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PRESENTATION

Operator

Good afternoon and welcome to the conference call of Fresenius Investor Relations which is now starting. May I hand you over to Ms. Birgit Grund, Investor Relations.

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

Thanks. Good afternoon in Europe; good morning in the US. Welcome to our fourth quarter and fiscal year 2014 earnings conference call and webcast. Thank you very much for joining us today. I am very pleased to introduce to you Mark Schneider, CEO of Fresenius, and Stephan Sturm, the CFO.

I'd like to mention that today's call is being recorded. And I also would like to draw your attention to the forward-looking statement disclosure and you can find that it in the presentation on page 2. Now, this cautionary language also applies to the presentation today and the comments.

And after the call the replay and the transcript will be made available on our website.

Mark Schneider will now provide general overview and Stephan Sturm will take you through the financials. And with that I'd like to hand it over to Mark.

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

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

We're very pleased to report a strong fourth quarter and full year 2014 in all our business segments today. In line with our predictions earlier last year we have seen gathering momentum across the Board.

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 fourth-quarter and full-year 2014.

All fourth quarter growth rates in constant currencies and in actual currency rates are above the full-year growth rates. This confirms that we have had a strong end to the year.

For the full year we achieved sales of EUR23,231 million, EBIT of EUR3,158 million and net income of EUR1,086 million. Earnings were fully in line with our full-year expectations, sales came in slightly better than that.

Page 4 lists our dividend proposal and summarizes the Fresenius stock total return history for the past decade. Based on our full-year earnings and in line with our earnings-driven dividend policy we will propose a dividend of EUR0.44 per share to our Board of Directors and shareholders. This is our 22nd consecutive annual dividend increase. Adjusted for the stock split, it implies a dividend increase of 6%.

On the right-hand side of this chart you see our stocks' total return history for the past 10 years. As one of the lowest beta stocks in the DAX with a current beta of about 0.4 we nonetheless achieved a total return that is more than doubled the DAX average. So this makes our Company the ultimate low-risk, high-return investment.

Let's turn to page 5 and the fourth-quarter and full-year 2014 results by business segment. You see a similar picture as with our consolidated numbers. Every single fourth-quarter growth rate on the page is equal to or higher than the corresponding full-year 2014 growth rate.

Fourth-quarter earnings for all business segments were also significantly higher than the run rate implied by the full-year earnings. This confirms that our profitability has been improving throughout the year.

Before taking a more detailed look at Kabi, Helios and Vamed, a brief word on Fresenius Medical Care. The company has made solid progress on its global efficiency program and its Care Coordination growth plans in North America. The strong US dollar clearly masks some of the progress the company expects to make this year in sales and earnings.

Due to the strength of the underlying operating improvements, we expect a strong year in 2016 even with the current exchange rate regime. 2015 is clearly the year, where you need to separate operating progress from macroeconomic and exchange rate headwinds.

Let's turn now to page 6 and a more detailed review of Fresenius Kabi. With the fourth quarter very much in line with our expectations, I will focus entirely on the near- and mid-term future.

Let's turn to sales first. On this slide you see our regional sales distribution and our organic sales growth forecast by region. North American organic sales growth is particularly hard to predict and we leave ourselves a 6 percentage points range in our forecast.

I would like to confirm that we expect a vigorous year when it comes to drug launches with the number of launches at the top end or exceeding our traditional 6 to 10 products-per-year range. Please note that we expect those launches to be somewhat back-loaded this year.

On the other hand, we expect further easing of IV drug shortages in the U.S. At the present time, FDA's drug shortage list includes 58 products, of which 20 are currently marketed by Fresenius Kabi. This is clearly down from last year's levels and thankfully continues to ease.

In line with this development, we also expect lower sales from Kabi products imported into the U.S. market under FDA regulatory discretion.

In addition to the high number of generic launches planned for 2015, we are also excited to be planning the launch of a new drug, Neostigmine, which was approved under the NDA process in January this year. The company has put substantial investment into this product and we anticipate a positive contribution in the second half of the year.

For two of our key North American products Propofol and Naropin, where we have seen recent market entrants we still expect to maintain majority market share in 2015. Please note that for the purposes of Kabi's 2015 guidance, we have assumed the low end of the range, i.e. minus 3%, in North America. Any improvement over and above this North American growth rate will translate into improved overall Kabi sales and earnings growth.

Kabi emerging market sales are expected to continue with double-digit organic growth. We have strong sales growth expectations for China in particular. In other Asia-Pacific countries, outside of China, we only expect single-digit organic growth this year as we are going through organizational changes and efficiency improvements in this region.

Finally, no major surprises for European organic sales growth, where our HES blood volume expander sales have stabilized.

Let's turn to page 7 and the details of a EUR100 million efficiency program that Kabi has initiated. As you know, Kabi profitability has slightly come down in recent years from its roughly 20% peak in 2012 to 17% in 2014. While Kabi is still Fresenius' most profitable business segment, we told you in the past that we regard as our responsibility to adjust the cost structure of the Company to this new environment. What I call quote-unquote "passive management", where you limit your actions to explaining why profitability goes down, is not exactly our style.

So we identified a number of efficiency steps in production and administration, which will be put in place this year.

