GENERAL INFORMATION ABOUT THIS GROUP MANAGEMENT REPORT

In the following, we present a discussion and analysis of the Group Management Report of Fresenius Medical Care AG & Co. KGaA and its subsidiaries (together referred to as we, our, FMC AG & CO. KGAA, Fresenius Medical Care, the Group or the Company) prepared in accordance with sections 315 and 315 e of the German Commercial Code and German Accounting Standards No. 17 and 20, as well as the consolidated financial statements and related notes contained elsewhere in this report. Some of the statements, including those concerning future revenue, costs and capital expenditures, possible changes in our industry as well as the competitive and financial conditions include forward-looking statements. We made these forward-looking statements based on the expectations and beliefs of the Management Board of the Company's General Partner (Management Board) pertaining to future events that may affect us, but which we cannot assure that such events will occur or that the results will be as anticipated. Because these statements involve opportunities, risks and uncertainties, the actual results may differ materially (positively as well as negatively) from the results which the forward-looking statements express or imply. The statements cover the content of and are subject to the uncertainties described in the discussions in this report in the "Outlook" starting on page 55 and in the "Risks and opportunities report" starting on page 59 as well as in notes 2 and 22 of the notes to the consolidated financial statements.

The non-financial group report is not part of the Group Management Report. It is part of a separate chapter of the Annual Report and will be disclosed together with the Group Management Report. The non-financial group report can be found starting on page 78.

Due to rounding, individual numbers and percentages presented in this report may not reflect the absolute figures precisely.

Our business is also subject to other opportunities, risks and uncertainties that we describe in our public filings. Developments in any of these areas could cause our results to differ materially to those that we or others have projected or may project.

OVERVIEW ABOUT THE GROUP

We provide high-quality health care solutions for patients with chronic kidney failure. Our innovative products and therapies set high standards in dialysis treatment.

BUSINESS MODEL

OPERATIONS AND COMPANY STRUCTURE

Fresenius Medical Care is the world's largest dialysis company, based on publicly reported revenue and the number of patients treated. We provide dialysis care and related services to people with chronic kidney failure as well as other health care services. We also develop and manufacture a full range of dialysis machines, systems and disposable products, which we sell to customers in around 150 countries as well as using them in our internal health care service operations. Our dialysis business is therefore vertically integrated. We describe our other health care services as "Care Coordination". Together with dialysis services Care Coordination represents our health care services.

We generate most of our revenue with dialysis products and dialysis care services. In our 3,752 dialysis clinics in around 50 countries worldwide, we provide care for over 320,000 dialysis patients. We are continuously developing this network of clinics, which is the largest and most international in the world, to accommodate the ever rising number of dialysis patients. At the same time, we operate 41 production sites in more than 20 countries. The most important plants for dialyzer production are in St. Wendel (Germany), Ogden (U.S.), Changshu (China), L'Arbresle (France) and Buzen (Japan). Dialysis machines are manufactured in Schweinfurt (Germany) and in Concord (U.S.).

Fresenius Medical Care is organized decentrally and divided into the regions North America, Europe, Middle East and Africa (EMEA), Asia-Pacific and Latin America; our operating segments correspond to this regional breakdown (the term "North America Segment" refers to our North America operating segment; the term "EMEA Segment" refers to the Europe, Middle East and Africa operating segment, the term "Asia-Pacific Segment" refers to our Asia-Pacific operating segment, and the term "Latin America Segment" refers to our Latin America operating segment).

Fresenius Medical Care's company headquarters is in Bad Homburg v.d. Höhe, Germany. The headquarters in North America, our most important region in terms of revenue, is in Waltham, Massachusetts (U.S.).

Chart 2.1 on page 20 shows an overview of our most important production sites and headquarters.

OUR PRODUCTS AND SERVICES

Fresenius Medical Care provides mainly dialysis products and services. We also offer non-dialysis services as part of Care Coordination, as well as non-dialysis products. See chart 2.2 on page 21 for an overview of our services and products.

Approximately 3.2 M patients worldwide regularly underwent dialysis treatment in 2017. Dialysis is a life-saving blood cleansing procedure that substitutes the function of the kidney in case of kidney failure. Healthy kidneys clean the blood of waste products, regulate water levels, and produce important hormones. If the kidneys are irreparably damaged and are therefore no longer able to function adequately for a lengthy period of time, this is known as chronic kidney failure. Many diseases can lead to chronic kidney failure, particularly diabetes, chronic nephritis, and high blood pressure. There are currently two treatment options for chronic kidney failure: a kidney transplant and dialysis.

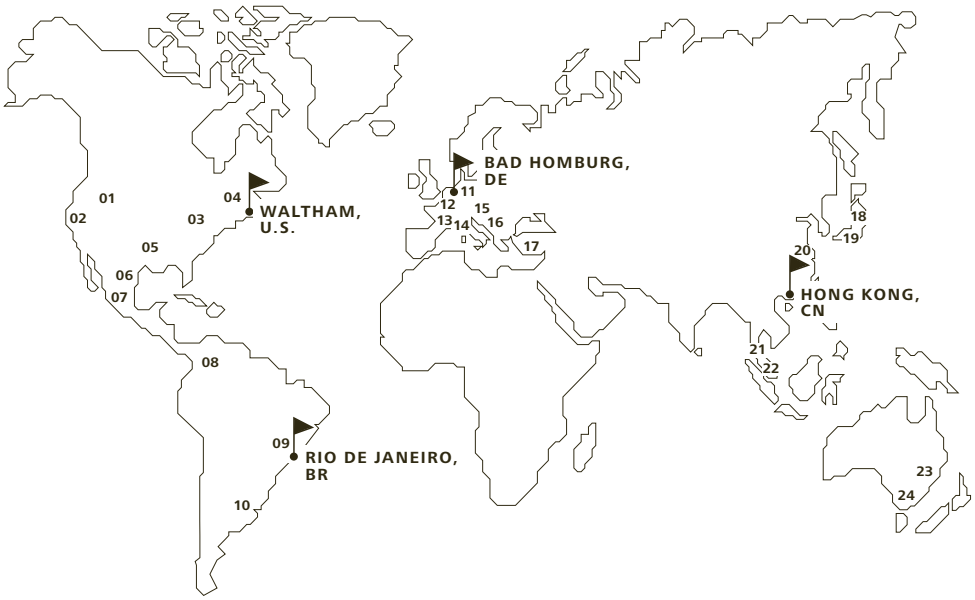
Our health care products

We develop and manufacture a wide variety of health care products, which includes both dialysis and non-dialysis products.

The dialysis products that we offer in around 150 countries around the world focus on the following areas:

- Hemodialysis (HD) – HD is by far the most common type of therapy for chronic kidney failure. Fresenius Medical Care provides a wide range of HD products, e. g. machines, dialyzers, bloodline systems, HD solutions and concentrates, water treatment systems, as well as data processing and analysis systems.

2.1 MAJOR LOCATIONS



North America

WALTHAM, U.S.
Regional headquarters
North America

01 Ogden, U.S.
Dialyzers

02 Concord, U.S.
Dialysis machines

03 Toledo, U.S.
HD concentrates

04 Montreal, CA
HD concentrates

05 Irving, U.S.
HD concentrates

06 Reynosa, MX
Bloodlines

07 Guadalajara, MX
Dialysis solutions, HD concentrates

Europe

BAD HOMBURG, DE
Company headquarters and regional headquarters for Europe, Middle East and Africa

11 Schweinfurt, DE
Dialysis machines

12 St. Wendel, DE
HD & PD disposable products

13 L'Arbresle, FR
HD disposable products

14 Palazzo Pignano, IT
HD & PD disposable products

15 Krems, AT
Adsorbers

16 Vršac, SRB
HD disposable products

17 Antalya, TR
HD disposable products

Asia-Pacific

HONG KONG, CN
Regional headquarters
Asia-Pacific

18 Inukai, JP
Fiber bundles

19 Buzen, JP
Dialyzers, dialysis solutions

20 Changshu, CN
Bloodlines, dialyzers

21 Ipoh, MY
Systems for water treatment

22 Enstek, MY
HD concentrates, dialysis solutions

23 Smithsfield, AU
HD concentrates

24 Scoresby, AU
Dialysis chairs, packs

Latin America

RIO DE JANEIRO, BR
Regional headquarters
Latin America

08 Santafé de Bogotà, CO
HD & PD disposable products

09 Jaguariúna, BR
HD & PD disposable products

10 Pilar, AR
HD concentrates

- Peritoneal dialysis (PD) – In PD the peritoneum is used as a natural filter. We offer systems and solutions for continuous ambulatory peritoneal dialysis (CAPD) and automated peritoneal dialysis in dialysis centers as well as at home.
- Acute dialysis – In case of a sudden loss of renal function continuous renal replacement therapy is used in intensive-care units. Fresenius Medical Care also provides products for this.

Additionally, we offer non-dialysis products that include acute cardiopulmonary products and products for the apheresis therapy. This therapy can be used to remove excess blood fats or pathogenic antibodies.

Our health care services

Dialysis services

Dialysis patients receive life-saving dialysis treatment and other associated services such as laboratory tests in our 3,752 (2016: 3,624) dialysis clinics worldwide. Dialysis treatment at our clinics is usually performed three times a week over a period of several hours by trained medical staff. We also provide medical support and training for home dialysis patients.

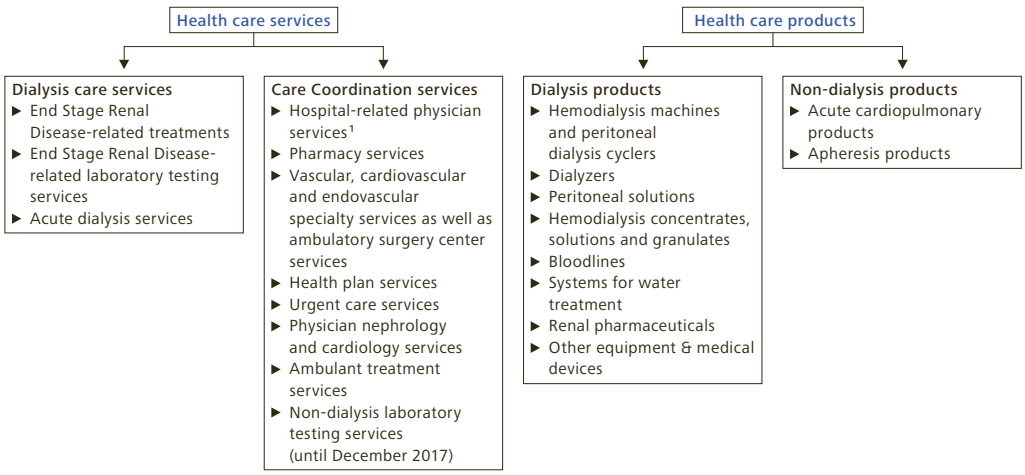
We treated most of our patients (62%) in the North America Segment, 19% in the EMEA Segment, 10% in the Latin America Segment and 9% in the Asia-Pacific Segment.

Fresenius Medical Care is able to operate its own dialysis clinics in countries where the health care system allows private-sector companies to provide medical services and an appropriate reimbursement system is in place.

Care Coordination

Care Coordination enables us to expand and grow our business beyond dialysis, for example in markets where the privatized dialysis market is relatively well developed and we already have a high market share. Although Care Coordination is a business with a global focus, we currently mainly provide non-dialysis services in our largest market, the U.S., and in Asia-Pacific. In recent years, the health care system in the U.S. has moved away from reimbursement of individual services towards holistic and coordinated care. Our activities in Care Coordination and our experience in dialysis mean that we can participate in the development of the U.S. health care system and use this as a basis for additional growth. At the same time, patients benefit from coordinated care, and health care systems from lower costs.

2.2 RANGE OF SERVICES



[1] *Includes the coordinated delivery of emergency, intensivist and hospitalist physician services as well as transitional care.*

MAJOR MARKETS AND COMPETITIVE POSITION

According to our estimates, the number of dialysis patients worldwide reached 3.2 M in 2017 (2016: 3.0 M) – a 6% growth rate. In the same period, 320,960 patients were treated in Fresenius Medical Care's network of dialysis centers (2016: 308,471). As such, Fresenius Medical Care holds the leading position worldwide in dialysis care. More information can be found in chart 2.3.

Dialysis products made by Fresenius Medical Care for use in our own dialysis centers or sale to third-party product customers represented a share of 35% in 2017 (2016: 34%). Fresenius Medical Care is therefore also the global market leader for dialysis products. For hemodialysis products, we had a market share of 39% worldwide (2016: 38%) and are the global market leader in this field as well.

Dialyzers for hemodialysis are the largest product group in the dialysis market with a worldwide sales volume of more than 300 M units in 2017. More than 140 M (around 45%) of these were made by Fresenius Medical Care, so that we hold by far the biggest market share. Hemodialysis machines constitute another key component of our product business. Here, too, we are the clear market leader. Of the 90,000 machines estimated to have been installed in 2017, more than 50,000, or more than 50% (2016: more than 50%), were produced by Fresenius Medical Care.

Furthermore, we hold a strong position in the market for peritoneal dialysis products: Around 17% (2016: around 17%) of all patients use products made by Fresenius Medical Care.

Fresenius Medical Care is also the worldwide leader in dialysis care, serving about 10% of all dialysis patients. In the U.S., Fresenius Medical Care treats around 38% of all dialysis patients.

Outside the U.S., dialysis services are considerably more fragmented. With more than 1,370 dialysis clinics and around 127,000 patients in around 50 countries, Fresenius Medical Care operates by far the largest and most international network of clinics.

PROCUREMENT AND PRODUCTION

The Global Manufacturing & Quality (GMQ) division centrally manages all of Fresenius Medical Care's activities worldwide in the procurement of raw materials and semi-finished goods, production including quality management, and distribution in North America. This centralized approach enables us to

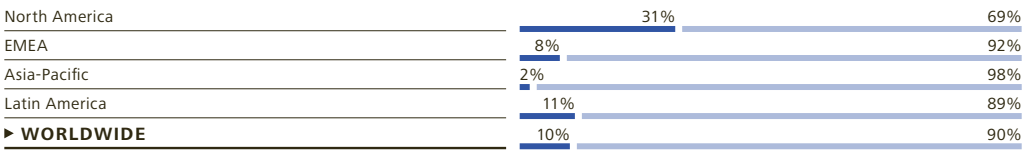
- continuously enhance the efficiency of our processes,
- optimize cost structures,
- improve returns on our capital invested in manufacturing,
- respond more flexibly and
- fulfill our commitment to meeting high-quality and safety standards.

The objective of our production strategy is to manufacture top-quality products in the right place at the right time on the best possible terms. We are able to successfully implement this strategy thanks to a network of large production sites, where we make technically sophisticated products for sale worldwide, as well as smaller production sites that primarily supply products regionally.

Strategic purchasing at Fresenius Medical Care is geared toward ensuring the availability, safety and quality of the materials used in production with the aim of further expanding our competitive and internationally balanced supplier network.

At the end of 2017, GMQ had 16,186 employees (full-time equivalents) (2016: 15,224). In total, we operate 41 production sites in more than 20 countries.

2.3 PATIENTS TREATED



Source: Company data and estimates

CORPORATE STRATEGY AND OBJECTIVES

"Fresenius Medical Care: Creating a future worth living. For patients. Worldwide. Everyday." This vision guides us in giving our patients around the world a better life by offering them high-quality products and outstanding health care. It is based on our core values: quality, honesty and integrity, innovation and progress, respect, and dignity. These values are enshrined in our Code of Ethics and Business Conduct, which describes our business standards and underlines our commitment to operating in accordance with the applicable laws and regulations and with our own company policies.

STRATEGIC CORE COMPETENCIES

Fresenius Medical Care aims to further consolidate its expertise as the world's largest provider of top-quality dialysis treatments and products and to apply them as a basis for sustainable, profitable growth. Moreover, by expanding our range of medical services in the area of Care Coordination, our goal is to provide holistic care and improve outcomes for patients as well as payers and at the same time sustainably increase the company value of Fresenius Medical Care. Our strategic plan is built around four core competencies – see chart 2.4 – that will support us in the years to come.

- **Innovating products**
  Developing innovative products to achieve even better outcomes for our patients is an inherent part of our strategy of sustainable, profitable growth and reinforces our technology leadership position in dialysis. In addition, we strive to identify new opportunities in value-added technologies and approaches on an ongoing basis, for example through our Fresenius Medical Care Ventures fund.
- **Standardizing medical procedures**
  Our goal is to standardize medical treatments and clinical processes while continuing to ensure high-quality clinical outcomes. We provided around 48 M dialysis treatments worldwide in 2017. Consequently, we have one of the largest renal patient databases in the world. We intend to use this information to standardize medical settings, ramp up new clinics and integrate acquired clinics based on proven and efficient concepts.
- **Coordinating patients efficiently**
  In an environment of increasing patient numbers and changing health care systems, Fresenius Medical Care sees significant potential in providing value-based care. This approach focuses on selling solutions, providing holistic care and receiving outcome-based reimbursement rather than offering single products or services. Depending on the type of health care network in which we participate, we coordinate the care of our patients with other providers including physicians and other health care facilities. We then use the accumulated patient information provided to create predictive analytics.
- **Operating outpatient facilities**
  By leveraging our experience gained in currently 3,752 proprietary dialysis clinics in around 50 countries, we have the knowledge to operate and manage stand-alone outpatient clinics efficiently and capture economies of scale. We are continuously optimizing and modernizing our processes and administrative structures.

2.4 CORPORATE STRATEGY

GROWTH STRATEGY 2020

Based on our strategic core competencies, we set ourselves long-term targets in 2014 with our growth strategy 2020 (Vision 2020):

- Accelerate revenue growth: The aim is to increase Fresenius Medical Care's revenue to €24 BN by 2020 based upon exchange rates prevailing at the beginning of 2017 and excluding the effect from IFRS 15 implementation, corresponding to an average annual growth rate of around 10%. This increase in revenue should stem from both organic growth and acquisitions.
- Deliver sustainable and profitable growth: We expect high single-digit annual growth in net income based upon exchange rates prevailing at the beginning of 2017 and excluding the recurring impacts from the U.S. Tax Reform (€140 M to €160 M annually) in the years 2018-2020. In 2017, we also announced the second phase of our Global Efficiency Program (GEP II). Starting in 2018, GEP II targets to achieve sustained cost improvements of €100 M to €200 M per annum by 2020.
- Expand our Care Coordination business: Fresenius Medical Care intends to achieve an annual average revenue growth rate of 15 to 20% in Care Coordination by 2020, based upon exchange rates prevailing at the beginning of 2017, corresponding to 17% of total revenue in 2017.

For further information on our goals, see the "Outlook" starting on page 55.

PERFORMANCE MANAGEMENT SYSTEM

The Management Board oversees our Company by setting strategic and operational targets and measuring various financial key performance indicators used for internal management determined in euro based upon IFRS.

The key performance indicators used for internal management are the same in all the individual operating segments.

Each operating segment is evaluated based on target figures that reflect the revenue and expenses they control. The effects of certain transactions and income taxes are not included as we believe these items to be outside the operating segments' control. Financing is a corporate function, which the operating segments do not control. Therefore, we do not include interest expense relating to financing as an operating segment measurement. Similarly, we do not allocate certain costs which relate primarily to certain headquarters' overhead charges, including accounting and finance, global research and development, etc. because we believe that these costs are also not within the control of the individual operating segments.

Certain of the following key performance indicators and other financial information as well as discussions and analyses set out in this report include measures that are not defined by IFRS (Non-IFRS Measure). We believe this information, along with comparable IFRS measurements, is useful to our investors as it provides a basis for assessing our performance, payment obligations related to performance-based compensation as well as our compliance with covenants. Non-IFRS financial measures should not be viewed or interpreted as a substitute for financial information presented in accordance with IFRS.

REVENUE

The management of our operating segments is based on revenue as a key performance indicator. We believe that the key to continue growing our revenue is to attract new patients and increase the number of treatments performed each year. The number of treatments performed each year is therefore an indicator of continued revenue growth. Revenue is also benchmarked based on movement at constant exchange rates. For further information see the "Constant currency information" section starting on page 28.

OPERATING INCOME

Operating income is the most appropriate measure for evaluating the profitability of the operating segments and is therefore also a key performance indicator.

OPERATING INCOME MARGIN

Operating income margin represents the ratio of operating income to revenue. We believe operating income margin shows the profitability of each of our operating segments or the Group as a whole.

DELIVERED EBIT (NON-IFRS MEASURE)

As a result of the significance of noncontrolling interest holders in our operations, we believe a measure that is meaningful to investors is operating income less noncontrolling interests (Delivered EBIT). Delivered EBIT approximates the operating income attributable to the shareholders of FMC AG & CO. KGAA. As such, we believe that operating income, or EBIT, is the closest comparable IFRS measure.

Table 2.5 on page 25 shows the reconciliation of operating income to Delivered EBIT for our reporting segments.

NET INCOME GROWTH AT CONSTANT CURRENCY (NON-IFRS MEASURE)

At Group level, percentage growth in net income (net income attributable to shareholders of FMC AG & CO. KGAA) at constant currency is an additional key performance indicator used for internal management. Please see the "Constant currency information" section starting on page 28 for more information on the use and calculation of financial measures at constant currency.

BASIC EARNINGS PER SHARE GROWTH AT CONSTANT CURRENCY (NON-IFRS MEASURE)

Percentage growth in basic earnings per share at constant currency is a key performance indicator to evaluate our profitability. This indicator helps to manage our overall performance. Basic earnings per share is calculated by dividing net income attributable to shareholders by the weighted-average number of outstanding shares over the course of the year. Please see the "Constant currency information" section starting on page 28 for more information on the use and calculation of financial measures at constant currency.

2.5 DELIVERED EBIT RECONCILIATION

in € M

	2017	*2016*
North America Segment		
Operating income (EBIT)	2,086	1,936
less noncontrolling interests	(263)	(267)
Delivered EBIT	1,823	1,669
Dialysis		
Operating income (EBIT)	1,942	1,882
less noncontrolling interests	(229)	(243)
Delivered EBIT	1,713	1,639
Care Coordination		
Operating income (EBIT)	144	54
less noncontrolling interests	(34)	(24)
Delivered EBIT	110	30
EMEA Segment		
Operating income (EBIT)	444	474
less noncontrolling interests	(4)	(3)
Delivered EBIT	440	471
Asia-Pacific Segment		
Operating income (EBIT)	313	289
less noncontrolling interests	(7)	(6)
Delivered EBIT	306	283
Dialysis		
Operating income (EBIT)	286	289
less noncontrolling interests	(6)	(6)
Delivered EBIT	280	283
Care Coordination		
Operating income (EBIT)	27	–
less noncontrolling interests	(1)	–
Delivered EBIT	26	–
Latin America Segment		
Operating income (EBIT)	58	59
less noncontrolling interests	0	0
Delivered EBIT	58	59
Total		
Operating income (EBIT)	2,362	2,409
less noncontrolling interests	(274)	(276)
Delivered EBIT	**2,088**	**2,133**

CAPITAL EXPENDITURES

We manage our investments using a detailed coordination and evaluation process. The Management Board sets the complete investment budget for the Group as well as the investment targets. Before realizing specific investment projects or acquisitions, our internal Acquisition & Investment Committee (AIC) examines the individual projects and measures, taking into account the expected return on investment and potential yield. Investment projects are evaluated using common methods such as net present value, internal interest rate methods and payback periods. We utilize this evaluation methodology to ensure that we only make and implement investments and acquisitions that increase shareholder value. Capital expenditures for property, plant and equipment is an indicator used for internal management. It influences the capital invested for replacement and expansion.

