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PRESENTATION

Birgit Grund - *Fresenius SE & Co. KGaA - SVP IR*

Good afternoon in Europe; good morning in the US. Welcome to our third-quarter earnings conference call and webcast. Thank you very much to everyone joining the call. I am very pleased to introduce to you Mark Schneider, CEO of Fresenius, and Stephan Sturm, CFO.

Before we get started, I'd like to say that today's call is being recorded. And I'd also like to draw your attention to the forward-looking statement and disclaimer wording on page 2 of the presentation. This cautionary language also applies to the presentation and comments to be made today.

Mark Schneider will now start with a general overview, followed by Stephan Sturm. He will take you through the financials. And afterwards, management is prepared to answer your questions.

And with that, let me hand it over to Mark. Mark, please.

Mark Schneider - *Fresenius SE & Co. KGaA - CEO*

Thank you, Birgit, and a warm welcome to our conference call participants today. As always, we appreciate your interest in our Company.

We are pleased to report a strong quarter in all our business segments. It is particularly reassuring to see that we are gathering momentum across the board, in line with our predictions earlier this year.

Birgit has pointed out the Safe Harbor language to you, so let's move right to page 3, which summarizes our financial results for the quarter and nine-month period in 2014. Please note that on this page and throughout the presentation and our investor news, we have added single-quarter data for improved convenience and clarity.

In the third quarter, we achieved sales of EUR5.978b, EBIT of EUR820m and net income of EUR281m. You can clearly see that our growth rates for the individual quarter are above the growth rates for the respective nine-month period.

Page 4 continues on that theme, with every single growth rate for Q3 above the respective nine-month period. I would like to point your attention to Fresenius Medical Care's improved EBIT growth and the improving sales growth for Fresenius Kabi. Clearly, it has been a successful and well-balanced quarter, which gives us confidence with regard to our full-year Group expectations.

Before turning to Fresenius Kabi, Helios and Vamed in more detail, a brief word on Fresenius Medical Care. Q3 confirmed the trend we have started to see in the second quarter, and that is solid operational improvements, coupled with meaningful progress on the Company's strategic objectives that were outlined in this year's Capital Market Day. After a difficult year in 2013, it is pleasing to see that the Company is making good on its growth and efficiency objectives.

Turning to page 5 and Fresenius Kabi, we're now able to give you a more specific update regarding our Grand Island facility in upstate New York. I know that this is an area of concern for some of you, and I am pleased to report major progress here.

Our Grand Island facility was inspected by three FDA investigators the week beginning October 20. We received a two-page notice of observations, also known as Form 483, consisting of three observations, each with two or three examples. We intend to respond to FDA in a timely way and to take corrective and preventive actions to fully address FDA's concerns.

Since our last inspection at this facility in January 2013, we have made substantial efforts to improve our quality system so that it meets FDA's expectations as well as our own. We believe management at the facility has brought renewed energy and focus to our efforts. The results of the last inspection reflect our progress.

Based on the observations that were received and comments made during the inspection by the investigators, we are optimistic that FDA will note the improvement in our quality systems and compliance and classify the compliance status as VAI or voluntary action indicated. This classification would permit new products manufactured at the facility to be approved.

Until FDA has a chance to review our responses to the observations, however, we cannot be certain that FDA will agree that sufficient progress has been made. What I can assure you is that we will continue to review and improve our quality systems and facilities and that this is a top priority.

The drug shortage situation in the US market is developing in line with our expectations. We are seeing a gradual rebalancing of supply and demand. As of the end of October, there were 67 products on the FDA drug shortage list, with 21 of them marketed by Fresenius Kabi. This is essentially unchanged from the situation at the end of July. We continue to import saline solution into the US market under FDA regulatory discretion and have recorded sales of about EUR5m year to date.

The other good news is that our Kabi emerging markets have seen a very strong third quarter, confirming that Kabi's emerging market growth story is fully intact. Since most emerging market countries are pursuing mid- to long-term plans to improve healthcare coverage to their populations, any short-term weakness in these markets when it comes to industrial or consumer products does not affect our business.

Finally, I would like to confirm that sales for our blood volume expander HES have stabilized at the Q2 level, in line with our expectations mentioned earlier this year.