Of the EUR100 million implementation cost, 50% is cash-effective in 2015, the balance in 2016. Roughly two-thirds of the implementation measures will occur in Europe, the rest refers to Asia-Pacific, Latin America and Africa.

We will see initial savings of about EUR10 million this year and then ramp up in a straight line to annual savings of about EUR40 million by 2018. As you can see from the total cost and the timeline of the improvements, this is a sound investment which is in the best interest of our shareholders.

Let's turn to page 8 and our new mid-term expectations for Kabi. Since our last mid-term guidance in 2012 a lot has changed. At the time, we were at the peak of drug shortages in North America. We have also changed the mix of our business. The purchase of Fenwal created the market leader in transfusion products and led to a much larger revenue share of lower margin medical devices for Kabi.

Finally, the label restrictions on our blood volume expander, HES, and the China price cuts in 2013 impacted our profitability. The efficiency program we just talked about is one of several steps to address the situation and bolster competitiveness and profitability. Based on the new environment and the efficiency program I just talked about, we expect mid-term organic sales growth in the range of 5% to 8% and mid-term constant currency EBIT growth in the range of 6% to 10%. Please bear in mind that these are mid-term compounded growth expectations, so individual years could be below or above.

For our 2015 and mid-term expectations we have switched from EBIT margin to EBIT growth as a new key performance indicator. This reflects a number of Kabi growth opportunities we see around the globe, that will contribute to absolute Kabi EBIT. They will provide meaningful capital returns to us, but they could potentially be slightly dilutive to our EBIT margin. We believe that the switch from EBIT margin to EBIT growth is in the best interest of shareholders as it supports profitable growth for Fresenius Kabi.

I would like to address, however, one potential concern right upfront. We are not planning to buy EBIT growth by cracking up the number of acquisitions. Our return on invested capital for Kabi will not suffer from this change. The range of 6% to 10% EBIT growth is one that we expect to achieve without the support of major acquisitions. As and when we go through major acquisitions, the target will be adjusted.

In order to bridge the guidance environment from margin to growth, we will give you our 2015 margin expectation for the last time. It confirms good progress over 2014 levels.

At the bottom of the page you see some of the key growth drivers that are supporting our mid-term assumptions. It is important to note that while the period of significant out-performance during the peak of the U.S. drug shortages appears to be over, all major growth drivers for Kabi are fully intact.

Let's turn to Fresenius Helios and the status update on our integration of the acquired Rhoen hospitals. I am pleased to say that we are fully on track time-wise and are likely to achieve the desired savings with lower one-time costs. We spent about EUR50 million on integration costs in 2014 and achieved about 40% of our EUR85 million annual synergy target in the first year already. We expect to spend another EUR10 million this year on integration costs and should achieve the remaining 60% of our EUR85 million annual synergy target by spring 2016.

The buildup towards this number is expected to happen in a straight line during the course of this year and early next year. Integration runs as smoothly and on plan as it only gets and we have seen no major negative surprises so far.

We would also like to fully confirm our mid-term EBIT margin target of 12% to 15%, in fact the upper-half of that range, for the acquired Rhoen hospitals. This is in line with Helios' hospital development plan. All acquired Rhoen facilities were put into year four of this plan, which you can see on page 35 in the appendix of this presentation.

With the acquisition completed and the integration half-way done, this is a good time to look at the new market situation in Germany. The acute-care hospital market now has a size of EUR87 billion. Our market share is about 6% making us the largest hospital operator.

On the right side of the chart, you see our geographic coverage and some of our key operating metrics. We see continued growth prospects in the German hospital market. According to a recent study 42% of German hospitals in 2013 were loss-making, about 12% were just about at breakeven. About 40% of the hospitals expect their financial situation to worsen in 2015, only about 20% expect an improvement of their financial situation.

We believe that this situation, combined with our proven business model for improving quality and profitability, will lead to continued privatization opportunities in future years in addition to our organic growth initiatives.

Let's turn to page 11 and Vamed. Vamed fully delivered on its EBIT guidance for the year but saw a flat organic growth resulting from project delays in Russia and the Ukraine. In light of the macroeconomic turbulence, geographic diversification and a larger share of revenues from services are clearly helpful.

In 2014, the revenue share of services increased by 3 percentage points to 46%. This change also bolstered our Vamed EBIT margin, since services have a higher profitability than projects. As you can see from the graphs on the right-hand side of the chart, Vamed has been a sustained double-digit grower during the past decade. While the top line is very sensitive to project delays due to political and macroeconomic problems, we remain very confident of maintaining our 5% to 10% EBIT growth range for 2015.

Handing it over to Stephan, let me also fully confirm our Group mid-term outlook for the year 2017. This outlook was published last year and foresees sales in the range of EUR30 billion and net income of EUR1.4 billion to EUR1.5 billion for 2017. Please remember that this outlook was given without a currency qualifier. At current foreign exchange rates we will exceed this outlook quite meaningfully. Meeting the target implies a 3-year sales CAGR of 9% and a net income CAGR of 9% to 11%, based on 2014 financial results.

This concludes my remarks. Let me hand it over to Stephan for a more detailed look at the financials and our guidance for the year 2015. Thank you.

