was above average.

The **prevalence rate**, which is the number of people with terminal kidney failure treated per million population, differs widely from region to region. In developing countries it can be well below 100. It averages just over 1,100 in the countries of the European Union. Prevalence is very high in countries such as Japan and the United States, being well over 2,000. The significant divergence in prevalence rates is due, on the one hand, to differences in age demographics, incidence of renal risk factors, genetic predisposition, and cultural habit, such as nutrition. On the other hand, access to dialysis treatment is still limited in many countries. A great many individuals with terminal kidney failure do not receive treatment and are therefore not included in the prevalence statistics.

Dialysis care

In 2015, the global **dialysis care market** (including renal pharmaceuticals) was worth approximately US$ 60 billion.

10% of worldwide dialysis patients were treated by Fresenius Medical Care. With 3,418 dialysis clinics and 294,381 dialysis patients in over 45 countries, Fresenius Medical Care operates by far the largest and most international network of hospitals. In the United States, Fresenius Medical Care maintained its position of approximately 37% (~ 178,000) dialysis patients in 2015. The market for dialysis care in the United States is already highly consolidated. Taken together, Fresenius Medical Care and DaVita – another provider of dialysis care – treat over 75% of all U.S. dialysis patients.

Outside the United States, the market for dialysis care is much more fragmented. Here, Fresenius Medical Care competes mainly with 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 2015, the global **dialysis products market** was worth approximately US$ 13 billion.

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

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

Care Coordination

The **market for care coordination** includes medical services outside dialysis, such as services in the area of vascular surgery, non-dialysis-related laboratory services, administrative services for resident physicians, hospitalist and intensivist services, health plan services for dialysis patients, coordinated delivery of pharmacy services as well as primary care. In the United States, Fresenius Medical Care provides care coordination mainly within its network of more than 2,000 specialized inpatient physicians (hospitalists and intensivists) and post-acute care providers. The company cared for more than one million patients in 2015, at over 180 hospitals.

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

The global market for generic IV drugs, clinical nutrition, infusion therapy, and medical devices / transfusion technology was worth about €33 billion in 2015.

Thereof, the global **market for generic IV drugs** was worth about €15 billion. In Europe and the United States, the market for generic IV drugs grew by about 6% to 7%. Growth is mainly achieved through new generics that are brought to market when the original drug goes off-patent. The market is characterized by moderate volume growth, steady price erosion, and fierce competition. In the United States, the most important

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[1] Market data refer 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.

Sources: Company research, German Society for Nutritional Medicine (DGEM) 2009; Ljungqvist O., Clinical Nutrition 2010, 29: 149-150 generic IV drug market for Fresenius Kabi, the company is one of the leading suppliers. Competitors include Pfizer, Sandoz, and Teva Pharmaceutical Industries.

The global **market for clinical nutrition** was worth about €7 billion in 2015. In Europe, the market grew by about 3%. In the emerging markets of Asia-Pacific, Latin America, and Africa, the clinical nutrition market saw growth of up to 10% in individual countries. Growth potential is offered by the often insufficient administration of nutrition therapies within patient care – although studies have demonstrated the medical and economical benefit. In cases of health or age-induced nutritional deficiencies, for example, the administration of clinical nutrition can reduce hospital costs through shorter stays and less nursing care. Estimates regarding the European Union situation indicate that as many as 20 million individuals are at risk of malnutrition. In the market for clinical nutrition, Fresenius Kabi is one of the leading companies worldwide. In parenteral nutrition, the company is the leading supplier worldwide. In the market for enteral nutrition, Fresenius Kabi is one of the leading suppliers in Europe. In parenteral nutrition, competitors include Baxter and B. Braun. In the market for enteral nutrition, Fresenius Kabi competes with, among others, Abbott, Danone, and Nestlé.

Fresenius Kabi considers its global **market for infusion therapy** to have been worth about  €5 billion in 2015. In Europe, the market declined slightly due to restrictions imposed on the use of blood volume substitutes. In the regions Asia-Pacific, Latin America, and Africa, the market grew by 7%. Infusion therapies, such as electrolytes, are standard medical products to hospitals worldwide. Market growth is mainly driven by increasing product demand in the emerging markets. Fresenius Kabi is the market leader in infusion therapy in Europe. Competitors include Baxter and B. Braun.

The global **market for medical devices / transfusion technology** was worth about €6 billion in 2015, including approximately €4 billion for medical devices and about €2 billion for transfusion technology. The market grew about 3% in 2015. In the medical devices market, the main growth drivers are technical innovations that focus on application safety and therapy efficiency. In the transfusion technology market, growth is driven by increased demand in emerging markets. Moreover, growth is driven by the growing demand for apheresis and other automated transfusion systems. Reduced demand for blood bags and related price reductions have a negative effect. 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 Pfizer. In transfusion technology, Fresenius Kabi is one of the world's leading companies. Competitors include Haemonetics, Marcopharma, and Terumo. In all product segments, Fresenius Kabi also competes with smaller local providers.

The German hospital market[1]

In 2014, the market of acute care hospitals in Germany was about €91 billion[2]. Personnel costs accounted for about 61% of hospital costs, and material costs for 38%. Personnel and material costs each rose by approximately 4%.

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

The financial situation at hospitals in Germany remained difficult in 2014, despite a slight easing. 32% of all hospitals reported a loss at year-end (2013: 42%). The difficult economic and financial situation is often accompanied by significant **investment needs**. This is due, in large part, to an investment backlog that has accumulated because, in the past, the federal states failed to meet their statutory obligation to finance necessary investments and major maintenance measures sufficiently due to budget constraints. At the same time, investment needs are driven by technological advances, higher quality requirements, and necessary modernizations. The Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) estimates that the annual investment requirement at German hospitals (not including university hospitals) is at least €5.3 billion. This is twice the funding for investment currently being provided by the federal states.

The **number of hospitals** in 2014 was 1,980 and the number of beds was 500,680.

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

The so-called change in value figure is relevant for the increase in **reimbursements of hospital treatments**. It is used to compensate for rising costs in the hospital market, particularly with regard to personnel and material costs. The change in value figure is redetermined each year for the following year. For the year 2015 it was 2.53% (2014: 2.81%).

The **post-acute care market** in Germany comprised 1,158 **clinics** with a total of 165,657 **beds**. Of these, twothirds (66%) were in private preventive or post-acute care clinics, 15% were in independent non-profit clinics, and 19% in public clinics. The number of treated patients decreased nationwide by over 19,000 to 1.97 million. The average length of stay was 25.3 days (2013: 25.3 days).

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[1]Most recent data available on the German hospital market

[2] Total costs, gross of the German hospitals less academic research and teaching

Sources: German Federal Statistical Office 2015; German Hospital Institute (DKI), Krankenhaus Barometer 2015; OECD Health Data 2015; Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI), Krankenhaus Rating Report 2015

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 countryspecific and depends, to a large extent, on factors such as public health care policies, government regulation, and levels of privatization, as well as demographics and economic and political conditions.

In **markets with established health care systems** and mounting cost pressure, the challenge for hospitals and other health care facilities is to increase their efficiency. Here, demand is especially high for sustainable planning and energy-efficient construction, optimized hospital processes, and the outsourcing of medical-technical support services to external specialists. This enables hospitals to concentrate on their core competency – treating patients. In **emerging markets**, the focus is on building and developing infrastructure and improving the level of health care.

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

## Overall business development

The management Board's assessment of the effect of general economic developments and those in the health care sector for Fresenius

Overall, the development of the world economy had an only negligible impact on our industry in 2015. On the whole, the health care sector, both in mature and growth markets, developed positively, with continued increasing demand for health services. This had a positive effect on our business development.

The management Board's assessment of the business results and significant factors affecting operating performance

The Management Board is of the opinion that the Fresenius Group's performance in 2015 was excellent – with sales and earnings growth across all business segments.

Fresenius Medical Care sales increased by 6% to US$16,738 million. The business was significantly influenced by currency developments. Growth in constant currency was 11%. Net income attributable to shareholders of Fresenius Medical Care excluding one-time items[1] increased by 2%. Fresenius Kabi achieved organic sales growth of 8% and

[1] 2015 before settlement costs for an agreement in principle for GranuFlo® / NaturaLyte® case (- US$ 37 million after tax), before divestiture of dialysis business in Venezuela (- US$ 27 million after tax) and European pharmaceutical business (US$ 11 million after tax); 2014 before closing of manufacturing plant (- US$ 13 million after tax)

increased EBIT[1] by 36% (21% in constant currency) to €1,189 million. Persisting IV drug shortages and new product launches in the United States led to a better than expected development in this region. Organic sales growth of Fresenius Helios was 3%. The integration of the hospitals acquired from Rhön-Klinikum AG progressed well in 2015. The company increased EBIT[1] by 16% to €640 million. Fresenius Vamed achieved organic sales growth of 6%. EBIT grew by 8% to €64 million.

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[1] Before s items

## Results of operations, financial position, assets and liabilities

Results of operations

Net income of Fresenius SE & Co. KGaA in the fiscal year 2015 was €404 million (previous year €478 million). The decrease in net income mainly results from lower 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.

The profit and loss transfer agreement with Fresenius Kabi AG yielded earnings of €132 million (previous year €206 million). The decrease mainly results from lower dividend income from foreign Kabi affiliated companies. The 2014 amounts were positevely affected by extraordinary dividends. Moreover a lower actuarial interest rate applicable to the pension obligation has led to higher additions to pension liabilities.

Fresenius ProServe GmbH contributed with earnings of €328 million (previous year €335 million) to the net income from participations. One-time positive effects from the sale of shares of Rhön-Klinikum AG are included in previous year amounts.

Other significant income from participations came from a €74 million Fresenius Medical Care AG & Co. KGaA dividend (previous year €73 million).

In addition to earnings from dividends and from profit and loss transfer agreements, Fresenius SE & Co. KGaA receives other operating income from rents and from providing services. Operating income also includes €237 million (previous year €131 million) of foreign currency gains while €238 million (previous year €132 million) of foreign currency losses are included in other operating expenses.

The General Partner and Supervisory Board of Fresenius SE & Co. KGaA will propose a dividend increase to the Annual General Meeting. For 2015, a dividend of €0.55 per ordinary share shall be paid to shareholders. This is an increase of 25%. The total dividend distribution will increase by 26% to €300.2 million (previous year €283.3 million).

Cash flow statement

| | 2015 | 2014 |
|---|---|---|
| | million € | million € |
| Net Income | 404 | 478 |
| Depreciation and amortization of non-current assets and financial assets | 5 | 5 |
| Increase in pension liabilities | 8 | 5 |
| Earnings from the sale of investments | 0 | -15 |
| **Cash flow** | **417** | **473** |
| Increase in accruals for income taxes and other accrued expenses | 9 | 20 |
| Increase in trade accounts payable | 2 | -4 |
| Increase/Decrease in other operating assets and liabilities | 17 | -10 |
| **Increase in working capital** | **28** | **6** |
| **Net Cash provided by operating activities** | **445** | **479** |
| Payments for purchasing shares of subsidiaries, equity contributions to subsidiaries and investments in financial assets | - | -7 |
| Proceeds from sale of shares in subsidiaries | 0 | 74 |
| Payments for investments in intangible assets and property plant and equipment | -2 | -3 |
| **Net Cash used in / provided by investing activities** | **-2** | **64** |
| Dividends paid | -238 | -225 |
| Proceeds from bank loans | 112 | 1,045 |
| Repayment of bank loans | -266 | -2,182 |
| Change in financing activities with related parties | -276 | 996 |
| Proceeds from exercise of stock options | 88 | 45 |
| **Net Cash used in financing activities** | **-580** | **-321** |
| **Change of cash and cash equivalents** | **-137** | **222** |
| Cash and cash equivalents at the beginning of the year | 281 | 59 |
| Cash and cash equivalents at the end of the year | 144 | 281 |

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, 2015, Fresenius SE & Co. KGaA complied with the covenants under all the credit agreements.