Let's move to Helios and page 6. One area of concern from earlier this year was our admissions development. I believe that 2% admissions growth this quarter should put these concerns to rest. It also gives us lots of confidence regarding our full-year 3% to 5% organic revenue growth guidance.

Integration of the acquired Rhoen hospitals is a key focus area this year. We're now in a position to reduce our integration cost estimate to a range of EUR60m to EUR80m in total, split roughly 50/50 between 2014 and 2015.

Even though the integration cost estimate is reduced, we're in a position to fully confirm our annual synergy guidance of EUR85m starting from 2015. So while the integration of more than 40 facilities is a mammoth project and takes significant work, it is pleasing to see that until now it has gone extremely well.

At this time of the year, there's a lot of focus on 2015 hospital reimbursement. I'm pleased to report that a 2.53% reimbursement increase has been established for that year. In addition, as part of new legislation which is still subject to confirmation by both chambers of German Parliament, the 0.8% surcharge that applies to German acute care hospitals will stay in place in 2015.

Net of some new adjustments for case volume above budget, we expect a positive annual effect of about EUR10m for Helios' sales and EBIT. The reimbursement increase and the new legislation are fully confirming the strong reimbursement trends we have witnessed for the past two years.

Vamed has won a major project and service contract for a German university hospital this quarter, in conjunction with a consortium partner. The initial hospital modernization project of more than EUR500m is followed by a 30-year technical management services contract, bringing the total value to about EUR1.7b. Even adjusting for the consortium partner's share of 50%, this is one of the largest projects Vamed has ever won.

On the minus side, I would like to point you to project delays that Vamed is facing this year in Russia and the Ukraine. As a result, organic sales growth for 2014 is likely to fall below the 5% to 10% range we guided you to earlier. However, we're in a position to fully confirm our 5% to 10% EBIT growth expectation.

So, in summary, this was a strong quarter with growing momentum and building on the solid improvements we have started to see in the second quarter this year. As you know, financial market credibility is very important to us. We are particularly pleased that the so-called trust-us items we have discussed earlier this year, such as growth being back loaded, the development of hospital admissions, returning emerging market growth and the stabilization of HES sales, are really happening in line with our forecasts.

So, on that positive note, let me hand it over to Stephan for a more detailed discussion of our financials.

Stephan Sturm - *Fresenius SE & Co. KGaA - CFO*

Thank you, Mark. Good afternoon. Good morning.

You just heard it; we saw the expected further acceleration of growth in Q3, plus with an outstanding cash flow development, and so I'm very happy with the quarter overall.

Let's go straight to the Group P&L on slide 8. Our sales came in just below EUR6b in Q3 to reach EUR16.7b year to date. The 18% growth in actual currency is up a mighty 10 points from the second quarter for the three reasons I had mentioned in our Q2 call. One, the expected pickup of organic growth; two, the growing contribution from acquisitions; and three, the still negative but now mitigated currency effect.

A few details. One, organic growth; 6% in Q3, up from just above 3% in the prior quarter, driven by all business segments. FMC up 2 points to almost 7%, Kabi up 1 point to 5%, Helios up even 3 points to 6%, and Vamed with a massive 19 point swing to plus 7%.

And this is more than just the effect of easing comps. If we strip out those areas where we had an extraordinary impact last year, we're also showing very decent organic growth in the mid-single digits.

On growth from acquisitions, secondly, that was 14% in Q3 versus the 10% in the prior quarter. That sequential pickup is driven by the first-time consolidation of the former Rhoen hospitals HSK Wiesbaden and Cuxhaven. And over above those Helios effects it was FMC, now consolidating most of its recently announced acquisitions.

And finally, the third driver, the currency impact, still at a negative minus 2 points in Q3, but that's a meaningful improvement from the minus 5 in the second quarter. In our earnings call end of July, I was only referring to the known dollar weakness in the second half of last year. I had no visibility of the dollar strength that kicked in about three months ago. But combined, that led to an even stronger mitigation than expected.

So for Q3 year on year, average euro/dollar rate was virtually identical. It was primarily the Latin American currencies behind the remaining negative currency effect.