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

Thank you, Mark, and good afternoon, good morning, warm welcome to everyone. You just heard it, a strong fourth quarter concluding, given the circumstances, a very solid 2014 and being a basis for a very robust 2015.

You know that 2014 we were suffering from a few unfavorable year-over-year comparisons but you will have seen that for 2015 we expect to be back in the area of around 10% earnings growth, that is where we used to be and I believe that is also where we ought to be.

So let's go straight to the Group P&L on slide 14. Sales came in slightly above EUR6.5 billion in the fourth quarter to reach EUR23.2 billion for the full year. Q4 reported growth of 23% is up another 5 points sequentially and constant currency growth of 20% in the fourth quarter got us to 16% for the full year, that is the top end of our guidance range.

Good organic growth at 6% in the fourth quarter, a repeat from Q3, stable at FMC, a nice year-end pick up at Kabi, a normalization at Helios and Vamed. Acquired growth, again 14 points in the fourth quarter primarily coming from Helios and FMC. And the expected swing on the currency side after three quarters of headwind, now an initial positive contribution with plus three points and that mitigated the full-year effect to minus 2%, which incidentally was no longer US dollar driven but became primarily from the ruble and from some Latin American currencies.

On to EBIT, and that reached EUR935 million in the fourth quarter, up 7% year on year at constant currency. Ex-FMC, we were even at 14% growth, taking the full year to 10% versus the Group at 4%.

Net interest was EUR171 million in Q4 taking the full year to EUR602 million. So we saw the expected pickup from Q3 driven by FMC's incremental acquisition debt. And the reason why we ended up above EUR600 million is US dollar strength.

Looking forward, our Q4 expenses, actually a pretty good proxy for a 2015 quarterly run rate, it requires a few adjustments, which however largely offset each other. So in particular the current exchange rate increases that run rate, our various efforts to reduce interest on existing debt decreases it.

The bonds we issued in 2009 will come to maturity in July, thank God, and I am assuming that we will able to refinance them at less than half the original yield. On that basis and applying the current exchange rates I'd be looking for 2015 interest expense in a range from EUR680 million to EUR700 million, the bulk of the expected year-over-year increase is currency related.

The Group tax rate reached 25.7% in Q4, so well below Q3, and this is related to one-time effect at FMC, I am sure Mike will elaborate on that later. As a consequence, for the full year we are at 28.4%, slightly below my earlier guidance. For 2015, I would like to guide you towards around 30% normalization, ex-any one time effect and US dollar strength being a key driver behind that year-over-year increase.

Finally, net income before integration costs and disposal gains that was EUR318 million in Q4 up 5% at constant currency just as in Q3. Another strong quarter that contributed to the 4% constant currency growth for the full year, so that is in the upper half of our guidance range. And looking at reported growth the impact on currency remained at minus 1%.

A few minor one timers in interest expense in corporate EBIT and in taxes, as just mentioned, pretty much offset each other, so I believe we have a fairly clear picture on net income here.

With that let's move over to Kabi on slide 15, and there you see the EBIT development over the different quarters. The bars illustrate a strong absolute increases quarter over quarter, the bubbles at the bottom show the progress in year-over-year growth at constant currency. You see the very meaningful progress; which on the one hand, as I alluded to, as part of our Q3 call; is driven by underlying progress but on the other hand also when you see that in the bubbles by a weakening of the comps given the increasing anniversary of the various effects that we were suffering from over the course of 2013, notably the price cuts in China but also anything surrounding our HES product.

So we were increasingly in a position to compare apples with apples and therefore also in a position to conclude the year on a very strong setting.

However if you compare what we are showing here with the guidance that I will comment on in a few minutes you will see that we have further progress marked for us in 2015.

Over the page on Kabi's EBIT, on page 16, you will recognize the EUR239 million of absolute EBIT from the previous page also the margin of 17.2% and the rounded down 0% constant currency growth. That is, as I just mentioned, a meaningful improvement over the prior quarters. With the 17.2% margin in the fourth quarter we were able to take the full year to 17% and that is very much bang inline with the guidance that we had given to you.

On to the regions, where we had -- in the individual regions small number of one timers that slightly distorted the picture, let's start with Europe, at the top of the slide, where I had alluded to an upswing in the fourth quarter that we expected however it came about more pronounced than I had thought at the time there was a fairly meaningful contract manufacturing revenue and EBIT that fell into the fourth quarter and therefore the 20.9% that we are showing here that is a bit ahead of where I actually thought we would be.

We saw the expected margin dilution in North America that is actually absolutely inline with the projections that we had and the 33.4% in the fourth quarter that took the full year to 36.4%. What I would like to point out is that historically we had some extra expense in the fourth quarter so a somewhat weakish fourth quarter margin wise is not a new phenomena and therefore I am not particularly worried about that as a lead indicator for 2015.

On the other side relative to the out-performance in Europe, we have the emerging markets with a margin of 14.4% in the fourth quarter that is below our earlier expectations, also here we have a few one-timers that are pretty much related to an isolated quality issue that we had and where we had to go through some scrapping, also here no lead indicator for 2015.

Finally, in corporate and R&D we had EUR76 million of expense, also there slightly ahead of my earlier expectation. The full year is at EUR268 million. And there for 2015 I would expect at least a slight improvement to, say, EUR250 million to EUR260 million.