CASH FLOW MEASURES

Net cash provided by (used in) operating activities in % of revenue (Non-IFRS Measure)

Our consolidated statement of cash flows indicates how we generated and used cash and cash equivalents. In conjunction with our other primary financial statements, it provides information that helps us evaluate changes to our net assets and our financial structure (including liquidity and solvency). Net cash provided by (used in) operating activities is applied to assess whether a business can generate the cash required to make the necessary replacement and expansion of investments. This indicator is impacted by the profitability of our business and the development of working capital, mainly receivables. Net cash provided by (used in) operating activities in percent of revenue shows the percentage of our revenue that is available in terms of financial resources. It is an indicator for our operating financial strength.

Free cash flow in % of revenue (Non-IFRS Measure)

Free cash flow (net cash provided by (used in) operating activities after capital expenditures, before acquisitions and investments) refers to the cash flow we have at our disposal. This indicator shows the percentage of revenue available for acquisitions and investments, dividends to shareholders, reducing debt financing or for repurchasing shares.

Table 2.6 shows the significant cash flow key performance indicators for 2017 and 2016 and reconciles free cash flow and free cash flow in percent of revenue to net cash provided by (used in) operating activities and net cash provided by (used in) operating activities in percent of revenue, respectively.

NET LEVERAGE RATIO (NON-IFRS MEASURE)

The net leverage ratio, defined as the ratio of net debt/EBITDA, is a key performance indicator used for internal management at Group level. In 2017, we revised this indicator from leverage ratio to net leverage ratio, which aligns to our covenant obligations under our Amended 2012 Credit Agreement as well as determines pricing under that agreement. See note 14 of the notes to the consolidated financial statements for more information on the Amended 2012 Credit Agreement. To determine the net leverage ratio, debt less cash and cash equivalents (net debt) is compared to

2.6 SIGNIFICANT CASH FLOW KEY PERFORMANCE INDICATORS
in € M

	2017	2016
Revenue	17,784	16,570
Net cash provided by (used in) operating activities	2,192	1,932
Capital expenditures	(944)	(931)
Proceeds from sale of property, plant and equipment	103	16
Capital expenditures, net	(841)	(915)
Free cash flow	1,351	1,017
Net cash provided by (used in) operating activities *in % of revenue*	12.3%	11.7%
Free cash flow *in % of revenue*	7.6%	6.1%

EBITDA (earnings before interest, taxes, depreciation and amortization; adjusted for acquisitions and divestitures made during the year with a purchase price above a €50 M threshold as defined in the Amended 2012 Credit Agreement, and non-cash charges). The ratio is an indicator of the length of time the Company needs to service the net debt out of its own resources. We believe that the net leverage ratio provides more reliable information about the extent to which we are able to meet our payment obligations than considering only the absolute amount of our debt. We have a strong market position in a growing, global and mainly non-cyclical market. Furthermore, most of our customers have a high credit rating as the dialysis industry is characterized by stable and sustained cash flows. This means that we can work with a relatively large share of debt capital compared with companies in other industries.

Table 2.7 shows the reconciliation of the net leverage ratio at December 31, 2017 and 2016.

RETURN ON INVESTED CAPITAL (NON-IFRS MEASURE)

Return on invested capital (ROIC) is the ratio of operating income after tax (net operating profit after tax, NOPAT) to the average invested capital of the last five quarter closing dates, and expresses how efficiently we allocate the capital under our control or how well we employ our capital with regard to a specific investment project.

Table 2.9 on page 28 shows the reconciliation of average invested capital to total assets, which we believe to be the most directly comparable IFRS financial measure, and how ROIC is calculated.

Table 2.8 provides an overview of our key performance indicators.

2.7 RECONCILIATION OF NET LEVERAGE RATIO

in € M

	2017	2016
Debt	7,448	8,132
Cash and cash equivalents	978	709
Net debt	6,470	7,423
Operating income[1]	2,372	2,398
Depreciation and amortization[1]	731	710
Non-cash charges	51	65
EBITDA[1]	3,154	3,173
▸ **LEVERAGE RATIO[1]**	**2.4**	**2.6**
▸ **NET LEVERAGE RATIO[1]**	**2.1**	**2.3**

[1] *Including adjustments for acquisitions and divestitures made within the reporting period with a purchase price above a €50 M threshold as defined in the Amended 2012 Credit Agreement.*

2.8 KEY PERFORMANCE INDICATORS

	2017	2016
Revenue	€17,784 M	€16,570 M
Operating income	€2,362 M	€2,409 M
Operating income margin	13.3%	14.5%
Delivered EBIT	€2,088 M	€2,133 M
Net income growth at Constant Currency[1]	14%	20%
Basic earnings per share growth at Constant Currency[1]	14%	19%
Capital expenditures	€0.8 BN	€0.9 BN
Acquisitions and investments	€0.6 BN	€0.5 BN
Net cash provided by (used in) operating activities *in % of revenue*	12.3	11.7
Free cash flow *in % of revenue*	7.6	6.1
Net leverage ratio	2.1	2.3
ROIC *in %*	8.6	7.8

[1] *Net income attributable to shareholders of FMC AG & Co. KGaA.*

CONSTANT CURRENCY INFORMATION

Some key performance indicators and other financial measures used in this report such as changes in revenue, operating income and net income attributable to shareholders of FMC AG & CO. KGAA include the impact of translating local currencies to our reporting currency for financial reporting purposes. We calculate these Non-IFRS financial measures at constant exchange rates in our filings to show changes in our revenue, operating income, net income attributable to shareholders of FMC AG & CO. KGAA and other items without giving effect to period-to-period currency fluctuations.

2.9 RECONCILIATION OF AVERAGE INVESTED CAPITAL AND ROIC

in € M, except ROIC

2017	*December 31, 2017*	*September 30, 2017*[2]	*June 30, 2017*[2]	*March 31, 2017*[2]	*December 31, 2016*[2]
Total assets	24,025	24,156	24,617	26,016	25,825
Plus: Cumulative goodwill amortization	394	400	413	439	444
Minus: Cash and cash equivalents	(978)	(729)	(721)	(678)	(716)
Minus: Loans to related parties	(92)	(146)	(169)	(220)	(220)
Minus: Deferred tax assets	(315)	(334)	(308)	(311)	(292)
Minus: Accounts payable	(590)	(518)	(484)	(505)	(584)
Minus: Accounts payable to related parties	(147)	(224)	(216)	(271)	(264)
Minus: Provisions and other current liabilities[1]	(2,791)	(2,763)	(2,822)	(2,791)	(2,866)
Minus: Income tax payable	(194)	(251)	(234)	(277)	(242)
▸ INVESTED CAPITAL	**19,312**	**19,591**	**20,076**	**21,402**	**21,085**
Average invested capital as of December 31, 2017	20,293				
Operating income[2]	2,372				
Income tax expense[3,4]	(617)				
▸ NOPAT	**1,755**				
▸ ROIC *in %*	**8.6**				

2016	*December 31, 2016*	*September 30, 2016*[2]	*June 30, 2016*[2]	*March 31, 2016*[2]	*December 31, 2015*[2]
Total assets	25,504	24,074	24,108	23,262	23,680
Plus: Cumulative goodwill amortization	444	422	424	413	431
Minus: Cash and cash equivalents	(709)	(566)	(653)	(466)	(516)
Minus: Loans to related parties	(199)	(144)	(152)	(197)	(182)
Minus: Deferred tax assets	(291)	(262)	(248)	(245)	(261)
Minus: Accounts payable	(576)	(473)	(518)	(495)	(585)
Minus: Accounts payable to related parties	(264)	(231)	(196)	(208)	(141)
Minus: Provisions and other current liabilities[1]	(2,857)	(2,573)	(2,583)	(2,341)	(2,470)
Minus: Income tax payable	(242)	(228)	(228)	(245)	(216)
▸ INVESTED CAPITAL	**20,810**	**20,019**	**19,954**	**19,478**	**19,740**
Average invested capital as of December 31, 2016	20,000				
Operating income[2]	2,398				
Income tax expense[3]	(840)				
▸ NOPAT	**1,558**				
▸ ROIC *in %*	**7.8**				

[1] *Including non-current provisions, non-current labor expenses and variable payments outstanding for acquisitions and excluding pension liabilities and noncontrolling interests subject to put provisions.*
[2] *Including adjustments for acquisitions and divestitures made within the reporting period with a purchase price above a €50 M threshold as defined in the Amended 2012 Credit Agreement.*
[3] *Adjusted for noncontrolling partnership interests.*
[4] *Includes the remeasurement of deferred tax balances as a result of U.S. tax reform (U.S. Tax Reform) of approximately €236 M.*

Under IFRS, amounts received in local (non-euro) currency are translated into euro at the average exchange rate for the period presented. Once we translate the local currency for the constant currency, we then calculate the change, as a percentage, of the current period using the prior period exchange rates versus the prior period. This resulting percentage is a Non-IFRS Measure referring to a change as a percentage at constant currency. These currency-adjusted financial measures are identifiable by the designated terms "Constant Exchange Rates" or "Constant Currency".

We believe that the measures at Constant Currency (Non-IFRS measure) are useful to investors, lenders, and other creditors because such information enables them to gauge the impact of currency fluctuations on our revenue, operating income, net income attributable to shareholders of FMC AG & CO. KGAA and other items from period to period. However, we limit our use of Constant Currency period over period changes to a measure for the impact of currency fluctuations on the translation of local currency into euro. We do not evaluate our results and performance without considering both Constant Currency period over period changes in Non-IFRS revenue, operating income, net income attributable to shareholders of FMC AG & CO. KGAA and other items and changes in revenue, operating income, net income attributable to shareholders of FMC AG & CO. KGAA and other items prepared in accordance with IFRS. We caution the readers of this report to follow a similar approach by considering data on Constant Currency period over period changes only in addition to, and not as a substitute for or superior to, changes in revenue, operating income, net income attributable to shareholders of FMC AG & CO. KGAA and other items prepared in accordance with IFRS. We present the growth rate derived from IFRS measures next to the growth rate derived from Non-IFRS measures such as revenue, operating income, net income attributable to shareholders of FMC AG & CO. KGAA and other items. As the reconciliation is inherent in the disclosure, we believe that a separate reconciliation would not provide any additional benefit.

RESEARCH AND DEVELOPMENT

Developing innovative products and continuously improving our dialysis treatments are an inherent part of our growth strategy. Our worldwide research and development (R&D) activities, which are centrally managed by the Global Research & Development division (GRD), enable us to develop products efficiently and to systematically promote the exchange of knowledge and technology between regions.

GLOBAL RESEARCH & DEVELOPMENT STRATEGY

Health care systems face major financial challenges now and in the long term. With regard to our research and development activities, this confirms our intention to develop innovative products that are not only of high-quality, but are also affordable. Based on our experience in operating our own dialysis clinics, we do not consider these to be incompatible aims.

Our R&D strategy is globally oriented. This enables us to respond even better to the worldwide rise in demand for high-quality yet cost-efficient treatment methods. In doing so, we also take regional market conditions into account and offer a differentiated product range. In future, we intend to deliver innovative, competitive products even more efficiently and strengthen our focus on developing countries.

In addition to R&D activities carried out at our company, we collaborate with external partners with the aim of building a comprehensive innovation and technology network. These include numerous academic institutions, such as research institutes at renowned universities in the U.S. Another partner is the Renal Research Institute (RRI) in New York. This subsidiary of Fresenius Medical Care North America is a leading institution in the field of clinical research into chronic kidney failure. Together we are working on fundamental issues relating to dialysis treatment. We are increasingly collaborating with start-ups to encourage an open culture that promotes innovation and to gain access to the latest technologies both in our core business as well as in adjacent areas that are of future strategic interest to us.

R&D RESOURCES

In the past financial year, Fresenius Medical Care spent a total of around €131 M on research and development (2016: €147 M). R&D expenditure corresponded to around 4% (2016: 5%) of our health care product revenue. Around a quarter of our R&D expenditure went into funding advance developments, laying the foundation for future product innovations. At the end of 2017, our patent portfolio comprised some 8,396 property rights in approximately 1,253 patent families, i. e. groups of patents linked to the same invention. Our R&D work in the financial year produced around 126 additional patent families. A broad portfolio of patents will provide us with a wide range of treatment options in this competitive area in future.

In 2017, 825 highly qualified employees (full-time equivalents) worked for Fresenius Medical Care in R&D worldwide (2016: 794). They come from various backgrounds: Physicians work side by side with software specialists, business economists and engineers in interdisciplinary teams. Around 530 employees – the

majority of our R&D staff – are based in Europe. Most activities are carried out at our facilities in Schweinfurt and Bad Homburg v.d. Höhe (Germany). Other R&D sites are in St. Wendel (Germany), Bucharest (Romania) and Krems (Austria). In the U.S. the Company maintains centers of excellence for the development of devices in Concord (California) and for dialyzers and other disposable products in Ogden (Utah). Development activities in Shanghai and Changshu (China) are focused on the growing demand for cost-effective dialysis systems in Asia and emerging markets. The global R&D organization coordinates collaboration and technology exchange among the various sites. As part of our innovation culture, we also strive to carry out research and development responsibly. More information can be found in tables 2.10, 2.11 and 2.12.

EMPLOYEES

Fresenius Medical Care owes its business success to the commitment of its employees. At functional level, our personnel management is conducted globally to ensure a uniform strategic approach in line with the overriding corporate objectives.

As at December 31, 2017, Fresenius Medical Care employed a total of 114,000 members of staff (full-time equivalents) in 60 countries. Our workforce therefore grew by 4%, or more than 4,600 in absolute terms, compared to the previous year. This was primarily due to organic growth in our business and to acquisitions.

Table 2.13 on page 31 shows the breakdown of employees by operating segment as well as offered services and products.

Staff costs at Fresenius Medical Care rose to €6,900 M in 2017 (2016: €6,291 M). This corresponds to 39% (2016: 38%) of revenue. Average staff costs per employee (average full-time equivalents) stood at €61,287 (2016: €58,596).

More information about our employees can be found in the non-financial group report starting on page 78 and about diversity in the Corporate Governance Report starting on page 102.

QUALITY MANAGEMENT

At Fresenius Medical Care, we believe in supplying high-quality and reliable products and therapies to ensure the best possible medical care for our patients and customers.

QUALITY MANAGEMENT AT OUR PRODUCTION SITES

Our quality management systems in production combine internal regulations, processes, and procedures with the demands of generally recognized external standards and guidelines. Our plants apply recognized quality management tools such as Lean Six Sigma for optimizing production and testing processes as well as general workflows.

2.10 EXPENDITURES FOR R&D
in € M

	2017	2016	2015	2014	2013
▸ TOTAL	131	147	128	94	96

2.11 NUMBER OF PATENTS

	2017	2016	2015	2014	2013
▸ TOTAL	8,396	7,748	6,643	6,133	5,560

2.12 EMPLOYEES IN R&D
Full-time equivalents

	2017	2016	2015	2014	2013
▸ TOTAL	825	794	649	599	552

QUALITY MANAGEMENT IN OUR DIALYSIS CLINICS

We have established special quality management systems in our dialysis clinics. We regularly check whether they are applied, but transfer some of the tasks involved to third parties, for instance the technical inspection association TÜV in Europe. Its experts inspect our clinics in standardized annual audits to monitor compliance with the ISO 9001 norm for quality management and the ISO 14001 norm for environmental management. In the U.S., our clinics are inspected by the Centers for Medicare and Medicaid Services (CMS), a public health care authority.

More information about our quality management including our quality data can be found in the non-financial group report starting on page 78.

QUALITY-BASED REIMBURSEMENT SYSTEMS

We participate in quality-based reimbursement models, which we describe in the section "Health care and reimbursement systems vary from country to country" starting on page 33.

RESPONSIBILITY, ENVIRONMENTAL MANAGEMENT AND SUSTAINABILITY

For Fresenius Medical Care, sustainability means acting responsibly to achieve commercial success as well as to ensure environmental and social progress and secure the Company's future.

In 2017, we enhanced our sustainability reporting in a company-wide project. A significant part of this project was a materiality analysis. Information about the results of the materiality analysis and our understanding of corporate responsibility can be found in the non-financial group report starting on page 78.

2.13 EMPLOYEES BY OPERATING SEGMENT

Full-time equivalents

	2017	*2016*	*Change*	*Share*
▸ **NORTH AMERICA**	**58,265**	**56,792**	**1,473**	**51%**
Health care services	57,098	55,653		
Health care products	1,167	1,139		
▸ **EMEA**	**18,903**	**18,066**	**837**	**17%**
Health care services	15,214	14,597		
Health care products	3,689	3,469		
▸ **ASIA-PACIFIC**	**10,117**	**9,121**	**996**	**9%**
Health care services	7,910	7,082		
Health care products	2,207	2,039		
▸ **LATIN AMERICA**	**9,516**	**9,201**	**315**	**8%**
Health care services	8,581	8,332		
Health care products	935	869		
▸ **WORLDWIDE**	**114,000**	**109,319**	**4,681**	**100%**
Health care services	88,803	85,664		
Health care products	7,998	7,516		
Corporate[1]	17,199	16,139	1,060	15%

[1] *Including the divisions Global Manufacturing & Quality as well as Global Research & Development.*

ECONOMIC REPORT

The dialysis market is a sustainable growth market with steadily rising demand for products and services to treat kidney patients.

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

MACROECONOMIC ENVIRONMENT

Dependency on economic cycles

Our business is exposed to economic cycles to a relatively small extent only. This sets us apart from manufacturers of consumer goods, for instance, whose products are subject to more cyclical demand.

Our business is impacted more by government reimbursement rates and remuneration systems. Dialysis is a vital medical service, which is why it is usually paid for by the responsible health care system.

Exchange rate developments

As Fresenius Medical Care operates worldwide, the results of its operations are impacted by exchange rate developments. Movements in the U.S. dollar and the euro in relation to one another are especially crucial as we generate a major part of our revenues in the U.S. The euro remained constant in relation to the U.S. dollar at the annual average rate in 2017.

In addition, Fresenius Medical Care's operating results are influenced by changes in the exchange rate between the euro and local currencies, partly due to large production sites in the eurozone selling to Group companies with different functional currencies, but also because the euro is the currency we use for financial reporting. Regarding the sales within the Group, individual subsidiaries are exposed to transactional risks due to fluctuations in the rate of exchange between the invoicing currencies and the currencies in which they conduct their local operations. Fresenius Medical Care reduces transaction risks, i. e. risks from foreign currency exposures or exchange rate fluctuations, through a global network of production facilities, which is geared towards demand in the Company's dialysis product business. Often, the production facilities are based in the markets they serve. Therefore, costs are incurred in the same currency in which Fresenius Medical Care generates revenue. The risk of exchange rate fluctuations for health care services is relatively low because services are provided locally and are therefore invoiced in the respective currency.

SECTOR-SPECIFIC ENVIRONMENT

Chronic kidney failure (End Stage Renal Disease, ESRD) is a global disease. The number of patients requiring renal replacement therapy is increasing worldwide: At the end of 2017, approximately 3.9 M patients underwent dialysis treatment or received a donor organ. More information can be found in table 2.14.

For many years now, the number of donated organs worldwide has been significantly lower than the number of patients on transplant waiting lists. Despite extensive efforts by regional initiatives to increase awareness of kidney donation and the willingness to donate, the share of patients receiving kidney transplantation compared with other treatment methods has remained relatively unchanged over the past ten years.

2.14 PATIENTS WITH CHRONIC KIDNEY FAILURE

	2017	*Share*
Patients with chronic kidney failure	**3,920,000**	**100%**
Of which patients with transplants	760,000	19%
Of which dialysis patients	**3,160,000**	**81%**
Hemodialysis (HD)	2,810,000	72%
Peritoneal dialysis (PD)	349,000	9%

Source: Company information and estimates

The prevalence of chronic kidney failure varies between regions. There are several reasons for this:

- The countries differ demographically, as age structures in the population vary worldwide.
- The prevalence of risk factors for kidney disease, such as diabetes and high blood pressure, varies widely.
- The genetic predisposition for kidney disease also differs significantly around the world.
- Access to dialysis is still restricted in many countries, meaning that many patients suffering from kidney failure are not treated and therefore do not appear in prevalence statistics.
- Cultural factors such as nutrition play a role.

The number of dialysis patients rose by around 6% in 2017. In the U.S., Japan, and Western and Central Europe, patient growth was slower than in economically weaker regions, where it is generally above 6%.

Comparison of dialysis treatment methods

In 2017, most dialysis patients have been treated in one of the approximately 41,300 dialysis centers worldwide, with an average of 75 patients per center. However, this figure varies considerably from country to country.

Hemodialysis is by far the most common form of therapy for chronic kidney failure. A total of 89% of dialysis patients have been treated with this therapy 2017 – mostly in a dialysis center. Home hemodialysis is an alternative to treatment in a dialysis center. It is still rarely used. In the reporting period, 11% of all dialysis patients were treated with peritoneal dialysis, usually at home.

Volume of the dialysis market

According to our estimates, the volume of the global dialysis market increased to around €70 BN in 2017 (2016: €69 BN). The market grew by 4% over the past year at Constant Currency. We expect the following approximate breakdown for this market volume: around €13 BN for dialysis products and approximately €57 BN for dialysis services (including dialysis drugs).

Care Coordination

Chronic conditions such as diabetes and cardiovascular diseases are becoming increasingly common and are responsible for almost two out of three deaths worldwide. In many countries, a large proportion of health care spending goes toward treating chronic diseases. To counteract the resultant increase in cost pressure, more and more health care systems, such as that in our largest market, the U.S., have started reimbursing coordinated, holistic care rather than individual services.

As the range of services we offer in the area of Care Coordination varies widely, we cannot provide a meaningful estimate of the market volume. We currently offer medical services in Care Coordination mainly in the U.S. and the Asia-Pacific Segment and have adapted our activities to these markets. The extent to which our Care Coordination services are rolled out outside the U.S. may vary in individual countries and regions depending on the respective reimbursement system and market environment.

Our customers are mostly health insurers and companies

Fresenius Medical Care's most important customers are state-owned or public health insurers, private health insurers, and companies. Approximately 34% of the Company's consolidated revenues in 2017 were attributable to U.S. federal health care benefit programs, such as Medicare and Medicaid reimbursement.