Financial position

Total assets of Fresenius SE & Co. KGaA decreased by €254 million to €11,065 million (previous year €11,319 million).

On the asset side, receivables from related parties decreased from €2,502 million to €2,382 million, due mainly to lower demand for intercompany loans by Fresenius Pro-Serve GmbH, Fresenius Kabi Deutschland GmbH and Helios Kliniken GmbH.

On the liability side, bank debt decreased from €1,070 million to €917 million mainly due to the voluntary termination of €220 million Schuldschein Loans ahead of time, and the issuance of €112 million for Schuldschein Loans.

Moreover accounts payable to related parties have decreased from €4,068 million to €3,696 million due mainly to following transactions:

- Fresenius SE & Co. KGaA repaid €159 million loans to Fresenius US Finance II, Inc., that together with paid back loans from other subsidiaries were used to settle the €275 million and the US$500 million Senior Notes which were due in July, 2015.

- In January 2015, a loan was repaid to Fresenius Finance II B.V. to voluntarily prepay a Term Loan B facility of €297 million.

The equity ratio increased from 48.4% to 51.8%.

Investments, divestments and acquisitions

Total investments in property, plant and equipment and intangible assets were €2 million in 2015.

Changes in the financial assets in the fiscal year 2015 mainly resulted from changes in loans to related parties. Some of the US-Dollar loans to American affiliated companies are hedged against exchange rate fluctuations and bound in a hedging relationship. €23.2 million foreign exchange gains have been recognized as of December 31, 2015 following the "Durchbuchungsmethode" and are offset by the same amount of foreign exchange losses from the hedging instruments.

## Subsequent events

On January 8, 2016, Fresenius Kabi and Becton, Dickinson and Company (BD) announced that Fresenius Kabi has acquired the BD Rx business, which includes a pharmaceutical manufacturing plant in the United States and the BD line of seven drugs in ready-to-administer prefilled glass syringes. Fresenius Kabi and BD have also signed a 10-year supply and distribution agreement under which Fresenius Kabi will supply BD with a portfolio of intravenous (IV) solutions.

On February 17, 2016, Fresenius Medical Care announced that Fresenius Medical Care North America has reached an agreement in principle with a committee designated by the plaintiffs to resolve litigation in the United State involving GranuFlo® / NaturaLyte®. Under the agreement in principle, the settlement amount would be US$ 250 million, provided that 97% of all plaintiffs agree to the settlement by July 2016 with the funding provided in August 2016. Insurers will fund the settlement amount with US$ 220 million. Therefore, the settlement has a pre-tax charge of US$ 60 million including other costs to finalize this matter.

On February 22, 2016, Fresenius announced, that HELIOS will acquire the municipal hospital in Velbert, in the German state of North Rhine-Westphalia. The hospital has 519 beds and, with approximately 1,000 employees, treats 45,000 patients each year, including 20,000 inpatients. HELIOS will fully own the hospital. Sales were approximately €67 million in 2014. The acquisition is subject to approval by the German antitrust authorities. The transaction is expected to close in the second quarter of 2016.

There have been no significant changes in the Fresenius Group's operating environment following the end of the fiscal year 2015 until February 24, 2016. 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.

## Overall assessment of the business situation

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

## Outlook

This Management Report contains forward-looking statements, including statements on future sales, expenses, and investments, as well as potential changes in the health care sector, our competitive environment, and our financial situation. These statements were made on the basis of the expectations and assessments of the Management Board regarding events that could affect the Company in the future, and on the basis of our mid-term planning. Such forward-looking statements are subject, as a matter of course, to risks, uncertainties, assumptions, and other factors, so that the actual results, including the financial position and profitability of Fresenius, could therefore differ materially – positively or negatively – from those expressly or implicitly assumed or described in these statements. For further information, please see our Opportunities and Risk Report on pages 25 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 to and to improve our product mix, as well as to expand our products and services business. We expect these efforts to increase our earnings in the coming years. In addition, good growth opportunities for Fresenius are, above all, presented by the following factors:

- The sustained **growth of the markets** in which we operate: Fresenius still sees very good opportunities to benefit from the growing health care needs arising from aging populations, with their growing demand for comprehensive care, and technical advances, but driven also by the still insufficient access to health care in the developing and emerging countries. There are above-average growth opportunities for us not only in the markets of Asia and Latin America, but also in Eastern Europe. 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 Eastern Europe especially offer further potential for increasing our market shares. 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 products and therapies from our existing portfolio in countries where we do not yet offer a comprehensive range.

- The **broadening of our services business**: For Fresenius Medical Care, opportunities to extend into new markets or to expand its market share arise if a country opens up to private dialysis providers or allows cooperation between public and private providers through public-private partnerships. Whether or not private companies can offer dialysis treatment, and in what form, depends on the health care system of the country in which they operate and its legal framework. In addition to dialysis products and the treatment of dialysis patients, Fresenius Medical Care sees significant growth potential in the future in medical services related to dialysis and in expanding the coordination of care. These include, e. g., vascular care services, laboratory services, as well as hospitalist and intensivist services. With the successful completion of the acquisition of hospitals from Rhon-Klinikum AG, Fresenius Helios has an extensive nationwide hospital network. Based on this platform, Fresenius Helios aims to develop and offer innovative, integrated care offerings.

- The **broadening of our products business**: At Fresenius Medical Care, we see renal pharmaceuticals as growth drivers. They complement our dialysis portfolio and add to the horizontal expansion of our portfolio. They offer further growth potential in line with our strategic goals and the growing trend of offering more integrated care. At Fresenius Kabi, we plan to expand our IV drugs product business. We develop generic drug formulations that are ready to launch at the time of market formation, directly after the patents of the branded products expire.

- The **development of innovative products and therapies**: These will create the potential to further expand our market position in the regions. In addition to innovation, best-in-class quality, reliability, and the convenience of our products and therapies are key factors here. In our dialysis business, we expect home therapies to gain further importance, leading to growth potential for Fresenius Medical Care. Home dialysis and the corresponding technologies and products will continue to be a major focus of our R & D activities. In addition, Fresenius Kabi is developing new dosage forms for its products.

- **Selective acquisitions**: Besides retaining organic sales growth as the basis for our business, we will continue to utilize opportunities to grow by making small and midsized 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. Thus, Fresenius Kabi initiated a program in 2015. This program is designed to increase production efficiency and streamline administrative structures.

The outlook takes account of all events known at the time the annual financial statements were prepared that could influence our operating performance in 2016 and beyond. Significant risks are discussed in the Risk Report. As in the past, we will do our utmost to achieve and – if possible – exceed our targets.

### Future markets

We expect the consolidation process to continue among competitors in our markets in Europe, Asia-Pacific, and Latin America. Consequently, we expect that there will be opportunities for us to penetrate new markets, both by expanding our regional presence and by extending our product portfolio. New markets will open up as Fresenius Medical Care successively rolls out its product and services portfolio, especially in emerging countries. In addition, **Fresenius Medical Care** continues to expand its Care Coordination business with services related to dialysis. With Care Coordination, Fresenius Medical Care can address the needs of dialysis patients even more comprehensively.

**Fresenius Kabi** plans to introduce products already offered outside the United States into that country as well. It also aims to further roll out its product portfolio internationally, especially in the fast-growing markets of Asia-Pacific and Latin America. Market share is to be expanded further through the launch of new products in the field of IV drugs and medical devices for infusion therapy and clinical nutrition, as well as in transfusion technology.

With its broad hospital network across Germany, **Fresenius Helios** is able to develop new patient care models. In addition, further acquisition opportunities are expected to arise in the German hospital market.

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

## Health care sector and markets

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

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

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

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

### The dialysis market

The **global dialysis market** is expected to grow by about 4% at constant exchange rates in 2016.

The number of dialysis patients worldwide is expected to rise by approximately 6% in 2016, although significant regional differences will remain. For the United States, Japan, and the countries of Central and Western Europe, where prevalence is already relatively high, we forecast patient growth in the region of 1% to 4%. In economically weaker regions, the growth rates are even higher with values of up to 10%, and in some countries even more.

Driven by the development of infrastructure, the establishment of health care systems, and the growing number of chronically ill patients, overproportional growth is expected in Asia, Latin America, Eastern Europe, the Middle East, and Africa. The fact that a large part of the world's population lives in these regions underscores the strong growth potential for the entire spectrum of dialysis services and products.

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

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Source: Company research

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

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

We expect the global market for generic IV drugs, clinical nutrition, infusion therapy, and medical devices / transfusion technology to grow by approximately 4% in 2016.

The **market for generic IV drugs** in Europe and the United States is expected to grow by about 4% to 5% in 2016. The demand for generic drugs is likely to grow because of their significantly lower price. The growth dynamic will continue to be driven by originator drugs going off-patent. A factor working in the opposite direction is the price erosion for generic drugs that are already in the market.

Growth of about 3% is expected for the **clinical nutrition market** in Europe in 2016. However, given the financial constraints in these countries, the efforts to contain costs in the health care sector are being pursued undiminished. Continued high growth potential is projected in Asia-Pacific, Latin America, and Africa. We expect growth of up to 10% in individual countries.

We expect the **market for infusion therapy** in Europe to remain at the prior year's level in 2016. Besides a slightly decreasing blood volume substitutes market due to restrictions imposed on the use of these products, continuous price pressure in the tender-driven standard-solutions business is expected to affect growth. Outside Europe, growth of up to 7% is expected.

The worldwide **market for medical devices / transfusion technology** is expected to grow by up to 4% in 2016.

The German hospital market

We expect the acute care hospital market in Germany to grow slightly in 2016. Admissions are forecast to increase by approximately 1%.

The so-called change in value figure is relevant for the increase in **reimbursements of hospital treatments**. For 2016 it was set at 2.95%. This is the highest level since the introduction of the DRG system. In addition, the hospital funding system provides for various increases and reductions for acute hospitals. For example, a reduction of 25% had to be accepted for surplus services previously agreed upon with the health insurance companies. A reduction of 65% applies to surplus services not agreed upon. To

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

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

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

compensate the reduction, a 0.8% extra charge on invoiced hospital treatments is provided. We expect the overall effect of the increases and reductions on the result of HELIOS in 2016 to be slightly positive.

The German Hospital Structures Act (KHSG) entered into force in January 2016. However, no significant changes in the compensation for hospital services are expected until 2017 and 2018. These include the fixed cost digression discount, the care supplement, and taking medical outcomes into account in compensation. The specific financial impact this will have on HELIOS cannot currently be quantified since the key compensation parameters have not yet been established. However, we do not expect any negative effects since the HELIOS Group is well prepared for quality-based compensation thanks to its clear focus on quality and transparency of medical results.

Despite higher revenues, the expectations of the hospitals are rather pessimistic with respect to their **economic situation** in 2016. According to the Krankenhaus-Barometer 2015 survey by the German Hospital Institute (DKI), 39% of the hospitals expect their economic situation to worsen. Specifically, personnel costs will be a burden due to tariff increases. Moreover, investment needs are growing while government support is declining. The Rheinisch-Westfalisches Institut fur Wirtschaftsforschung (RWI) forecasts that more hospitals will respond to economic pressures by joining together into networks and bundling their services. Networks offer opportunities for individual hospitals to reduce costs, for example in purchasing.