Over to Helios, on slide 17, where sales reached EUR1.36 billion in the fourth quarter, again a strong quarter with very healthy organic growth and further progress along the Rhoen integration. Organic patient growth fairly strong at 3.5%, but also pretty much inline with what we were seeing in Q3 and organic sales as a whole therefore grew at the top of our guidance range with 5% in the fourth quarter and took the full year to 4% that is then at the midpoint of our guidance range.

Total EBIT, at the bottom of the page, came in at EUR156 million, again good progress from the EUR147 million in the third quarter. Also margin wise we saw further pickup 70 basis points sequentially to reach 11.5% in the fourth quarter. The year-on-year decrease that you see that is driven by the first time consolidation of the Rhoen hospitals.

Looking at the established portfolio, we are seeing sequential margin progress of 20 basis points and also looking at the contribution from the newly acquired hospitals, we saw sequential progress from EUR44 million in Q3 to EUR48 million in Q4, I think that's quite an achievement.

And so therefore fully backing up what Mark just said we remain very, very pleased with the way the Rhoen integration goes.

A brief comment on the Helios clinic development plan that you see in the backup and what you see is overall a fairly high number of out but also underperformers. What I would like to point out to you is that even those who haven't met the required -- the margin requirement yet have made year-over-year progress and therefore, all in all, I take the still underperformance -- underperformers more as a profit potential than as a signal that there is a long-term underachievement of that plan.

Also do bear in mind that we changed the metric not too long ago, you wanted us to make it more ambitious and therefore it shouldn't come as a surprise that we have a number of underperformers here, again, as I just said we believe that over time the vast majority of these hospitals will be able to live up to the expectations in that plan.

Secondly, just to reiterate what Mark said, as previously announced we chose to slot the Rhoen hospitals into the year four an 8% margin cluster. We felt that that was appropriate given the starting point margin wise how we took them over.

Let's move on to cash flow on the next slide and starting with the Group at the bottom of the page was another very strong quarter with operating cash flow at EUR890 million, our typical target of turning in double-digit cash flow margin Q4 represented a margin of 13.7%, so in my mind a very, very strong performance and that also took the last 12-month average to 11.1%, also ahead of our typical target.

I think that that is quite an achievement in particular given the one-time burden at Fresenius Medical Care in the starting quarter. In Q4, strong contributions pretty much across the board, Kabi's EUR209 million represent a margin of just above 15% and Helios delivered EUR154 million at a margin of 11.3%. Again, our typical target is a margin of say 10% to 11% and that is where I believe we also should come out in 2015.

CapEx of 5.7% for the full year influenced by a strong fourth quarter but that is not atypical. Let me comment on Helios where we are a bit below the norm in 2014. The year was characterized by a wait and see policy with regards to the CapEx plans at the newly acquired Rhoen hospitals, we went through them in much detail, vetted most of them, and therefore you should expect a bit of a pickup in the CapEx intensity at Helios in the next year -- in 2015 that should not be taken as an indicator that medium to long-term CapEx intensity at the Helios Rhoen hospitals is higher than the norm.

Bottom right to conclude this slide, free cash flow, as so often in the mid single-digits, on a growing revenue base I think that also it bodes very well for 2015.

Over the page, net debt EBITDA, where we concluded the year using identical exchange rates to calculate net debt and EBITDA at 3.26%, so bang in line with the guidance that we had given to you, we do expect further progress over the course of this year and my expectation would be that we will continue to work on both the numerator, net debt, applying free cash flow, also the denominator EBITDA where we do expect meaningful growth.

Let's conclude with an update on our guidance on slide 20 and 21, and looking at the business segments first on page 20, and for Fresenius Kabi's organic sales growth the guidance range will be 3% to 5%. This range is the combination of our assumptions for Kabi's individual regions, Mark pointed those out to you currently minus 3% for North America, given our expectation that shortages will continue to ease, 3% to 5% for Europe, a double-digit growth in the emerging markets.

The largest variability comes from North America; there primarily, we would also expect to cover the shortfall to Kabi's new medium-term target of 5% to 8% organic growth that Mark just alluded to. All you need is a bit of US growth once we are through the current normalization and maybe a bit of a pickup in Asia outside China and then you are bang in the middle of that target range.

Now, why is the 5% to 8% below the 7% to 10% we quoted at Kabi's Capital Markets Day in 2012, I think there are two good reasons. One, Kabi is strengthening its medical devices business with a slight dilution, the blended growth rate in line with our announcement at the time of the Fenwal acquisition. And two, simple law of gravity, by the end of this year Kabi will be about 40% larger than at the time, the same absolute increases translate into gradually decreasing percentage growth wise, that's the price you pay for incremental stability.

EBIT growth should outpace sales growth this year with 4% to 6% just as well as in the medium term not necessarily in each and every year but structurally assuming stable currencies and a stable business mix.

Mark told you why we are having a preference for EBIT growth rather than margin as a key performance metric, let me just add that I see limited relevance in the blended margin of a diversified business. Plus, we want to make sure that no one in pursuit of a stated margin target passes on an opportunity for value creation -- that would be a shame.

