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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 Markus Georgi, Investor Relations?

Markus Georgi - *Fresenius SE & Co KGaA - SVP, IR*

Good morning and good afternoon to everyone, and welcome to our Q2 conference call. With us today is Stephan Sturm, our new CEO. Stephan will now start with a general update, and then cover the financials in more detail, followed by a Q&A session. After the call, a replay and the transcript will be available on our website.

The forward-looking statements and the disclaimer are on page 2 on the presentation. With these words, I hand over to Stephan and his opening remarks.

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

Thank you, Markus. Good afternoon and good morning; a warm welcome. As always, we appreciate your interest in Fresenius. Markus has pointed out the Safe Harbor language to you so let's move right to page 3.

We are very pleased to report yet another strong quarter. It marks the 50th consecutive quarter of earnings growth. Even compared with last year's truly outstanding Q2, we have succeeded in posting a double-digit earnings increase. Again, a solid performance across the board; all our four business segments have made a contribution to the Group's organic growth. On the back of these robust financial results, in particular the outperformance at Fresenius Kabi, we raised our Group earnings guidance to 11% to 14% growth at constant currencies. I'd like to use my first earnings call as CEO today to formally confirm our midterm growth targets. As a quick reminder, we're shooting for sales in EUR36 billion to EUR40 billion range, and net income between EUR2 billion and EUR2.25 billion, by 2019.

Let's move to page 4, which shows our key financials. The growth rates shown on this slide are on a constant currency basis, so directly comparable to our Group guidance. We've delivered sales growth of 5% in Q2; the mild sequential slowdown was expected. Please bear in mind that sales increased 7% from Q1 to Q2 last year, with a 13% year-over-year growth rate; that's a truly tough comp. With 11% growth, EBIT has substantially outpaced the top line and, with 15%, net income even more so; healthy operating leverage as it should be.

Let's take a look at the Group P&L on slide 5. For the first half of 2016, we're now at 6% sales growth. And even though we expect acceleration at Fresenius Medical Care, and Vamed in the second half, I'd rather anticipate the midpoint of our 6% to 8% sales growth guidance for the full year.

Net interest was EUR139 million in the quarter, down 14% year over year, mainly driven by last year's successful refinancing activities, lower net debt, and positive currency translation effects. Based on current exchange rates, we now expect the lower end of our guidance range of EUR580 million to EUR600 million for the full year. That improvement is partially due to currency effects, and stands to accrue at FMC, so the effect on the Group's net income growth at constant currency should not be overestimated.

The Group tax rate reached 28.7% in the second quarter; that's in line with our expectations and a reasonable proxy for the full year. That leads us to a strong 15% earnings growth in Q2. A cynic may argue that that's below the 23% growth we were showing in Q1, fair enough; however, sequential growth from Q1 to Q2 last year was 20%.

Year-over-year growth was a massive 22% at the time. So given that tough comp, a receding growth rate was very much expected. On the contrary, that dilution of growth was less pronounced than originally anticipated; hence, we are increasing our full-year earnings guidance from 8% to 12% to 11% to 14% at constant currencies.

Page 6 illustrates the momentum at our four business segments. Sales growth rates shown here are organic, for ease of comparison to our individual guidance ranges. EBIT growth rates are at constant currency. As expected, Kabi's sales and EBIT growth rates have come down, due to exceptionally strong comps in the second quarter of last year. As an offset, Fresenius Medical Care, also as expected, stepped up the pace. And also Helios delivered a meaningful contribution to earnings growth. At the same time, Vamed is showing the typical pattern of quarterly fluctuations in top- and bottom-line growth.

While we are on Fresenius Medical Care, the company has shown very satisfactory sales and earnings growth in the second quarter. After the already solid start to the year, earnings growth has now gained even more pace, driven by the migration to Mircera and FMC's global efficiency program. That bodes well for the rest of the year. More details later this afternoon by Rice and Mike.

Let's turn to page 7 for a more detailed review of Fresenius Kabi. In a nutshell, organic growth for Europe has been in line with our slightly reduced expectations. At the same time, North America and the emerging markets have performed much better. We've seen negative organic growth in North America in Q2, but less than anticipated. As you know, the successful launch of neostigmine in April last year boosted our results. And whilst we've witnessed price and market share erosion since, we believe that both have now stabilized.

In general, drug shortages keep on influencing our business more positively than thought. Yes, the number of Kabi products designated in shortage has decreased recently, but still stands at 17 at the end of June. And for those drugs that have come off, we're still enjoying healthy market shares at attractive price levels. So Kabi North America is much more than just drug shortage windfall benefits. Our ongoing strong performance is rather a testament of our ability to launch new products and, therefore, widening and deepening our IV drug portfolio. And with that, to become an ever more relevant partner of our GPO customers.