We anticipate that privatization and consolidation will continue in the German hospital market.

<u>The market for projects and services for hospitals and other health care facilities</u>

For 2016, we expect the worldwide demand for projects and services for hospitals and other health care facilities to grow at a low single-digit rate.

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

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

## Economic outlook of Fresenius SE & Co. KGaA for the year 2016

For the fiscal year 2016 the company expects a slightly higher contribution to earnings from dividends and profit and loss transfers. Retained earnings are also expected to increase slightly.

## Dividend

The dividend increases provided by Fresenius in the last 22 years show impressive continuity. Our dividend policy aims to align dividends with earnings per share growth (before special items) and thus broadly maintains a payout ratio of 20% to 25%. Based on our positive earnings forecast, we expect to offer our shareholders an earnings-linked dividend.

## Opportunities and risk report

The Fresenius Group is exposed to a number of risks due to the complexity and the dynamics of its business. These risks are inevitable consequences of entrepreneurial activities. The willingness to take risks has to be accommodated if opportunities are to be exploited. As a provider of products and services for the severely and chronically ill, we are relatively independent of economic cycles. The diversification into four business segments, which operate in different segments of the health care market, and the global footprint further minimize the Group's risk profile. Our experience, as well as our strong market positions, serve as a solid basis for a reliable assessment of risks. At the same time, we will continue to take advantage of the wide-ranging opportunities for sustainable growth and expansion that the health care market offers to the Fresenius Group.

### Opportunities management

Managing opportunities is an ongoing, integral part of corporate activity aimed at securing the Company's long-term success. In this way, we can explore new prospects and consolidate and improve on what we have already achieved. The Group's decentralized and regional organizational and management structure enables the early identification and analysis of trends, requirements, and opportunities in our often fragmented markets; and we can respond to them flexibly and in line with local market needs. Furthermore, we maintain regular contact and dialogue with research groups and scientific institutions, and keep a close watch on markets and competitors in order to identify opportunities. Within the Group, opportunities and synergies can be exploited through continuous communication involving the exchange of information and know-how between the business segments. Anticipated future opportunities for the Fresenius Group are discussed in the Outlook starting on page 19.

### Risk management

The risk management is also a continuous process. Identifying, controlling, and managing risks are key tools of solid corporate governance. The **Fresenius risk management system** is closely linked to the corporate strategy. Opportunities are not recognized in the risk management system.

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

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

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

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

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

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

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

Internal financial reporting controls

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

- local entity
- region
- business segment
- Group

financial data and key figures are reported, discussed, and compared on a regular monthly basis with the prior-year figures, budget, and latest forecast. In addition, all parameters, assumptions, and estimates that are of relevance for the externally reported Group and segment results are discussed intensively with the department responsible for preparing the Group's consolidated financial statements. These matters are also reviewed and discussed quarterly by the Supervisory Board's Audit Committee.

Control mechanisms, such as automated and manual reconciliation procedures, are further precautions put in place to assure that financial reporting is reliable and that transactions are correctly accounted for. All consolidated entities report according to Group-wide standards, which are determined at the head office. These are regularly adjusted to allow for changes made to the accounting regulations. The consolidation proposals are supported by the IT system. In this context, reference is made to the comprehensive consolidation of internal Group balances. To prevent abuse, we take care to maintain a strict separation of functions. Management control and evaluations also help to ensure that risks having a direct impact on financial reporting are identified and that controls are in place to minimize them. Moreover, changes in accounting principles are monitored and employees involved in financial reporting are instructed regularly and comprehensively. External experts and specialists are engaged if necessary. The Treasury, Tax, Controlling, and Legal departments are involved in supporting the preparation of the financial statements. Finally, the information provided is verified once again by the department responsible for preparing the consolidated financial statements.

Fresenius Medical Care, a large business segment, is subject to the controls of Section 404 of the Sarbanes-Oxley Act.

## Risk areas

The main risk areas for the operations of the Fresenius Group are as follows:

General economic risks and risks in the general operating framework

At present, the development of the global economy exhibits no significant risk to the Fresenius Group. In 2016, we largely expect overall economic growth to continue. Moreover, Fresenius is affected only to a small extent by general economic fluctuations.

We expect demand for our life-saving and life-sustaining products and services to continue to grow. Furthermore, Fresenius is striving for the firm balance of its business in the main regions and between established and emerging markets.

The risk situation for each business segment also depends on the development of its markets. Country-specific political, legal, and financial conditions are therefore monitored and evaluated carefully, particularly in the current macro-economic environment. This applies, for example, to countries with budget problems as a result of the sovereign debt crisis, in particular with regard to our accounts receivable. Fresenius is affected only to a small extent by general economic fluctuations. We expect demand for our life-saving and life.

Risks in the health care sector

Risks related to **changes in the health care market** are of major importance to the Fresenius Group. The main risks are the development of new products and therapies and increased product availability at competitors, the financing of health care systems, and reimbursement in the health care sector.

In our largely regulated business environment, changes in the law – also with respect to reimbursement – can have decisive consequences for our business progress. This applies especially in the United States, where a large portion of our sales are generated, and where changes in the reimbursement system, for example, could have a considerable impact on our business. Furthermore, a portion of our dialysis care business in the United States is currently reimbursed by private insurers or managed care organizations. If these organizations enforce reductions in the reimbursement, it would significantly reduce the revenues and earnings for the products and services of Fresenius Medical Care.

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

Reductions in health care spending could also negatively affect the **pricing** of Fresenius Kabi products. Generally, our aim is to counter possible regulatory risks through enhanced performance and cost reductions.

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

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

Operating risks

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

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

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

In the following, the main risks for the Fresenius Group are described.

Production, products, and services

Compliance with **product and manufacturing regulations** is ensured by our quality management systems in accordance with the internationally recognized quality standard ISO 9001, reflecting a large number of national and international regulations. Application is ensured by internal standards such as quality and work procedure manuals. Regular internal and external audits are carried out at the Group’s production sites, distribution companies, and dialysis clinics. These audits test compliance with regulations in all areas – from management and administration to production and clinical services and patient satisfaction. Our production facilities comply with the Good Manufacturing Practice (GMP) of the markets they supply. Our facilities are audited by the FDA and other public authorities. If observations are filed, the Company is required to remedy these issues immediately, as during the inspections in prior years of our U.S. production facility in Grand Island or our production facility in Kalyani, India, for example.

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

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

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

Performing **medical treatments** on patients in our hospitals, rehabilitation clinics, and dialysis clinics presents inherent risks. For example, disruptions to processes involve risks for patients and the clinic. In addition, there are operational risks, for example regarding hygiene and sterile conditions. We counteract these risks with strict operating procedures, continuous personnel training, and patient-oriented working procedures. Furthermore, we are constantly striving to improve the standard of patient treatment through our quality management systems.

Further risks arise from increasing **pressure on our product prices**, for example in tender businesses. On the **procurement side**, we counter risks – which mainly involve possible price increases and the availability of raw materials and goods – by appropriately selecting and working together with our suppliers through long-term framework agreements in certain purchasing segments and by bundling volumes within the Group.

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

In 2015 patents on certain ESAs expired. This enables us to diversify the procurement sources and to reduce the risks in conjunction with supply interruptions as well as with price increases.

Growing **competition**, among other things induced by the re-entry of competitors in the U.S. market for generic IV drugs after production halts, could materially affect the future pricing and sale of our products and services adversely. The introduction of new products and services, or the development of new technologies by competitors, could render one or more of our products and services less competitive or even obsolete, and thus have a significant negative impact on future sales, the prices of products, and our range of services. This includes the introduction of generic or patented drugs by competitors, which may have an impact on sales and operational results.

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

We counter the risks of fulfilment of service associated with Fresenius Vamed's **project business** 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 already when preparing quotations, risk assessment before accepting orders, regular project controlling, and continual risk assessment updates. To avert the risk of default, financial measures are taken, such as checking creditworthiness and, usually, prepayments, letters of credit, and secured credits.

Compliance

Our operations are subject to strict governmental regulatory demands and controls. We must comply with these rules and regulations, which particularly monitor the safety and effectiveness of our medical products and services. Therefore, it is of special importance to us that our **compliance programs** and guidelines are adhered to. Through compliance, we aim to meet our own expectations and those of our partners, and to orient our business activities to generally accepted standards and local laws and regulations.

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

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

Government reimbursement payments

Fresenius is subject to comprehensive **government regulation** in nearly all countries. This is especially true in the United States and Germany. In addition, Fresenius must comply with general rules of law, which differ from country to country. There could be far-reaching legal repercussions should Fresenius fail to comply with these laws or regulations.

A large part of Group revenue derives from government reimbursement programs, e.g. for dialysis services. In 2015, approximately 32% of Fresenius Medical Care's sales in the U.S. were attributable to U.S. federal health care benefit programs, such as Medicare and Medicaid (CMS). A reduction of reimbursement rates or reimbursed services could result in significantly lower sales and operational results.

Effective 2011, Medicare implemented an end stage renal disease (ESRD) **prospective payment system (ESRD PPS)**, which expanded the scope of the products and services covered by a bundled rate and resulted in lower reimbursement per treatment than under the reimbursement system in place. ESRD-related drugs with only an oral form are expected to be reimbursed under the ESRD PPS starting in January 2016, with an adjusted payment amount to be determined by the Secretary of Health and Human Services to reflect the additional cost to dialysis facilities of providing these medications. The ESRD PPS payment amount is subject to annual adjustment based on increases in the costs of a "market basket" of certain health care items and services less a productivity adjustment. The centers for Medicare and Medicaid Services, however, did not increase ESRD PPS base rates for 2015, and they will remain virtually unchanged in 2016.

The American Taxpayer Relief Act of 2012 (ATRA) directed CMS to reduce the ESRD PPS payment rate, effective January 1, 2014, to account for changes in the utilization of certain drugs and biologicals that are included in the ESRD PPS. In making such a reduction, the law requires CMS to use the most recently available pricing data for such drugs and biologicals. In November 2013, CMS issued the final rule regarding the 2014 ESRD PPS payment rate. CMS decided to split the settled reduction of the ESRD PPS payment rate (US$ 29.93 reduction) over a period between three and four years (2014 – 2017). The payment rate for 2015 amounted to US$ 239.43, which represented a small increase of 0.2% compared to 2014.

Regarding the ESRD PPS rate for 2016, large dialysis organizations will experience a 0.2% increase in payments. The base rate per treatment is US$230.39, which represents an approximate reduction of 4%, net, from the 2015 base rate. However, the approximate 4% reduction is almost completely offset with CMS proposed case mix adjustments based upon their analysis of the fiscal years 2012 and 2013.

The ESRD PPS's quality incentive program (QIP) affects Medicare payments based on the performance of each facility on a set of quality measures. Dialysis facilities that fail to achieve the established quality standards could have payments for a particular year reduced by up to 2% based on a year's performance. In the next few years, the respective quality measures will be continuously adapted and extended. A material failure by Fresenius Medical Care to achieve the minimum client quality standards under the QIP could materially and adversely affect its business, financial condition, and results of operations.