For the avoidance of doubt, we continue to believe in profitable growth -- profitable organic growth. Evidence is our EBIT growth guidance of 4% to 6% at constant currency this year, it implies a margin expansion from this 17% we were showing in 2014. So as indicated we view this 17% as a fairly solid floor.

Projected EBIT growth includes an initial EUR10 million contribution from Kabi's efficiency improvement program but on the other hand we will miss some EBIT from US product sales on the regulatory discretion and 11 months of EBIT from our divested German compounding business, the guidance does not assume a contribution from unannounced acquisitions so like-for-like we are seeing an even more pronounced improvement than stated here.

Over and above that we are looking at a meaningful foreign exchange effect given that US dollar strength lends incremental weight to Kabi's North American business with its well above average margin. So for this year we are looking for a margin in the range between 17.5% and 18.5%, again driven by both structural progress as well as a currency tailwind. And so given all these factors and the caution we applied when guiding for our North American business I believe this is a very solid outlook for a very solid business.

Currency shapes up to play a meaningful role this year, strength of the US dollar and the Chinese yuan in particular will likely give a translation boost to our projected constant currency reported numbers. We have run simulations on the basis of last Friday's exchange rates if those prevailed until year end. The bottom end of our sales growth guidance are either 3% organic growth, that would result in absolute sales of approximately EUR5.6 billion so around 9% reported growth including the divestiture of the compounding business.

And for EBIT, again at the bottom end of the range we would be looking for approximately EUR1.20 billion, around 17% reported growth. So currency is clearly a factor to watch this year and we will provide you with updates as to the likely translation effects as part of our quarterly earnings calls.

Now for Helios we saw decent organic sales growth in 2014 helped by healthy organic patient growth post a weakish first quarter in this respect. We got those issues fixed and that bodes well for 2015. On the reimbursement front, the DRG inflator has been set at just above 2.5%, so slightly below 2014, plus there are some wrinkles in the fine print so not all of this will eventually accrue to us but in a historical comparison reimbursement remains on an attractive level. Mark mentioned the good progress we're making on integrating the acquired Rhoen hospitals, also that gives us confidence for this year.

All in all, the 3% to 5% guidance range for organic sales growth that served us well in the past. We never missed it, very rarely exceeded it, we reached 4% last year, market conditions remained favorable so there's no reason to guide anything but 3% to 5% and that for the avoidance of doubt applies to the entire portfolio so also to the Rhoen hospitals that we recently acquired.

Reported sales growth will be 3 point to 4 points higher, so in a range between 6% to 9%, that is the anticipated net effect of intra-year first time consolidations and antitrust mandated divestitures last year. First and foremost HSK in Wiesbaden which was only consolidated from the 1st of July.

For Helios' EBIT we are projecting a range from EUR630 million to EUR650 million, that's a massive mid-teens growth rate year over year. The increase results from both improvements in Helios' legacy portfolio and further synergy benefits on our way towards the EUR85 million interim target.

Mark mentioned that about 40% of that potential has already been reached last year. We expect a balance to accrue to us until the first half of 2016. So we're fully on track. Remember that closing of the acquisition was delayed by one to two quarters. And we'll accomplish the originally projected synergy benefits with a lower investment in the form of integration costs.

Coming from the initial estimate of EUR80 million we had already indicated a range of EUR60 million to EUR80 million last fall, by now we believe that we will only get to the lower end of that range. And given that we spent approximately EUR50 million last year the bulk of that activity is already behind us.

Now, for Vamed, given the actual performance last year, notably the strong order intake and further broadening of Vamed's portfolio into stable service and management contracts we are generally optimistic. The one slight caveat, Mark mentioned it, is geopolitical risk, and that may cost project delays in individual affected countries, specifically I'm referring to the Ukraine and Russia, maybe also Libya.

Our crystal ball isn't any clearer than yours, so there is some uncertainty. But Vamed has also been very effective in regional diversification, so I believe in the meantime there's no individual market where a larger number of project delays would inflict undue pain on Vamed as a whole.

We are still asking you for your understanding that we've opted for a wider-than-usual range but comfortable guiding you to single digit organic sales growth in 2015. And that guidance leaves space for a possible catch-up effect from the deferred business but also for at least a slight toughening or intensification of the situation in 2015. On EBIT growth we'd like to stick to our guidance of 5% to 10% growth also for 2015.

Finally for the Group, starting with sales growth and we expect 7% to 10% at constant currency in 2015. For the avoidance of doubt, this range does not include meaningful unannounced acquisitions. And the organic growth element should be the same magnitude as last year.

Also here we've run simulations using last Friday's exchange rates and on that basis the bottom end of our guidance would result in absolute sales of approximately EUR27 billion. So a currency effect of about nine points leading to at least 16% reported growth.

Net income is expected to grow by 9% to 12% at constant currency. Do bear in mind that not only for Kabi's guidance but also for the Group guidance this is using the minus 3% organic sales growth for Kabi North America. If we got to the upper end of our minus 3 to plus 3 range that would, everything else being equal, get us two incremental points of net income growth.

So we're back in the high single if not the double digits in terms of constant currency growth driven by good underlying improvements in our pre-existing businesses coupled with meaningful contributions from recent acquisitions.