So for the fourth quarter, given ongoing dollar strength, the currency effect should turn positive. Group organic growth should be broadly in line with Q3; again, driven by both an underlying improvement as well as by moderated comps. And the contribution from acquisitions, that should also remain largely unchanged. So, constant currency growth, expect that in the Q3 ballpark, but reported growth should increase from the 11% we're showing year to date.

Onto EBIT, and that reached EUR820m in the third quarter, up 10% at constant currency, a meaningful improvement from the minus 6% in Q1 and the plus 5% in Q2. Ex-FMC, EBIT growth was even higher, 14% in Q3 at constant currency or a year to date growth of 8%.

Sequential progress pretty much across all business segments. Kabi posting positive EBIT growth after two quarters of decline, given the tough comps they were up against. Also Vamed strongly reversing the Q2 decrease, and Helios with yet another quarter of more than 40% EBIT growth.

For Q4, we certainly plan to increase Group EBIT further. And when we're at plus 3% constant currency growth year to date, that rate should move up for the full year.

Net interest was EUR148m in Q3, taking us to EUR431m year to date. So no major change from Q2, which is quite an achievement given FMC's incremental acquisition debt and the US dollar strength, but that was largely offset by further reduced interest rates.

Now, for the fourth quarter, I'd expect a pickup of interest expenses, mainly due to FMC's acquisitions and the refinancing of some of that debt. But when last time I was pointing you to the bottom of a EUR610m to EUR630m range for the full year, by now I'd say we're unlikely to be above EUR600m.

The tax rate was back to normal at 29.3% in Q3, taking us to 29.5% year to date. And so for the full year, I'd like to confirm our guidance of a tax rate just above 29%.

Net income before integration costs and disposal gains was EUR281m in Q3, up 5% at constant currency, so also for the bottom line we were able to accelerate growth. So we gained a point from the half year and are now at 4% growth year to date, well within our guidance range. For reported growth, we also saw the negative foreign exchange effect run out of steam, down to 1 point, and that is where I expect it to stay also for the full year.

With that, let's move over to Kabi on slide 9. Total EBIT, at the bottom of the page, came in at EUR223m in the third quarter at constant currency. That's an increase of 1% year over year, a major improvement versus the minus 13% in Q1 and the minus 5% in Q2. And again, this is both an underlying improvement and a moderation of the year over year comps.

The China price cuts passed their anniversary already, but given that HES only stabilized earlier this year, we're still up against tough comps. And also, the gradual normalization of drug shortages in North America is weighing on Kabi's EBIT growth. But if we strip out those areas, Kabi's EBIT growth is actually very decent and that bodes well for growth rates once we're truly comparing apples with apples again.

On the margin, with 17.2% in Q3, we're now at 16.9% year to date, so small progress from the half year. I had hinted to that during our Q2 call, and I had pointed out that anything north of 17.5% would require a reversal of the normalization trend for drug shortages. That hasn't materialized and doesn't seem to be in the cards for now, so we're basically confirming our earlier statement by specifying our guidance to approximately 17%.

On to the regions, where in Europe, top of the slide, the 15% margin in Q3 was slightly down sequentially, primarily driven by Russia, but it helped take the year-to-date margin to 14.8%. And for the fourth quarter, I remain optimistic about a meaningful margin increase, and that should take the full-year margin well above 15%.

In North America, I had projected margin erosion to the mid-30s for the second half, driven by a further easing of drug shortages. That actually materialized, and so the 35.8% margin in Q3 is in line with our expectations.

In the emerging markets, we saw the projected sequential pickup, margin plus 140 basis points quarter on quarter to 17.6%. Absolute EBIT plus 23% quarter on quarter and 20% year over year. For the full year, I don't expect the margin to be materially different from where we are year to date.

Corporate and R&D expense was EUR59m in Q3, so slightly below my guidance of a run rate in the low to mid-60s. For Q4, my best guess right now is a repeat of the Q3 level.

Now over to Helios on slide 10, where sales reached EUR1.36b, very healthy organic growth in combination with the first-time consolidations I mentioned earlier. Organic patient growth is truly back on track and even slightly accelerated to 2% following the turnaround in Q2. A major contribution from price/mix this past quarter, taking organic sales growth to 6% in Q3 and up a point to 4% year to date, so we're at the midpoint of our guidance range now.