As indicated earlier, we expect drug launches to be rather backend loaded this year. So far, we have launched three new products. This is in line with our expectation to end the year near the top end of our six to 10 target range. Revenue contributions from these launches will be primarily in 2017, but they will also help mitigate the effects of an assumed further gradual normalization of drug shortages later this year, as well as potentially increased competition in some of our larger molecules. Those assumptions may prove conservative. But even including them, and with the knowledge of continuing tough comps in the second half of this year, given 6% organic growth in the first half, we feel comfortable to increase the full-year outlook for Kabi North America from roughly flat to low single-digit organic sales growth.

Europe; with 2% organic growth in the second quarter, Europe is, as expected, at the lower end of our guidance; a fairly stable development there in the first half. And due to the ongoing lower contract manufacturing business, Europe is also likely to remain at the lower end of that low to midsingle-digit organic sales growth guidance for the full year.

On to slide 8 and the emerging markets, where we are pleased to report strong performance. China is growing at 8% organically. The introduction of the new tender system is progressing slower than originally anticipate. No more tenders were finalized during the past three months. On the other hand, 21 out of the remaining 26 provinces have now formally published their tender rules, and we, therefore, believe that most provinces will have at least launched, if not already concluded, their tender process by yearend. The initial tenders indicate low to midsingle-digit price reductions. At the same time, we continue to experience double-digit volume growth. So we firmly believe in sustainable sales growth, going forward.

Asia Pacific, ex China, shows accelerated organic growth. Vietnam and India are only two highlights here. Our strong performance is based on structurally growing demand and strong execution on our growth strategy now that we have successfully concluded some restructuring initiatives. So, overall, our prospects for emerging markets have slightly improved and we now expect organic sales growth to be likely in the low double digits.

Let's turn to slide 9 and EBIT. Total EBIT, at the bottom of the page, came in at EUR307 million, up 1% at constant currency, taking the year-to-date rate to 10%, clearly, ahead of our roughly flat guidance. Let's take a look at the regions to see why.

From top to bottom, minus 3% in Europe; that shows stabilization at around the Q1 level. We'd expect growth to pick up in the second half of this year, as the underlying tone improves, and comps will get softer, especially in Q4. EBIT in North America has not grown in the second quarter, and that was well anticipated. Given the extraordinary 32% growth in Q2 last year, I rather believe that maintaining that level has been quite an achievement.

And so we feel comfortable to raise our guidance. We now believe we can reach midsingle-digit growth at constant currencies in the full year. Given that we're at 13% growth year-to-date, this implies slightly negative growth in the second half. But do bear in mind what I've just said re our assumptions for the North American top line. And we have also factored in a further ramp-up in R&D expenses related to our newly acquired prefilled syringe business. Plus, the comps won't get any easier in the second half.

Emerging markets are clearly above our expectations with 31% growth, mainly driven by Asia Pacific. We'd expect growth to come down, though, in particular, once more tenders are completed in China later this year.

Corporate and R&D showed a sequential increase, but I'd expect the quarterly run rate below the Q2 level in the second half of this year.

With that, let's turn to Fresenius Helios on slide 10. There, we've seen a strong Q2 with a broad-based positive performance across the entire hospital network. With the integration of the acquired Rhoen hospitals behind us, management, in particular at the level of an individual hospital, has generally regained some capacity to focus on organic sales growth. The 6% accomplished in Q2 aren't the new norm, though. They are, to some degree, driven by a fairly modest comp last year, reinforced by the fact that Easter was a Q1 event this year, but a Q2 event last. For non-organic growth, the acquisition of the 500-bed Niederberg hospital in North Rhine-Westphalia that has closed. And that is consolidated as of May. As a reminder, it reached EUR69 million sales in the full-year 2015.

On to slide 11 with an overview of the EBIT development at Helios. A nice, sequential, pickup to EUR173 million in the second quarter and, with EUR332 million in the first half, we had almost half of at least the bottom end of our full-year guidance range. As you know, the second half of the year is traditionally the stronger one and we don't expect this year to be any different. Plus, we'd expect a bit of a positive contribution from the Niederberg hospital.

Over to Fresenius Vamed on slide 12. There, organic sales growth was 1% in Q2, or 3% in the first half. A meaningful outperformance by the more stable service business, but a strong 11% in Q2 took the first half to 8%, and a bit of a calm before the storm, in the more volatile project business; yet again, strong order intake with good regional diversification between core markets in Central Europe and the emerging markets. And that record order backlog is a good launch pad for revenue growth in Vamed's project business in the second half.