Our simulation shows foreign exchange translation effects boosting this already strong growth by a further 8 points in absolute terms again for the bottom end of our guidance range we're looking at approximately EUR1.27 billion. So a minimum of 17% reported earnings growth. I think that's nothing to sneeze at.

So after a challenging but successful 2014 this year shapes up to be more in-line with our growth track record and much more in-line with our ambition level. It will bring us a major step towards our stated medium-term objective and as Mark mentioned if the current foreign exchange regime prevails we have a very good chance to exceed those stated targets even meaningfully.

Mark and I now will now be happy to take your questions. Thank you for now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Veronika Dubajova, Goldman Sachs.

Veronika Dubajova - *Goldman Sachs - Analyst*

I have two, one is just a broader question on M&A and I wonder if given some of the transactions we've seen in the broader pharmaceuticals space and where also posted in the market today how are you thinking about acquisition opportunities in the short and medium term, might we see more or less de-lacing from you, I appreciate it's all included in the guidance, but if you can help us understand how you're thinking about that and which areas are you focused on, that would be really helpful.

And then the second question I have is just if you have any thoughts on the biosimilar space or if you thought with regard to the biosimilar space have changed following the Pfizer Hospira transaction? Thank you.

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

Thanks Veronika. I'm glad you're bringing up the M&A question because I think we are committed to growing our business not only organically but also through M&A. But I think over the years, you've also learnt that we are quite disciplined in doing that and when we can it with the small- to mid-size deals we prefer to do that over large deals.

I think the financial risk and the integration risk of small- to mid-sized transactions is significantly lower and that's something that's favorable to us. I also feel this is a pretty frothy time when it comes to healthcare M&A and as you know one of our business principles is when there's an elephant stampede get out of the way and don't compete with the elephants.

So let's really stay focused on transactions that maybe below the radar screen when it comes to auctions, when it comes to large bank involvement, so small to mid-sized clearly I think for now is the focus and that doesn't rule out if something came along that's smack in the middle of our business activities that we would also look at larger things but it's not a focus right now. And we don't feel compelled to do a deal just because everyone else is doing one.

In terms of biosimilars, our thinking has not changed, and again all that happened is eight transactions, that does not mean that biosimilars have become more or less attractive. And I think from our perspective in particular, we see much larger upfront investment per product for biosimilars.

And we still see unresolved legal issues when it comes to the uptick of these products, like what forces a pharmacist or a doctor to actually pick the biosimilar as opposed to the originator product, and who is carrying the legal risk of actually making that switch. And I think as long as those issues are not resolved in addition to all of the regulatory issues that we have, I think the uptick for these products will be significantly slower compared to generics.

Veronika Dubajova - *Goldman Sachs - Analyst*

That's very clear thank you Mark and do you expect any competitive impact on your Kabi business from the Hospira transaction and I'll leave it at that. Thank you.

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

Look, we take all of our competition very seriously. We watch developments very closely. Having said that, with Kabi we do feel very competitive in all the regions that we serve.

Operator

Ed Ridley-Day, Bank of America Merrill Lynch.

Ed Ridley-Day - *Bank of America Merrill Lynch - Analyst*

Firstly, just on the Kabi growth. Stephan, great clarity as always. If you could bridge us from the growth that we're looking for this year, to the long, the stronger longer-term growth in terms of when you would hope to see the inflection. Would it be as soon as 2016? That would be my first question.

And related to that, can you give us any color on the nutrition synergies you see in the US this year, in 2015? And also if you can give us any updated color on the size of the Fenwal business, and the growth of that business?

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

Ed, the major variability, I think I mentioned that as part of my prepared remarks, is coming from North America. And therefore if drug shortage normalization takes a bit longer, that will be good for organic growth at Fresenius Kabi in 2015, but may dampen growth if normalization keeps -- is ongoing in the next year.

I'm afraid there is not much more that I can say. The variability or the impact of North America, I think, I hope I made it clear. Once we're fully through a normalization I would expect maybe even meaningful positive organic growth. And that would then get us into that 5% to 8% corridor that we feel comfortable with in the medium term.

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

Yes, this is Mark. Just referring to your nutritionals question in North America. I think nutritionals and pumps are the two Kabi legacy products that we have by now introduced to the North American market. Our old target remains in place. And that is that basically two years after their launch we would hope to be at a run rate of EUR50 million to EUR70 million in sales. And that would imply that some time, late 2016, we get there.

So far it's too early to start tracking meaningful, actual numbers. And what we will do is later this year as soon as we see that either in nutritional or in pumps we reach a meaningful size we'll try to give you some of those sales figures by quarter or half-year or full-year, just to enable you basically just to track our progress. But so far the estimate has not changed.

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

Ed, on Fenwal, what we have alluded to also over the course of 2014 is that we do see a bit of a weakish market in whole blood, but very stable and good attractive growth on the plasma side of things which is the larger of the two. That is something that we would also anticipate for 2015, and has found its way into our internal models.

As far as the original estimate for synergies are concerned. There we had pointed you to an overall number of EUR60 million. About half of that has been achieved. In the meantime, we stand by the EUR60 million as synergy benefits. The balance we would expect to accomplish in the medium term.