And whilst I'm very happy with that 6% quarter, I don't expect a repeat in Q4; neither should you. There was a bit of a base effect from a softish Q3 last year. And, as Mark explained as part of our Q2 call, mild quarterly fluctuations are nothing unusual for Helios. So my best guess is that we'll maintain that 4% year-to-date level also for the full year.

Total EBIT, at the bottom of the page, came in at EUR147m, nice progress from the EUR136m in Q2, and also margin wise we saw further pickup, 30 basis points sequentially to reach 10.8% in Q3. And whilst HSK Wiesbaden was not materially negative, it was clearly margin dilutive, so looking at the established portfolio I don't think you should read anything into the slight year-on-year margin erosion. Sequentially, the margin is up by 60 basis points.

And we also saw a sequential increase of the absolute EBIT contribution from the acquired Rhoen hospitals, up 10% from EUR40m to EUR44m. I think that's quite an achievement given the consolidation of HSK in Wiesbaden. So, you heard it from Mark, all in all, we're very pleased with the Rhoen integration process.

Let's move on to cash flow on slide 11, and starting with the Group at the bottom of the slide. I want to confirm from my perspective it was an outstanding quarter. Operating cash flow of EUR945m represents a stellar margin of 15.8%, substantially ahead of the LTM average of 11.1%. I believe that's quite an achievement, given the one-time burdens at FMC and Vamed in the first quarter.

This quarter, strong contributions pretty much across the board. Kabi's EUR217m in Q3 represent a margin of 16.8%, and Helios also delivered just below EUR200m at a margin of 14.6%, driven inter alia by them reducing their DSOs back down to 40 days.

CapEx of 5.6% year to date is well in line with our expectations, and therefore the LTM free cash flow margin of 5.5% is more towards the upper end of our historic range.

Let's conclude with an update on our guidance, on slides 12 and 13. For Kabi, on 12, the organic sales growth. After an overall solid Q3, I'd expect a pickup in Europe, no major changes in North America and the emerging markets, and in combination that will take us into our guidance range of 4% to 6%. And whilst the upper end appears a bit of a stretch right now, I firmly believe that the bottom end is safe.

For Kabi's margin, a not dissimilar picture. Expect a pickup in Europe, limited visibility in North America. I don't see much of an effect from the emerging markets and a bit of margin support from stable corporate expenses relative to a growing top line. And that should give us a margin of approximately 17% for the full year.

Now, for Helios, I was already making a statement about the 6% and them not being a proxy and that I firmly believe in us making it to the middle, at least, of that 3% to 5% organic growth rate guidance. Likewise, I'd like to confirm our EBIT range for the new Helios portfolio, EUR540m to EUR560m. Given that we're just shy of EUR400m year to date and recorded just below EUR150m in the third quarter, it basically takes another Q3 to take us into that guidance range, so I'm not worried about that.

You heard Mark make the comments about Vamed's slightly reduced growth expectations for this year. We're talking about project delays, no project cancellations. And again, we are very bullish on the 5% to 10% EBIT growth for Vamed this year.

For the Group, on slide 13, you heard me talk about sales growth and I would expect a 20%-plus reported sales growth in the fourth quarter. Constant currency, I'm not worried about the bottom end of that 14% to 16% range. Again, that is going to be -- Q4 is going to be in the ballpark of Q3.

And for net income, given where we are right now, I also feel very confident about that 2% to 5% net income growth. And you heard me with the expectation that we're going to see a somewhat reduced currency -- negative currency effect for the full year.

All in all, a very pleasing quarter, both P&L and cash flow wise.

Thanks for your attention so far. Mark and I will now be happy to take your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ian Douglas-Pennant, UBS.

Ian Douglas-Pennant - *UBS - Analyst*

Yes. Thanks very much for taking the question. Just a quick one on the North American margin for Kabi, slightly weaker than maybe I have expected, although I appreciate it's within your guidance range. So I wonder whether you could make a comment on price inflation for your IV portfolio there and whether that's having an impact on your margins.