Fresenius Medical Care mitigated the impact of the ESRD PPS and the other legislative initiatives referenced above with two broad measures. First, it worked with medical directors and treating physicians to make clinical protocol changes used in treating patients consistent with the QIP and good clinical practices, and it negotiated pharmaceutical acquisition cost savings. In addition, Fresenius Medical Care achieved greater efficiencies and better patient outcomes by introducing new initiatives to improve patient care upon initiation of dialysis, increasing the percentage of patients using home therapies, and achieving additional cost reductions in its clinics. Working with health care provider groups, also known as ESRD Seamless Care Organizations (ESCOs), CMS plans to test a new Comprehensive ESRD Care Model, for payment and care delivery that seeks to deliver better health outcomes for ESRD patients while lowering CMS's costs. ESCOs that achieve the program's minimum quality thresholds and generate reductions in CMS's cost of care above certain thresholds for the ESRD patients covered by the

ESCO will receive a share of the cost savings. ESCOs that include dialysis chains with more than 200 facilities are required to share in the risk of cost increases and reimburse CMS a share of any such increases. The model commenced on October 1, 2015, and includes six of our organizations. The initial agreement period for the model lasts for three years.

The Bundled Payments for Care Improvement ("BPCI") initiative is a CMS three-year pilot initiative with bundled payments for the individual services furnished to Medicare beneficiaries during a single episode of illness or course of treatment, including acute inpatient hospital services, physician services, and post-acute services. Sound Inpatient Physicians, Inc., a majority-owned subsidiary of Fresenius Medical Care, commenced participation under BPCI in April 2015 in several markets. Under the BPCI, we have the ability to receive additional payments if we are able to deliver quality care at a cost that is lower than certain established benchmarks, but also have the risk of incurring financial penalties if we are not successful in doing so. Should we fail to perform as required under the BPCI initiative and our agreement with CMS, CMS may, among other remedies, terminate our right to participate in the BPCI program, in whole or in part.

Changes in the law or the reimbursement method could affect the scope of payments for services, as well as for insurance coverage and the product business. This could have a significant adverse impact on the assets and liabilities, financial position, and results of operations.

Research and development

The development of new products and therapies always carries the risk that the ultimate goal might not be achieved, or might take longer than planned. Regulatory approval of new products requires comprehensive, cost-intensive preclinical and clinical studies. Furthermore, there is a risk that regulatory authorities either do not grant, or delay, product approval. In addition, adverse effects of our products that may be discovered after regulatory approval or registration may lead to a partial or complete withdrawal from the market, due either to regulatory actions or our voluntary decision to stop marketing a product. The Fresenius Group spreads its risk widely by conducting development activities in various product segments. We also counteract risks from research and development projects by regularly analyzing and assessing development trends and examining the progress of research projects. We also strictly comply with the legal regulations for clinical and chemical-pharmaceutical research and development. With IV drugs, it is also crucial that new products are continually brought to the market in a timely manner. The product development process can be controlled on the basis of detailed project roadmaps and a tight focus on the achievement of specific milestones. If the defined targets are called into question, countermeasures can be initiated.

Risks from the integration of acquisitions

The **acquisition and integration** of companies carries risks that can adversely affect the assets and liabilities, financial position, and results of operations of Fresenius. Following an acquisition, the acquired company's structure must be integrated while clarifying legal questions and contractual obligations. Marketing, patient services, and logistics must also be unified. During the integration phase, key managers can leave the company and both the course of ongoing business processes and relationships with customers and employees can be harmed. In addition, change-of-control clauses may be claimed. The integration process may prove to be more difficult and cost-intensive, or last longer than expected. Risks can arise from the operations of the newly acquired company that Fresenius regarded as insignificant or was unaware of. An acquisition may also prove to be less beneficial than initially expected. **Future acquisitions** may be a strain on the finances and management of our business. Moreover, as a consequence of an acquisition, Fresenius may become directly or indirectly liable toward third parties, or claims against third parties may turn out to be non-assertable. We counter risks from acquisitions through detailed integration roadmaps and strict integration and project management, so that countermeasures can be initiated in good time if there are deviations from the expected development.

Personnel risks

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

Financial risks

The international operations of the Fresenius Group expose us to a variety of currency risks. In addition, the financing of the business exposes us to certain interest rate risks. We use derivative financial instruments as part of our risk management to avoid any possible negative impacts of these risks. However, we limit ourselves to non-exchange-traded, marketable instruments, used exclusively to hedge our operations and not for trading or speculative purposes. All transactions are conducted with banks that have a high rating.

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

The Fresenius Group is protected, to a large extent, against **currency and interest rate risks**. As of December 31, 2015, approximately 67% of the Fresenius Group’s debt was protected against increases in interest rates either by fixed-rate financing arrangements or by interest rate hedges; 33%, or €4,874 million, was exposed to interest rate risks. A sensitivity analysis shows that a rise of 0.5% in the reference rates relevant for Fresenius would have a less than 1.0% impact on Group net income.

As a global company, Fresenius is widely exposed to **translation effects** due to foreign exchange rate fluctuations. The exchange rate of the U.S. dollar to the euro is of particular importance because of our extensive operations in the United States. Translation risks are not hedged. A sensitivity analysis shows that a one cent change in the exchange rate of the U.S. dollar to the euro would have an annualized effect of about € 115 million on Group sales, about €21 million on EBIT, and about €5 million on Group net income.

As a globally active company, we have production facilities in all the main currency areas. In the service businesses, our revenue and cost base largely coincide. The Fresenius Group uses a Cash-Flow-at-Risk (CFaR) model in order to estimate and quantify such **transaction risks** from foreign currencies. The foreign currency cash flows that are reasonably expected to arise within the following 12 months, less any hedges, form the basis for the analysis of the currency risk. As of December 31, 2015, the Fresenius Group's cash flow at risk was €66 million. Hence, with a probability of 95%, a potential loss in relation to the forecasted foreign exchange cash flows of the next 12 months will not be higher than €66 million.

Financial risks that could arise from acquisitions, investments in property, plant and equipment, and in intangible assets are assessed through careful and in-depth reviews of the projects, sometimes assisted by external consultants. Goodwill and other intangible assets with an indefinite useful life carried in the Group's consolidated balance sheet are tested for **impairment** each year.

By normally assessing the creditworthiness of new customers, we limit the **risk of late payment and defaults** by customers. We also conduct follow-up assessments and review credit lines on an ongoing basis. Receivables outstanding from existing customers are monitored, and the risk of defaults is assessed. This particularly applies to countries with budgetary problems and countries exposed to political risks. In 2015, we again worked on our receivables, taking certain measures such as factoring.

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

Fresenius' debt was €14,796 million as of December 31, 2015. The **debt** could limit the ability to pay dividends, arrange refinancing, be in compliance with its credit covenants, or implement the corporate strategy. Other financing risks could arise for Fresenius in the case of an ongoing general financial market crisis. We reduce these risks through a high proportion of mid- and long-term funding with a balanced maturity profile. Our financing agreements contain covenants requiring us to comply with certain financial ratios and additional financial criteria. Non-compliance with these covenants could result in a default and acceleration of the debt under the agreements.

Additional information on conditions and maturities can be found in Note 17 of the Notes.

Legal risks

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

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

Other risks

Other risks, such as **environmental risks** and **risks involving management and control systems**, or our IT systems, were not considered to be significant. **IT risks** are countered through security measures, controls, and monitoring. 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 continuously improved and tested. Redundant systems are maintained for all key systems, such as IT systems or communications infrastructure. A password system is in place to minimize organizational risks, such as manipulation and unauthorized access. In addition, there are Company guidelines regulating the granting of access authorization, and compliance with these rules is monitored. We also conduct operational and security-related audits.

Risks with effect on the 1-year forecast period

The chart shows the significant risks that could lead to deviations from the expected business performance within the 1-year forecast period.

Potential effects

| Probability | | | |
|---|---|---|---|
| high | Currencies and interest rates | | |
| medium | Global economic conditions and constitution of the financial markets | Regulatory environment<br><br>Quality<br><br>Reimbursement rates and prices | |
| low | Procurement<br><br>Litigations<br><br>Tax | Information technology | |
| | low | medium | high |

In the course of the risk classification, besides quantitative factors, especially qualitative factors are applied. The scales for classification of potential impact and probabilities are depicted in the two following tables:

| Potential impact | Description of impact |
|---|---|
| High | Substantial negative impact on the 1-year forecast |
| Medium | Moderate negative impact on the 1-year forecast |
| Low | Small negative impact on the 1-year forecast |

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

Change of risk assessment compared to previous year

Risks with potential effect on the 1-year forecast are shown in the chart above.

With regard to the classification of the risks in terms of probability and potential impact, the following changes occurred compared to the previous year. With the advance and intensification of the use of **information technology** in all areas of the Group, the dependence on such systems and thus the risks that arise from them increase equally. The development of the **economic conditions as well as the constitution of the financial markets** in several of our markets, which amongst others may cause increasing days sales outstanding or bad debts and which may increase the risk of goodwill impairments, also affect our risk situation in a negative way.

### Assessment of overall risk

The basis for evaluating overall risk is the risk management that is regularly audited by management. Potential risks for the Group include factors beyond its control, such as the evolution of economies, which are constantly monitored by Fresenius. Risks also include factors immediately within its control, such as operating risks, which the Company anticipates and reacts to appropriately, as required. There are currently no recognizable risks regarding future performance that appear to present a long-term and material threat to the Group's assets and liabilities, financial position, and results of operations. We have created organizational structures that provide all the conditions needed to rapidly alert us to possible risk situations and allow us to take suitable counteraction.

Bad Homburg v.d.H., February 24, 2016

## COMPENSATION REPORT

The compensation report summarizes the main elements of the compensation system for the members of the Management Board of Fresenius Management SE as the general partner of Fresenius SE & Co. KGaA, and in this regard notably explains the amounts and structure of the compensation paid to the Management Board as well as the principles for determining the compensation of the Supervisory Board and the amounts of the compensation. The compensation report is part of the Management Report of the annual financial statements and the annual consolidated financial statements of Fresenius SE & Co. KGaA. The compensation report is prepared on the basis of the recommendations of the German Corporate Governance Code as well as under consideration of the declaration of conformity of Fresenius SE & Co. KGaA of December 2015, and also includes the disclosures as required pursuant to the applicable statutory regulations, notably in accordance with the German Commercial Code.

### COMPENSATION OF THE MANAGEMENT BOARD

The entire Supervisory Board of Fresenius Management SE is responsible for determining the compensation of the Management Board. The Supervisory Board is assisted in this task by a personnel committee. In the fiscal year 2015, the acting personnel committee was composed of Dr. Gerd Krick, Dr. Dieter Schenk, and Dr. Karl Schneider.

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

The compensation of the Management Board is, as a whole, performance-based and was composed of three elements in the fiscal year 2015:

- Non-performance-based compensation (fixed compensation and fringe benefits)
- Short-term performance-based compensation (one-year variable compensation (bonus))
- Components with long-term incentive effects (several-year variable compensation comprising stock options, share-based compensation with cash settlement (phantom stocks), and postponed payments of the one-year variable compensation)

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

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

The fixed compensation was paid in 12 monthly installments in the fiscal year 2015. Mr. Rice Powell was paid a part of his fixed compensation from Fresenius Medical Care North America in 24 installments. Moreover, the members of the Management Board received additional benefits consisting mainly of insurance premiums, the private use of a company car, special payments such as rent supplements and reimbursement of certain other charges, tuition fees, cost of intrusion detection systems, as well as contributions to pension and health insurance.