Next is cash flow on page 13, and generally a very strong cash flow quarter. Group operating cash flow of EUR996 million, bottom left, took the LTM margin to 12.1%. Sequential improvements across the board, and at FMC we saw the sequential catch up we expected after those transitional timing issues in Q1. Kabi posted a Q2 cash flow of EUR211 million, top left, at a margin of 14.3%. And that took the LTM margin to above 15%. Helios, with a good 11.1% margin in Q2, broadly at the LTM level. Group CapEx, at 5.5% LTM, in line with our expectations. And so for free cash flow, bottom right, we're now at a margin of 6.6%, more towards the upper end of our historical track record.

With that, let's turn to slides 14 and slide 15 for the outlook; Kabi first. No change for Europe, but an improved outlook for North America and the emerging markets. As a consequence, we increased the organic sales growth guidance for Kabi as a whole, from low single digits to 3% to 5% for the full year. We're also upgrading our guidance for constant currency EBIT growth from roughly flat to also 3% to 5% for Kabi as a whole. Key driver here is our improved guidance for Kabi North America, now midsingle digit at constant currencies, including the prefilled syringe startup expenses. So why is the EBIT guidance step up larger than the one for sales growth? Well, because the key drivers for the guidance upgrade are the higher margin regions, North America and emerging markets.

For Helios, in terms of organic sales growth, 6% in Q2 took the first half to a strong 4%. So we're well within our 3% to 5% guidance range; no reason to amend that. And you heard it, also for EBIT, we're well on track. That traditional improvement in the second half doesn't even have to be that pronounced. So we feel good to confirm that EUR670 million to EUR700 million full-year range. Also for Vamed, you see the tick marks, primarily based on the record order book.

Take all that together for the Group on slide 15; we confirm our sales growth guidance of 6% to 8% at constant currency, albeit more towards the midpoint of that range. And the extra contribution we expect from Kabi puts us in a position to raise our full-year guidance for the Group's net income growth. I already stated in our Q1 call that the low end of that 8% to 12% range seems unlikely. Now we expect about an extra 2 growth points. So here we are at 11% to 14% net income growth at constant currency for the full year. Given the 18% growth year to date, that revised guidance implies moderately receding growth in the second half. But I told you what our assumptions for Kabi in North America are. Let's see whether they materialize.

With that, I'm 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 three questions, please, if I can? The first one is on Kabi North America, and I was wondering if you can comment on two things. One is, obviously quite a big disconnect this quarter between what we saw from IMS, and what you reported. I understand there might be some comp issues, but if you can talk around them that would be really helpful. And maybe if we look at IMS, is the growth rate that we're seeing from IMS a helpful guide as we think about the second half of the year?

And then my two non-Kabi questions are; one on M&A, and I believe you were quoted this morning in the press discussing that you are keen for acquisitions, but not feeling under pressure. If you can maybe remind us how you're thinking about it in terms of M&A and what we might or might not see from you, and what's in focus, going forward, that would be great.

And lastly, if you have any update on the CFO search process? Thank you.

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

Thank you, Veronika. On IMS and Kabi North America, look I do very much appreciate that you and others track IMS data intra-quarter so that you can get a bit of a handle as to what the quarter is going to look like. But frankly, we have never made a secret about the caveats surrounding IMS data and that it needs to be treated fairly carefully.

Two comments on this; one more general and that would be that IMS does not capture our direct sales and that, therefore, there is always going to be a tracking error. On prior occasions we have alluded to the fact that, in particular with regard to neostigmine, that was a relevant factor.

The second comment is more specific to this second quarter. If you think about it, IMS will only ever capture the pull through to the end market and it, therefore, always contains a tracking error in the quarter of launch of a major drug, because it does not capture that initial stocking. So when you think back to the second quarter of 2015 that, as a matter of fact, we all know that, was a quarter with major launches, neostigmine, enoxaparin and, therefore, major initial stocking effects.

We captured those as part of our sales as we should, IMS didn't and, therefore, what you are comparing Q2, 2016, now to is arguably a Q2, 2015, at IMS that is light. Therefore, when you were looking at the absolute numbers over the course of Q2, 2016, they indicated good progress. But at the end of the month when you were comparing now, the actual with our higher reported Q2, 2015, it may have come across as a bit of a disappointment.

Therefore, in summary, yes, do take a look at IMS. We have always said that, directionally, it serves as a good proxy. On the other hand, in particular when you're looking at quarters with major drug launches, handle with care.

Veronika Dubajova - *Goldman Sachs - Analyst*

That's very clear. Thank you.