And then secondly, on your clinical nutrition business, a good acceleration in that business in the last two quarters. I wonder whether you could talk about what's driving that and whether it might be the new products that you've spoken about before. Thanks very much.

Stephan Sturm - *Fresenius SE & Co. KGaA - CFO*

It's Stephan. For the North American margin, as you just said, it's within our guidance range. It is a very differentiated picture across the various drugs that we're seeing in that market, and I cannot make a general statement across the entire portfolio.

When others are talking about price increases, again, we don't see that across the board, and it may be individual categories that drive that. Again, for the fourth quarter, I would not expect a meaningful change to that margin picture.

For clinical nutrition, I would -- it is not the new product in North America. That was only just about launched and it is way too early to make any comments about that. It is much rather the pickup in China that has been driving this product category for Kabi.

Ian Douglas-Pennant - *UBS - Analyst*

Thanks very much.

Operator

Veronika Dubajova, Goldman Sachs.

Veronika Dubajova - *Goldman Sachs - Analyst*

Good afternoon, gentlemen. Thank you for taking my questions. I have three, if I may, please. The first one is on the Kabi revenue guidance that you've issued. And, Stephan, I appreciate that you're guiding us towards the lower end, but looking at where you are year to date, which is at 3%, it's going to be quite a stretch to get to 4% for the full year. So if you can share with us what specific categories you think might drive the acceleration, that would be quite helpful.

The second question I have is just given the downgrade that you have -- or I don't want to call it downgrade because it's not; it's within your range. But given that you're now expecting 17% margin for Kabi, does that alter how we should be thinking about it medium term?

And my last question's on Grand Island and how much confidence and visibility you have into being able to get this VAI status, given that you've been going back and forth with the FDA on this issue for a number of years now. Thank you.

Stephan Sturm - *Fresenius SE & Co. KGaA - CFO*

Veronika, I don't think there is a lot to add given the granularity that I've already provided for the revenue guidance. I do believe that the major growth driver in this fourth quarter at Kabi is going to be Europe. And don't forget, over and above the underlying development that we are continue to see weakening comps from the last -- from last year. So I am -- as I said, 6% is a stretch; 4% I feel very comfortable with.

Veronika Dubajova - *Goldman Sachs - Analyst*

Okay. Thank you.

Stephan Sturm - *Fresenius SE & Co. KGaA - CFO*

Margin wise, look, we have seen a few one-time effects over the course of this year. And we were referring to the price cuts in China and obviously the closer you are to the actual point of implementation, the more difficult it is to offset the effect with volume growth. We had an impact from Russia. Your guess is as good as mine as to how that is going to play out.

As far as the drug shortage effect receding, yes, we have seen that, but over time -- and I guess Mark is going to take up your question on Grand Island. Over time, we would expect new drug launches to be a more important driver than drug shortages, and we remain optimistic about the launches in 2015 through to 2017.

I remember you were asking me the question in February, and our view here remains unchanged. As far as the long-term perspectives of our Kabi business are concerned, we remain optimistic.

For 2015, you know our policy; it's too early to give you specific guidance. We will update that. In all likelihood, we will also provide you with a new medium-term guidance reflecting the new realities in terms of drug shortage and product mix at the occasion of the full-year results in February. But do I see a step down in margin from where we are right now? No, I can't see that.

Mark Schneider - *Fresenius SE & Co. KGaA - CEO*

Veronika, this is Mark. Let me just build on Grand Island, and I'm asking everyone to understand that we can't go into much more detail than we're already sharing. I do hope everyone appreciates we're already super transparent about this, both in our presentation and this call, in particular given the fact that we're right in the middle of the response period. The audit was concluded on October 24 and you typically have 15 working days to respond to this, so we're in the middle of that. And hence it's pretty hard at this point to derive any definite conclusions.

While certainly everyone would prefer to see zero observations, and we're continuously striving to have zero observations, it's also a fact that this is very rare these days, and it's actually quite common that FDA audits do get concluded with a few observations of this type. When it comes to these observations, it's important that our earlier statement still applies, and that is I think they can be fully addressed without curtailing any output at the plant and also inside the FDA remediation cost envelope that we have outlined to you in earlier calls.