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

That's very helpful, thanks. And just to follow-up on my first question in terms of the overall growth. In terms of what you are seeing in the US market at the moment then, are we looking at effectively normalization at the rate we're going by the end of this year?

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

Ed, very difficult to predict. We are at a minus 3 to plus 3 organic growth expectation. So that covers the bandwidth of what we see in terms of normalization.

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

Very good. Thanks very much.

Operator

Ian Douglas-Pennant, UBS.

Ian Douglas-Pennant - *UBS - Analyst*

On the Kabi restructuring program. What's changed to make this necessary? It's seems like the headwinds that you spoke about earlier in the call in terms of profitability, we've known about those for some time now. And just, is this part of an end-of-year review process, or is there something else, a change there?

And following on from that, what is the risk that this becomes a longer-term restructuring program, it just gets expanded out over time as you find more to do?

And then on the second question, I guess a follow-up to Ed's question. The 10 or more products that you expect Kabi to launch this year, given these are going to be back-end loaded, are you expecting these to have a material impact on the sales line in 2015 or is that growth really going to start from 2016? What is the chance that we'll start seeing sales from those new products -- or material sales from those new products in Q3 or Q4 this year? Thanks.

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

Yes, Ian, let me take the Kabi restructuring one first. So this is very important to me. We don't do this quickly as part of a year-end review. This is clearly something that takes thoughtful planning. And remember, some of the changes which I've cited have been happening starting from 2013. And we told you all along, we're not the sort of management that sits and watches as profitability slips.

The reason we haven't talked about it earlier, we wanted to avoid a situation where we can't give you granular detail on what it'll cost, and what the benefits are going to be. We are now in a position to do that. We have precisely targeted measures that add up to this roughly EUR100 million amount, we're telling you basically how the benefits are going to come in. And so we believe now is the right time to talk about it. But it did take careful planning and that planning goes back quite some time.

In terms of the launches, clearly, as always, from day one you start to ramp up, but then it takes a while for the full sales and earnings benefit to come in. And so, yes, a big part of these launches will show the benefit in 2016. That's the way the cookie crumbles.

Ian Douglas-Pennant - *UBS - Analyst*

Okay, that was very clear indeed. Thank you very much.

Operator

Tom Jones, Berenberg.

Tom Jones - *Berenberg - Analyst*

I had a couple actually. The first one, I wondered if you could expand on your comment about lower margin opportunities within Kabi. Are you taking about just same products same business but just in different markets, where the return profile might be slightly different or are you talking about pushing out into some allied or new areas that we haven't previously seen Kabi get involved in? So some further color there would be great.

The second question was just on free cash flow really. I noticed your slide 26 which gives your free cash flow margin since 2005. And at the moment in 2014 you're sitting right at the bottom half or bottom part of your grey bar, which I assume is your target range. And that line has been trending down over the last two years. I just wondered how much of a focus fee cash flow growth is for the business and for the Company. I guess with debt being as cheap as it is it's kind of tempting to not worry too much about it given the taps are fully open there. But I just wondered if it is, there's some specific measures there that you might be taking in the next one to two years to try and improve the free cash flow yield a little bit for the Company.

They are my first two questions. I've got one follow-up one, but I'll hold that back for a sec.

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

Tom, let me try and get started here on the Kabi expansion plans. And let me confirm to you, we will remain disciplined with Kabi growth. So this is not branching out into uncharted territory. This is mostly about geographic opportunities inside the current business mix. And not all of this is necessarily M&A related. Some of this may be simply going after normal ongoing organic opportunities that would come in at a lower margin, but nonetheless are accretive when it comes to total EBIT. So we'll stay focused, don't worry about that.

Stephan will address the free cash flow. Let me just tell that whether interest rates are high or low, cash is very dear to us. And that focus will not change.

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

Couldn't have said it any better. And actually given what I said about operating cash flow where the target is 10% to 11%, maybe 10% to 12%. And where CapEx, the target corridor is say 4% to 6%, maybe more realistically 5% to 6%. Then yes, what we're targeting is a mid-single digit free cash flow ratio. And we're very much focused on the operating cash flow of things, we also do exercise quite some scrutiny on our CapEx project.

And those are the two levers that will typically get us into that 5% to 6%, maybe even 5% to 7% corridor.

Tom, what do you do need to bear in mind is that we have a fairly meaningful one timer at the outset of this year with Fresenius Medical Care eventually after a decade paying the Grace settlement payment, that stands for about 0.5 point of cash flow. And on that basis I think I reiterate I'm fairly happy with the result.

Tom Jones - *Berenberg - Analyst*

Okay, that's fair enough. And then one follow up question I had (inaudible) I don't know, but I wondered if you'd be prepared to trumpet a number on where your medium-term net income target at 1.4 to 1.5, where that would sit at current exchange rates taking your EUR0.01 is worth EUR3 million on the bottom line guidance that you have put out there that would at least get you sort of a EUR70 million jump on that. And then I guess some other currencies have helped a little bit given the euro is devalued against just about everything, so would a EUR75 million to EUR100 million increase on that 1.4 to 1.5 be a sensible way of thinking about it?