The performance-based compensation will also be granted for the fiscal year 2015 as a short-term cash component (one-year variable compensation) and as compensation components with long-term incentive effects (stock options, share-based compensation with cash settlement (phantom stocks), and postponed payments of the one-year variable compensation). The amount of the one-year variable compensation in each case is dependent on certain target parameters oriented on the net income attributable to Fresenius SE & Co. KGaA and/or to the relevant business segments being achieved. In the case of the members of the Management Board with functional responsibility for the entire Group – such members being Dr. Schneider, Mr. Sturm, and Dr. 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. Henriksson and Dr. De Meo, approximately half of the amount of the one-year variable compensation depends on the development of the net income attributable to Fresenius SE & Co. KGaA and for the remainder on the development of the net income of the business segment (in each case after deduction of noncontrolling interest) for which the respective member of the Management Board is responsible. Approximately half of the amount of the one-year variable compensation of Dr. Wastler is oriented on the net income attributable to Fresenius SE & Co. KGaA (after deduction of noncontrolling interest) as well as on the net income before tax and extraordinary income/expenditures of the VAMED group. Mr. Rice Powell receives his compensation exclusively from Fresenius Medical Care. Furthermore, the Supervisory Board may grant members of the Management Board a discretionary bonus for extraordinary performance.

For the fiscal year 2015, the Supervisory Board of Fresenius Medical Care Management AG has granted such a discretionary bonus to Mr. Rice Powell in the total amount of €541 thousand (2014: €376 thousand).

For the fiscal years 2015 and 2014, 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 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Dr. Ulf M. Schneider | **1,100** | 990 | **143** | 92 | **1,712** | 1,454 | **2,955** | 2,536 |
| Dr. Francesco De Meo | **600** | 550 | **22** | 19 | **1,242** | 1,015 | **1,864** | 1,584 |
| Dr. Jürgen Götz | **460** | 415 | **70** | 35 | **869** | 697 | **1,399** | 1,147 |
| Mats Henriksson | **600** | 550 | **185** | 175 | **1,239** | 943 | **2,024** | 1,668 |
| Rice Powell [1] | **1,239** | 941 | **342** | 151 | **1,032** [3] | 737 [3] | **2,613** | 1,829 |
| Stephan Sturm | **600** | 550 | **109** | 41 | **1,142** | 929 | **1,851** | 1,520 |
| Dr. Ernst Wastler | **500** | 470 | **85** | 37 | **707** | 671 | **1,292** | 1,178 |
| **Total** | **5,099** | 4,466 | **956** | 550 | **7,943** | 6,446 | **13,998** | 11,462 |

[1] Mr. Rice Powell received his compensation only from Fresenius Medical Care, of which Fresenius SE & Co. KGaA held around 31% of the total subscribed capital. As a member of the Management Board of Fresenius Management SE, his compensation has to be included in the compensation report of the Fresenius Group.
[2] Includes insurance premiums, private use of a company car, contributions to pension and health insurance, as well as other benefits.
[3] This amount contains a discretionary bonus for Mr. Rice Powell in the amount of €541 thousand for the 2015 fiscal year (2014: €376 thousand).

In the fiscal year 2015, the one-year variable compensation, excluding the payment to Mr. Rice Powell, amounted to €6,911 thousand. This equals the total one-year variable compensation.

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

In the fiscal year 2015, no portion of the one-year variable compensation was converted into a component based on a multi-year assessment.

In the fiscal year 2015, benefits under LTIP 2013 of Fresenius SE & Co. KGaA, and for Mr. Rice Powell, benefits under LTIP 2011 of Fresenius Medical Care AG & Co. KGaA, were granted as another component with long-term incentive effect. Such benefits consist, on the one hand, of share-based compensation with cash settlement (phantom stocks) and, on the other hand, of stock options on the basis of the Stock Option Plan 2013 of Fresenius SE & Co. KGaA and, for Mr. Rice Powell, on the basis of the Stock Option Plan 2011 of Fresenius Medical Care AG & Co. KGaA. The LTIP 2013 is available both for members of the Management Board and other executives. In accordance with the division of powers under stock corporation law, grants to members of the Management Board are made by the Supervisory Board of Fresenius Management SE, and grants to other executives are made by the Management Board. The number of stock options and phantom stocks for Management Board members to be granted is determined by the Supervisory Board at the Supervisory Board's own due discretion, provided that generally all Management Board members receive the same amount of stock options and phantom stocks, with the exception of the Chairman of the Management Board, who receives double the respective amount of stock options and phantom stocks. At the time of the grant, the participants in LTIP 2013 may elect whether they wish to receive stock options and phantom stocks in a ratio of 75:25, or in a ratio of 50:50.

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

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

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

The principles of LTIP 2013 of Fresenius SE & Co. KGaA and of LTIP 2011 of Fresenius Medical Care AG & Co. KGaA are described in more detail in note 33 of the notes of the Fresenius Group, Stock options.

The previous share-based compensation component with cash settlement (performance shares) has been combined with the current share-based compensation component with cash settlement (phantom stocks). The members of the Management Board, with the exception of Mr. Rice Powell, were granted an entitlement to further share-based compensation with cash settlement (further phantom stocks, previously performance shares) in the equivalent value of €100 thousand per Management Board member in the fiscal year 2015. 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 2015 and 2014, the number and value of stock options issued, the value of the share-based compensation with cash settlement (phantom stocks), and the value of the postponed performance-based compensation is shown in the following table.

The number of stock options granted to members of the Management Board under LTIP 2013 in the fiscal year 2015 is unchanged when compared with 2014. The stated values correspond to their fair value at the time of grant, namely a value of €14.76 (2014: €8.28) per stock option of Fresenius SE & Co. KGaA and €15.02 (2014: €9.01) per stock option of Fresenius Medical Care AG & Co. KGaA. The exercise price of the granted stock options of Fresenius SE & Co. KGaA was €60.64 (2014: €36.92). The considerably higher values in comparison to 2014, as well as the significantly higher exercise price, reflect the excellent Fresenius share price development.

The fair value of the phantom stocks granted to members of the Management Board in the fiscal year 2015 corresponds to a value at the time of grant of €58.70 (2014: €34.18) per phantom stock of Fresenius SE & Co. KGaA and €73.30 (2014: €46.26) per phantom stock of Fresenius Medical Care AG & Co. KGaA.

## LONG-TERM INCENTIVE COMPONENTS

| | Stock options[1] | | | | Postponed payment of the one-year variable compensation | | Share-based compensation with cash settlement (phantom stocks) | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | | Value, € in thousands | | Value, € in thousands | | Value, € in thousands | | Value, € in thousands | |
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Dr. Ulf M. Schneider | **90,000** | 90,000 | **1,328** | 745 | **0** | 0 | **1,424** | 897 | **2,752** | 1,642 |
| Dr. Francesco De Meo | **67,500** | 45,000 | **996** | 373 | **0** | 143 | **430** | 499 | **1,426** | 1,015 |
| Dr. Jürgen Götz | **45,000** | 45,000 | **664** | 373 | **0** | 0 | **762** | 499 | **1,426** | 872 |
| Mats Henriksson | **45,000** | 45,000 | **664** | 373 | **0** | 71 | **762** | 499 | **1,426** | 943 |
| Rice Powell | **149,400** | 74,700 | **2,244** | 673 | **0** | 0 | **941** | 351 | **3,185** | 1,024 |
| Stephan Sturm | **45,000** | 45,000 | **664** | 373 | **0** | 57 | **762** | 499 | **1,426** | 929 |
| Dr. Ernst Wastler | **45,000** | 45,000 | **664** | 373 | **0** | 0 | **762** | 499 | **1,426** | 872 |
| **Total** | **486,900** | 389,700 | **7,224** | 3,283 | **0** | 271 | **5,843** | 3,743 | **13,067** | 7,297 |

[1] Stock options that were granted in 2015 and 2014 under the Fresenius SE & Co. KGaA stock option plan. Mr. Rice Powell received stock options under the Fresenius Medical Care stock option plan.

At the end of the fiscal year 2015, the members of the Management Board held a total of 1,527,960 (2014: 2,345,904) stock options and convertible bonds (jointly referred to as stock options) of Fresenius SE & Co. KGaA and 465,318 (2014: 407,737) of Fresenius Medical Care AG & Co. KGaA.

The development and the status of the stock options of the Management Board in the fiscal year 2015 are shown in the following table:

| | Dr. Ulf M. Schneider | Dr. Francesco De Meo | Dr. Jürgen Götz | Mats Henriksson | Rice Powell[1] | Stephan Sturm | Dr. Ernst Wastler | **Total[2]** |
|---|---|---|---|---|---|---|---|---|
| Options outstanding on January 1, 2015 | | | | | | | | |
| Number | 690,840 | 385,854 | 260,280 | 220,800 | 407,737 | 411,210 | 376,920 | **2,345,904** |
| Average exercise price in € | 25.81 | 25.11 | 28.42 | 27.74 | 45.80 | 24.74 | 25.25 | **25.89** |
| Options granted during fiscal year | | | | | | | | |
| Number | 90,000 | 67,500 | 45,000 | 45,000 | 149,400 | 45,000 | 45,000 | **337,500** |
| Exercise price in € | 60.64 | 60.64 | 60.64 | 60.64 | 76.99 | 60.64 | 60.64 | **60.64** |
| Options exercised during the fiscal year | | | | | | | | |
| Number | 283,800 | 210,714 | 170,280 | 52,800 | 49,800 | 150,930 | 286,920 | **1,155,444** |
| Average exercise price in € | 20.20 | 20.48 | 24.94 | 19.11 | 35.49 | 18.40 | 22.19 | **21.16** |
| Average stock price in € | 57.52 | 64.77 | 60.13 | 54.67 | 78.12 | 56.22 | 60.63 | **59.70** |
| Options forfeited in the fiscal year | | | | | | | | |
| Number | 0 | 0 | 0 | 0 | 42,019 | 0 | 0 | **0** |
| Average exercise price in € | n. a. | n. a. | n. a. | n. a. | 57.30 | n. a. | n. a. | **n. a.** |
| Options outstanding on December 31, 2015 | | | | | | | | |
| Number | 497,040 | 242,640 | 135,000 | 213,000 | 465,318 | 305,280 | 135,000 | **1,527,960** |
| Average exercise price in € | 35.32 | 39.02 | 43.55 | 36.83 | 55.88 | 33.17 | 43.55 | **37.14** |
| Average remaining life in years | 5.1 | 5.7 | 6.7 | 5.4 | 5.1 | 4.6 | 6.7 | **5.4** |
| Range of exercise prices in € | 23.76 to 60.64 | 26.11 to 60.64 | 33.10 to 60.64 | 23.76 to 60.64 | 31.97 to 76.99 | 23.76 to 60.64 | 33.10 to 60.64 | **23.76 to 60.64** |
| Exercisable options on December 31, 2015 | | | | | | | | |
| Number | 227,040 | 85,140 | 0 | 78,000 | 152,512 | 170,280 | 0 | **560,460** |
| Average exercise price in € | 25.52 | 26.11 | n. a. | 25.21 | 40.98 | 24.94 | n. a. | **25.39** |

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

The following table shows the total compensation of the Management Board of the general partner of Fresenius SE & Co. KGaA for the years 2015 and 2014:

| € in thousands | Cash compensation (without long-term incentive components) 2015 | 2014 | Long-term incentive components 2015 | 2014 | Total compensation (including long-term incentive components) 2015 | 2014 |
|---|---|---|---|---|---|---|
| Dr. Ulf M. Schneider | **2,955** | 2,536 | **2,752** | 1,642 | **5,707** | 4,178 |
| Dr. Francesco De Meo | **1,864** | 1,584 | **1,426** | 1,015 | **3,290** | 2,599 |
| Dr. Jürgen Götz | **1,399** | 1,147 | **1,426** | 872 | **2,825** | 2,019 |
| Mats Henriksson | **2,024** | 1,668 | **1,426** | 943 | **3,450** | 2,611 |
| Rice Powell | **2,613** | 1,829 | **3,185** | 1,024 | **5,798** | 2,853 |
| Stephan Sturm | **1,851** | 1,520 | **1,426** | 929 | **3,277** | 2,449 |
| Dr. Ernst Wastler | **1,292** | 1,178 | **1,426** | 872 | **2,718** | 2,050 |
| **Total** | **13,998** | 11,462 | **13,067** | 7,297 | **27,065** | 18,759 |

The stock options and the entitlement to a share-based compensation (phantom stocks) can be exercised only after the expiry of minimum terms (vesting periods). Their value is recognized over the vesting period as expense in the respective fiscal year. The expenses attributable to the fiscal years 2015 and 2014 are stated in the following table.