So, in a sense, I think the development overall, building on the audit in 2011, the one that was concluded in early 2013 and the one that was concluded now, we're very pleased with the development and, as I said, quite optimistic about getting to a VAI standard.

Veronika Dubajova - *Goldman Sachs - Analyst*

Okay. Thank you. And, Stephan, can I just quickly follow up? Because I think previously you had said the historical margin guidance for Kabi was 18% to 21%, and I think then you modulated to say, well, it's probably not 20% to 21% but it could be 18% to 20%. So are you still comfortable with that as the medium-term outlook for the business?

Stephan Sturm - *Fresenius SE & Co. KGaA - CFO*

Nice try, Veronika. To recap, what I was saying was that 20% to 21% was the drug shortage cream on top, and that that didn't apply, and that I also said that the 18% to 20% were diluted by a stronger medical devices business, in particular post the arrival of Fenwal, and that therefore, like for like, we are probably now looking at a 17% to 19%. And my recollection is that that is what I said as part of the Fenwal call.

Veronika Dubajova - *Goldman Sachs - Analyst*

And you're happy with that statement still?

Stephan Sturm - *Fresenius SE & Co. KGaA - CFO*

Veronika, again, medium-term guidance, that will be in February 2015. And as I said, I do get the sense that you're concerned about a step down from that level, and I don't share that concern.

Veronika Dubajova - *Goldman Sachs - Analyst*

Understood. Thank you very much. I had to try.

Operator

Martin Brunninger, Jefferies.

Martin Brunninger - *Jefferies - Analyst*

Thanks very much for taking my question. I have two, one on Helios and one on Kabi. I'll start with Helios. You said the DRG inflator or Veraenderungsrate was increased by 2.53%. Last year, it was 2.81%, but the actual base rate itself increased only by 2.36% compared to 2.88% last year. So what I want say, the shortfall of increases is about minus 10% on the DRG inflator and minus 18% on the base rate, so consequently that would take away about 50 to 70 basis points in growth rate if you can show next year compared to this year, just purely based on pricing.

How can you -- what can we expect next year in terms of making this up? Do you see more volume increase or do you see more market share gain opportunities in Helios? And so that would be interesting, and maybe you can dissect a little bit the trend, what -- in terms of growth that you see. What's volume increase, what's price increase you've seen and what's market share gain on Helios?

And on Kabi, North America margin actually, on a 12-month rolling basis for the last four years, has held up despite the changes on shortages, has held up really well. What hasn't held up well was Europe and rest of the world, which decreased from a very steady margin from about 20% and rest of the world was on a 12-month rolling basis for a long time about 19%, and now it's really trending down in the last two years. Maybe you can elaborate a little bit what you see in the trends rather than on the quarterly basis that you've discussed on HES and Chinese price cuts, that would be very helpful. Thank you.

Mark Schneider - *Fresenius SE & Co. KGaA - CEO*

Thanks, Martin. Let me address Helios first and then Stephan can go to the Kabi question. On Helios, let me just point out we are quite happy with a 2.53% increase, and the 2.81% from last year clearly, historically, does stand out. And in earlier years, we've been delivering our 3% to 5% organic growth easily with DRG inflators that were significantly below the 2.53% that you're seeing now.

So, again, we are happy with this result. Again, we're seeing this as a positive. The fact that something that got basically decided in 2013, right around the time of the election, which then applied to 2014, is not repeated, that should not be seen as a negative.

I wasn't quite sure about your percentage calculation maths, so I can't comment on that. But then please do keep in mind that with this additional legislation which is expected to be confirmed fairly soon by German Parliament, I think we're seeing an additional EUR10m upside on sales and EBIT. And in conjunction with the patient admission growth that we're seeing returning now, while we're not giving guidance yet for 2015, I'm pretty confident that it won't be materially different from the sort of range that you've seen for the past, I guess, six to seven years, and that's 3% to 5% organic.

Martin Brunninger - *Jefferies - Analyst*

Can I just add onto this, what do you personally think? Is price increases a good thing or is it a bad thing? Because when you go back to 2008 and 2009, you've seen almost a flat price development in terms of reimbursement, but you've seen a quite significant privatization. Now, the more prices go up, the reimbursement goes up, the more you can see a stalling privatization, so obviously it's a balancing act. You benefit from price increases, clearly, but you would also benefit from flat pricing because then more assets will be unlocked from the governments. What do you think of that?