Health care and reimbursement systems vary from country to country

As renal replacement therapy is a life-saving medical service, patients often do not have to pay for dialysis themselves. Instead, the costs are borne by the responsible health care system. The reimbursement systems for dialysis treatment – in other words, the structures used by health care systems to reimburse dialysis services – differ from country to country and sometimes even within countries. The business activities and reimbursement of dialysis therapy are affected by various factors including regional conditions, the treatment method, regulatory issues, and the type of dialysis service provider (public or private).

Our ability to influence the reimbursement of our services is limited.

The reimbursement system in the U.S.

The environment for reimbursement and ancillary services significantly influences our business. In the U.S. – currently our biggest market – most of our patients are covered by the governmental health authority, called Centers for Medicare and Medicaid (CMS), which pays for treatment. It also determines the reimbursement rates for its patients (Medicare / Medicaid patients). Due to pressure to reduce health care costs, increases in the reimbursement rate by the U.S. government have been limited in the past. As a consequence, the reimbursement rate in CMS' prospective payment system (PPS) for ESRD treatments (so-called ESRD PPS rate) has not changed material year-on-year. The ESRD PPS rate for 2017 was $231.55, just 0.5% above the 2016 base rate of $230.39. For 2018 the ESRD PPS rate is $232.37 which represents a 0.3% increase from the 2017 base rate including the adjustment for the wage index budget-neutrality factor. There is uncertainty regarding possible future changes in health care regulation in the U.S., including the regulation of reimbursement for dialysis services. Any significant reduction in Medicare reimbursement rates could have a material adverse effect on our health care services business. As demand for dialysis products is affected by Medicare reimbursement, this could have an impact on our product business, too. To the extent that inflation, triggered for example by labor and supply costs resulting in higher operating costs, is not fully compensated by an increase in reimbursement rates, our business and results of operations may also be adversely affected. More information can be found in the "Results of operations, financial position and net assets" section starting on page 38.

In the U.S., reimbursement by government institutions is lower than reimbursement by private insurers and managed care organizations. The payments we receive from private insurers generate a substantial portion of the profits we report. In 2017, 35% of the health care revenue of the Group was related to private insurers in the North America Segment. Our business is therefore influenced by a change in the share of reimbursements by private insurers in the U.S. A decrease in these payments would have a negative impact on our results of operations, cash flow and earnings.

Quality-based reimbursement

The health care debate in some countries is currently focused on establishing reimbursement structures based on treatment quality (pay for performance). In this case, more responsibility is transferred to the medical service provider. The goal of reimbursement models of this kind is to maintain a high-quality of care combined with lower overall costs for the health care system.

The reimbursement system in the U.S. is also an example of a model based on qualitative criteria. The ESRD PPS rate in the U.S. is influenced by our established quality management system. We manage the impact of the ESRD PPS with three broad measures:

- We work with medical directors and physicians to find efficiencies that are consistent with the ESRD PPS's quality incentive program (QIP) and good clinical practices.
- We negotiate cost savings through pharmaceutical acquisitions.
- We achieve greater efficiencies and better patient outcomes by introducing new initiatives to improve patient care at the start of dialysis.

The ESRD PPS's QIP has affected payments since January 1, 2012. Dialysis facilities that do not achieve established quality standards receive reduced payments by up to 2% for a particular year, based on their year-on-year performance. CMS updates the set of quality measures each year, adding, revising or withdrawing measures. The QIP payment adjustment for 2017 takes into account the performance of each facility in 2015 based on a set of measures with a focus on:

- anemia management,
- dialysis adequacy,
- reporting dialysis events to the Centers for Disease Control and Prevention (CDC),
- administration of patient satisfaction surveys and
- reporting mineral metabolism on a monthly basis.

Reimbursement in Care Coordination in the U.S.

We are also working closely with CMS in the area of reimbursement for Care Coordination. For example, our subsidiary Sound Physicians has participated in the Bundled Payments for Care Improvement (BPCI) initiative since April 2015. BPCI is a pilot initiative, extended through September 30, 2018, that offers bundled payments for individual services, including acute inpatient hospital services, physician services, and post-acute

services. They are granted to Medicare beneficiaries in the course of a single episode of an illness or course of treatment. As a participant in this project, we can be entitled to additional reimbursement if we provide high-quality care at a cost that is below a set threshold. In January 2018, CMS announced the launch of a new bundled payment model named Bundled Payments for Care Improvement Advanced (BPCI Advanced). BPCI Advanced starts on October 1, 2018 and continues to December 31, 2023. Under BPCI Advanced, participants can earn additional payment if expenditures for a beneficiary's episode of care do not exceed spending targets which includes measures for quality.

In addition, we participate in CMS's Comprehensive ESRD Care Model (CEC Model) through ESRD Seamless Care Organizations (ESCOs) since October 1, 2015, which also has an impact on reimbursement. The aim of the CEC Model is to deliver better health outcomes for ESRD patients while cutting costs for Medicare. ESCOs that achieve the minimum quality thresholds specified by the program and generate reductions in the cost of care above certain thresholds for ESRD patients covered by the model receive a portion of the cost savings. Our ESCOs also share in the risk of cost increases and are obligated to reimburse part of any such increases to CMS if the actual costs exceed these thresholds. As of January 1, 2018, the existing 24 ESCOs expanded by adding new physician practice partners and dialysis facilities, growing the number of patients participating from approximately 26,000 in 2017 to 41,000 in 2018.

In November 2017, we announced the results from the first performance year from our ESCOs. The results, which cover the period from October 2015 through December 2016, show improved health outcomes for patients receiving care coordination through the ESCOs. This success was validated by an independent report, which showed a nearly 9% decrease in hospitalization rates for these patients during the same time. As a result, the Company's ESCOs together generated more than $43 M in gross savings, an average 5.47% reduction in expenditures per patient, with all six of its first-year ESCOs exceeding the shared savings benchmark.

Furthermore, we have entered into various arrangements with both government and private sector health care insurers, in which we assume the risk for the overall care of certain ESRD patients in exchange for set payments. We have been operating the Medicare Advantage ESRD Chronic Special Needs Plan (MA-CSNP) in five U.S. states since January 1, 2017. MA-CSNPS are Medicare Advantage health plans offered by private companies that have contracts with Medicare to provide patients with Medicare benefits. Enrollment in these plans is limited to individuals with specific severe or disabling chronic conditions, such as ESRD. Our MA-CSNPS provide services, including Care Coordination services, and receive capitated payments from Medicare for taking care of enrolled ESRD patients.

We also participate in sub-capitation with commercial insurers as well as in other shared savings and risk arrangements with certain Medicare Advantage plans, Accountable Care Organizations (ACOS) and other integrated care organizations.

OVERALL BUSINESS DEVELOPMENT

HIGHLIGHTS

Optimizing Care Coordination

In implementing our investment strategy, we continue to address activities aimed at a holistic, coordinated care approach in 2017. In this context, Fresenius Medical Care acquired a majority stake in Cura Group, a leading operator of day hospitals in Australia. Cura runs 19 private day hospitals across Australia, where it provides a variety of specialized outpatient services, such as ophthalmology and orthopedic surgery. This step allows Fresenius Medical Care to further leverage its core competence in operating outpatient facilities, extend its dialysis network, and in doing so lay the foundation for future growth in the Australian market.

In line with our strategic goal to further optimize the Company's Care Coordination portfolio, Fresenius Medical Care divested Shiel Medical Laboratory to Quest Diagnostics. Shiel provides non-dialysis laboratory services in the New York City and New Jersey metropolitan area. Fresenius Medical Care's dialysis-related laboratory services business, Spectra Labs, is not affected by the divestiture.

Financing

We refinanced our existing senior secured credit agreement, originally due to mature in 2019, ahead of schedule. The amended agreement now reflects a simplified, unsecured structure consistent with our investment grade rating and lower tiered pricing. It has an aggregate amount of approximately $3.9 BN and consists of revolving facilities and term loans, denominated in both U.S. dollar and euro, with maturities in 2020 and 2022.

Agreement with the United States Departments of Veterans Affairs and Justice

On January 31, 2017, the Company announced an agreement with the United States Departments of Veterans Affairs and Justice resolving litigation commenced in 2014 regarding reimbursement for services provided to veterans by the Company's clinics during the period January 2009 through February 15, 2011 (VA Agreement). The agreement led to increase the Company's recognition of revenue in 2017 by approximately €94 M. The positive impact on the Company's net income (net income attributable to shareholders of FMC AG & CO. KGAA) was approximately €51 M.

Natural disasters

In the second half of 2017, our business in the North America Segment was influenced by the hurricanes Harvey, Irma and Maria as well as an earthquake in Mexico. The costs related to these natural disasters net of anticipated recoveries (Natural Disaster Costs) had a negative impact on our operating income in the amount of €18 M. Net income decreased by €11 M.

Foreign Corrupt Practices Act related charge

The Company recorded a provision of €200 M in regards to Foreign Corrupt Practices Act (FCPA) investigations. The provision is based on the ongoing settlement negotiations that would avoid litigation between the Company and the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) (government agencies) and represents an estimate from the range of potential outcomes estimated from current discussions. FCPA Related Charge encompasses government agencies' claims for profit disgorgement, as well as accruals for fines and penalties, certain legal expenses and other related costs or asset impairments (FCPA Related Charge). For further information on these investigations, see note 22 of the notes to the consolidated financial statements.

U.S. tax reform

As a result of the U.S. tax reform effective since January 1, 2018, the corporate income tax rate in the U.S. decreased from 35% to 21%. Due to the new law, Fresenius Medical Care remeasured its deferred tax balances. This resulted in a deferred tax benefit of €236 M for 2017, which increased net income accordingly in 2017.

Acquisitions and divestitures

To strengthen our vertically integrated dialysis business, Fresenius Medical Care signed an agreement to acquire NxStage Medical, Inc. (NxStage), a U.S.-based medical technology and service company. NxStage develops, produces and markets medical devices for use in home dialysis and in the critical care setting. This acquisition enables Fresenius Medical Care to further leverage manufacturing, supply chain and marketing competencies across the dialysis products, services and Care Coordination businesses in a care setting that requires less labor and capital.

Fresenius Medical Care intends to acquire all outstanding shares of NxStage for $30 per common share. As a result, the transaction would be valued at approximately $2 BN. The merger is subject to additional regulatory approvals and other customary closing conditions.

COMPARISON OF ACTUAL BUSINESS RESULTS WITH THE OUTLOOK

The environment for our core business of dialysis remained largely stable in 2017. We met the outlook we set ourselves for the financial year 2017 to a great extent.

Our 2017 outlook did not include the effects related to the VA Agreement, the effects of Natural Disaster Costs, the impact of the FCPA Related Charge and the effects of the U.S. tax reform. We have therefore adjusted the actual results for 2017 accordingly to make them comparable with the 2017 outlook. For a reconciliation of results 2017 to results 2017 adjusted please see table 2.15 on page 37.

The outlook for the 2017 financial year was based on the prevailing exchange rates at the beginning of the year 2017. We expected revenue growth of 8 to 10% at Constant Currency. We generated revenue of €17.8 BN. Excluding contributions from the VA Agreement we generated revenue of €17.7 BN, up 7% on the previous year. Revenue excluding contributions from the VA Agreement increased by 9% at Constant Currency. We therefore met our expectations.

All operating segments, but above all the North America Segment and the Asia-Pacific Segment, contributed to the expansion of our business. Further details on the development of revenue can be found in the "Results of operation, financial position and net assets" section starting on page 38.

We expected the growth of our operating income to exceed that of revenue in the 2017 financial year, or at least reach the same level. The operating income for 2017 was €2.4 BN. Adjusted for the VA Agreement, Natural Disaster Costs and the impact of the FCPA Related Charge the operating income for 2017 was up by 5% at Constant Currency to €2.5 BN. We were below our expectations mainly due to higher than expected personnel and supply expenses in the North America Segment as well as cost of acquisitions for the acquisition of NxStage that were not included in the outlook.

We expected Delivered EBIT to perform similar to revenue in 2017. Delivered EBIT for 2017 was €2.1 BN. Adjusted for the VA Agreement, the Natural Disaster Costs and the impact of the FCPA Related Charge the Delivered EBIT for 2017 increased by 6% at Constant Currency to €2.2 BN. We also did not meet this expectation mainly due to higher than expected personnel and supply expenses in the North America Segment as well as cost of acquisitions for the acquisition of NxStage that were not included in the outlook.

At the beginning of the year, we set a target range for net income growth of 7 to 9% at Constant Currency for the 2017 financial year. The effects related to the VA Agreement, the Natural Disaster Costs, the impact of the FCPA Related Charge and the effects of the U.S. Tax Reform have not been included in this range. Adjusted net income for 2017 increased by 7% at Constant Currency to €1.2 BN, which is within the range of our expectations.

Adjusted earnings per share increased by 7% at Constant Currency. This increase is in line with the development of net income, as we expected.

We earmarked €1.1 BN to €1.2 BN for capital expenditures. During 2017 we adjusted this expectation to €0.9 BN. With an outlay of €0.8 BN, we almost remained within our outlook. We expected to spend around €0.75 BN on acquisitions and investments. This number was adjusted during the year to €0.6 BN. The actual figure was €0.6 BN with respect to acquisitions and investments and we therefore met our expectations. For further information, see the "Results of operation, financial position and net assets" section starting on page 38.

Driven by earnings development and good development in Days Sales Outstanding, net cash provided by (used in) operating activities in percent of revenue was high at 12.3%, meeting our expectation of greater than 10%.

Free cash flow in percent of revenue was 7.6% in 2017, which is also in line with our expectation of greater than 4%.

According to our forecast, the leverage ratio should have been below 2.5 at the end of 2017. The actual leverage ratio was down to 2.4 at the balance sheet date and is therefore as expected.

On Group level the ROIC increased to 8.6% thus meeting our expectation of at least 8.0%.

The number of employees at Fresenius Medical Care (full-time equivalents) grew from 109,319 at the end of 2016 to 114,000 at the end of 2017 due to organic growth and acquisitions. We therefore were below our forecast of more than 117,000.

Research and development expenditures aimed at boosting Fresenius Medical Care's ability to adapt to future requirements amounted to €131 M, so that we did not achieve our expected range of €150 M to €160 M. Our research and development activities are focused on further developing existing product groups.

Table 2.16 on page 38 shows the actual results and our outlook for 2017.

2.15 RECONCILIATION OF RESULTS 2017 TO RESULTS 2017 ADJUSTED

in € M

	Results 2017	*VA Agreement*	*Natural Disaster Costs*	*U.S. Tax Reform*	*FCPA Related Charge*	*Results 2017 adjusted*
Revenue	17,784	(94)	–	–	–	17,690
Operating income	2,362	(87)	18	–	200	2,493
Delivered EBIT	2,088	(85)	18	–	200	2,221
Net income[1]	1,280	(51)	11	(236)	200	1,204

[1] *Net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA.*

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The following sections summarize our results of operations, financial position and net assets as well as key performance indicators by reporting segment, as well as Corporate, for the periods indicated.

We prepared the information using a management approach, consistent with the manner in which management internally disaggregates financial information to assist in making internal operating decisions and evaluating management performance.

RESULTS OF OPERATIONS

Information about our segment data can be found in table 2.17 on page 39.

Revenue and operating income generated in countries outside the eurozone are subject to currency fluctuations. The twelve months ended December 31, 2017 and 2016 were negatively impacted by the development of the euro against the U.S. dollar. For the respective twelve-month period ended December 31, 2017 approximately 72% of revenue and approximately 88% of operating income were generated in U.S. dollars.

Consolidated financial statements

Information about our key indicators for the consolidated financial statements can be found in table 2.18 on page 40.

Health care services revenue increased by 8% including a 2% negative impact from foreign currency translation. At Constant Exchange Rates, health care services revenue increased by 10% driven by increases in organic revenue per treatment (4%), growth in same market treatments (3%) and contributions from acquisitions (3%).

Dialysis treatments increased by 4% as a result of growth in same market treatments (3%) and contributions from acquisitions (2%), partially offset by the effect of closed or sold clinics (1%).

At December 31, 2017, we owned, operated or managed (excluding those managed but not consolidated in the U.S.) 3,752 dialysis clinics compared to 3,624 dialysis clinics at December 31, 2016. For the year ended December 31, 2017, we acquired 67 dialysis clinics, opened 109 dialysis clinics and combined or closed 48 clinics. The number of patients treated in dialysis clinics that we own, operate or manage (excluding patients of dialysis clinics managed but not consolidated in the U.S.) increased by 4% to 320,960 at December 31, 2017 from 308,471 at December 31, 2016.

Health care product revenue increased by 6% including a 1% negative impact from foreign currency translation. At Constant Exchange Rates, health care product revenue increased by 7%. Dialysis product

2.16 RESULTS AND OUTLOOK FOR 2017

	Results 2017	*Results 2017 adjusted*	*Outlook 2017*
Revenue growth at Constant Currency[1]	9%	9%	8 – 10%
Operating income growth at Constant Currency[1,2]	0%	5%	growth ≥ revenue growth
Delivered EBIT growth at Constant Currency[1,2]	0%	6%	growth ~ revenue growth
Net income growth at Constant Currency[1,2,3,4]	14%	7%	7 – 9%
Basic earnings per share growth at Constant Currency[1,2,3,4]	14%	7%	based on development of net income
Capital expenditures	€0.8 BN		€0.9 BN
Acquisitions and investments	€0.6 BN		~ €0.6 BN
Net cash provided by (used in) operating activities *in % of revenue*	12.3%		>10%
Free cash flow *in % of revenue*	7.6%		>4%
Leverage ratio	2.4		<2.5
ROIC	8.6%		≥8.0%
Employees[5]	114,000		>117,000
Research and development expenses	€131 M		€150 – €160 M

[1] *"Outlook 2017" and "Results 2017 adjusted" exclude the effects of the agreement with the United States Departments of Veterans Affairs and Justice.*
[2] *"Outlook 2017" and "Results 2017 adjusted" exclude Natural Disaster Costs and the FCPA Related Charge.*
[3] *"Outlook 2017" and "Results 2017 adjusted" exclude the effects of the U.S. Tax Reform.*
[4] *Net income attributable to shareholders of FMC AG & Co. KGaA.*
[5] *Full-time equivalents.*

revenue increased by 5% including a 1% negative impact from foreign currency translation. At Constant Exchange Rates, dialysis product revenues increased by 6% due to higher sales of dialyzers, machines, peritoneal dialysis products, renal pharmaceuticals, products for acute care treatments, hemodialysis solutions and concentrates and bloodlines. Non-dialysis product revenue increased by 59% to €79 M from €49 M with no foreign currency translation effects. The increase of 59% was due to the acquisition of Xenios AG (Xenios).

The decrease period over period in the gross profit margin was 0.1 percentage points. Foreign currency translation effects represented a 0.1 percentage point increase in the gross profit margin. The decrease primarily reflects a decrease in the EMEA Segment, the Asia-Pacific Segment and Corporate, partially offset by an increase in the North America Segment. The gross profit margin decrease in the EMEA Segment was primarily driven by unfavorable impacts from acquisitions largely due to the development of cardiopulmonary products at Xenios, pressure on reimbursement in some countries and the impact from two fewer dialysis days, partially offset by a favorable impact from manufacturing. The gross profit margin decrease in the Asia-Pacific Segment was primarily driven by an unfavorable mix effect related to acquisitions with lower margins and unfavorable foreign currency transaction effects, partially offset by a favorable impact from business growth, mainly in China. The gross profit margin decrease in Corporate was mainly driven by sustaining engineering costs. The increase in gross profit margin in the North America Segment was primarily due to a favorable impact driven by the initial recognition in the calendar year 2017 of earnings (including earnings from prior periods) from the BPCI initiative combined with increased volumes for hospital-related physician services, impact of revenue recognized from the VA Agreement, lower costs for health care supplies and a favorable impact from the increase in the ESRD PPS rate for 2017, partially offset by higher costs in our pharmacy services business, higher personnel expense and the impact from lower revenue for vascular services.

The increase period over period in selling, general and administrative (SG & A) expenses as a percentage of revenue was 1.3 percentage points with virtually no impact from foreign currency translation in the current period. The increase was driven by increases at Corporate as well as in the EMEA Segment, the Latin America Segment and the North America

2.17 SEGMENT DATA (INCLUDING CORPORATE)
in € M

	2017	2016
Total revenue		
North America	12,879	12,030
EMEA	2,547	2,409
Asia-Pacific	1,623	1,474
Latin America	720	643
Corporate	15	14
▸ **TOTAL**	**17,784**	**16,570**
Operating income		
North America	2,086	1,936
EMEA	444	474
Asia-Pacific	313	289
Latin America	58	59
Corporate	(539)	(349)
▸ **TOTAL**	**2,362**	**2,409**
Interest income	43	42
Interest expense	(397)	(408)
Income tax expense	(454)	(623)
▸ **NET INCOME**	**1,554**	**1,420**
▸ **LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS**	**(274)**	**(276)**
▸ **NET INCOME ATTRIBUTABLE TO SHAREHOLDERS OF FMC AG & CO. KGAA**	**1,280**	**1,144**

Segment, partially offset by a decrease in the Asia-Pacific Segment and a favorable impact of varying margins across our four reporting segments. The increase at Corporate was mainly driven by the FCPA Related Charge in the amount of €200 M. The increase in the EMEA Segment was due to unfavorable foreign currency transaction effects, unfavorable impacts from acquisitions largely due to the development of cardiopulmonary products at Xenios, higher overhead costs and costs related to a change in the Management Board, partially offset by decreased bad debt expense and a favorable impact from a legal settlement in Germany. The increase in the Latin America Segment was due to unfavorable foreign currency transaction effects and higher overhead costs, partially offset by reimbursement rate increases which mitigated inflationary cost increases in the region. The increase in the North America Segment was mainly driven by higher bad debt expense, higher personnel expense and the impact from lower revenue for vascular services, partially offset by gains on the sale of fixed assets and investments, the impact from higher revenue including the initial recognition in the calendar year 2017 of earnings (including earnings from prior periods) from the BPCI initiative combined with increased volumes for hospital-related physician services and a positive impact from income attributable to a consent agreement on certain pharmaceuticals. The decrease in the Asia-Pacific Segment was due to a favorable impact from acquisitions largely due to Cura and the prior year impact from costs associated with changes in the Management Board.

Research and development expenses decreased by 11% to €131 M from €147 M. The decrease period over period, as a percentage of revenue, was 0.2 percentage points, largely driven by capitalized development costs, partially offset by expenses incurred related to the development of cardiopulmonary products at Xenios and an increased project portfolio.

Income from equity method investees increased by 15% to €67 M from €59 M. The increase was driven by increased income from Vifor Fresenius Medical Care Renal Pharma Ltd., an entity in which we have ownership of 45%, due to increased sales in North America, partially offset by increased costs to support the launch and development of new projects.