EXPENSES FOR LONG-TERM INCENTIVE COMPONENTS

| € in thousands | Stock options 2015 | 2014 | Share-based compensation with cash settlement (phantom stocks) 2015 | 2014 | Total expenses for share-based compensation 2015 | 2014 |
|---|---|---|---|---|---|---|
| Dr. Ulf M. Schneider | **729** | 864 | **1,482** | 518 | **2,211** | 1,382 |
| Dr. Francesco De Meo | **399** | 432 | **892** | 334 | **1,291** | 766 |
| Dr. Jürgen Götz | **365** | 432 | **929** | 334 | **1,294** | 766 |
| Mats Henriksson | **321** | 298 | **686** | 228 | **1,007** | 526 |
| Rice Powell | **377** | 176 | **699** | 435 | **1,076** | 611 |
| Stephan Sturm | **365** | 432 | **929** | 334 | **1,294** | 766 |
| Dr. Ernst Wastler | **365** | 432 | **929** | 334 | **1,294** | 766 |
| **Total** | **2,921** | 3,066 | **6,546** | 2,517 | **9,467** | 5,583 |

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

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

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

There are individual contractual pension commitments for the Management Board members Dr. Ulf M. Schneider, Dr. Francesco De Meo, Dr. Jürgen Götz, and Mr. Stephan Sturm 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 of VAMED AG, Vienna; Fresenius SE & Co. KGaA has issued a guarantee for the commitments thereunder. The Management Board member Mats Henriksson has an individual contractual pension commitment of Fresenius Kabi AG. The Management Board member Mr. Rice Powell has received an individual contractual pension commitment from Fresenius Medical Care Management AG. Furthermore, he has acquired non-forfeitable entitlements from participating in pension plans for employees of Fresenius Medical Care North America, and during the fiscal year 2015, he participated in the U.S.-based 401(k) Savings Plan. This plan generally enables employees in the United States to invest part of their gross income into retirement plans. With regard to these pension commitments, the Fresenius Group had pension obligations of €30,318 thousand as of December 31, 2015 (2014: €24,381 thousand). The additions to pension liability in the fiscal year 2015 amounted to €5,937 thousand (2014: €8,418 thousand).

The pension commitments are as follows:

| € in thousands | As of January 1, 2015 | Additions | **As of December 31, 2015** |
|---|---|---|---|
| Dr. Ulf M. Schneider | 4,294 | 913 | **5,207** |
| Dr. Francesco De Meo | 1,912 | 490 | **2,402** |
| Dr. Jürgen Götz | 1,682 | 410 | **2,092** |
| Mats Henriksson | 3,593 | 522 | **4,115** |
| Rice Powell | 6,654 | 2,743 | **9,397** |
| Stephan Sturm | 2,477 | 530 | **3,007** |
| Dr. Ernst Wastler | 3,769 | 329 | **4,098** |
| **Total** | 24,381 | 5,937 | **30,318** |

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

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

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

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

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

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

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

The Management Board member Mr. Mats Henriksson has solely a pension commitment of Fresenius Kabi AG from the period of his previous service. This pension commitment remained unaffected by the service agreement with Fresenius Management SE, beginning on January 1, 2013. It is based on the pension policy of the Fresenius companies from January 1, 1988, and provides for retirement, incapacity, and survivors' pensions. It does not set forth any deduction of other income or pension benefits. The widow's pension amounts to 60% of the incapacity or retirement pension to be granted at the time of death; the orphan's pension amounts to 10% (half-orphans) or 20% (orphans) of the incapacity or retirement pension to be granted at the time of death. The total entitlements of widows and orphans are limited to 100% of Mr. Mats Henriksson's pension entitlements.

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

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

## MISCELLANEOUS

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

During the fiscal year 2015, 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, €1,081 thousand were paid in the fiscal year 2015 (2014: €1,049 thousand) and €588 thousand (2014: €494 thousand) were paid to Dr. Ben Lipps as a result of a consultancy agreement entered into with Fresenius Medical Care Management AG. The benefit obligation for these persons amounted to €17,835 thousand (2014: €18,465 thousand).

## TABLES DISPLAYING THE VALUE OF BENEFITS GRANTED AND ALLOCATIONS

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

The following tables contain disclosures on both the value of the benefits granted and on the allocations. They conform to the structure and, to a large degree, to the specification of the model tables of the German Corporate Governance Code. The table displaying allocations additionally shows the allocation for the fiscal year, that is, without multi-year variable compensation/components with long-term incentive effect. This illustrates clearly which allocation is to be attributed to the activity in the respective year under review and which allocation results from the compensation components that were granted in previous – or even several – reporting years. Through differentiation, the comparability of the respective development in compensation is also increased.

| Benefits granted<br>Value € thousands | Dr. Ulf M. Schneider<br>Chairman of the Management Board<br>Board member since May 28, 2003 | | | | Dr. Francesco De Meo<br>CEO Fresenius Helios<br>Board member since January 1, 2008 | | | | Dr. Jürgen Götz<br>Chief Legal and Compliance Officer, and Labor Relations Director<br>Board member since July 1, 2007 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2015 min. | 2015 max. | 2014 | **2015** | 2015 min. | 2015 max. | 2014 | **2015** | 2015 min. | 2015 max. | 2014 |
| Fixed compensation | **1,100** | 1,100 | 1,100 | 990 | **600** | 600 | 600 | 550 | **460** | 460 | 460 | 415 |
| Fringe benefits | **143** | 143 | 143 | 92 | **22** | 22 | 22 | 19 | **70** | 70 | 70 | 35 |
| **Total non-performance-based compensation** | **1,243** | 1,243 | 1,243 | 1,082 | **622** | 622 | 622 | 569 | **530** | 530 | 530 | 450 |
| One-year variable compensation [1] | **1,712** | 1,200 | 1,750 | 1,454 | **1,242** | 750 | 1,250 | 1,015 | **869** | 700 | 950 | 697 |
| Multi-year variable compensation / components with long-term incentive effect | **2,752** | 0 | n. a. | 1,642 | **1,426** | 0 | n. a. | 1,015 | **1,426** | 0 | n. a. | 872 |
| Thereof postponed one-year variable compensation | **0** | 0 | n. a. | 0 | **0** | 0 | n. a. | 143 | **0** | 0 | n. a. | 0 |
| Thereof Stock Option Plan 2013 (part of LTIP 2013) (5-year term) | **1,328** | 0 | n. a. | 745 | **996** | 0 | n. a. | 373 | **664** | 0 | n. a. | 373 |
| Thereof phantom stocks (part of LTIP 2013) (5-year term) | **1,324** | 0 | n. a. | 797 | **330** | 0 | n. a. | 399 | **662** | 0 | n. a. | 399 |
| Thereof further phantom stocks | **100** | 0 | n. a. | 100 | **100** | 0 | n. a. | 100 | **100** | 0 | n. a. | 100 |
| **Total non-performance-based and performance-based compensation** | **5,707** | 2,443 | n. a. | 4,178 | **3,290** | 1,372 | n. a. | 2,599 | **2,825** | 1,230 | n. a. | 2,019 |
| Service cost | **342** | 342 | 342 | 234 | **273** | 273 | 273 | 201 | **190** | 190 | 190 | 136 |
| **Value of benefits granted** | **6,049** | 2,785 | n. a. | 4,412 | **3,563** | 1,645 | n. a. | 2,800 | **3,015** | 1,420 | n. a. | 2,155 |

[1] For the one-year variable compensation, there are no target values or comparable values for Board members who receive their remuneration from Fresenius Management SE. The one-year variable compensation is calculated on the basis of bonus curves that are valid for several years. For this reason, the allocation from the one-year variable remuneration is stated here.
[2] This amount contains a discretionary bonus for Mr. Rice Powell in the amount of €541 thousand for the 2015 fiscal year (2014: €376 thousand).
[3] Mr. Rice Powell was granted stock options and phantom stocks from the stock option program of Fresenius Medical Care as follows:
in 2015: €164 thousand from the Share Based Award – New Incentive Bonus Plan 2010, €2,244 thousand from the Long Term Incentive Program 2011 – Stock Option Plan 2011, and €777 thousand from the Long Term Incentive Program 2011 – Phantom Stock Plan 2011
in 2014: €120 thousand from the Share Based Award – New Incentive Bonus Plan 2010, €673 thousand from the Long Term Incentive Program 2011 – Stock Option Plan 2011, and €231 thousand from the Long Term Incentive Program 2011 – Phantom Stock Plan 2011.

| Mats Henriksson<br>CEO Fresenius Kabi | | | | Rice Powell<br>CEO Fresenius Medical Care | | | | Stephan Sturm<br>Chief Financial Officer | | | | Dr. Ernst Wastler<br>CEO Fresenius Vamed | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Board member since January 1, 2013 | | | | Board member since January 1, 2013 | | | | Board member since January 1, 2005 | | | | Board member since January 1, 2008 | | | |
| **2015** | 2015 min. | 2015 max. | 2014 | **2015** | 2015 min. | 2015 max. | 2014 | **2015** | 2015 min. | 2015 max. | 2014 | **2015** | 2015 min. | 2015 max. | 2014 |
| **600** | 600 | 600 | 550 | **1,239** | 1,239 | 1,239 | 941 | **600** | 600 | 600 | 550 | **500** | 500 | 500 | 470 |
| **185** | 185 | 185 | 175 | **342** | 342 | 342 | 151 | **109** | 109 | 109 | 41 | **85** | 85 | 85 | 37 |
| **785** | 785 | 785 | 725 | **1,581** | 1,581 | 1,581 | 1,092 | **709** | 709 | 709 | 591 | **585** | 585 | 585 | 507 |
| **1,239** | 750 | 1,250 | 943 | **2,586**[2] | 169 | 2,995 | 1,929[2] | **1,142** | 850 | 1,150 | 929 | **707** | 350 | 750 | 671 |
| **1,426** | 0 | n. a. | 943 | **3,185**[3] | 0 | n. a. | 1,024[3] | **1,426** | 0 | n. a. | 929 | **1,426** | 0 | n. a. | 872 |
| **0** | 0 | n. a. | 71 | | | | | **0** | 0 | n. a. | 57 | **0** | 0 | n. a. | 0 |
| **664** | 0 | n. a. | 373 | | | | | **664** | 0 | n. a. | 373 | **664** | 0 | n. a. | 373 |
| **662** | 0 | n. a. | 399 | | | | | **662** | 0 | n. a. | 399 | **662** | 0 | n. a. | 399 |
| **100** | 0 | n. a. | 100 | | | | | **100** | 0 | n. a. | 100 | **100** | 0 | n. a. | 100 |
| **3,450** | 1,535 | n. a. | 2,611 | **7,352** | 1,750 | n. a. | 4,045 | **3,277** | 1,559 | n. a. | 2,449 | **2,718** | 935 | n. a. | 2,050 |
| **173** | 173 | 173 | 120 | **570** | 570 | 570 | 429 | **251** | 251 | 251 | 182 | **133** | 133 | 133 | 92 |
| **3,623** | 1,708 | n. a. | 2,731 | **7,922** | 2,320 | n. a. | 4,474 | **3,528** | 1,810 | n. a. | 2,631 | **2,851** | 1,068 | n. a. | 2,142 |