Mark Schneider - *Fresenius SE & Co. KGaA - CEO*

Yes, I think you described it well. We can't lose, can we? So basically, if prices go up, that's good news. And if they don't go up, we have more privatization opportunities.

When it comes to 2015 in particular, I think we're still quite busy on integrating these 40-plus facilities from Rhoen, and that's a lot of work. Again, some part of that is going to be shouldered this year. The other half's going to be shouldered next year. It's front, left and center to us that we deliver on this for you, and so clearly we are busy. And the fact then that maybe the pricing does not drive a short-term spike in privatizations is not a negative.

Long term, again, I do think there will be room for additional privatizations and I think we'll have the capacity to handle those.

Martin Brunninger - *Jefferies - Analyst*

Okay. Great. Thank you.

Stephan Sturm - *Fresenius SE & Co. KGaA - CFO*

Martin, re your question on Kabi, I don't want to go into too much detail, but I think we explained that fairly well over the past quarters and it is a number of items. In no particular order, but HES is clearly among the much more meaningful ones. HES had an issue, had an effect on our European margin just as well as on the Asian margin.

But over the past, we were also alluding to the political uncertainty in Eastern Europe, which was a higher growth and a higher margin market for us. I remember that I was talking about us voluntarily reducing our exposure to markets in Southern Europe, where we tended to have higher growth, higher margin but low cash flow.

And as far as the emerging market margin is concerned, I think we have been all over the China price cuts. And only just a few minutes ago, I was saying the more time you have following such a price cut to offset that with volume growth, the more you can mitigate the margin impact. Given that it was only implemented last year, we shouldn't expect miracles, but what is very reassuring to see is the underlying volume growth. That goes on unabated, and therefore I would expect further margin pickups going forward.

So, a variety of issues, some of them one time, some of them here to stay. We're not dreaming about recouping much of the lost HES potential, but stabilization is already quite an achievement. But that is the mixed bag of explanations for you.

Martin Brunninger - *Jefferies - Analyst*

And the organic growth in North America, when do you expect that to return back to mid-single digits territory?

Mark Schneider - *Fresenius SE & Co. KGaA - CEO*

I think at this stage, while you're still uncertain about exactly where the drug shortages are headed, this is extremely hard to pinpoint. And so, yes, this is driven so much by the drug shortage development that it's really hard to predict.

What we do firmly expect midterm is that the growth driver which used to be drug shortage is going to switch back to what we wanted to do in the first place, and that is growing the business through new drug launches. And I wanted to remind everyone we're quite bullish when it comes to our launch expectations for the years 2015 through 2017. We discussed some of that in the second-quarter conference call, and I can only confirm our expectations from that time.

Martin Brunninger - *Jefferies - Analyst*

Okay. Very good. Thank you.

Operator

Ed Ridley-Day, BofA Merrill Lynch.

Ed Ridley-Day - *BofA Merrill Lynch - Analyst*

Hi. Thank you. A number of my questions have been answered, but two more. Firstly, on Russia and Ukraine, you've previously given guidance on your exposure there. Can you just give us a little bit more color about exactly what is going on in terms of delayed tenders or how the market is changing, and whether you're still fully committed to the Sistema joint venture? That would be my first question.

And secondly, obviously good news on the Kabiven and three-chamber bag approval and the US launch. Can you remind us of the -- what you view as the target market potential for that product in the US market? Thank you.

Mark Schneider - *Fresenius SE & Co. KGaA - CEO*

Yes. Thanks, Ed. I guess, on Russia, good question. Everyone I've talked to in the industry has seen revenue decrease, and it's a whole bag of things and we're no exception to that. I think our decreases don't stand out either way. It's delayed tenders; it's a few other issues. There is a lot of stress on the system right now.

Ed Ridley-Day - *BofA Merrill Lynch - Analyst*

Sure.

Mark Schneider - *Fresenius SE & Co. KGaA - CEO*

When it comes to the joint venture, we're closely monitoring that. I don't have an update about that for you yet and we're basically in discussions with our Russian partners.