The decrease period over period operating income margin was 1.2 percentage points with virtually no impact from foreign currency translation in the current period. Operating income margin decreased as a result of increased SG&A, as a percentage of revenue and decreased gross profit margin, partially offset by decreased research and development expenses, as a percentage of revenue, and increased income from equity method investees, as discussed above. Excluding (I) the impact of the FCPA Related Charge of €200 M, (II) the effect of the VA Agreement

2.18 KEY INDICATORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

			Change in %	
	2017	2016	as reported	Constant Currency[1]
Revenue *in € M*	17,784	16,570	7	9
Health care services *in € M*	14,532	13,506	8	10
Health care products *in € M*	3,252	3,064	6	7
Number of dialysis treatments	48,269,144	46,529,154	4	
Same market treatment growth *in %*	2.7	3.2		
Gross profit *as a % of revenue*	33.8	33.9		
Selling, general and administrative costs *as a % of revenue*	20.1	18.8		
Operating income *in € M*	2,362	2,409	−2	0
Operating income margin *in %*	13.3	14.5		
Delivered EBIT[2] *in € M*	2,088	2,133	−2	0
Net income[3] *in € M*	1,280	1,144	12	14
Basic earnings per share *in €*	4.17	3.74	12	14

[1] *For further information on Constant Currency, see the "Performance management system" section starting on page 24.*
[2] *For further information on Delivered EBIT, including a reconciliation of Delivered EBIT to operating income for each of our operating segments, see the "Performance management system" section starting on page 24.*
[3] *Net income attributable to shareholders of FMC AG & Co. KGaA.*

of approximately €87 M as of December 31, 2017 and (III) Natural Disaster Costs of approximately €18 M, operating income margin decreased by 0.4 percentage points to 14.1% from 14.5% with virtually no impact from foreign currency translation in the current period.

Delivered EBIT decreased by 2% including a 2% negative impact from foreign currency translation. At Constant Exchange Rates, Delivered EBIT remained flat largely a result of operating income at Constant Exchange Rates remaining stable.

Net interest expense decreased by 3% to €354 M from €366 M. Foreign currency translation had a positive impact of 1% in the current period. At Constant Exchange Rates, net interest expense decreased by 2% largely due to the replacement of interest bearing Bonds, repaid in 2016 and 2017, by debt instruments at lower interest rates.

Income tax expense decreased by 27% to €454 M from €623 M. The effective tax rate decreased to 22.6% from 30.5% for the same period of 2016 driven by the impact, €236 M, of U.S. Tax Reform. Excluding U.S. Tax Reform impacts, the effective tax rate increased to 34.3% from 30.5% largely due to the FCPA Related Charge of €200 M which was not tax effected, prior year related taxes, a lower portion of tax-free income attributable to noncontrolling interests compared to income before taxes and higher tax expense related to the VA Agreement, approximately €34 M, as the tax rate in the U.S. is higher than the average tax rate outside of the U.S., partially offset by tax benefits from financing structures. Excluding (I) the effect on earnings before taxes due to the FCPA Related Charge of €200 M, (II) the impact from the VA Agreement, pre-tax of approximately €87 M, (tax expense of approximately €34 M), (III) the tax effects associated with Natural Disaster Costs, pre-tax of approximately €18 M (tax expense of approximately €7 M) and (IV) U.S. Tax Reform of approximately €236 M, the effective tax rate increased to 31.0% from 30.5%.

Net income attributable to noncontrolling interests decreased slightly to €274 M from €276 M including a 2% negative impact from foreign currency translation. At Constant Exchange Rates, net income attributable to noncontrolling interests increased by 2% primarily driven by the portion of the VA Agreement reimbursement of approximately €2 M attributable to noncontrolling interests and increased noncontrolling interest expense related to Care Coordination, partially offset by decreased noncontrolling interest expense related to dialysis in the North America Segment driven by lower operating income in less than wholly-owned clinics.

Net income attributable to shareholders of FMC AG & CO. KGAA increased by 12% to €1,280 M from €1,144 M including a 2% negative impact resulting from foreign currency translation. At Constant Exchange Rates, the increase of 14% was driven by the combined effects of the items discussed above. Excluding (I) the impact from the FCPA Related Charge of €200 M, (II) the impact of the VA Agreement of approximately €51 M, after tax, (III) Natural Disaster Costs of approximately €11 M, and (IV) U.S. Tax Reform of approximately €236 M, net income attributable to shareholders of FMC AG & CO. KGAA increased by 5% including a 2% negative impact resulting from foreign currency translation. At Constant Exchange Rates, excluding the effects noted above, net income attributable to shareholders of FMC AG & CO. KGAA increased by 7%.

Basic earnings per share increased by 12% including a 2% negative impact from foreign currency translation. At Constant Exchange Rates, basic earnings per share increased by 14% primarily due to the increase in net income attributable to shareholders of FMC AG & CO. KGAA described above. The average weighted number of shares outstanding for the period was approximately 306.6 M in 2017 (2016: 305.7 M).

We employed 114,000 people (full-time equivalents) as of December 31, 2017 compared to 109,319 as of December 31, 2016, an increase of 4%, primarily due to organic growth in our business and acquisitions.

Segment reporting

The following discussions pertain to the North America Segment, the EMEA Segment, the Asia-Pacific Segment and the Latin America Segment as well as the measures we use to manage these segments. Starting in the fiscal year 2017 these measures are based on IFRS. In previous years U.S. GAAP-based figures were used to manage the segments. Thus, the segment information was presented in accordance with U.S. GAAP. To conform to the current year's presentation, the previous year's values are adjusted accordingly.

In regards to our Care Coordination services we use additional business metrics, which will be defined below.

Business metrics for Care Coordination

The measures for the North America Segment and the Asia-Pacific Segment discussed below include current and future programs that we will be participating in and will be reflected in the discussion of our business. Currently, in our North America Segment, sub-capitation, BPCI, ESCO programs, MA-CSNPS and other shared savings programs are included within the member months and medical cost under management calculations below. In the future, other programs may be included in the metrics below. Note that due to the timing required by CMS to review the BPCI and ESCO program data that we provide, estimates have been used in order to report these metrics in a timely manner. The Asia-Pacific Segment Care Coordination metric currently used for discussion purposes is patient encounters. These metrics may be developed further in future periods.

These metrics are neither IFRS measures nor non-IFRS measures, and are therefore not accompanied by or reconciled to IFRS measures.

Member months under medical cost management

In our North America Segment, member months under medical cost management is calculated by multiplying the number of members included in value-based reimbursement programs, such as Medicare Advantage plans or other value-based programs in the U.S., by the corresponding number of months these members participate in those programs (Member Months). In the aforementioned programs, we assume the risk of generating savings. The financial results are recorded in earnings as our performance is determined. The membership offerings within Care Coordination are sub-capitation arrangements, MA-CSNPS, ESCO and BPCI programs as well as other shared savings programs. An increase in patient membership may indicate future earnings or losses as our performance is determined through these managed care programs.

Medical cost under management

In our North America Segment, medical cost under management represents the management of medical costs associated with our patient membership in value-based programs. For ESCO, BPCI and other shared savings programs, this is calculated by multiplying the Member Months in each program by the benchmark of expected medical costs per member per month. The sub-capitation and MA-CSNPS calculation multiplies the premium per member of the program per month by the number of member months associated with the plan, as noted above.

Care Coordination patient encounters

Care Coordination patient encounters represents the total patient encounters and procedures conducted by certain of our Care Coordination activities and, we believe, is an indicator of the revenue generated. Care Coordination patient encounters in the North America Segment is the sum of all encounters and procedures completed during the period by Sound, MedSpring Urgent Care Centers, Azura Vascular Care, and National Cardiovascular Partners, the trade name of Laurus Healthcare L.P., as well as patients in our Fresenius Medical Care Rx Bone Mineral Metabolism (RX BMM) program. Care Coordination patient encounters in the Asia-Pacific Segment is the sum of all encounters for the following services: ambulant treatment services in day care hospitals, comprehensive and specialized health check-ups, inpatient and outpatient services, vascular access and other chronic treatment services.

North America Segment

Information about key indicators and business metrics for the North America Segment can be found in table 2.19.

Dialysis

Revenue

Dialysis care revenue increased by 3% to €9,227 M from €8,975 M including a 2% negative impact resulting from foreign currency translation. At Constant Exchange Rates, dialysis care revenue increased by 5% mainly due to same market treatment growth (2%), an increase related to the VA Agreement, approximately €94 M as of December 31, 2017 (1%), increases in organic revenue per treatment (1%) and contributions from acquisitions (1%).

Dialysis treatments increased by 3% primarily due to same market treatment growth (2%) and contributions from acquisitions (1%). At December 31, 2017, 197,356 patients (4% increase from December 31, 2016) were being treated in the 2,393 dialysis clinics that we own or operate in the North America Segment, compared to 188,987 patients treated in 2,306 dialysis clinics at December 31, 2016.

In the U.S., the average revenue per treatment, excluding the VA Agreement of approximately $4 per treatment, increased to $353 (€319 at Constant Exchange Rates) from $351 (€318). The increase was mainly attributable to a favorable impact from the increase in the ESRD PPS rate for 2017.

Cost per treatment in the U.S. excluding Natural Disaster Costs of $0.70 per treatment, increased to $282 (€255 at Constant Exchange Rates) from $278 (€251). This increase was largely driven by higher personnel expense, higher bad debt expense as well as increased property and other occupancy related costs including depreciation, partially offset by decreased costs for health care supplies and a gain from the sale of fixed assets.

Health care product revenue increased by 3% including a 2% negative impact resulting from foreign currency translation. At Constant Exchange Rates, health care product revenue increased by 5% was driven by higher sales of renal pharmaceuticals, peritoneal dialysis products, hemodialysis solutions and concentrates, machines and dialyzers.

2.19 KEY INDICATORS AND BUSINESS METRICS FOR THE NORTH AMERICA SEGMENT

			Change in %	
	2017	2016	as reported	Constant Currency[1]
Total North America Segment				
Revenue *in € M*	12,879	12,030	7	9
Health care services *in € M*	12,036	11,214	7	10
Health care products *in € M*	843	816	3	5
Operating income *in € M*	2,086	1,936	8	10
Operating income margin *in %*	16.2	16.1		
Delivered EBIT[2] *in € M*	1,823	1,669	9	11
Dialysis				
Revenue *in € M*	10,070	9,791	3	5
Number of dialysis treatments	29,804,196	28,882,107	3	
Same market treatment growth *in %*	2.5	3.1		
Operating income *in € M*	1,942	1,882	3	5
Operating income margin *in %*	19.3	19.2		
Delivered EBIT[2] *in € M*	1,713	1,639	4	6
Care Coordination				
Revenue *in € M*	2,809	2,239	25	28
Operating income *in € M*	144	54	168	173
Operating income margin *in %*	5.1	2.4		
Delivered EBIT[2] *in € M*	110	30	264	271
Member months under medical cost management[3,4]	604,244	387,244	56	
Medical cost under management[3,4] *in € M*	3,994	2,542	57	60
Care Coordination patient encounters[3,4]	6,934,300	5,539,703	25	

[1] *For further information on Constant Currency, see the "Performance management system" section starting on page 24.*
[2] *For further information on Delivered EBIT, including a reconciliation of Delivered EBIT to operating income for each of our operating segments, see the "Performance management system" section starting on page 24.*
[3] *For further information on these metrics, please see the "Segment reporting – Business metrics for Care Coordination" section starting on page 42.*
[4] *The metrics may be understated due to a physician mapping issue related to the BPCI program within a CMS system which has not yet been resolved. Additionally, data presented for the BPCI and ESCO metrics are subject to finalization by CMS, which may result in changes from previously reported metrics.*

Operating income margin

The increase period over period in the dialysis operating income margin was 0.1 percentage points with virtually no impact from foreign currency translation in the current period. The increase was largely driven by the VA Agreement, approximately €94 M, a favorable impact from the increase in the ESRD PPS rate for 2017, lower costs for health care supplies, gains from the sale of fixed assets and investments as well as a positive impact from income attributable to a consent agreement on certain pharmaceuticals, partially offset by higher personnel expense, higher bad debt expense and higher costs such as other supplies and rent expense. Excluding (I) the VA Agreement impact of approximately €94 M and (II) Natural Disaster Costs of approximately €17 M, operating income margin decreased by 0.5 percentage points to 18.7% from 19.2% in the prior period with virtually no impact from foreign currency translation.

Delivered EBIT

Dialysis Delivered EBIT increased by 4% including a 2% negative impact resulting from foreign currency translation. At Constant Exchange Rates, dialysis Delivered EBIT increased by 6% mainly as the result of increased operating income coupled with decreased income from noncontrolling interests.

Care Coordination

Revenue

Care Coordination revenue increased by 25% including a 3% negative impact resulting from foreign currency translation. At Constant Exchange Rates, Care Coordination revenue increased by 28% driven by increases in organic revenue growth (21%) and contributions from acquisitions (7%).

Operating income margin

The increase period over period in the Care Coordination operating income margin was 2.7 percentage points with virtually no impact from foreign currency translation in the current period. The increase was mainly driven by the impact from higher revenue including the initial recognition in the calendar year 2017 of earnings (including earnings from prior periods) from the BPCI initiative combined with increased volumes for hospital related physician services, increased earnings recognized related to ESCOs, a gain from the sale of an investment as well as the impact from the improved margin contribution for laboratory services, partially offset by the impact from lower revenue for vascular services, higher bad debt expense, increased costs for pharmacy services and the change in fair value of subsidiary stock based compensation.

Delivered EBIT

Care Coordination Delivered EBIT increased by 264% including a 7% negative impact resulting from foreign currency translation. At Constant Exchange Rates, Care Coordination Delivered EBIT increased by 271% mainly a result of increased operating income, partially offset by the corresponding increase in noncontrolling interest expense.

Care Coordination business metrics

The increase in member months under medical cost management was primarily attributable to an increase in our participation in ESCO programs from 6 to 24 ESCOs in 2017 as well as the addition of new payor shared savings and sub-capitation agreements, partially offset by a decrease in BPCI due to our voluntary elimination of certain non-performing risks from our BPCI portfolio. **See note 4 to the table 2.19 on page 43**.

Care Coordination cost under management increased by 57%, including a 3% negative impact from foreign currency translation in the current period. At Constant Exchange Rates, Care Coordination's medical cost under management increased by 60% primarily due to an increase in our participation in ESCO programs from 6 to 24 ESCOs in 2017 as well as the addition of new payor shared savings and sub-capitation agreements. **See note 4 to the table 2.19 on page 43**.

The increase in patient encounters was primarily driven by increased encounters for hospital related physician services. **See note 4 to the table 2.19 on page 43**.

EMEA Segment

Information about key indicators for the EMEA Segment can be found in table 2.20.

Revenue

In the EMEA Segment, health care service revenue increased by 6% with virtually no impact from foreign currency translation in the current period. The increase was due to contributions from acquisitions (4%) and same market treatment growth (4%), partially offset by decreases in organic revenue growth per treatment (2%).

Dialysis treatments increased by 5% mainly due to same market treatment growth (4%), contributions from acquisitions (3%), partially offset by the effect of closed or sold clinics (1%) and a decrease in dialysis days (1%). As of December 31, 2017, we had 62,490 patients (5% increase from December 31, 2016) being treated at the 746 dialysis clinics that we own, operate or manage in the EMEA Segment compared to 59,767 patients treated at 711 clinics at December 31, 2016.

Health care product revenue increased by 6% with virtually no impact from foreign currency translation in the current period. Dialysis product revenue increased by 3% including negative foreign currency translation effects of 1%. At Constant Exchange Rates, dialysis product revenue increased by 4% due to higher sales of peritoneal dialysis products, products for acute care treatments, dialyzers and renal pharmaceuticals, partially offset by lower sales of hemodialysis solutions and concentrates. Non-dialysis product revenue increased by 59% to €79 M from €49 M with virtually no foreign currency translation effects. The increase of 59% was due to the acquisition of Xenios.

Operating income margin

The decrease period over period in the operating income margin was 2.3 percentage points with virtually no impact from foreign currency translation in the current period. The decrease was mainly due to unfavorable impacts from acquisitions largely due to the development of cardiopulmonary products at Xenios and foreign currency transaction effects, higher overhead costs, costs related to the change in the Management Board, pressure on reimbursement in some countries as well as lower income from equity method investees as a result of increased costs to support the launch and development of new projects, partially offset by decreased bad debt expense.

Delivered EBIT

Delivered EBIT decreased by 7% including a 1% negative impact resulting from foreign currency translation. At Constant Exchange Rates, Delivered EBIT decreased by 6% primarily due to decreased operating income coupled with slightly increased income from noncontrolling interests.

2.20 KEY INDICATORS FOR THE EMEA SEGMENT

			Change in %	
	2017	2016	as reported	Constant Currency[1]
Revenue *in € M*	2,547	2,409	6	6
Health care services *in € M*	1,237	1,169	6	6
Health care products *in € M*	1,310	1,240	6	6
Number of dialysis treatments	9,350,024	8,872,231	5	
Same market treatment growth *in %*	3.5	3.6		
Operating income *in € M*	444	474	−6	−6
Operating income margin *in %*	17.4	19.7		
Delivered EBIT[2] *in € M*	440	471	−7	−6

[1] *For further information on Constant Currency, see the "Performance management system" section starting on page 24.*
[2] *For further information on Delivered EBIT, including a reconciliation of Delivered EBIT to operating income for each of our operating segments, see the "Performance management system" section starting on page 24.*

Asia-Pacific Segment

Information about key indicators and business metrics for the Asia-Pacific Segment can be found in table 2.21.

Key indicators are now provided separately for dialysis and Care Coordination in the Asia-Pacific Segment due to an acquisition in Australia during the second quarter of 2017. Previously, there were immaterial amounts of services performed in Care Coordination within the Asia-Pacific Segment. We are presenting our Care Coordination activities in Asia-Pacific starting in 2017 as the data collected and presented during the period is now reliable. For comparative purposes in our 2017 analysis, the Asia-Pacific Segment will be discussed on an overall segment basis. Care Coordination services include ambulant treatment services in day care hospitals where we provide treatment infrastructure, comprehensive and specialized health check-ups, inpatient and outpatient services, vascular access and other chronic treatment services.

Revenue

In the Asia-Pacific Segment, health care service revenue increased by 13%, including a 3% negative impact resulting from foreign currency translation. At Constant Exchange Rates, health care service revenue increased by 16% as a result of contributions from acquisitions (12%), same market treatment growth (3%) and increases in organic revenue growth per treatment (2%), partially offset by the effect of closed or sold clinics (1%).

Dialysis treatments increased by 6% mainly due to contributions from acquisitions (4%) and same market treatment growth (3%), partially offset by the effect of closed or sold clinics (1%). As of December 31, 2017, we had 29,739 patients (1% increase from December 31, 2016) being treated at the 381 dialysis clinics that we own, operate or manage in the Asia-Pacific Segment compared to 29,328 patients treated at 374 clinics at December 31, 2016.

Health care product revenue increased by 8%, including a 2% negative impact resulting from foreign currency translation. At Constant Exchange Rates, health care product revenue increased by 10% as a result of increased sales of dialyzers, machines, bloodlines, peritoneal dialysis products and products for acute care treatments.

2.21 KEY INDICATORS AND BUSINESS METRICS FOR THE ASIA-PACIFIC SEGMENT

			Change in %	
	2017	2016	as reported	Constant Currency[1]
Total Asia-Pacific Segment				
Revenue *in € M*	1,623	1,474	10	13
Health care services *in € M*	744	659	13	16
Health care products *in € M*	879	815	8	10
Operating income *in € M*	313	289	8	10
Operating income margin *in %*	19.3	19.6		
Delivered EBIT[2] *in € M*	306	283	8	10
Dialysis				
Revenue *in € M*	1,455	1,474	–1	1
Number of dialysis treatments	4,249,878	4,003,957	6	
Same market treatment growth *in %*	3.3	4.7		
Operating income *in € M*	286	289	–1	1
Operating income margin *in %*	19.7	19.6		
Delivered EBIT[2] *in € M*	280	283	–1	1
Care Coordination				
Revenue *in € M*	168	–	not applicable	
Operating income *in € M*	27	–	not applicable	
Operating income margin *in %*	15.8	–		
Delivered EBIT[2] *in € M*	26	–	not applicable	
Care Coordination patient encounters[3]	784,054	–	not applicable	

[1] *For further information on Constant Currency, see the "Performance management system" section starting on page 24.*
[2] *For further information on Delivered EBIT, including a reconciliation of Delivered EBIT to operating income for each of our operating segments, see the "Performance management system" section starting on page 24.*
[3] *For further information on patient encounters, please see the "Segment reporting – Business metrics for Care Coordination" section starting on page 42.*

Operating income margin

The decrease period over period in the operating income margin was 0.3 percentage points. Foreign currency translation had a positive impact of 0.1 percentage points. The decrease was largely due to unfavorable impacts from foreign currency transaction effects and an unfavorable mix effect related to acquisitions with lower margins, partially offset by a favorable impact from business growth, mainly in China, and the prior year impact from costs associated with changes in the Management Board.

Delivered EBIT

Delivered EBIT increased by 8%, including a 2% negative impact resulting from foreign currency translation. At Constant Exchange Rates, Delivered EBIT increased by 10% mainly due to increased operating income at Constant Currency, partially offset by increased income from noncontrolling interests.

Latin America Segment

Information about key indicators for the Latin America Segment can be found in table 2.22.

Revenue

In the Latin America Segment, health care service revenue increased by 11%, including a 5% negative impact resulting from foreign currency translation. At Constant Exchange Rates, health care service revenue increased by 16% as a result of increases in organic revenue per treatment (15%), contributions from acquisitions (1%), and same market treatment growth (1%), partially offset by the effect of closed or sold clinics (1%).

Dialysis treatments increased by 2% mainly due to contributions from acquisitions (2%) and same market treatment growth (1%), partially offset by the effect of closed or sold clinics (1%). As of December 31, 2017, we had 31,375 patients (3% increase from December 31, 2016) being treated at the 232 dialysis clinics that we own, operate or manage in the Latin America Segment compared to 30,389 patients treated at 233 clinics at December 31, 2016.

Health care product revenue increased by 14%. Foreign currency translation effects represented 3% of the increase. At Constant Exchange Rates, health care product revenue increased by 11% driven by higher sales of dialyzers, machines, hemodialysis solutions and concentrates as well as bloodlines, partially offset by lower sales of peritoneal dialysis products.

Operating income margin

The decrease period over period in the operating income margin was 1.1 percentage points, including a negative foreign currency translation effect of 0.2 percentage points in the current period. The decrease was mainly due to unfavorable foreign currency transaction effects, higher overhead costs and increased costs for manufacturing, partially offset by reimbursement rate increases, which mitigated inflationary cost increases in the region.

Delivered EBIT

Delivered EBIT decreased by 1%, including a 4% negative impact resulting from foreign currency translation. At Constant Exchange Rates, Delivered EBIT increased by 3% due to increased operating income at Constant Currency.