| Allocations<br>Value € thousands | Dr. Ulf M. Schneider<br>Chairman of the Management Board<br>Board member since May 28, 2003 | | Dr. Francesco De Meo<br>CEO Fresenius Helios<br>Board member since January 1, 2008 | | Dr. Jürgen Götz<br>Chief Legal and Compliance Officer, and Labor Relations Director<br>Board member since July 1, 2007 | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Fixed compensation | **1,100** | 990 | **600** | 550 | **460** | 415 |
| Fringe benefits | **143** | 92 | **22** | 19 | **70** | 35 |
| **Total non-performance-based compensation** | **1,243** | 1,082 | **622** | 569 | **530** | 450 |
| One-year variable compensation | **1,712** | 1,454 | **1,242** | 1,015 | **869** | 697 |
| Multi-year variable compensation / components with long-term incentive effect | **10,590** | 6,395 | **9,333** | 29 | **5,993** | 0 |
| Thereof postponed one-year variable compensation | **0** | 0 | **0** | 29 | **0** | 0 |
| Thereof Stock Option Plan 2003 (5-year term) | | | | | | |
| Issue 2006 | | | | | | |
| Issue 2007 | | 2,488 | **1,845** | | | |
| Thereof Stock Option Plan 2008 (5-year term) | | | | | | |
| Issue 2009 | | 3,907 | | | | |
| Issue 2010 | **5,771** | | **3,996** | | | |
| Issue 2011 | **4,819** | | **3,492** | | **2,493** | |
| Issue 2012 | | | | | **3,500** | |
| Other | **0** | 0 | **0** | 0 | **0** | 0 |
| **Total non-performance-based and performance-based compensation** | **13,545** | 8,931 | **11,197** | 1,613 | **7,392** | 1,147 |
| Service cost | **342** | 234 | **273** | 201 | **190** | 136 |
| **Allocation including multi-year variable compensation / components with long-term incentive effect** | **13,887** | 9,165 | **11,470** | 1,814 | **7,582** | 1,283 |
| **Allocation for the year under review** (not including multi-year variable compensation / components with long-term incentive effect) | **3,297** | 2,770 | **2,137** | 1,785 | **1,589** | 1,283 |

[1] This amount contains a discretionary bonus for Mr. Rice Powell in the amount of €541 thousand for the 2015 fiscal year (2014: €376 thousand).
[2] Mr. Rice Powell had this allocation from stock options from the Fresenius Medical Care Stock Option Program:
in 2015: €485 thousand from the Share Based Award – New Incentive Bonus Plan 2010 issue 2011 and €2,123 thousand from the Stock Option Plan 2006 issue 2008;
in 2014: €399 thousand from the Share Based Award – New Incentive Bonus Plan 2010 issue 2010.

| | **Mats Henriksson**<br>CEO Fresenius Kabi<br>Board member since January 1, 2013 | | **Rice Powell**<br>CEO Fresenius Medical Care<br>Board member since January 1, 2013 | | **Stephan Sturm**<br>Chief Financial Officer<br>Board member since January 1, 2005 | | **Dr. Ernst Wastler**<br>CEO Fresenius Vamed<br>Board member since January 1, 2008 | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **600** | 550 | **1,239** | 941 | **600** | 550 | **500** | 470 |
| | **185** | 175 | **342** | 151 | **109** | 41 | **85** | 37 |
| | **785** | 725 | **1,581** | 1,092 | **709** | 591 | **585** | 507 |
| | **1,239** | 943 | **1,032**[1] | 737[1] | **1,142** | 929 | **707** | 671 |
| | **1,878** | 0 | **2,608**[2] | 399[2] | **5,757** | 3,569 | **11,030** | 0 |
| | **0** | 0 | **0** | 0 | **49** | 79 | **0** | 0 |
| | | | | | | | | |
| | | | | | | 1,523 | | |
| | | | | | **2,078** | | **992** | |
| | | | | | | | | |
| | | | | | | 1,967 | | |
| | **1,525** | | | | **3,630** | | **2,792** | |
| | **353** | | | | | | **3,723** | |
| | | | | | | | **3,523** | |
| | **0** | 0 | **0** | 0 | **0** | 0 | **0** | 0 |
| | **3,902** | 1,668 | **5,221** | 2,228 | **7,608** | 5,089 | **12,322** | 1,178 |
| | **173** | 120 | **570** | 429 | **251** | 182 | **133** | 92 |
| | **4,075** | 1,788 | **5,791** | 2,657 | **7,859** | 5,271 | **12,455** | 1,270 |
| | **2,197** | 1,788 | **3,183** | 2,258 | **2,102** | 1,702 | **1,425** | 1,270 |

## COMPENSATION OF THE SUPERVISORY BOARD

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

The members of the Audit Committee of Fresenius SE & Co. KGaA receive an additional €10 thousand each and the Chairman of the committee a further €10 thousand. For each full fiscal year, the remuneration increases by 10% for each percentage point that three times the dividend paid on each ordinary share for that year (gross dividend according to the resolution of the Annual General Meeting) exceeds 3.6% of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. If the General Meeting resolves a higher remuneration in view of the annual results, the increased amount shall be applicable. The Chairman receives twice this amount and the deputies to the Chairman one and a half times the amount of a Supervisory Board member. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board, including any applicable value-added tax. Additionally, in his capacity as Chairman of the Supervisory Board of Fresenius Management SE, Dr. Krick will be reimbursed for the costs of an intrusion detection system in the amount of €8 thousand. Fresenius SE & Co. KGaA provides to the members of the Supervisory Board insurance coverage in an adequate amount (relating to their function) with an excess equal to those of the Management Board.

If a member of the Supervisory Board of Fresenius SE & Co. KGaA is, at the same time, a member of the Supervisory Board of the general partner Fresenius Management SE and receives remuneration for his service on the Supervisory Board for Fresenius Management SE, the remuneration shall be reduced by half. The same applies with respect to the additional part of the remuneration for the Chairman or one of his deputies if they are, at the same time, the Chairman or one of his deputies on the Supervisory Board of Fresenius Management SE. If the deputy of the Chairman of the Supervisory Board of Fresenius SE & Co. KGaA is, at the same time, the Chairman of the Supervisory Board of Fresenius Management SE, he shall not receive remuneration for his service as Deputy Chairman of the Supervisory Board of Fresenius SE & Co. KGaA. According to Section 7 of the articles of association of Fresenius SE & Co. KGaA, the remuneration of the Supervisory Board of Fresenius Management SE was charged to Fresenius SE & Co. KGaA.

For the fiscal years 2015 and 2014, the compensation for the members of the Supervisory Boards of Fresenius SE & Co. KGaA and Fresenius Management SE (excluding expenses and reimbursements), including compensation for committee services, was as follows:

| € in thousands | Fixed compensation | | | | Compensation for committee services | | | | Variable compensation | | | | Total compensation | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Fresenius SE & Co. KGaA | | Fresenius Management SE | | Fresenius SE & Co. KGaA | | Fresenius Management SE | | Fresenius SE & Co. KGaA | | Fresenius Management SE | | | |
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Dr. Gerd Krick | **13** | 13 | **13** | 13 | **10** | 10 | **20** | 20 | **210** | 167 | **210** | 167 | **476** | 390 |
| Michael Diekmann (as of May 20, 2015) | **8** | 0 | **4** | 0 | **0** | 0 | **0** | 0 | **129** | 0 | **65** | 0 | **206** | 0 |
| Dr. Dieter Schenk | **0** | 0 | **19** | 19 | **0** | 0 | **10** | 10 | **0** | 0 | **315** | 250 | **344** | 279 |
| Niko Stumpfögger | **19** | 19 | **0** | 0 | **0** | 0 | **0** | 0 | **315** | 250 | **0** | 0 | **334** | 269 |
| Prof. Dr. med. D. Michael Albrecht | **13** | 13 | **0** | 0 | **0** | 0 | **0** | 0 | **210** | 167 | **0** | 0 | **223** | 180 |
| Prof. Dr. h. c. Roland Berger | **7** | 7 | **6** | 6 | **20** | 20 | **0** | 0 | **104** | 83 | **105** | 84 | **242** | 200 |
| Dario Ilossi | **13** | 13 | **0** | 0 | **0** | 0 | **0** | 0 | **210** | 167 | **0** | 0 | **223** | 180 |
| Konrad Kölbl | **13** | 13 | **0** | 0 | **10** | 10 | **0** | 0 | **210** | 167 | **0** | 0 | **233** | 190 |
| Klaus-Peter Müller | **7** | 7 | **6** | 6 | **0** | 0 | **0** | 0 | **104** | 83 | **105** | 84 | **222** | 180 |
| Dieter Reuß | **13** | 13 | **0** | 0 | **0** | 0 | **0** | 0 | **210** | 167 | **0** | 0 | **223** | 180 |
| Gerhard Roggemann | **13** | 13 | **0** | 0 | **10** | 10 | **0** | 0 | **210** | 167 | **0** | 0 | **233** | 190 |
| Dr. Gerhard Rupprecht († August 8, 2014) | **0** | 8 | **0** | 4 | **0** | 0 | **0** | 0 | **0** | 101 | **0** | 50 | **0** | 163 |
| Dr. Karl Schneider | **0** | 0 | **13** | 13 | **0** | 0 | **10** | 10 | **0** | 0 | **210** | 167 | **233** | 190 |
| Stefan Schubert | **13** | 13 | **0** | 0 | **0** | 0 | **0** | 0 | **210** | 167 | **0** | 0 | **223** | 180 |
| Rainer Stein | **13** | 13 | **0** | 0 | **10** | 10 | **0** | 0 | **210** | 167 | **0** | 0 | **233** | 190 |
| **Total** | **145** | 145 | **61** | 61 | **60** | 60 | **40** | 40 | **2,332** | 1,853 | **1,010** | 802 | **3,648** | 2,961 |

## 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 2016. 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

**ADR (American Depositary Receipt)**
Certificate that represents indirect ownership of shares in a non-U.S. company and enables trading in the United States.

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

**Commercial paper program**
Financing instrument issued by corporations in need of short-term loans. Typically, commercial paper maturities range from a few days up to under two years.

**Compliance**
Measures for adherence to laws and company policies.

**Corporate Governance**
Designation in international parlance for company management and company controlling focused on responsible, long-term value creation.

**Days Sales Outstanding (DSO)**
Indicates the average number of days it takes for a receivable to be paid. A shorter DSO results in less interest for the creditor and a lower risk of default.

**EBIT**
Earnings before interest and income taxes.

**EBITDA**
Earnings before interest, income taxes, depreciation, and amortization.

**KGaA (Kommanditgesellschaft auf Aktien)**
A German legal form meaning partnership limited by shares. An entity with its own legal identity in which at least one general partner has full liability (personally liable shareholder, or Komplementäraktionär), while the other shareholders have an interest in the capital stock divided into shares without being personally liable for the debts of the company.

**Organic sales growth**
Growth that is generated by a company's existing businesses and not by acquisitions, divestitures, or foreign exchange impact.