For North America, what was that question again? Oh, this is on the target revenue. I'm sorry. I think initially what we said is, after the second year, a EUR50m to EUR70m revenue target for our Kabi legacy products. So we started now the launch in late October. I think there was a launch notice last week. And I think, starting from next year, we're going to give you some updates on where we're headed revenue wise for these new products.

I expect it to be more interesting for the three-chamber bag than for the pumps but, again, both of them count under Kabi legacy products. I think starting from next year we'll give you some more frequent updates on how they're doing.

Ed Ridley-Day - *BofA Merrill Lynch - Analyst*

That would be helpful. Thank you.

Birgit Grund - *Fresenius SE & Co. KGaA - SVP IR*

Patrick, we have time for one more question, please.

Operator

Gunnar Romer, Deutsche Bank.

Gunnar Romer - *Deutsche Bank - Analyst*

Yes. Good afternoon, everyone. Thanks for taking my question. The first one would be with regard to the EBIT growth you have indicated on an underlying basis, maybe for Kabi I'm talking, and maybe if you could be a little bit more precise. I understand that you were quite encouraged by the underlying trends. Maybe you can be a bit more specific on that front.

Then the other two questions would be with regard to Fenwal and the Rhoen portfolio. You've updated us on the integration cost. I was just wondering whether you could provide an update on where you're trailing in terms of synergies these days on both fronts.

And also, with regard to your implicit guidance for the fourth quarter, the uptake in integration costs, maybe if you can elaborate a little bit to what this is related, this significant step up in the fourth quarter? Thank you.

Stephan Sturm - *Fresenius SE & Co. KGaA - CFO*

Gunnar, it's Stephan. Thanks for your questions. Basically, what we've done methodology wise is that we've isolated what I would call the trouble spots from last year and looked at the rest of the overall portfolio that was not affected, so basically isolating HES, isolating China, and to some degree also isolating the drug shortage effect in North America.

And when we then compare these two partial markets within Kabi, then we are seeing an EBIT growth development very much in line with historic experience. That is what I was encouraged by. I wanted to make sure that this is more than just a temporary effect of easing comps, and that is why I think I stressed twice or three times even during the call that I see both easing comps and an underlying development.

As far as Rhoen integration cost is concerned, you heard Mark; we have slightly refined our expectation whilst keeping stable the synergy assumptions. So it is now EUR60m to EUR80m with a 50/50 split.

And so that EUR30m to EUR40m that we do see for Fresenius Helios for the Rhoen integration, that is going to be over a variety of hospitals in a variety of situations. It has taken a bit longer than originally expected, was more back loaded than we originally thought, because in some instances we do have also minority shareholders that we need to consult and therefore that has taken a bit longer.

For the first nine months, integration cost for the Rhoen hospitals is at EUR12m, so there is a bit to go. But we have vetted those numbers. We think that that 50/50 split is the right one.

For Fenwal, year to date we are at EUR6m. And if you recall, at the time of the acquisition announcement we were talking about roughly EUR100m of integration cost. Over the last year, I think we were just above EUR50m -- Birgit just tells me EUR54m, so there is a bit of a cushion left. I would expect that we will make use of a large part of that cushion, if not all of it, in that coming fourth quarter.

Overall, Gunnar, as far as the synergies are concerned, that is very difficult to measure. I don't want to be evasive, but frankly we tried it ourselves and it is very, very difficult given how closely integrated the Fenwal business is, in the meantime, into the overall Kabi network. As a general comment, I would like to reiterate that we're very happy with that acquisition, that it has added stability, and that in general we are keen to further expand into the medical devices area.

Gunnar Romer - *Deutsche Bank - Analyst*

Thank you very much.

Birgit Grund - *Fresenius SE & Co. KGaA - SVP IR*

Okay. And with that, thanks for joining us today. We appreciate your time and your questions, and goodbye.

Mark Schneider - *Fresenius SE & Co. KGaA - CEO*

Thank you.

Stephan Sturm - *Fresenius SE & Co. KGaA - CFO*

Thanks.

Operator

We want to thank Fresenius and all the participants for taking part on this conference call. Goodbye.