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

Yes, Tom at the risk of being unhelpful, let's not guide you to a different range. We've given you the sensitivities and so it's unlikely that those sensitivities are changing between now and 2017 in a meaningful way because the geographic mix is unlikely to change. So, yes, you can do your own math on this but I want -- the reason I'm cautious on this is I want to be sure that this doesn't create a new guidance band or anything.

Tom Jones - *Berenberg - Analyst*

Fair enough. Thank you very much.

Operator

Gunnar Romer, Deutsche Bank.

Gunnar Romer - *Deutsche Bank - Analyst*

The first one would be with regard to your IV generics pipeline. Just quickly, if you could remind us of the number of products you've currently pending for approval with the FDA and how you think about the winding down of the backlog in the coming years broadly speaking.

And then secondly, on the projected margin pickup in -- for Kabi in 2015, if you could just give us a sense of what the main drivers are and whether FX plays a meaningful role when it comes to the margin here.

And then lastly, on Helios if you can update us on the network initiative that will be much appreciated. Thank you.

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

I can briefly talk about the margin increase there, we have the underlying improvements that I was referring to pretty much across the board, do bear in mind that we had some negative one timers in particular in the emerging markets in the last fourth quarter.

The effect that we also do see I mentioned it is the further normalization of the drug shortages but still all in all an underlying improvement. I mentioned 10 million as an initial contribution from the efficiency improvement program. But yes, whilst we're very happy with the underlying progress from the 17% flow, over and above that given the contribution coming from North America with the strengthening dollar there is also, I'd say, a not un-meaningful currency effect that helps us drive the margins.

As to the number of new drugs sitting with the FDA, this at the moment is at around 50 or more than 50 I should say.

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

And that's Gunnar that's North America only. I think we also mentioned in the presentation that when you look at it globally, because as you know, we're rolling out the IV generics business wherever we can. We're talking more than 100 in our pipeline here. So I think the pipeline is pretty well stocked.

And then when it comes to the Helios network initiatives everything got approved by the antitrust authorities last fall. We're basically in the middle of rolling this out and just like with the Kabi legacy products in North America, as soon as we have meaningful actual numbers to report on we will try to give you either a half yearly or quarterly update on how we're ramping.

Gunnar Romer - *Deutsche Bank - Analyst*

But maybe if I can get one follow up and I guess nothing is included in this year's guidance then?

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

Whatever small effects it has this is included but again this is not a meaningful number.

Gunnar Romer - *Deutsche Bank - Analyst*

Okay. Thank you very much.

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

(Inaudible) take on one more question.

Operator

Julien Dormois, Exane Asset Management.

Julien Dormois - *Exane Asset Management - Analyst*

I have three; the first two will be on Kabis and the first one relates to the guidance you have given for 2015 so you have guided for 3% to 5% organic growth. I'm just curious because looking at the regional growth prospects that you have provided and just applying the regional sales distribution. If you do take the lower end of your regional ranges you end up with the 3% growth you guided at the bottom end of your Kabi growth as a whole but if you take the upper end of the regional growth rate, so let's assume 3% in US, 5% in Europe, and 10% in the emerging markets then you end up with something like 6%. So I was just wondering why you have not taken the upper end of that regional growth prospect.

And then in the mid-term for Kabi I just have one question on the US, because here again by providing your mid-term guidance for Kabi it seems to imply that the US could rebound to over the, let's say, at least the high-single digits at some point so do you believe this is a reasonable assumption and how much is it driven by the new product?

And the last question is just a housekeeping one in terms of how the organic growth will trend in 2015. We have the market acceleration every quarter in 2014, should we have the same pattern in 2015?

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

Sure, let me try to take the first one. And let's just say that when we articulated that guidance it was not just the mathematical summary of the regions, we were trying to give you our view on where exactly we would come out and hence the 3% to 5%. Remember, not every point on every guidance range on every region is equal probability. And so basically this is our view where we are headed.

And then, Stephan.

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

And Julien over and above that I would say life's experience tells me that the worst points that is absolutely possible that those coincides but that everything ends up at the proper end of the range simultaneously that happens absolutely rarely. And also against that backdrop do bear in mind that we have used a bit of caution at the top end or that range.

Can you remind me of your second question please?

Julien Dormois - *Exane Asset Management - Analyst*

It's just about the mid-term guidance that you've given for Kabi and how you see North America growth within that, I mean should we have a -- could we expect a rebound in the high-single digit or even above that in order to reach the 5% to 8% growth for Kabi as a whole?

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

The sensitivity, Julien, I think I provided when I was talking about that. What we have seen in the past is pre -- even pre-drug shortages growth in the high single digits. You don't even need that to get to the higher end of our medium-term expectations. On the other hand, in any individual years we probably also wouldn't want to rule that out.

The growth in Asia-Pacific outside China that is a bit lower for the reasons that Mark mentioned. Also there I would expect a bit of a pickup in the outer years and that would give further support to us moving within that range that we've given.

Julien Dormois - *Exane Asset Management - Analyst*

Okay.

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

And with that thanks for joining the call today. We very much appreciate your time and your questions and good bye.

Mark Schneider - *Fresenius SE & Co KGaA - Chairman of the Management Board*

Thank you and talk to you next quarter.

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

Thanks.

Operator

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

Editor

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