**OTC (Over-the-counter)**
Trading of securities that are not listed on a stock exchange in the respective country. Fresenius' sponsored Level 1 ADRs are traded on the OTC market in the United States.

**Rating**
A classification of the creditworthiness of a company recognized by the international capital markets. It is granted by independent rating agencies such as Standard & Poor's, Moody's, or Fitch based on a company analysis.

**ROE (Return on Equity)**
Measure of a corporation's profitability revealing how much profit a company generates with the money shareholders have invested.
ROE = fiscal year's net income / total equity x 100.

**ROIC (Return on Invested Capital)**
Calculated by: (EBIT – taxes) : Invested capital
Invested capital = total assets + amortization of goodwill (accumulated) – deferred tax assets – cash and cash equivalents – trade accounts payable – accruals (without pension accruals) – other liabilities not bearing interest.

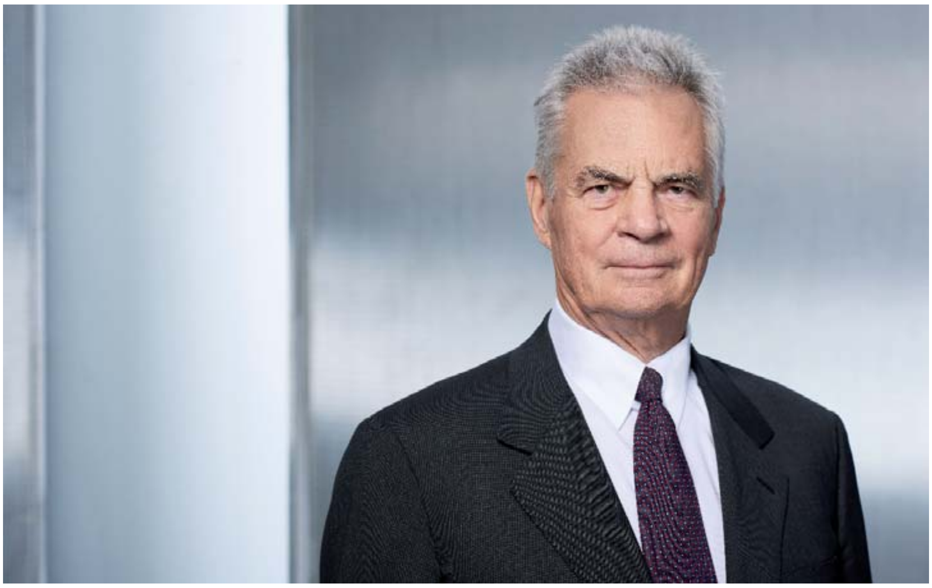
**ROOA (Return on Operating Assets)**
Calculated by: EBIT x 100 : operating assets (average)
Operating assets = total assets – deferred tax assets – trade accounts payable – payments received on account – approved subsidies.

**SE (Societas Europaea)**
Legal form of a European stock corporation. The supranational legal entity is based on European Community law. Subject to European regulations, the SE is treated in all member states of the European Union as a stock corporation according to the national law of the member state in which the SE is incorporated.

**SOI (Scope of Inventory)**
Indicates the average number of days between receiving goods as inventory and the sale of the finished product.
Calculated by: (Inventories / Costs of goods sold) x 365 days.

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

**Xetra (Exchange Electronic Trading)**
Electronic trading system of Deutsche Börse AG to buy or sell stocks, foreign currencies, or other financial instruments.



## REPORT OF THE SUPERVISORY BOARD

In 2015, the Supervisory Board of Fresenius SE & Co. KGaA fulfilled its obligations in its respective terms in accordance with the provisions of the law, the articles of association, and the rules of procedure. It regularly advised the Management Board of the general partner, Fresenius Management SE, regarding the management of the Company, and has supervised the management in accordance with its Supervisory Board responsibilities.

### COOPERATION BETWEEN THE MANAGEMENT AND THE SUPERVISORY BOARD

Carrying out its monitoring and advisory activities, the Management Board regularly kept the Supervisory Board informed – in a timely and comprehensive oral and written manner – about all important matters relating to business policy, business development, profitability, the economic and financial position of the Company and the Group, the corporate strategy and planning, risk situation, risk management, and compliance, as well as important business events. Based on the reports submitted from the Management Board of the general partner, the Supervisory Board discussed all business transactions that were important for the Company in its committees and at its meetings. The Management Board of the general partner discussed the Company's strategic direction with the Supervisory Board. The Supervisory Board passed resolutions within the framework of its legal and Company statutory authority.

The Supervisory Board of Fresenius SE & Co. KGaA convened for four regular meetings in 2015 – 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 business development and any important corporate decisions based on the reports from the general partner's Management Board.

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

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

Every member of the Supervisory Board of Fresenius SE & Co. KGaA attended more than half of the Supervisory Board Meetings in 2015.

## MAIN FOCUS OF THE SUPERVISORY BOARD'S ACTIVITIES

In 2015, the Supervisory Board mostly focused its monitoring and consulting activities on business operations and investments by the business segments. Furthermore, the Supervisory Board thoroughly reviewed and discussed all other significant business activities with the Management Board. The main consulting focus was on acquisitions, especially the acquisition of a plant and a portfolio of drugs in ready-to-administer prefilled glass syringes by Fresenius Kabi, as well as the strategic enhancement of the IT system and process structure at Fresenius Kabi. The Supervisory Board discussed in detail the 2016 budget and the mid-term planning of the Fresenius Group. It also focused on the strategies of the business segments, especially on the business perspectives for Fresenius Medical Care and Fresenius Vamed. 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.

## CORPORATE GOVERNANCE

The Supervisory Board and the Management Board of the general partner jointly issued a Declaration of Conformity in accordance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) on December 20, 2015.

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

Prof. Dr. med. D. Michael Albrecht is a member of the Supervisory Board of our Company and is medical director and spokesman for the management board of the University Hospital Carl Gustav Carus Dresden, as well as a member of the supervisory board of the University Hospital in Aachen. The Fresenius Group maintains regular business relationships with these hospitals in the ordinary course under customary conditions. Klaus-Peter Müller is a member of the Supervisory Boards of our Company and of Fresenius Management SE, as well as chairman of the supervisory board of Commerzbank AG, with which the Fresenius Group maintains business relationships under customary conditions. Michael Diekmann has been a member of the Supervisory Board of Fresenius Management SE and Deputy Chairman of the Supervisory Board of Fresenius SE & Co. KGaA since May 20, 2015. Until May 7, 2015 he was Chairman of the Board of Management of Allianz SE, and currently he is a Non-Executive Director of the Board of Directors of Allianz Australia Ltd. In 2015, the Fresenius Group paid insurance premiums to Allianz under customary conditions.

There are no direct consultant or other service agreements between the Company and any member of the Supervisory Board.

Various companies of the Fresenius Group were advised by affiliated companies of the internationally acting law firm Noerr. Dr. Dieter Schenk, member of the Supervisory Board of Fresenius Management SE and Deputy Chairman of the same, is also a partner of the law firm Noerr LLP. In 2015, the Fresenius Group paid about €1.4 million to the law firm Noerr (2014: €1.8 million). This corresponds to 1% of the total amount paid by the Fresenius Group for services and legal advice in 2015 (2014: 1%). Not included in the amount paid are such payments made in 2015 that had already been processed for payment in 2014, and have therefore already been reported for the 2014 fiscal year. Of the total amount for the 2015 fiscal year, about €0.3 million was attributable to services for Group companies not related to the business segment Fresenius Medical Care. The services rendered for Group companies of the business segment Fresenius Medical Care require separate approval by the Supervisory Boards of Fresenius Medical Care Management AG and Fresenius Medical Care AG & Co. KGaA. The Supervisory Board of Fresenius Management SE, of which Dr. Schenk is a member, closely examined this mandate and approved it. Dr. Schenk abstained from voting. The Supervisory Board of Fresenius SE & Co. KGaA, of which Dr. Schenk is not a member, dealt with the amounts for legal services paid to the law firm Noerr in relation to the amounts paid to other law firms.

The payments mentioned in this section are net amounts in euros. VAT was paid also.

For more information on corporate governance at Fresenius, please refer to the Corporate Governance Declaration and Report on pages 69 to 93 of the Annual Report. Fresenius has disclosed the information on related parties in its quarterly reports and on page 177 of the Annual Report.

## WORK OF THE COMMITTEES

The Audit Committee held three meetings and four conference calls in 2015. 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 2014 and discussions with the auditors about their reports and the terms of reference of the audit. Another matter dealt with by the Audit Committee was its recommendation to the Supervisory Board regarding which auditing firm to propose to the Annual General Meeting for election as auditor for the annual financial statements of Fresenius SE & Co. KGaA and the Group for 2015. The Supervisory Board's proposal to the Annual General Meeting in 2015 to elect KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as auditor was based on a recommendation to this effect by the Audit Committee. The Audit Committee also reviewed the 2015 quarterly reports, the controlling reports on the development of the acquisitions, the compliance, the risk management system, the internal control system, and the internal auditing system. The Chairman of the Audit Committee reported regularly in the following Supervisory Board meetings on the work of the committee.

In preparation of the Supervisory Board election in May 2016, the Company's Nomination Committee met twice in 2015.

The Joint Committee, whose approval is necessary for certain important transactions of Fresenius SE & Co. KGaA and for certain legal acts between the Company and the Else Kröner-Fresenius Foundation, did not meet in 2015 because no transactions were effected that required the Joint Committee's approval.

There is no Mediation Committee because the Supervisory Board of Fresenius SE & Co. KGaA does not appoint the Management Board members of Fresenius Management SE.

For more information about the committees, their composition, and their work methods, please refer to the Corporate Governance Declaration and Report on pages 73, 74, and 189 of the Annual Report.

## PERSONNEL

Michael Diekmann has been elected by the General Meeting on May 20, 2015 as a member of the Supervisory Board and as a member of the Joint Committee. In the meeting of the Supervisory Board directly following the General Meeting, he was elected as Deputy Chairman of the Supervisory Board and as a member of the Nomination Committee.

In 2015, there were no changes in the composition of the Management Board of the general partner Fresenius Management SE.

## FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The accounting records, the financial statements prepared according to the German Commercial Code (HGB), and the 2015 Management Report of the Company were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. The firm was elected as auditor in accordance with the resolution passed at the Annual General Meeting of Fresenius SE & Co. KGaA on May 20, 2015, and was subsequently commissioned by the Supervisory Board. The auditors of KPMG issued their unqualified audit opinion for these statements. The same applies to the Company's consolidated financial statements, prepared according to IFRS accounting principles, and to the regulations that govern these statements pursuant to Section 315a of the German Commercial Code (HGB). It also applies to the Company's consolidated financial statements, which are prepared voluntarily according to U.S. GAAP.

The financial statements, the consolidated financial statements, the Management Reports, and the auditor's reports were submitted to each member of the Company's Supervisory Board within the required time. At their meetings on March 10 and 11, 2016, the Audit Committee and then the Supervisory Board discussed all the documents in detail.

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

The Audit Committee and the Supervisory Board approved the auditor's findings. Also the Audit Committee's and the Supervisory Board's own review found no objections to the Company's financial statements and Management Report or the consolidated financial statements and the Group Management Reports.

At its meeting on March 11, 2016, the Supervisory Board approved the financial statements and Management Reports presented by the general partner and the statements contained therein with respect to future development.

The Supervisory Board concurs with the general partner's proposal on the allocation of the 2015 distributable profit.

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

Bad Homburg v. d. H., March 11, 2016

The Supervisory Board

Dr. Gerd Krick
Chairman