2.22 KEY INDICATORS FOR THE LATIN AMERICA SEGMENT

			Change in %	
	2017	2016	as reported	Constant Currency[1]
Revenue *in € M*	720	643	12	15
Health care services *in € M*	515	464	11	16
Health care products *in € M*	205	179	14	11
Number of dialysis treatments	4,865,046	4,770,859	2	
Same market treatment growth *in %*	1.5	1.9		
Operating income *in € M*	58	59	–1	3
Operating income margin *in %*	8.1	9.2		
Delivered EBIT[2] *in € M*	58	59	–1	3

[1] *For further information on Constant Currency, see the "Performance management system" section starting on page 24.*
[2] *For further information on Delivered EBIT, including a reconciliation of Delivered EBIT to operating income for each of our operating segments, see the "Performance management system" section starting on page 24.*

FINANCIAL POSITION

Our investment and financing strategy did not change substantially in the past financial year. One of the reasons is our business model, which is based on stable and high cash flows, allowing a more consistent and higher level of debt than might be the case in other industries. We still regard our refinancing options as being very stable and flexible. During the fiscal year, the focus of our investing activities was on our health care services business.

Financial management policies and goals

Besides optimizing our financial costs, financial flexibility takes top priority within our financing strategy. We ensure this flexibility by using a wide range of financial instruments and securing a high level of diversification with regard to our investors and banks. Our financing profile is characterized by a wide range of maturities up to 2024.

The main financing instrument is the syndicated credit agreement with revolving credit facilities as well as long-term loans in U.S. dollar and euro. In addition, we use other mid- and long-term financing instruments, mainly bonds in U.S. dollar and euro, and Convertible Bonds. Short-term financing needs are covered by issuances under our commercial paper program in euro and the Accounts Receivable Facility.

In our long-term financial planning, we focus primarily on the net leverage ratio. At the end of 2017 and 2016, the net leverage ratio was 2.1 and 2.3, respectively.

The key financial risks we are exposed to include are foreign exchange risks and interest rate risks. In order to manage these risks, we enter into various hedging transactions with banks that have been authorized by the Management Board and which generally have ratings in the "A" category or better. We do not use financial instruments for trading or other speculative purposes. For financial risks, see the "Risks and opportunities report" starting on page 59 and note 23 of the notes to the consolidated financial statements.

Fresenius SE & Co. KGaA (Fresenius SE), under a service agreement, conducts financial instrument activity for us under the control of a single centralized department. We have established guidelines for risk management procedures and controls including the use of financial instruments. These guidelines include a clear segregation of duties with regards to execution on one side and administration, accounting and controlling on the other.

We also utilize Fresenius SE's cash management system for the settlement of certain intercompany receivables and payables with its subsidiaries and other related parties.

Rating

Our corporate credit rating is covered by the three leading rating agencies, Moody's, Standard & Poor's and Fitch.

In the course of 2017, Moody's raised the corporate credit rating from Ba1 to Baa3 with a stable outlook and Standard & Poor's raised the outlook from stable to positive. We are now rated investment grade by all three rating agencies. More information can be found in table 2.23.

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

We are not involved in off-balance-sheet transactions that are likely to materially affect our financial position, results of operations, liquidity, capital expenditures, assets or capitalization.

2.23 RATING[1]

	Standard & Poor's	*Moody's*	*Fitch*
Corporate credit rating	BBB–	Baa3	BBB–
Outlook	positive	stable	stable

[1] *A rating is not a recommendation to buy, sell or hold securities of the Company, and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.*

Sources of liquidity

Our primary sources of liquidity are typically cash provided by operating activities, cash provided by short-term debt from third parties and related parties, as well as proceeds from the issuance of long-term debt and equity securities. We require this capital primarily to finance working capital needs, fund acquisitions and clinics in which we have ownership of less than 100%, develop free-standing renal dialysis clinics and other health care facilities, purchase equipment for existing or new renal dialysis clinics and production sites, repay debt, pay dividends and repurchase shares. For more information, see the "Net cash provided by (used in) investing activities" section starting on page 50 and the "Net cash provided by (used in) financing activities" section starting on page 51.

At December 31, 2017, we had cash and cash equivalents of €978 M compared to €709 M at December 31, 2016.

Free cash flow (net cash provided by (used in) operating activities, after capital expenditures, before acquisitions and investments) amounted to €1,351 M in 2017 (2016: €1,017 M). Free cash flow is a Non-IFRS Measure and is reconciled to net cash provided by (used in) operating activities, the most directly comparable IFRS measure in the section "Performance management system" starting on page 24. Free cash flow in percent of revenue was 7.6% in 2017 (2016: 6.1%).

Net cash provided by (used in) operating activities

During 2017 and 2016 we generated net cash provided by operating activities of €2,192 M and €1,932 M, respectively. Net cash provided by operating activities in percent of revenue was 12% for 2017 (2016: 12%).

Cash provided by (used in) operating activities is impacted by the profitability of our business, the development of our working capital, principally inventories, receivables and cash outflows that occur due to a number of specific items as discussed below. The increase in net cash provided by operating activities was largely driven by the payment related to the VA Agreement, the impact of the 2016 discretionary contribution of €90 M to pension plan assets in the U.S. and the timing of other working capital items, partially offset by higher income tax payments.

The profitability of our business depends significantly on reimbursement rates. Approximately 82% of our revenue is generated by providing health care services, a major portion of which is reimbursed by either public health care organizations or private insurers. In 2017, approximately 34% of our consolidated revenue was attributable to U.S. federal health care benefit programs, such as Medicare and Medicaid reimbursement. Legislative changes could affect Medicare reimbursement rates for a significant portion of the services we provide, as well as the scope of Medicare coverage. A decrease in reimbursement rates or the scope of coverage could have a material adverse effect on our business, financial condition and results of operations and thus on our capacity to generate cash flow.

While we have generally experienced stable reimbursement globally, including the balancing of unfavorable reimbursement changes in certain countries with favorable changes in other countries, the stability of reimbursement in the U.S. has been affected by (I) the implementation of the ESRD PPS in January 2011, (II) the U.S. federal government across the board spending cuts in payments to Medicare providers commonly referred to as "U.S. Sequestration", (III) the phased reduction to the ESRD PPS rate to account for the decline in utilization of certain drugs and biologicals associated with dialysis pursuant to the American Taxpayer Relief Act of 2012 (ATRA) as subsequently modified under the Protecting Access to Medicare Act of 2014 (PAMA) and (IV) CMS's 2016 final rule on the Physician Fee Schedule with material decreases in reimbursement for certain procedures.

We intend to continue to address our current cash and financing requirements using cash provided by operating activities, our existing and future credit agreements, issuances under the commercial paper program (see note 13 of the notes to the consolidated financial statements) as well as the utilization of the Accounts Receivable Facility. In addition, when funds are required for acquisitions or to meet other needs, we expect to successfully complete long-term financing arrangements, such as the issuance of bonds. We aim to preserve financial resources with a minimum of €500 M of committed and unutilized credit facilities.

Net cash provided by (used in) operating activities depends on the collection of accounts receivable. Commercial customers and governments generally have different payment cycles. Lengthening their payment cycles could have a material adverse effect on our capacity to generate cash flow. In addition, we could face difficulties in enforcing and collecting accounts receivable under some countries' legal systems and due to the economic conditions in some countries. Accounts receivable balances, net of valuation allowances, represented Days Sales Outstanding (DSO) of 67 days at December 31, 2017, a decrease as compared to 70 days at December 31, 2016.

DSO by segment is calculated by dividing the segment's accounts receivable, converted to euro using the average exchange rate for the period presented, less any value added tax included in the receivables, by the average daily sales for the last twelve months of that segment, converted to euro using the average exchange rate for the period. Receivables and sales are adjusted for amounts related to acquisitions and divestitures made within the reporting period with a purchase price above a €50 M threshold as defined in the Amended 2012 Credit Agreement.

Table 2.24 on page 50 shows the development of DSO by reporting segment.

The DSO decrease in the North America Segment was largely due to the impact of the VA Agreement, partially offset by an influx of accounts receivable following the assignment of new billing numbers for the 18 added ESCOS as of January 1, 2017. The DSO increase in the EMEA Segment was due to payment fluctuations in the region. The Asia-Pacific Segment's DSO decrease primarily reflects an improvement of payment collections in China. The Latin America Segment's DSO decrease reflects collections from public health care organizations in certain countries.

Due to the fact that a large portion of our reimbursement is provided by public health care organizations and private insurers, we expect that most of our accounts receivable will be collectible.

We are subject to ongoing and future tax audits in the U.S., Germany and other jurisdictions. With respect to these potential adjustments and disallowances of tax matters currently under review, we do not anticipate that an unfavorable ruling could have a material impact on our results of operations. We are not currently able to determine the timing of these potential additional tax payments.

Net cash provided by (used in) investing activities

Net cash used in investing activities was €992 M and €1,246 M for 2017 and 2016, respectively. Table 2.25 shows our capital expenditures for property, plant and equipment, net of proceeds from sales of property, plant and equipment as well as acquisitions, investments and purchases of intangible assets for 2017 and 2016.

The majority of our capital expenditures were used for maintaining existing clinics, equipping new clinics, maintenance and expansion of production facilities (primarily in the North America Segment, France and Germany), capitalization of machines provided to our customers and for Care Coordination as well as capitalization of certain development costs. Development costs were incurred and capitalized. Capital expenditures were approximately 5% of total revenue in 2017 (2016: 6%).

The investments during 2017 were mainly driven by acquisitions of clinics in the North America Segment and a Care Coordination acquisition in the Asia-Pacific Segment. Additionally, in 2017, we received €415 M from divestitures mainly related to the

2.24 DEVELOPMENT OF DAYS SALES OUTSTANDING
in days, December 31

	2017	2016
North America Segment	52	54
EMEA Segment	103	101
Asia-Pacific Segment	97	105
Latin America Segment	128	143
▸ **FMC AG & CO. KGAA AVERAGE DAYS SALES OUTSTANDING**	**67**	**70**

2.25 CAPITAL EXPENDITURES (NET), ACQUISITIONS, INVESTMENTS AND PURCHASES OF INTANGIBLE ASSETS
in € M

	Capital expenditures, net		*Acquisitions, investments and purchases of intangible assets*	
	2017	2016	**2017**	2016
North America Segment	437	514	328	314
EMEA Segment	107	107	66	166
Asia-Pacific Segment	38	35	156	13
Latin America Segment	35	31	7	8
Corporate	224	228	9	21
▸ **TOTAL**	**841**	**915**	**566**	**522**

sale of available for sale financial assets and the divestment of our non-dialysis laboratory testing services business in December of 2017.

The investments during 2016 were primarily related to acquisitions of dialysis clinics, available for sale financial assets, acquisitions in our hospitalist and intensivist business, and a loan provided to an equity method investee in the North America Segment. In the EMEA Segment, we acquired a medical technology company focusing on the treatment of lung and cardiac failure as well as dialysis clinics. In the Asia-Pacific Segment and Latin America Segment, we acquired dialysis clinics. During 2016, we received €191 M from divestitures, mainly related to available for sale financial assets of approximately €117 M and a repayment of unsecured loans provided to an equity method investee in 2015 and 2016 of approximately €72 M.

We anticipate capital expenditures of €0.9 BN to €1.0 BN and expect to make acquisitions of approximately €1.0 BN to €1.2 BN in 2018. For more information, see the "Outlook" starting on page 55.

Net cash provided by (used in) financing activities

Net cash used in financing activities was €799 M during 2017 compared to €520 M during 2016.

During 2017, cash was mainly used to repay long-term debt and capital lease obligations including the repayment of Bonds due in July 2017 and partial repayment of a USD term loan under the Amended

2.26 INTEREST RATE EXPOSURE

in € M

	2018	*2019*	*2020*	*2021*	*2022*	*Thereafter*	*Total*	*Fair value Dec. 31, 2017*
Floating rate U.S. dollar debt								
Principal payments on Amended 2012 Credit Agreement Variable interest rate = 2.48%	100	100	100	100	884	–	1,284	1,276
Accounts Receivable Facility Variable interest rate = 1.40%	–	294	–	–	–	–	294	294
Floating rate euro debt								
Principal payments on Amended 2012 Credit Agreement Variable interest rate = 0.81%	28	28	428	28	231	–	743	741
Fixed rate U.S. dollar debt								
Bonds 2011/2018; Fixed interest rate = 6.50%	334	–	–	–	–	–	334	343
Bonds 2011/2021; Fixed interest rate = 5.75%	–	–	–	542	–	–	542	587
Bonds 2012/2019; Fixed interest rate = 5.625%	–	667	–	–	–	–	667	698
Bonds 2012/2022; Fixed interest rate = 5.875%	–	–	–	–	584	–	584	643
Bonds 2014/2020; Fixed interest rate = 4.125%	–	–	417	–	–	–	417	429
Bonds 2014/2024; Fixed interest rate = 4.75%	–	–	–	–	–	334	334	359
Fixed rate euro debt								
Bonds 2011/2018 Fixed interest rate = 6.50%	400	–	–	–	–	–	400	418
Bonds 2011/2021 Fixed interest rate = 5.25%	–	–	–	300	–	–	300	346
Bonds 2012/2019 Fixed interest rate = 5.25%	–	250	–	–	–	–	250	270
Equity-Neutral Convertible Bonds 2014/2020 Fixed interest rate = 1.125%	–	–	400	–	–	–	400	511
Interest rate derivatives								
Euro payer swaps notional amount	24	204	–	–	–	–	228	(1)
Average fixed pay rate = 0.32% Receive rate = 3-month EURIBOR	0.32%	0.32%	–	–	–	–	0.32%	–

All variable interest rates depicted above are as of December 31, 2017.

2012 Credit Agreement, distributions to noncontrolling interests, the payment of dividends as well as the repayment of short-term debt, partially offset by proceeds from long-term debt and capital lease obligations including the issuance of a euro term loan under the Amended 2012 Credit Agreement, proceeds from short-term debt including issuances of commercial papers as well as drawings under the Accounts Receivable Facility. During 2016, cash was mainly used for the repayments of long-term debt and capital lease obligations, repayments of short-term debt, distributions to noncontrolling interests as well as the payment of dividends, partially offset by proceeds from short-term debt and the increase in the utilization of our Accounts Receivable Facility.

On May 16, 2017, we paid a dividend with respect to 2016 of €0.96 per share (dividend for 2015 paid in 2016: €0.80). The total dividend payment was €294 M and €244 M in 2017 and 2016, respectively.

Table 2.26 on page 51 summarizes our significant long-term financing instruments as well as their maturity, currency and interest rate structure at December 31, 2017.

For a description of our short-term debt see note 13 of the notes to the consolidated financial statements. For a description of our long-term sources of liquidity, including the Amended 2012 Credit Agreement, bonds, equity-neutral convertible bonds and the Accounts Receivable Facility, see note 14 of the notes to the consolidated financial statements.

Table 2.27 summarizes our available sources of liquidity at December 31, 2017.

An additional source of liquidity is our commercial paper program under which up to €1,000 M of short-term notes can be issued on a flexible and continuous basis. As of December 31, 2017 and 2016 €680 M and €476 M, respectively, was outstanding under the commercial paper program.

The amount of guarantees and other commercial commitments at December 31, 2017 was not significant.

At December 31, 2017, we had short-term debt, excluding the current portion of long-term debt, and short-term debt from related parties in the total amount of €769 M.

Table 2.28 summarizes our obligations and commitments to make future payments under our long-term debt and other long-term obligations, and our commitments and obligations under lines of credit and letters of credit as of December 31, 2017.

2.27 AVAILABLE SOURCES OF LIQUIDITY

in € M

		Expiration per period of			
	Total	*Less than 1 year*	*1–3 years*	*3–5 years*	*Over 5 years*
Accounts Receivable Facility[1]	313	–	313	–	–
Amended 2012 Credit Agreement[2]	1,291	–	–	1,291	–
Other unused lines of credit	258	258	–	–	–
▸ **TOTAL**	**1,862**	**258**	**313**	**1,291**	**–**

[1] *Subject to availability of sufficient accounts receivable meeting funding criteria. At December 31, 2017, the Company had letters of credit outstanding in the amount of $71 M (€60 M) which reduces the availability under the Accounts Receivable Facility to the amount shown in this table.*

[2] *At December 31, 2017, the Company had letters of credit outstanding in the amount of $2 M (€1 M) which reduces the availability under the revolving credit facility to the amount shown in this table.*

2.28 CONTRACTUAL OBLIGATIONS AND COMMITMENTS[1]

in € M

		Payments due by period of			
	Total	*Less than 1 year*	*1–3 years*	*3–5 years*	*Over 5 years*
Long-term debt[2]	7,469	1,135	3,061	2,855	418
Capital lease obligations	47	10	17	6	14
Operating leases	4,505	728	1,247	935	1,595
Unconditional purchase obligations for inventory	379	209	169	1	–
Other long-term obligations[3]	302	151	139	12	–
Letters of credit	61	–	60	1	–
▸ **TOTAL**	**12,763**	**2,233**	**4,693**	**3,810**	**2,027**

[1] *Our pension liabilities are not included in the table of contractual obligations and commitments. The regular or special funding of our pension plans may adversely affect our liquidity in the future periods. The liability recognized in our consolidated financial statements may fluctuate significantly in future periods due to changes in assumptions, in particular the discount rate, rate of future compensation increases and pension progression. Actual results could differ from assumptions due to changing market, economic and governmental regulatory conditions, thereby resulting in an increase or decrease of the liability. Employer contributions expected to be paid to the defined benefit plans during fiscal year 2018 are €1 M. For additional information regarding our pension plans and expected payments for the next ten years, see note 16 of the notes to consolidated financial statements.*

[2] *Includes expected interest payments which are based upon the principal repayment schedules and fixed interest rates or estimated variable interest rates considering the applicable interest rates (e. g. Libor, Euribor), the applicable margins, and the effects of related interest rate swaps.*

[3] *Other long-term obligations consist mainly of production asset acquisition commitments.*

Our debt instruments, including the Amended 2012 Credit Agreement, outstanding bonds and the Accounts Receivable Facility contain covenants restricting or limiting our ability to dispose of assets, incur additional debt, create liens or engage in sale-lease backs – although these are subject to a number of exceptions and qualifications or may be suspended based on a ratings trigger. In addition, under our Amended 2012 Credit Agreement and Accounts Receivable Facility, we are obligated to maintain a maximum consolidated leverage ratio (ratio of consolidated funded debt less cash and cash equivalents to consolidated EBITDA) as these terms are defined in these financing agreements.

A breach of any of the covenants in any of the instruments or agreements governing our long-term debt could, in turn, create additional defaults under one or more of the other instruments or agreements. In default, the outstanding balance under the Amended 2012 Credit Agreement becomes due at the option of the lenders under that agreement and the "cross default" provisions in our other long-term debt permit the lenders to accelerate the maturity of other debt upon such a default. As of December 31, 2017, we were in compliance with all covenants under the Amended 2012 Credit Agreement and our other financing agreements. For information regarding our Amended 2012 Credit Agreement, the bonds and the Accounts Receivable Facility, see note 14 of the notes to consolidated financial statements.

Although current and future economic conditions could adversely affect our business and our profitability, we believe that we are well positioned to continue to grow our business while meeting our financial obligations as they come due. Due to the non-discretionary nature of the health care services we provide, the need for health care products utilized to provide such services and the availability of government reimbursement for a substantial portion of our health care services, our business is generally not cyclical. A substantial portion of our accounts receivable are generated by governmental payors. While payment and collection practices vary significantly between countries and even between agencies within one country, government payors usually represent low to moderate, credit risks. However, limited or expensive access to capital could make it more difficult for our customers to do business with us, or to do business generally, which could adversely affect our business by causing our customers to reduce or delay their purchases of our health care products. For further information, see the "Results of operations" section starting on page 38. If the conditions in the capital markets worsen, they could also increase our financing costs and limit our financial flexibility.

Our General Partner and our Supervisory Board will propose to the shareholders at our Annual General Meeting on May 17, 2018, a dividend with respect to 2017 and payable in 2018, of €1.06 per share (for 2016 paid in 2017: €0.96). The total expected dividend payment is approximately €325 M compared to dividends of €294 M paid in 2017 with respect to 2016.

Our 2018 principal financing needs are the payments outstanding for the planned acquisition of NxStage, repayment of bonds in September 2018 as well as quarterly payments under our Amended 2012 Credit Agreement Term Loans. These payments as well as our dividend payment of approximately €325 M in May 2018, and the anticipated capital expenditures, and further acquisition payments are expected to be covered by our cash flows, using existing credit facilities and, if required, additional debt financing. We currently have sufficient flexibility under our debt covenants to meet our financing needs in the near future. Generally, we believe that we will have sufficient financing to achieve our goals in the future and to continue to promote our growth.

NET ASSETS

Our total assets were €24,025 M, a decrease of €1,478 M (6%) over the prior year. At Constant Exchange Rates, total assets would have increased by €1,120 M (4%) to €26,624 M.

Non-current assets decreased by €969 M (5%) to €17,651 M in 2017 and remained stable at 73% of total assets. At Constant Exchange Rates, they would have increased by 5% to €19,565 M compared to prior year. This was primarily a result of the increase in goodwill due to business combinations and capital expenditures.

Current assets decreased by 7% to €6,374 M (an increase of 3% at Constant Exchange Rates). The increase at Constant Exchange Rates was mainly the result of an increase in cash and cash equivalents due to the reinvestment of sold available for sale financial assets, trade accounts receivable and higher inventories due to increased finished goods. This increase was partially offset by a decrease in other current assets due to divestitures of available for sale financial assets and due to the repayment of insurance recovery receivables in relation to the NaturaLyte® and GranuFlo® agreement in principle.

On the liability side of the balance sheet our total liabilities were €13,197 M at December 31, 2017, a decrease of €1,256 M (9%) from €14,453 M in 2016. At Constant Exchange Rates total liabilities decreased by 1%. The decrease in long-term debt at Constant Exchange Rates was partially offset by higher short-term debt and an increase in current portion of long-term debt. Additionally, deferred tax liabilities decreased due to the remeasurement of deferred tax balances as a result of the U.S. Tax Reform. Current provisions and other current liabilities increased at Constant Exchange Rates due to additions related to the impact of the FCPA Related Charge. An offsetting effect resulted from utilization of the provision in relation to the NaturaLyte® and GranuFlo® agreement in principle.

€1,653 M of our debt are current liabilities, an increase of €354 M (€425 M at Constant Exchange Rates) as compared to €1,299 M last year. The increase was mainly a result of the reclassification of euro- and U.S. dollar-denominated Bonds to current portion of long-term debt, as these Bonds will mature during the third quarter of 2018, as well as the additional issuance of Commercial Paper. This was partially offset by the repayment of U.S. dollar-denominated Bonds that matured in the third quarter of 2017 and a reduction of the quarterly repayments of the Amended 2012 Credit Agreement. Long-term debt decreased to €5,795 M from €6,833 M in the prior year, a decrease of €1,038 M (€474 M at Constant Exchange Rates). This decrease at Constant Exchange Rates was mainly a result of the reclassification of euro- and U.S. dollar-denominated Bonds to current portion of long-term debt. The decrease was partially offset by additional drawings under the Accounts Receivable Facility. **See also note 14** of the notes to the consolidated financial statements.

Shareholders' equity decreased by 2% to €10,828 M. At Constant Exchange Rates, equity increased by €1,218 M. This increase at Constant Exchange Rates is mainly due to the net income, the valuation of noncontrolling interests subject to put provisions at fair value and proceeds from exercised stock options. This increase was partially offset by dividend payments, contributions to noncontrolling interests, purchase of treasury stock and effects from purchase/sale of noncontrolling interests. The equity to assets ratio increased to 45% at December 31, 2017 from 43% at December 31, 2016.

On Group level the ROIC increased from 7.8% at December 31, 2016 to 8.6% at December 31, 2017. Within the position invested capital the goodwill had a significant impact on the calculation of the ROIC. In 2017 the ROIC on Group level substantially exceeded our cost of capital. The Weighted Average Cost of Capital was 6.2%.

For supplementary information on capital management and capital structure **see also note 18** of the notes to the consolidated financial statements.

THE MANAGEMENT'S GENERAL ASSESSMENT

In 2017 we continued the success story of Fresenius Medical Care with another record year. We managed an unusual number of severe natural disasters, have delivered on our revenue and net income growth targets, and again we are able to propose the highest dividend in our Company's history at the Annual General Meeting in May 2018. With the acquisition of the Cura Group in Australia and our planned acquisition of NxStage we are setting the course for the future. We also intend to continue the profitable growth track among other things with the second phase of our Global Efficiency Program that we announced in 2017.

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

SUBSEQUENT EVENTS

Refer to **note 27** of the notes to the consolidated financial statements.

OUTLOOK

The outlook describes how Fresenius Medical Care expects to perform in fiscal year 2018.

THE MANAGEMENT'S GENERAL ASSESSMENT

In the financial year 2018 and beyond, we intend to continue the profitable growth track of Fresenius Medical Care. In the future, we plan to further optimize our portfolio in the core dialysis as well as in the Care Coordination business. By implementing the second phase of our Global Efficiency Program, we will continue to improve our profitability in the coming years. We expect these activities to lead to further net income growth in the future.

These statements take into account all events known at the time the financial statements were prepared which could affect the development of our business in 2018. As in the past, we are committed to achieving and, if possible, exceeding our targets.

BUSINESS POLICY

Fresenius Medical Care is the world's leading dialysis company. We aim to further expand this position in the years ahead. As always, the basic principle of our corporate strategy is to fully capture the potential of being a vertically integrated company. This means consistently making use of the advantages that arise from covering the complete value chain of dialysis. Fresenius Medical Care intends to make steady progress in the provision of holistic care to dialysis patients and dialysis-related treatments. In addition to our products and dialysis treatment itself, we will continue to expand our activities in the area of Care Coordination and offer supplementary medical services for the treatment of our patients in the future.

We have no plans to make significant changes to our business policy.

SECTOR-SPECIFIC ENVIRONMENT – DIALYSIS MARKET

The Company expects the number of dialysis patients worldwide to grow by about 6% in 2018. Some significant regional differences are likely to remain: The Company anticipates an increase in the U.S., Japan and Western and Central Europe of 0 to 4%. The number of patients with chronic kidney disease is already relatively high in these regions and patients generally have reliable access to treatment, normally dialysis. In economically weaker regions, the growth rates will be higher. We expect patient numbers to continue growing in the coming years – see table 2.29.

Our growth strategy is based on an in-depth analysis of the major trends affecting Fresenius Medical Care:

- Demographic change: Demographic factors are one of the main reasons for the continued growth of dialysis markets. As average life expectancy rises worldwide, the share of older people in the population is also growing. However, kidney function deteriorates with age. The future number of dialysis patients is therefore expected to increase from around 3.2 M worldwide in 2017 to 4.9 M in 2025.
- Increase in lifestyle diseases: Diseases such as high blood pressure and diabetes are on the rise around the world. They can cause damage to the entire organism and also often impair kidney function in the long-term.

2.29 EXPECTED GROWTH IN PATIENT NUMBERS

	Growth in 2018
North America	~4%
EMEA	~4%
Asia-Pacific	~9%
Latin America	~4%
▸ **WORLDWIDE**	**~6%**

Source: Internal estimates

- Improved access to medical care: Thanks to ongoing efforts to establish and expand balanced and sustainable health care systems in many countries around the globe, a growing number of patients are gaining access to suitable dialysis treatments for the first time. We expect this trend to continue and drive demand for high-quality products and treatments.
- Changes in the health care industry: The health care industry is constantly changing. We believe that demand for the holistic care of chronic patients will continue to rise. In future, the focus when treating kidney patients will no longer be simply on offering individual dialysis products or services, but also on combining all fields of application related to dialysis and coordinating them more effectively.

We do not expect any significant changes regarding treatment methods. Hemodialysis will remain the treatment of choice, accounting for about 89% of all dialysis therapies. Peritoneal dialysis will continue to be the preferred treatment for about 11% of all dialysis patients.

The volume of the worldwide dialysis market, which amounted to about €70 BN last year according to preliminary estimates, is expected to increase by around 4% per year. This is based on the assumption that exchange rates will remain stable in the forecasting period. The overall volume of the dialysis market could thus reach around €72 BN by 2018.

In addition, the reimbursement and ancillary services utilization environment significantly influences our business. In the U.S., our biggest sales market, the reimbursements of governmental institutions are lower than the reimbursements of private insurers and managed care organizations. Therefore a change in the portion of reimbursements by private insurers in the U.S. influences our business.

THE COMPANY'S BUSINESS PERFORMANCE IN 2018

Fresenius Medical Care's outlook for 2018 is based on the prevailing exchange rates at the beginning of the year. The outlook 2018 is excluding the impacts from the acquisition of NxStage.

The expected developments might be influenced by developments described in the "Risks and opportunities report" starting on page 59.

Our "Outlook" for the financial year 2018 is summarized in table 2.30 on page 58.

REVENUE

We aim to further increase our revenue at Constant Currency by approximately 8% in 2018. This growth rate is based on 2017 revenue adjusted for the impacts from the IFRS 15 implementation of €486 M.

RESULT OF OPERATIONS

Operating income

We expect operating income to grow by 12 to 14% at Constant Currency and Delivered EBIT to grow by 13 to 15% at Constant Currency in 2018.

Net income

Including the recurring effects of the U.S. Tax Reform in 2018 in the amount of €140 M to €160 M, we aim to achieve an increase in net income (net income attributable to shareholders of FMC AG & CO. KGAA) by 13 to 15% in 2018 at Constant Currency.

Earnings per share

Basic earnings per share are expected to develop in the same way as net income in 2018 compared to 2017.

CAPITAL EXPENDITURES AND ACQUISITIONS AND INVESTMENTS

In 2018, we intend to spend around €1.9 BN to €2.2 BN on capital expenditures, acquisitions and investments. Capital expenditures should account for €0.9 BN to €1.0 BN. Around 40% of this amount is earmarked for expansion investments. Approximately €1.0 BN to €1.2 BN is to be used for mainly bolt-on acquisitions and equity investments in health care.

Capital expenditures will primarily be used to expand our worldwide production capacities and rationalize production processes, to equip new dialysis clinics and distributors as well as for maintenance.

LIQUIDITY

Cash flow

In 2018, net cash provided by operating activities in percent of revenue is again expected to account for more than 10%.

In 2018, free cash flow in percent of revenue is again expected to account for more than 4% of revenue.

Net leverage ratio

Fresenius Medical Care uses the net leverage ratio as a guideline in its long-term financial planning. The ratio was 2.1 at the end of 2017. The target figure is expected to be better than 2.5 at the end of 2018.

PROFITABILITY

We expect ROIC to be at least 8.0% compared to 8.6% in 2017.

DIVIDEND

Fresenius Medical Care intends to continue its profit-oriented dividend policy in principle. Information on the proposed dividend increase can be found in the "Net cash provided by (used in) financing activities" section starting on page 51.

NON-FINANCIAL PERFORMANCE INDICATORS

Employees

Due to the anticipated expansion of our business, we expect the number of employees to grow in all regions in 2018, particularly in the area of health care. By the end of 2018, the number of employees working for Fresenius Medical Care is estimated to increase to more than 117,000 (full-time equivalents).

Research and development

We aim to spend €140 M to €150 M on research and development in 2018. The number of personnel concerned (currently 825 full-time equivalents) should not change significantly.

GLOBAL EFFICIENCY PROGRAM

In 2017, we announced phase II of our Global Efficiency Program (GEP II). The program's objectives are to identify and realize further efficiency potential and enhance our overall competitiveness. Starting in 2018, GEP II targets to achieve sustained cost improvements of €100 M to €200 M per annum by 2020.

GROWTH STRATEGY 2020

In 2014, we set ourselves new long-term targets with our growth strategy 2020 (Vision 2020). The goal of this growth strategy was to increase revenue to €24 BN by fiscal year 2020, based upon exchange rates prevailing at the beginning of 2017. In addition, we indicated an average annual revenue growth rate of approximately 10% and average annual growth of net income attributable to shareholders of FMC AG & CO. KGAA in the high single-digit range, based upon exchange rates prevailing at the beginning of 2017. Excluding the effect from the implementation of IFRS 15 and excluding the recurring impacts from the U.S. Tax Reform (€140 M to €160 M annually) in the years 2018 to 2020 we reconfirm these goals.

2.30 OUTLOOK 2018

	Results 2017	***Outlook 2018 (at Constant Currency)*** [1]
Revenue [2]	€17.3 BN	Growth ~8%
Operating income	€2.4 BN	Growth 12 – 14%
Delivered EBIT	€2.1 BN	Growth 13 – 15%
Net income [3]	€1.3 BN	–
Net income growth at Constant Currency [3,4]	14%	13 – 15%
Basic earnings per share growth at Constant Currency [3,4]	14%	based on development of net income
Capital expenditures	€0.8 BN	€0.9 – €1.0 BN
Acquisitions and investments	€0.6 BN	€1.0 – €1.2 BN
Net cash provided by (used in) operating activities *in % of revenue*	12.3%	> 10%
Free cash flow *in % of revenue*	7.6%	> 4%
Net leverage ratio	2.1	< 2.5
ROIC	8.6%	≥ 8.0%
Dividend per share [5]	€1.06	based on development of net income
Employees [6]	114,000	> 117,000
Research and development expenses	€131 M	€140 – €150 M

[1] *Outlook 2018: Excluding the effects from the acquisition of NxStage.*
[2] *Results 2017: Adjusted for impacts from IFRS 15 implementation of €486M.*
[3] *Net income attributable to shareholders of FMC AG & Co. KGaA.*
[4] *Outlook 2018: Including recurring impacts from U.S. Tax Reform in the amount of €140 to €160M.*
[5] *Results 2017: Proposal to be approved by the Annual General Meeting on May 17, 2018.*
[6] *Full-time equivalents.*

RISKS AND OPPORTUNITIES REPORT

As an enterprise with global operations, the Company is naturally exposed to risks associated with its business activities. Ultimately, the Company can only leverage opportunities for its business if it is willing to take certain risks. Many years of expertise and the Company's extensive knowledge of the markets enable it to uncover and assess risks and opportunities for its business.

RISKS AND OPPORTUNITIES MANAGEMENT

The Company sees risk management as the ongoing task of determining, analyzing and evaluating the spectrum of actual and potential risks within the Company's operations and its environment, and, where possible, taking corrective measures. The risk management system provides the Company with a basis for these activities. It enables management to identify risks that could jeopardize the Company's growth or going concern, and to take steps to minimize any negative impact. As such, it is an important component of the Company's management and governance.

Long-term success for the Company is secured by actively managing opportunities. The aim here is to identify and assess opportunities as early as possible, and to initiate appropriate measures so that opportunities can be turned into business successes for the Company. Identified long-term and medium-term opportunities are taken into account in our strategy and budget planning. Short-term opportunities, provided that they are aligned with business interests and targets, are seized by on-going business operations.

RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

Risk management is part of the Company's integrated management system. The main objective is to identify potential risks as early as possible to assess their impact on the business activities and, where necessary, to take appropriate countermeasures. Due to constantly changing external as well as internal requirements and conditions, risk management at Fresenius Medical Care is continuously evolving. In the past financial year, Group-wide risk management continued to adjust the Company's risk management approach with focus on organizational anchoring as well as a more detailed design of processes and will continue with these activities in 2018.

The structure of the internal risk monitoring system is based on the internationally recognized framework for company-wide risk management, the "Enterprise Risk Management – Integrated Framework" of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Opportunities are not covered by the implemented risk management system.

As part of the risk monitoring system, regional risk coordinators assume the task of coordinating risk management activities within the regions and selected functions with the help of risk management software. These activities relate to existing and potential emerging short-term as well as medium-term risks. In addition, risk coordinators are responsible for reporting risks to the finance boards of the regions or functions. Twice a year, the central risk management function collects risk management reports from the regions and functions. These reports are analyzed, consolidated and communicated to the executive management board. The focus during this process is on significant risks, which are above a defined threshold.

The executive management board and central risk management are promptly informed of risks that are estimated to be high or develop into high risks in order to ensure appropriate responses. The effectiveness of the risk management system is monitored by the Audit and Corporate Governance Committee of the Supervisory Board.

The organizational structure of risk management at Fresenius Medical Care as well as the previously described processes are shown in chart 2.31 on page 60.

In addition to risk reporting, standard reporting to management is an important tool for managing and controlling risks as well as for taking preventive measures in a timely manner. Therefore, the Management Board of the Company is informed on a monthly basis about the industry situation, the Company's operating and non-operating business, and the outcome of analyses of the Company's earnings and financial position, as well as of the assets position on a quarterly basis.

Part of the risk management system is the Global Internal Audit department, which is regularly informed about the results of the risk management system. This department determines risk focus areas and audits a selected number of Company departments, subsidiaries and IT applications worldwide each year. The department works according to the internationally accepted standards of the Institute of Internal Auditors (IIA), which was confirmed by a quality assessment in 2017. The scope of internal auditing is widespread and involves, among other activities, periodic assessment of the effectiveness of controls (including legal compliance controls) over business processes, IT security, the reliability of financial reporting and compliance with accounting regulations and internal policies. The Company's locations and units to be audited are determined annually on the basis of a selection model taking various risks into consideration. This annual audit plan is reviewed and approved by the Management Board and the Audit and Corporate Governance Committee of the Supervisory Board. All audit reports with material observations are presented to the Management Board. The Global Internal Audit department is also responsible for monitoring the implementation of measures documented in the reports. The Management Board is informed about the implementation status on a quarterly basis. The Audit and Corporate Governance Committee of the Supervisory Board is also informed of the audit results. In 2017, a total of 54 audits were carried out.

Nevertheless it is important to note that even a functioning and adequate risk management system like the Company's cannot guarantee that all risks are fully identified and controlled.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM FOR THE GROUP'S ACCOUNTING PROCESS

The Company's internal control system over financial reporting ensures compliance with applicable accounting standards. The goal is to provide reasonable assurance that the Group financial statements are issued in accordance with appropriate accounting principles. The Company's internal reporting process is generally carried out at four levels and ensures that financial data and key figures are reliably recorded, processed and controlled. At each of these four reporting levels – the local entity, the region, the segment and the entire Group – the figures and data are compared regularly on a monthly and quarterly basis with the previous year's values, budget targets, and the latest projections. In addition, the Management Board and the departments responsible for preparing the annual and consolidated Group financial statements discuss all parameters, assumptions and estimates that substantially affect the Group and segment results reported externally. The Audit and Corporate Governance Committee of the Supervisory Board also reviews current quarterly results and compares them with budgets and projections.

2.31 RISK REPORTING

The internal control system contains guidelines and instructions that ensure that all Company transactions are recorded appropriately and presented accurately.

Further control mechanisms to ensure reliable financial reporting and correct recording of transactions within the accounting and the consolidation process include automated and manual reconciliations as well as the separation of certain personnel functions to prevent potential conflicts of interest. The fact that all process owners assess the risks of their respective processes in terms of their implications for accounting also ensures that risks with a direct impact on financial reporting are identified and that controls are in place to minimize these risks. Changes to accounting standards are discussed on an ongoing basis and considered in the preparation of the financial statements. Employees responsible for financial reporting are given regular training to be up to date with changes regarding accounting standards. The consolidation is performed centrally by the department which is responsible for the group accounting. The basis for the consolidation is derived from reporting packages and sub-group consolidated financial statements prepared and submitted by the local group entities. The preparation of the reporting packages and the sub-group consolidated financial statements is performed according to central requirements and guidelines.

As the Company is also listed on the New York Stock Exchange, it is required to adhere to the requirements of the U.S. Sarbanes-Oxley Act (SOX). Section 404 of this federal law stipulates that the management boards of companies listed in the U.S. must take responsibility for implementing and adhering to an appropriate internal control system to produce reliable financial reporting. Based on this requirement, the design and operating effectiveness of the internal control system over financial reporting are routinely tested and considered in regular internal audits. These criteria are also included in the review by the Company's independent auditors.

The internal control system over financial reporting follows the criteria of the COSO model. This was developed by the Committee of Sponsoring Organizations of the Treadway Commission and is recognized as a standard by the Securities and Exchange Commission (SEC). In accordance with the COSO model, the internal control system over financial reporting is divided into the five components: control environment, risk assessment, control activities, information and communication, as well as the monitoring of the internal control system. Each of these components is regularly documented, tested and assessed. The Company aligned its internal controls to fulfil the requirements of the COSO model.

The Company's review of the internal control system over financial reporting complies with a specific SEC guideline (Guidance Regarding Management's Report on Internal Control Over Financial Reporting) and is conducted with software support. In a first step, regional project teams coordinate the assessment of the internal control system in each region, after which the results are consolidated for the whole Group. Based on this, management then evaluates the effectiveness of the internal control system for the current fiscal year. External advisers are consulted as needed. A corporate steering committee meets several times a year to review changes and new requirements of SOX, to discuss possible control deficiencies, and derive further measures. In addition, in its meetings, the Audit and Corporate Governance Committee of the Supervisory Board is informed regularly of the results of management's assessment.

As of December 31, 2017, management assessed the Company's internal control system over financial reporting and deemed it effective.

Internal control systems over financial reporting are subject to inherent limitations, no matter how carefully they are designed. As a result, there is no absolute assurance that financial reporting objectives can be met, nor that misstatements will always be prevented or detected.

RISKS

The following section describes significant risks which could have an impact on our business operations. In the course of the risk assessment an estimation of the risks takes place regarding the likelihood of occurrence and the potential impact in the respective assessment period, allowing a prioritization of the risks into the classifications "low" "medium" and "high". Besides quantitative factors, especially qualitative factors are applied. For the identification of strategic developments, besides the short-term consideration (one year), risks can also be assessed in terms of a medium impact within the subsequent five years.

The scales for classification of potential impact and likelihood as well as the localization of the risks within the risk matrix are depicted in **chart 2.32 on page 62**. The depicted risk areas as well as measures for mitigating the impact or the probability of occurrence of risks within these areas are described in the following section.

The risk situation of Fresenius Medical Care is described in detail on the following pages.

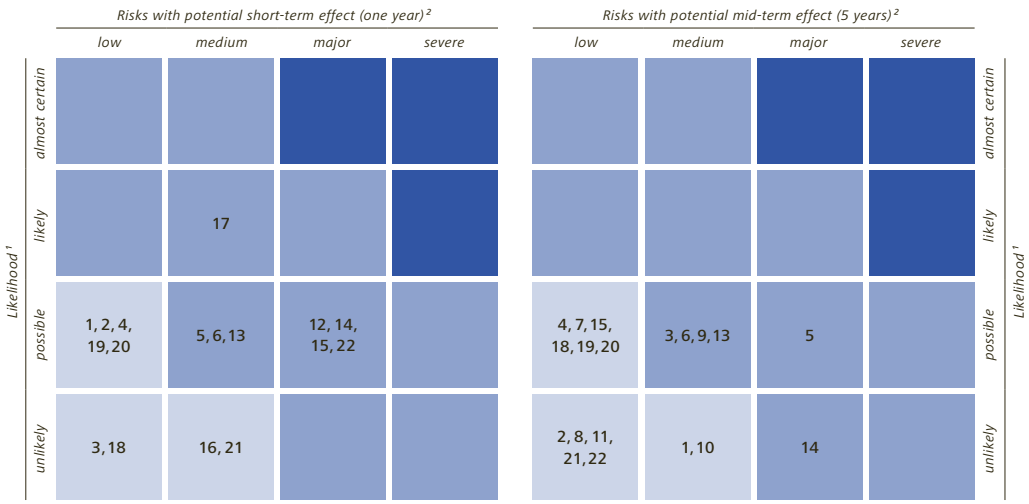
Sector-specific risks

Regulatory environment, quality

The Company's operations in both its health care services business and products business are subject to extensive governmental regulation in virtually every country in which the Company operates. The Company is also subject to other laws of general applicability, including anti-trust laws. The applicable regulations, which differ from country to country, cover areas that include:

- the quality, safety and efficacy of medical and pharmaceutical products and supplies,
- regulatory approvals and oversight of clinical and certain non-clinical research and development activities,
- product approvals and regulatory approvals for new products or product improvements,
- the operation and licensure of manufacturing facilities, laboratories, dialysis clinics and other health care facilities,
- product labeling, advertising and other promotion,
- accurate reporting and billing for government and third-party reimbursement including accurate and complete medical records to support such billing,
- the discounting of reimbursed drug and medical device products and the reporting of drug prices to government authorities,
- the collection, dissemination, access, use, security and privacy of protected health information and other protected data,
- compliance with due diligence, warranty obligations and product liability rules and
- compensation of medical directors and other financial arrangements with physicians and other referral sources.

2.32 RISK WITH POTENTIAL SHORT-TERM EFFECT (ONE YEAR) AND MID-TERM EFFECT (5 YEARS)



Risk area

1	Regulatory environment	**12**	Procurement
2	Quality	**13**	Personnel
3	U.S. federal health care programs	**14**	Corruption and Fraud
4	Composition of our customer base	**15**	Information systems and business processes
5	Reimbursement by private insurers	**16**	Liquidity and financing
6	Health care reforms	**17**	Currencies and interests
7	Growth	**18**	Litigation and potential exposures
8	Competitors	**19**	Taxes
9	Research and development	**20**	International operations
10	Patents	**21**	Unpredictable events
11	Referral practices	**22**	Global economic conditions and disruptions in financial markets

low risk *medium risk* *high risk*

¹ *Likelihood:* ***unlikely:*** *0 to 10%,* ***possible:*** *>10 to 50%,* ***likely:*** *>50 to 90%,* ***almost certain:*** *>90 to 100%.*

² *Potential impact:* ***low:*** *small negative impact,* ***medium:*** *moderate negative impact,* ***major:*** *significant negative impact,* ***severe:*** *material negative impact.*

If the Company fails to comply with one or more of these laws or regulations, this may give rise to a number of adverse legal consequences. These include, in particular, loss or suspension of governmental certifications, loss or suspension of licenses under the laws of governmental authority from which we generate substantial revenues, monetary and administrative penalties, recall actions and claims for damages, increased costs for compliance with government orders, complete or partial exclusion from government reimbursement programs, refunds of payments received from government payors and government health care program beneficiaries due to any failures to meet applicable requirements or complete or partial curtailment of the Company's authority to conduct business. In the end, these types of risks could no longer be insured under reasonable terms. Including the considerable costs of legal defense, all the consequences mentioned above could have a material adverse effect on the Company's business, results of operations and financial condition.

A number of the health care businesses in the U.S., that the Company operates is owned, or managed, by joint ventures in which one or more hospitals, physicians or physician practice groups hold an interest. While the Company has structured its joint venture arrangements with physicians to comply with many of the criteria for safe harbor protection under the federal and state Anti-Kickback Statutes, its investments in these joint venture arrangements do not satisfy all elements of such safe harbor. If one or more of its joint ventures were found to be in violation of the Anti-Kickback Statute or the Stark Law, the Company could be required to restructure or terminate them. The Company also could be required to repay to Medicare, Medicaid as well as other federal health care amounts pursuant to any prohibited referrals, and the Company could be subject to monetary penalties and exclusion from federal and state health care programs. Imposition of any of these penalties could have a material adverse impact on its business, results of operations and financial condition.

To ensure that our products and services comply with the quality requirements, we implemented quality management systems in the different regions. The employees have access to procedures and work instructions to ensure that the applicable quality requirements are met. In addition, we conduct internal reviews of the production sites and clinics to monitor compliance with quality standards of our products and services. Furthermore, our plants and hospitals are also subject to external reviews by the relevant supervisory authorities. Compliance programs implemented in the regions reduce the risk of legal violations by providing general and specific rules of conduct and procedures as well as regular training of the employees according to the specifications.

U.S. federal health care programs

As stated in the "Macroeconomic and sector-specific environment" section starting on page 32, our dialysis clinics in the U.S. participate in the Quality Incentive Program (QIP) within the ESRD prospective payment system (PPS). Payment reductions of up to 2% of Medicare reimbursements based on previous year's performance can be made if the quality standards of the QVP are not met in the clinics. Should Fresenius Medical Care fail to meet the QVP's minimum requirements to a greater extent, this could have a material adverse effect on our business, financial condition and results of operations.

Through our value-based agreements and health insurance products, we assume the risk of both medical and administrative costs for certain patients in return for fixed periodic payments from governmental and commercial insurers. The Company currently participates in programs such as the "Bundled Payments for Care Improvement" (BPCI) program, the "Comprehensive ESRD Care initiative" of the CMS, and the "Medicare Advantage chronic special needs plans" (MA-CSNP), as well as remuneration agreements with insurers under which the Company receives a fixed remuneration to cover all, or a defined amount of treatment costs, for a defined quantity of patients. Details and detailed descriptions of the above mentioned and other programs in which the Company participates can be found in the "Macroeconomic and sector-specific environment" section starting on page 32.

Under the BPCI, which is a CMS pilot initiative extended through September 30, 2018, we can 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. On January 9, 2018, CMS announced the launch of a new bundled payment model named Bundled Payments for Care Improvement Advanced. We plan to participate in BPCI Advanced in the future.

Under CMS's Comprehensive ESRD Care Model, dialysis providers and physicians can form entities known as ESRD Seamless Care Organizations (ESCOS). 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. However, ESCOS that include dialysis chains with more than 200 facilities are required to share in the risk of cost increases and reimburse CMS a share of any such increases.

As part of the MA-CSNP program, we entered into sub-capitation and other shared savings arrangements with certain payors. There is a risk if the costs of care exceed the fix payments per patient per month. In this case, the difference is to be refunded by us to the payor.

Regarding the MA-CSNP the premiums we charge and our bids are based on our estimates of future medical costs over the fixed contract period. Nevertheless many factors, e. g. increased cost of individual services or new mandated benefits (such as the expansion of essential benefits coverage), may cause actual costs to exceed those estimated. Failure to adequately price our products or estimate the costs of providing benefits to our beneficiaries, or effectively manage our operating expenses, may result in a material adverse effect on our results of operations, financial position, and cash flows.

Although efforts to repeal the Affordable Care Act have been unsuccessful, further efforts and the attitude of CMS can influence the future of such projects in ways that we currently can neither quantify nor predict.

The reserves that we establish for health insurance policy benefits and other contractual rights and benefits are based upon assumptions and judgments concerning a number of factors, including trends in health care costs, expenses, general economic conditions and other factors. To the extent the actual claims experience is less favorable than estimated based on our underlying assumptions, our incurred losses could increase and future earnings could be adversely affected.

The profitability of our value based agreements and insurance products is dependent in part upon our ability to contract on favorable terms with hospitals, physicians and other health care providers. The failure to maintain or to secure cost-effective health care provider contracts may result in a loss of beneficiaries or higher medical costs, which could adversely affect our business.

We cannot give any assurance that we will achieve the cost savings required or contemplated by these programs, which could have a material adverse effect on our operating results.

The Company mitigated the impact of the ESRD PPS and the other legislative initiatives referenced above with two broad measures. First, it works with medical directors and treating physicians to make clinical protocol changes used in treating patients consistent with the QIP and good clinical practices, and it negotiates pharmaceutical acquisition cost savings. In addition, the Company achieved greater efficiencies and better patient outcomes by introducing new initiatives to improve patient care upon initiation of dialysis, increase the percentage of patients using home therapies and achieve additional cost reductions in its clinics.

Composition of our customer base

In terms of global product business as well as dialysis business outside the U.S. the market for Fresenius Medical Care differs strongly across regions. While customers of our products and services are very differentiated in some countries, in other countries there is a situation with comparatively few customers or payors but large volumes of business each. In certain cases, a resulting dependency on the payment behavior and decisions of these business partners can adversely affect the Company's business, results of operations and financial condition.

We counteract these risks by actively negotiating long-term contracts with major customers, targeted marketing activities, developing new product and pricing models, and constantly improving our service and quality. In addition, the fact that many of our products and services are remunerated directly or indirectly by government institutions reduces the risk of payment default. Nonetheless, continuous monitoring of claims maturities and overdue receivables takes place.

Reimbursement by private insurers

In the U.S. a portion of the dialysis treatments is reimbursed by private insurers and integrated care organizations; these reimbursements are in general higher than the reimbursements of the public health care systems. As a result, the payments we receive from private payors contribute a substantial portion of our profit. In 2017, approximately 42% of our consolidated Health care revenues were attributable to private payors and hospitals in the North America Segment. If these payors succeed in lowering reimbursement rates in the U.S., change the extent or conditions of their networks or if the portion of reimbursements by private insurers in general drops, this could result in a significant reduction in Company revenue and operating profit. In addition, consolidation among private insurers may have any adverse impact on our ability to negotiate commercially reasonable rates with such insurers.

We monitor the relationships with private health insurance companies continuously and try to hedge the business through long-term contracts to maintain profitability.

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

Health care reforms

A number of governments have been considering proposals to modify their current health care systems to improve quality of and access to health care and to control costs. Policymakers in several countries are also considering reforms that could change the methodology used to reimburse providers of health care services. Also standards and regulations compulsory for providing dialysis service can be subject to extensive changes.

In fiscal year 2017, the Company derived approximately 34% of its worldwide revenue from Medicare and Medicaid reimbursements in the U.S. Consequently, changes in legislation or reimbursement practices regarding e. g. the End-Stage Renal Disease Prospective Payment System, the Physician Fee Schedule, the Clinical Laboratory Fee Schedule and the Ambulatory Surgical Center Payment System could influence the volume of Medicare and Medicaid reimbursements for services provided and the insurance coverage.

A decrease in reimbursement rates, covered services or changes to standards, regulations or state funding in countries in which the Group operates, especially significant changes in the U.S. Medicare and Medicaid programs could reduce the Company's revenue and profitability and have a material adverse effect on its business, financial condition and results of operations.

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

The U.S. administration also announced its decision to end subsidies, known as cost-sharing reduction (CSR) payments, to health insurance companies to help pay out-of-pocket costs of low-income Americans. Some commercial insurers have stated that they will need much higher premiums and may withdraw from the insurance exchanges created under the Affordable Care Act if the subsidies were eliminated. However, in February 2018, the U.S. administration appears to have altered course and requested $1.2 BN to fund insurance exchanges, including CSR payments, as part of the administration's 2019 budget. A portion of this requested funding is expected to also fund the dismantling of the insurance exchanges. We cannot predict whether the inclusion of this funding in the budget for 2019 will come to pass. As a result, significant increases in insurance premiums and a reduction in the availability of insurance through such exchanges could reduce the number of our commercially insured patients and shift such patients to Medicare and Medicaid.

Changes of this nature could have significant effects on our businesses, both positive and negative, but the outcomes are impossible to predict.

Risks relating to the Company's business

Growth

The health care industry experiences continuing consolidation particularly among health care providers. This development could adversely affect the Company's ability to find suitable acquisition targets and to increase future growth and product sales. Also the ability to make future acquisitions depends, in part, on the availability of financial resources and the current restrictions imposed by competition laws as well as existing credit agreements. The integration of acquired businesses may cause problems e. g. by assuming unknown liabilities or non-compliant business practices not disclosed by the seller or not uncovered during due diligence. Furthermore the Company's business could be affected adversely by the failure to receive or the loss of required licenses, certifications, or other regulatory approvals for operation of dialysis clinics or sale of equipment, products or services.

Competitors

The Company faces numerous competitors in both its health care services and dialysis products business. Technological innovation has historically been a significant competitive factor in the dialysis products business. The introduction of new products or services by competitors could render one or more of the Company's products or services less competitive or even obsolete and thus materially adversely affect the future pricing and sale of its products and services. This also includes the launch by competitors of generic drugs or pharmaceuticals protected by patents, which could affect the Company's sales and distribution of pharmaceuticals for which, to some extent, the Company is obligated to make certain minimum annual royalty payments.

To ensure our permanent competitiveness, we work closely together with physicians and scientists. Important technological and pharmaceutical innovations are intended to be quickly identified and further developed, if necessary also by adapting our business strategy. Moreover we secure our competitiveness by ongoing analyzes of our market environment as well as the regulatory framework. The market activity, especially our competitors' products and newly launched dialysis-related products are thoroughly monitored. The cooperation between the various technical, medical and academic institutions within our company also ensures our competitiveness, which is finally further enhanced by our consequent conduction of programs devoted to cost saving and efficiency increase.

Research and development

The development of new products and therapies proposes a risk that the desired development goal will not be achieved or achieved significantly later than planned. Costly and extensive preclinical and clinical examinations are necessary until admission. All products, packaging, applications and technologies are constantly and systematically monitored, tested and improved. We address potential risks in the area of research and development (R&D) by continually analyzing, evaluating and assessing whether the R&D projects fit into the overall strategy of Fresenius Medical Care. As a vertically integrated company, we also benefit from direct contact with our patients and medical professionals. Due to this close proximity to the market, we have the potential to gather important information to develop and offer products and therapies that meet the needs of our customers.

Referral practices

The Company's dialysis services business is dependent upon patients choosing the Company's facilities as the location for their treatments. Patients may select a facility based, in whole or in part, on the recommendation of their physician. If a significant number of physicians, hospitals or other health care institutions cease referring their patients to the Company's facilities or stop purchasing or prescribing the Company's dialysis products, this could result in loss of revenue.

Patents

One of the typical patent risks faced by the Company is inadequate protection in the form of patents for technologies and products developed by the Company. This means that competitors could copy the Company's products without incurring comparable development costs. In addition, the Company could infringe the patent of a competitor and thus be liable for damages; this could result in a ban on the Company further selling the affected product. An inadequate protection of the Company's patents could have an adverse impact on the Company's financial condition and results of operations.

Procurement

The Company's business is dependent on the reliable supply of several raw materials for production and service purposes. If the Company is unable to counteract the risk of bottleneck situations at times of limited availability of materials this could result in delays in production and service and hence have an adverse effect on the Company's results of operations. Similarly, price increases by suppliers could also adversely affect the Company's results of operations.

Our purchasing strategy is aimed at developing partnerships with strategic suppliers through long-term contracts and at the same time ensuring that we have at least two sources for all supply and price-critical primary products (dual sourcing, multiple sourcing). To prevent loss of suppliers, we monitor our supplier relationships on a regular basis. Suppliers which are integral to our procurement functions are also subject to performance- and risk-analyzes as well as a continuous supply chain monitoring. Through constant market analyzes, a demands-based design of supplier-relationships and -contracts, as well as the use of financial instruments, possible price increases can be partially mitigated. We benefit from international price advantages and are able to mitigate procurement risks associated with currency fluctuations or with a dependency on individual suppliers through the intensive regional cooperation of our procurement teams.

Personnel

The Company's continued growth in the health care business will depend upon the ability to attract and retain skilled employees, such as highly skilled nurses and other medical personnel. Competition for those employees is intense and the current nursing shortage has increased the Company's personnel and recruiting costs. Moreover, the Company considers that future success in the provider business depends on the ability to attract and retain qualified physicians to serve as employees of or consultants to the Company's health care services businesses. The Company's health care products business depends on the development of new products, technologies and treatment concepts to be competitive. Competition is also intense for skilled engineers and other technical research and development personnel. Additionally, in recruiting, employing and retaining personnel we have to observe various labor related laws and associated practices.

If the Company is unable to recruit and retain qualified personnel, this could have an adverse impact on its ability to manage future growth and on new or continued product development. Also changes in or the disregard of labor related laws and associated practices could have an adverse effect on our profitability.

Corruption and fraud

The Company operates many facilities and engages with other business associates to help it carry out its health care activities. In such a decentralized system, it is difficult to maintain the desired level of oversight and control over the thousands of persons employed by many affiliated companies and its business associates. Training, oversight and compliance programs cannot assure protection from deliberate, reckless or inadvertent acts of employees that violate the Company's compliance policies or anti-corruption laws. Such violations could disrupt the Company's business and result in a material adverse effect on results of operations or financial condition.

Beginning in 2012, the Company received certain communications alleging conduct in countries outside the U.S. that might violate the FCPA or other anti-bribery laws. Since that time, the Company's Supervisory Board, through its Audit and Corporate Governance Committee, has conducted investigations with the assistance of independent counsel. In a continuing dialogue, the Company voluntarily advised the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) about these investigations, while the SEC and DOJ (collectively the "government" or "government agencies") have conducted their own investigations, in which the Company has cooperated.

In the course of this dialogue, the Company has identified and reported to the government, and has taken remedial actions including employee disciplinary actions with respect to, conduct that might result in the government agencies' seeking monetary penalties or other sanctions against the Company under the FCPA or other anti-bribery laws and impact adversely the Company's ability to conduct business in certain jurisdictions. The Company has recorded in prior periods a non-material accrual for certain adverse impacts that were identified.

The Company has substantially concluded its investigations and undertaken discussions toward a possible settlement with the government agencies that would avoid litigation over government demands related to certain identified conduct. These discussions are continuing and have not yet achieved an agreement-in-principle; failure to reach agreement and consequent litigation with either or both government agencies remains possible. The discussions have revolved around possible bribery and corruption questions principally related to certain conduct in the Company's products business in a number of countries.

The Company has recorded a charge of €200 M in the accompanying financial statements. The charge is based on ongoing settlement negotiations that would avoid litigation between the Company and the government agencies and represents an estimate from a range of potential outcomes estimated

from current discussions. The charge encompasses government agencies claims for profit disgorgement, as well as accruals for fines or penalties, certain legal expenses and other related costs or asset impairments.

The Company continues to implement enhancements to its anti-corruption compliance program, including internal controls related to compliance with international anti-bribery laws. The Company continues to be fully committed to FCPA and other anti-bribery law compliance.

Information systems and business processes

As the Company continues to grow and introduces more international operations, the processes within the Company are increasingly complex. Accordingly, it is more and more dependent on information and communication technologies and -systems to structure its processes and harmonize them between different regions. An insufficient design of those systems and business processes could lead to non-availability of certain information, causing inefficient workflows, deficient internal and external communication and intransparencies regarding operations. A breakdown of these systems could temporarily lead to standstill of parts of our business and consequently cause heavy damages.

Additionally, cyber-attacks or privacy and data breaches could result in the misappropriation or compromise of sensitive information. We gather and handle personal data of our patients in many regions of the world and thus need to adhere to various data protection and privacy regulations. Any loss, impermissible use, access or disclosure of this sensitive information or non-compliance with data protection and privacy related laws, regulations and standards could threat our position in competition, our reputation as well as our whole business.

Using its Information Security Management System (ISMS), which is based on the internationally recognized security standard ISO 27002, the security guidelines and processes within the Company are enhanced continuously. Business data is backed up regularly and disaster recovery plans, which are regularly tested and improved, are in place. The Company operates three data centers at geographically separate locations to maximize the availability and data security of IT systems. A mirrored infrastructure that creates a copy of critical systems is in use. In general, we continue to enhance our internal information and reporting systems to ensure that their structure meets evolving needs.

Furthermore, among others, company guidelines relating to data protection and privacy, which also regulate the assignment of access rights and third-party collaboration, must be considered, trainings for employees are conducted and governance structures are continuously adapted. Compliance is monitored with controls including those relating to Section 404 of SOX. Operational and security audits are carried out every year both internally and by external auditors.

The existing IT security architecture with different layers of security measures protects the systems in our data centers. The access to sensitive or critical data from outside of the secured data center networks is protected by the usage of secure protocols and cryptographic measures. Besides that, annual penetration tests for applications with critical data (e. g. patient or personnel data) are conducted.

Other risks

Liquidity and financing

The liquidity risk is defined as the risk that a company is potentially unable to meet its financial obligations. The Management Board of the Company manages the liquidity of the Group by means of effective working capital and cash management as well as an anticipatory evaluation of refinancing alternatives. The Management of the Company believes that existing credit facilities, cash flow from operating activities and additional short-term borrowings are sufficient to meet the Company's foreseeable demand for liquidity.

At December 31, 2017 respectively December 31, 2016, the Group had financial debt of €7.45 BN respectively €8.13 BN. The Company's credit agreements and notes include covenants that that require maintaining certain financial ratios or meeting other financial tests. The covenants also restrict the Company's ability to dispose of assets, incur debt, pay dividends and other restricted payments, create liens or make investments or acquisitions. The breach of any of the covenants could result in a default and acceleration of payments of the indebtedness, which would have an adverse effect on the Company's business, financial condition and results of operations. The Company considers itself able to maintain the required financial ratios at present and in the near future.

Currencies and interests

The Company actively manages foreign currency and interest rate exposures that are part of its normal business activities. Risk management procedures for foreign currencies and interest rate exposures are based on strategies defined and, if necessary, adapted in close cooperation with the Management Board, including, for example, guidelines that cover all steps and levels of the risk management process. They define responsibilities for the determination of risks, the careful use of financial instruments for hedging purposes and for accurate financial reporting. The use of derivative instruments is restricted to micro hedges which are used in order to hedge exposures that arise

in the ordinary course of business. The Company does not enter into transactions for trading or other speculative purposes. The Company enters into transactions with banks, which generally have ratings in the "A" Category or better, as approved by the Management Board. The effectiveness of the hedging relationships of the hedging instruments and the hedged items is tested on a quarterly basis.

The Company enters into derivatives, particularly interest rate swaps and to a certain extent, interest rate options to protect against the risk of rising interest rates. These interest rate derivatives are designated as cash flow hedges and have been entered into in order to effectively convert payments based on variable interest rates into payments at a fixed interest rate. The euro-denominated interest rate swaps expire in 2019 and have an interest rate of 0.32%. As of December 31, 2017 respectively December 31, 2016, the notional amount of the euro-denominated interest rate swaps in place was €228 M respectively €252 M.

Derivative foreign currency contracts are entered into for the purpose of limiting the exchange rate exposure from sales and purchases as well as lendings and borrowings between the Company's subsidiaries located in different countries and reporting in different currencies. A large portion of the transaction exposures arise from sales of products from the Company's subsidiaries in the euro region to other international business units. The aggregate notional amount of foreign currency hedge contracts as of December 31, 2017 was €756 M, primarily for hedging euro exposure to the U.S. dollar and various other currencies. Economic hedges, which are used by the Company, are accounted for as recognized hedges in the consolidated financial statements, when necessary.

The estimation and quantification of transaction risks from foreign currencies are determined according to the statistical model Cash Flow at Risk (CFaR). CFaR indicates the maximum amount of a potential loss of the forecasted foreign exchange cash flow of the next twelve months that occurs with a probability of 95%. As of December 31, 2017, the Company's CFaR amounts to €50.8 M ($60.9 M).

Further information on market, default and liquidity risks is included in note 23 of the notes to the consolidated financial statements.

Litigation and other exposures

Risks associated with investigations and litigations are continuously identified, assessed and reported within the Company. The Company is involved in various legal proceedings and investigations resulting from its business operations. A negative outcome of these legal proceedings or investigations leading to legal proceedings could have an adverse impact on the Company's financial condition and results of operations.

External legal consulting support is always used to defend the Company against risks associated with litigations. If necessary, accounting measures like accruals are used.

For the matters in which the Company believes a loss is both reasonably possible and assessable, an estimate of the loss or range of loss exposure is provided in note 22 of the notes to the consolidated financial statements. For other proceedings, the Company believes that the loss probability is remote and/or the loss or range of possible losses cannot be reasonably estimated at this time.

For details on ongoing proceedings and further information on material legal risks to which the Company is exposed, reference is made to note 22 of the notes to the consolidated financial statements.

Taxes

The Company is subject to ongoing tax audits in various jurisdictions. The Company could potentially receive notices of unfavorable adjustments and disallowances in connection with certain of these audits. If the Company is unsuccessful in contesting unfavorable determinations we could be required to make additional tax payments, which could have a material adverse impact on our business, financial condition and results of operations in the relevant reporting period.

In general, tax-relevant issues are, as necessary, coordinated with internal tax expert regarding compliance with the according tax laws. If necessary, statements and opinions by external consultants are obtained to minimize tax risks.

International operations

The Company operates dialysis clinics in around 50 countries and sells a range of equipment, products and services to customers in around 150 countries. The Company's international operations are subject to a number of risks, including the following:

- The Company could face difficulties in enforcing and collecting accounts receivable under some countries' legal systems.
- The Company could be negatively impacted by the ability of certain countries to service their sovereign debt obligations.
- Local regulations could restrict the Company's ability to obtain a direct ownership interest in dialysis clinics or other operations.
- Some countries or economic unions may impose charges or restrictions, such as local content requirements, which restrict the importation of our products.
- The withdrawal of individual states from federations or multinational agreements and the associated effects on tax, exchange rate, legal, and regulatory conditions could make our activities there more difficult or negatively affect their results.

Any one or more of these or other factors could increase the Company's costs, reduce revenues, or disrupt operations, with possible material adverse effects on the Company's business, results of operations and financial condition.

Developments of this nature are continuously monitored and analyzed and response measures like the extension of local production capacities, the adaption of product designs, organizational changes and various others are set in place based on case by case decisions.

Unpredictable events

Fresenius Medical Care operates dialysis facilities or manufacturing facilities in many regions of the world, with diverse geographic, societal and economic conditions. Unforeseeable events such as natural disasters, terrorist attacks or political instability, could affect our services and our ability to deliver in a limited time and place.

Through forward-looking planning and prevention programs, Fresenius Medical Care is trying to limit possible effects of such events already in advance. In addition, to maintain operations in the event of an onset and to reduce potential impact on our patients and the organization, we have spare capacity and safety stock of certain resources as well as emergency and recovery plans in place. Residual risks are eventually covered when necessary and expedient by taking out insurance.

Global economic conditions and disruptions in financial markets

The Company is dependent on the conditions of the financial markets and the global economy. In order to pursue its business, the Company is reliant on capital, as are its renal product customers and commercial health care insurers. Limited or more expensive access to capital in the financial markets could adversely affect the Company's business.

The global recovery from the financial crisis continues. This development is accompanied by unexpected interferences like emerging geopolitical conflicts in several regions. Thus, the overall global economic outlook remains uncertain and current economic conditions could adversely affect the Company's business and profitability. Potential decline in revenues may create additional pressures to contain or reduce reimbursements for the Company's services from public payors, including Medicare and Medicaid in the U.S. and other government sponsored programs in the United States and other countries around the world. Increasing job losses or changes in the unemployment rate in the U.S. may result in a smaller percentage of the Company's patients being covered by an employer group health plan and a larger percentage being covered by lower paying Medicare and Medicaid programs. To the extent that payors are negatively impacted by a decline in the economy, the Company may experience further pressure on commercial rates, a further slowdown in collections and a reduction in the amounts it expects to collect. Devaluation of currencies and worsening economic conditions, including inflationary cost increases in various markets in connection with deteriorating country ratings also increase the risk of a goodwill impairment, which could lead to a partial or a total goodwill write off in the affected cash generating units. If the global economic conditions continue or worsen, the Company's financial cost could increase, its financial flexibility could be limited and its results of operations could be adversely affected. The Company believes to be well positioned to continue to grow its business while meeting its financial obligations.

Changes in the risk situation

Fresenius Medical Care operates in a constantly changing environment. Accordingly, the risk situation is also subject to constant change. In the past financial year, two new risk areas were identified, which complete the overall picture of the risk situation:

Due to the increasingly volatile social and political conditions in some regions of the world as well as recent natural disasters in the U.S., the consideration of risks from events of this kind (21) complements the overall picture of the risk situation.

The fundamental structure of the dialysis market and continued consolidation in the health care industry, as well as associated developments within and outside the U.S., are leading to a focused consideration of risks arising from the composition of our customer base (4).

With regard to the classification of the risks in terms of probability and potential impact, the following significant changes occurred compared to the previous year:

With regard to the one-year forecast period, the risk regarding U.S. federal health care programs (3) has decreased due to expanded experience.

With regard to the five-year period, there were significant changes regarding several risks:

The risks of non-compliant behavior (14) have increased to medium risks due to the potentially increased impact.

Increased competition for skilled workers in many regions where we offer our services and manufacture our products leads to an increased medium risk in terms of personnel (13).

Additionally launched projects in the field of process design as well as data protection and data security reduce the risk regarding information systems and business processes (15) to a low risk.

The risk in the area of research and development (9) has increased to a medium risk due to increasingly dynamic market demands and circumstances.

Due to improvements in quality management, the risk regarding adherence to quality and regulatory requirements (1&2) is now considered low in the medium term.

OPPORTUNITIES MANAGEMENT

OPPORTUNITIES MANAGEMENT SYSTEM

As much of our business is organized regionally, we can identify industry-specific trends and requirements as well as the resultant opportunities in the different regions at an early stage and gear our actions to them. We also perform comprehensive quantitative and qualitative analyses to enable us to capture business opportunities. This involves systematically evaluating relevant market data, closely examining research projects and taking general social trends into consideration. Our analyses focus on general economic, industry-specific, regional and local developments as well as regulatory changes. In addition, close cooperation between our Strategy and Planning departments and the managers of other departments allows us to identify global opportunities as early as possible.

OPPORTUNITIES

As a vertically integrated dialysis company, Fresenius Medical Care can offer almost all of the products and services that a patient with chronic kidney failure requires for treatment. Our 3,752 dialysis clinics in around 50 countries constitute the largest and most international network of this kind in the world. As a result, we possess valuable dialysis expertise that is unique in the industry. Thanks to this wealth of experience, we know that high-quality is not only the key to a better quality of life for patients, but can also make a significant contribution to reducing the costs of health care. Based on this understanding and our business model, major opportunities arise that could have a positive impact on the results of operations, financial position and net assets of Fresenius Medical Care as things stand today.

Industry-specific opportunities

Patient growth and demographic development

The dialysis market is a growth market that is largely unaffected by macroeconomic influences. According to estimates, the number of people worldwide suffering from chronic kidney failure and requiring dialysis treatment is rising at a relatively constant rate of around 6% annually. It is expected to reach more than 3.4 M patients in 2018 and approximately 4.9 M by 2025 – see chart 2.33 on page 72. Social trends contribute to this rise in patient numbers. In Europe and the U.S. in particular, they include the aging population and the increasing incidence of diabetes and hypertension, two illnesses that frequently precede the onset

of end-stage renal disease. In developing and emerging countries, the growing population and gradually improved access to dialysis as a result of increasing wealth are key factors that further boost demand for dialysis products and services. We want to continue to make a significant contribution to meeting this demand in the future.

Changes in legal and political conditions

To what extent private companies can offer dialysis treatment and in what form depends on the health care system of the country in which they operate or wish to access and its legal framework. For Fresenius Medical Care, opportunities to tap into new markets or to expand its market share arise if a country opens up to private dialysis providers. These decisions are also increasingly influenced by the following factors:

- Health care systems are under pressure to deliver ever more comprehensive medical care (longer life expectancy, increase in concomitant diseases, fully-functioning health care provision still being established).
- Dialysis is a complex life-sustaining procedure, which places high demands on health care systems in terms of expertise and efficiency. Therefore, public health care providers are increasingly looking for solutions involving private providers.

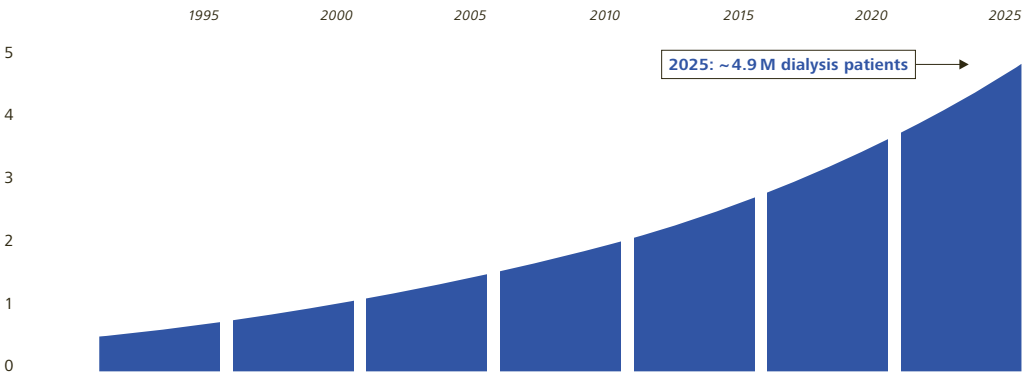
One example is Germany, the seventh-largest market worldwide in terms of the number of dialysis patients. We lead the market here with our products. Dialysis clinics in Germany are operated predominantly by physicians in private practice, hospitals, and nonprofit organizations; however, for a number of years, Fresenius Medical Care has also offered dialysis services in outpatient medical care centers. At the end of 2017, we were involved in 40 care centers (2016: 31). As an experienced partner, we want to continue to support our customers in setting up new structures in the German health care system and take advantage of the opportunity to strengthen our business in the long term.

Public-private partnerships

In some countries, public-private partnerships (PPP) are an attractive business model for Fresenius Medical Care. These are contractually defined project alliances between the public sector and private companies in which both partners share the financing, tasks, risks and opportunities of a project. Our extensive dialysis expertise gives us a competitive edge here, as it enables us to flexibly offer various levels of care for hospitals, health insurers, local or national authorities. Depending on the contract, we set up new dialysis clinics and install the equipment, train medical personnel in quality, hygiene and nutrition, or manage the clinics ourselves on the terms agreed. This enables the public sector to care for more patients more effectively and less expensively. The PPP model allows Fresenius Medical Care to tap into new markets, expand its market share, and extend its range of products and services with new forms of health care.

2.33 NUMBER OF DIALYSIS PATIENTS WORLDWIDE – FORECAST TO 2025

in M



Source: Internal estimates

Growing demand for integrated health care

As a result of increasing cost pressure and the growing number of patients, there is now greater global demand for a holistic (integrated) health care concept for patients with chronic kidney failure. This involves combining all health care services and therapies associated with the treatment of a kidney patient to create a holistic program tailored to the patient's individual needs and the requirements of the health insurer. Depending on the contract and the structure of the health care system, dialysis can be supplemented by medical tests, drugs for kidney patients and vascular access management, for example. Comprehensive care from a single source is aimed at improving the way in which the different stages of treatment are coordinated and controlled, minimizing complications and thereby avoiding additional stays in hospital as far as possible. It increases the patient's quality of life and the quality of treatment, while reducing the overall costs of the treatment.

Fresenius Medical Care is particularly well placed to offer integrated, high-quality treatment programs for chronically ill kidney patients for several reasons: As a manufacturer of market-leading dialysis products and an operator of the largest global dialysis clinic network, we have long-standing experience in providing comprehensive care for dialysis patients. Thanks to the high-quality and reliability of our products and services, we enjoy an excellent reputation in the industry. In addition, we use sophisticated internal feedback instruments to measure and compare the success of treatment at our clinics and to rapidly identify any potential for improvement.

Beyond our core business with dialysis products and the treatment of dialysis patients, we offer additional medical services that we combine under Care Coordination. These include vascular care and medication management for patients with kidney disease, as well as our laboratory and pharmacy business. This provides us with significant opportunities for the future. We plan to expand these services further in the coming years.

Opportunities related to our business operations

New products and technologies

If patient numbers grow as strongly as anticipated, cost pressure continues to rise, and clinics reach full capacity, home therapies are expected to take on a more crucial role in dialysis. This scenario presents us with opportunities for growth. Home dialysis as well as associated technologies and products will therefore continue to be a key focal point of our R&D activities. One major aim here is to give patients the greatest possible independence and mobility with a dialysis machine that is resource-efficient and can be used flexibly. We will continue to add innovative products and technologies to our range in the future to capture growth opportunities and meet the demand for integrated care as effectively as possible.

Internal organization and procedures

Fresenius Medical Care benefits from a number of long-term opportunities in the way it organizes and designs its business operations. For example, we use the Lean Six Sigma management method to analyze and better coordinate our production processes worldwide with the aim of reducing both our defect rates and manufacturing cycles. In addition, we are systematically expanding environmental management at our production sites and clinics to improve our operating efficiency, for instance by saving resources.

Capital expenditure and acquisitions

We evaluate ideas for growth initiatives generated from market analyses as part of our annual budget planning, or more frequently if necessary. We manage the investments required for implementing projects using a detailed coordination and evaluation process. The Management Board sets the investment budget for the Group as well as the focus of investment. Before realizing investment projects, an internal committee examines the individual projects and measures, taking into account their yield requirements and potential return on investment. Projects are only undertaken if they help to increase the Company's value.

We are investing in our future growth by expanding our health care services business through acquisitions and purchasing expertise and relevant technologies in the area of R&D. Through close collaboration between our Strategy and Planning departments and the managers responsible for our acquisitions, we are able to identify suitable potential purchases worldwide at an early stage.

Fresenius Medical Care's business model

Our business model itself also provides opportunities for Fresenius Medical Care's future growth. As a vertically integrated dialysis company, we not only offer almost all of the products and services that a patient with chronic kidney failure requires for treatment, but also use these on a daily basis in our own clinics. As a result, we can incorporate the feedback from our patients, physicians and nurses worldwide in developing and manufacturing new products as well as in organizing our clinic management. This gives us a crucial competitive edge.

ASSESSMENT OF THE OVERALL RISK POSITION AND THE OPPORTUNITIES BY THE MANAGEMENT

The implemented risk management system forms the basis for the assessment of the overall risk position of the Group. The overall risk position of Fresenius Medical Care is determined by the individual risks described before. Changes in the risk situation of the Group compared to the previous reporting period occurred as stated in the correspondent paragraph on page 71. There are currently no risks identified that could endanger the continued existence of Fresenius Medical Care. As part of the enterprise-wide review of the integrated management system, the effectiveness of the risk management system is monitored and where necessary improvements are made. The Management Board will continue to expand our risk management as well as the review of the related management system to be able to identify, explore and evaluate potential risks more quickly and then initiate appropriate countermeasures. We believe that we have made all necessary organizational steps to recognize potential risks early and to respond appropriately to these.

We remain confident that our integrated global business model and our earning power provide us with a sound basis for our business development, allowing us to capture potential arising for the Company. In view of our leading position in the dialysis market, our innovative strength, our committed staff, and our structured processes for identifying risks early on and managing opportunities, we firmly believe that we can continue to make the most of any opportunities that arise for our business in a responsible manner.

CORPORATE GOVERNANCE FUNDAMENTALS

Fresenius Medical Care has the legal form of a partnership limited by shares (KGaA). The Company's corporate structure is set out in the appendix to the notes of the consolidated financial statements starting on page 140. The management and supervisory structure are set out in the Corporate Governance Report starting on page 102.

CORPORATE GOVERNANCE DECLARATION

In fiscal year 2017, the Company made use of the option to publish the Corporate Governance Declaration (Erklärung zur Unternehmensführung) on the Company's website pursuant to sec. 315 d German Commercial Code (HGB) in conjunction with sec. 289 f para. 1 HGB. The Corporate Governance Declaration is available on the Company's website at http://www.freseniusmedicalcare.com/en/home/investors/corporate-governance/declaration-on-corporate-governance/. It is also set out in the Corporate Governance Report.

CHANGE IN MANAGEMENT STRUCTURE

In January 2017, Fresenius Medical Care announced a change in the composition of the Management Board. William Valle was appointed new Chief Executive Officer (CEO) of North America, effective January 16, 2017. He succeeds Ronald Kuerbitz. Valle, who has around 30 years' experience in the dialysis industry, has also been appointed to the General Partner's Management Board, taking over from Kuerbitz in this position effective February 17, 2017. He joined the Company in 2009 and has been responsible for the dialysis service business and the vascular access business of Fresenius Medical Care North America since 2014.

Dominik Wehner was CEO for Europe, Middle East and Africa (EMEA) from April 1, 2014 until December 31, 2017. He began his career at Fresenius Medical Care in 1994 as Junior Sales Manager. Before being appointed to the Company's Management Board, he served as Executive Vice President responsible for the regions Eastern Europe, Middle East and Africa as well as Renal Pharma Europe, Middle East, Africa and Latin America (EMEALA) and P.O.I. (People, Organizational Change and Implementation) EMEALA.

COMPENSATION REPORT

The description of both the compensation system and individual amounts paid to the Management Board and the Supervisory Board of Fresenius Medical Care Management AG and the Supervisory Board of FMC AG & CO. KGAA are included in the Compensation Report which is part of the Corporate Governance Report, starting on page 115. The Compensation Report is part of Fresenius Medical Care's Group Management Report.

TAKEOVER-RELATED DISCLOSURES

Share capital held by the Company's shareholders (excluding treasury shares held by the Company) at December 31, 2017 totals approximately €306 M, divided into 306,451,049 non-par bearer shares, each arithmetically representing €1 of the share capital. The total of non-par bearer shares include 41,769 shares issued to Company employees in 2017 in conjunction with a corporate agreement and which are subject to a two-year holding period. On the basis of the authorization granted by the Company's Annual General Meeting on May 12, 2011 to conduct a share buy-back program, the Company repurchased 7,548,951 shares in 2013. The Company retired 6,549,000 of these repurchased shares on February 16, 2016 in order to decrease its share capital. On the basis of the authorization granted by the Company's Annual General Meeting on May 12, 2016 to conduct a share buy-back program, the Company repurchased 660,000 shares, between December 11, 2017, and December 21, 2017. As of December 31, 2017, the Company therefore holds 1,659,951 treasury shares. Treasury shares held correspond to approximately €1.7 M or 0.54% of the Company's share capital. Voting rights may not be exercised on treasury shares. The treasury shares were acquired on the stock exchange via the XETRA trading system in conjunction with a share buy-back program. Including treasury shares, the Company share capital therefore amounted to €308 M at December 31, 2017, divided into 308,111,000 shares. The acquired treasury shares will only be used to reduce the Company's share capital (by cancellation of the relevant shares) or to service employee incentive plans.

The rights of the shareholders are governed by the German Stock Corporation Act (AktG) and the Company's Articles of Association. This stipulates that each share shall be entitled to one vote at the Company's Annual General Meeting.

The General Partner, Fresenius Medical Care Management AG, is responsible for managing and representing the Company. Similarly, it does not participate in the profit or loss or net assets of the Company. The General Partner's management authority also encompasses exceptional management measures, which do not require approval by the shareholders. Vis-à-vis the General Partner, the Company is represented by its Supervisory Board.

The General Partner will cease to be General Partner of the Company if and when all shares in the General Partner entity are no longer held directly or indirectly by one party, which at the same time must hold, directly or indirectly by means of a controlled company as defined by sec. 17 para. 1 AktG, more than 25% of the Company's share capital. This does not apply if all the shares of the General Partner entity are held directly or indirectly by the Company. Additionally, the General Partner will cease to be the Company's General Partner if the shares in the General Partner entity are acquired by another person

- who does not at the same time acquire shares of the Company in the amount of more than 25% of the Company's capital or
- who has not, within three months after the effectiveness of such acquisition, submitted a voluntary or mandatory takeover offer to the Company's shareholders according to the rules of the German Securities Acquisition and Takeover Act (WpÜG); the fair consideration offered to the shareholders must also reflect the consideration which the purchaser pays for the shares in the General Partner entity, if the amount for such consideration is above the amount of its equity capital.

The other grounds for withdrawal as provided by the law remain unaffected with respect to the General Partner.

As at December 31, 2017, Fresenius SE & Co. KGaA, Bad Homburg v.d. Höhe, Germany holds 94,380,382 shares of the Company, corresponding to 30.63% holding and hence in excess of 10% of the Company's total share capital. After deduction of treasury shares held by the Company in accordance with sec. 16 para. 2 HGB sentence 2 AktG, Fresenius SE & Co. KGaA holds 30.80% of the Company's voting rights.

The appointment and removal of members of the Management Board of the General Partner entity are governed by sec. 84 and sec. 85 AktG. Changes in the Articles of Association of the company must be made in accordance with sec. 278 para. 3 AktG,

sec. 179 AktG in conjunction with sec. 133 AktG. The Articles of Association entitle the Company's Supervisory Board, without resolution of the General Meeting, to make amendments to the Articles of Association which concern only its wording.

The General Partner is entitled, subject to approval by the Supervisory Board, to increase the Company's share capital as follows in accordance with the resolutions passed by the shareholders' at the General Meeting:

- Authorization, in the period up to May 18, 2020 to increase, on one or more occasions, the Company's share capital by up to a total of €35 M by issuing new bearer ordinary shares in return for cash contributions (Authorized Capital 2015/I).
- Authorization, in the period up to May 18, 2020 to increase, on one or more occasions, the Company's share capital by up to a total of €25 M by issuing new bearer ordinary shares in return for cash and/or non-cash contributions (Authorized Capital 2015/II).

In both cases, the General Partner is entitled, under certain circumstances and with the approval of the Supervisory Board, to decide on the exclusion of shareholders' pre-emption rights.

In addition to the above, the following conditional capitals are in place:

- A conditional increase of up to €3.374 M. This conditional increase in capital will only be carried out to the extent that convertible bonds were issued in accordance with the International Employee Participation Scheme in accordance with the shareholders' resolutions taken on May 23, 2001 and May 16, 2013 and the holders of such convertible bonds exercise their conversion rights. With effect from December 2015, no exercisable option or convertible bonds are outstanding.
- A conditional increase of up to €3.513 M. This conditional share capital increase will only be carried out to the extent that options were issued in accordance with the Stock Option Plan 2006 based on the shareholders' resolutions taken on May 9, 2006 and May 15, 2007, the holders of such options exercise their rights and the Company does not issue any own (treasury) shares to settle the options; in the case of options issued to members of the Management Board of the General Partner entity, the Supervisory Board of that entity shall be responsible.
- A conditional increase of up to €10.916 M. This conditional share capital increase will only be carried out to the extent that options were issued in accordance with the Stock Option Plan 2011 based on the shareholders' resolutions taken on May 12, 2011 and May 12, 2016, the holders of such options exercise their rights and the Company does not issue any own (treasury) shares to settle the options; in the case of options issued to members of the Management Board of the General Partner entity, the Supervisory Board of that entity shall be responsible.

In accordance with the resolution taken at the Annual General Meeting on May 12, 2016, the general partner is authorized to acquire treasury shares up to May 11, 2021 and up to a maximum of 10% of the share capital in place at the date of the resolution. At no stage shall the acquired shares together with other treasury shares held by the Company or attributable to pursuant to sec. 71a ff. AktG exceed 10% of the Company's share capital. The acquisition can be made via the stock exchange or by means of a public invitation to submit offers for sale. The authorization may not be used for the purposes of trading in its own shares. The general partner is authorized to use the shares of the Company acquired on the basis of this or an earlier authorization for all legally admissible purposes, in particular (I) to withdraw them from circulation without any requirement for a further resolution to be taken at the Annual General Meeting, (II) to sell them to third parties in return for contributions in kind, (III) rather than using conditional capital, to issue use them to employees of the Company and its affiliates (including to members of the executive managements of affiliates) and to use them to service rights or commitments to acquire shares of the Company and (IV) to service bonds with option or conversion rights issued by the Company or by dependent companies as defined by sec. 17 AktG.

A change of control resulting from a takeover offer could, under certain circumstances, have an impact on several of the Company's long-term financing arrangements, in which market standard change of control clauses are in place. These clauses give creditors the right to call for early repayment of outstanding amounts in the event of a change in control. In most of these financing agreements – in particular in case of the bonds which are placed in the capital markets – the right to terminate only exists, however, if the change of control involves the Company's rating or the corresponding financing instrument being downgraded.

Hof an der Saale,
February 26, 2018

Fresenius Medical Care AG & Co. KGaA
Represented by the General Partner
Fresenius Medical Care Management AG

Management Board