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

On M&A, yes, I'd say Mark and I were joined at the hip in very many aspects; I'd say M&A in particular. So don't expect anything meaningful different from me than you would have expected in the old lineup. And yes, there are a few strategic blanks that I'd like to see filled, over time. Yes, I think that overall, we as a Group, are strategically very well positioned, and I don't see a need to do anything major to the Group setup as a whole. And yes, just because money is cheap, and just because we are approaching the bottom end of our self-imposed target leverage corridor, there doesn't have to be a mad rush. Anything we do on the acquisition front needs to be strategically sound, plus the numbers need to stack up. Earlier this year, we were commenting that valuations had gone in the right direction, from a buyer's perspective. In general, I would say that is still the case. And all I was commenting on this morning was that, just because we have a new CEO who happens to be the prior CFO, that does not mean that our hands are tied and we are not in a position to act, if an opportunity arises. Rather the opposite; we are very much in a position to seize on an opportunity when it comes along.

To your third question, CFO search, I need to ask for your patience. The Supervisory Board and I really want to find the most suitable candidate. That's going to take a little while. In any case, it's going to take longer than finding a suitable CEO replacement candidate.

Veronika Dubajova - *Goldman Sachs - Analyst*

Okay, that's very clear. Thank you, Stephan, for that. If I could just quickly follow up on Kabi North America, can you maybe give us a sense for the growth excluding the stocking impact, just so we have a better sense for how the business on an underlying basis is performing? I'll jump back into the queue after that.

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

Veronika, I'm asking for your patience. That would lead me dangerously close to making statements on individual drugs, and you know from your experience, from our joint experience, that I'm always very careful in avoiding that. I think we have given you specific organic revenue guidance for Kabi North America. That also implies, with the various caveats I have made surrounding the assumptions that we've taken, that gives you a good implied growth rate, I think, for organic growth in the second half.

Veronika Dubajova - *Goldman Sachs - Analyst*

Understood. Thanks.

Operator

Mike Jungling, Morgan Stanley.

Mike Jungling - *Morgan Stanley - Analyst*

I have three questions, please. Firstly, on Kabi, how is it possible that, on negative organic sales growth in the quarter of minus 6%, you've pretty much achieved an all-time high margin of 43%? Or in another way, how can costs be down EUR50 million sequentially?

Question number two is on Kabi again; can you talk about your launch plans for your recent ANDA approval of fosaprepitant?

Then thirdly, on the Kabi tax rate, it has been creeping up over time; I think it's been around 25% now to 30%. What is driving the increase and what is the scope for improvement in the Kabi tax rate, going forward? Thank you.

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

Thank you, Michael. On your first question, the short answer is mix effect. Whilst you saw a bit of receding growth in terms of the top line, it was, in a sense, the right products where we lost sales, namely those with a below average margin. Therefore, it doesn't have that much to do with a cost position.

Kabi North America is, and I take my hat off to my colleagues over there, as lean as it gets. Even if we wanted to, we wouldn't find any cost position that we could trim. It is all a matter of mix between the individual drugs that we're selling.

On two, Michael, that is a fairly similar answer to the one that I gave to Veronika before. I'm asking for your understanding. I will stay away as much as I can from individual drugs; it would hurt us competitively. You know that, in all likelihood, we're not going to be the only ones looking after some individual drug, and, therefore, I really want to keep my cards as close to the chest as I can.

Number three; frankly, you may laugh at this answer, but I would love the tax rate to move up even higher because it is a mere reflection of strong performance at Kabi North America. Again, it's a mix effect inasmuch as, at the moment, we outperform in a country with a well above average tax rate, the more we see that creep up in the Kabi blended tax rate that you were referring to. In that much, I would hope that, going forward, there isn't that much of more potential, but that we rather see more outperformance at Kabi North America.

Mike Jungling - *Morgan Stanley - Analyst*

That's very helpful. Maybe a follow-up question on ANDAs? You mentioned you've got so more approvals coming towards later this year; can you comment a little bit on whether the average size is at the higher end, or perhaps slightly more towards the lower end? That would also be very helpful. Thank you.

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

Michael, there is a good mix. I know that you would like me to be even more constructive, but that's all I can say; there is a good mix. The number that we are looking at in the pipeline is close to 50. Those that we're counting on coming through will take us even above the target range. The one that could make it above the finishing line, I wanted to say even above the upper end of that target range, we are taking it a bit more cautiously. Therefore, you heard me say we expect to end the year near the top end of that range.

Who actually is going to make it out of that somewhat larger group, that remains to be seen. There are, as you would expect, small, medium-sized but, thankfully, also some larger opportunities in there.

Mike Jungling - *Morgan Stanley - Analyst*

Great. Thank you.

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

Those who'd fall into 2016/2017 or 2018, that remains to be seen.

Mike Jungling - *Morgan Stanley - Analyst*

Great. Thank you, and congratulations becoming CEO.

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

Thank you, Michael.

Operator

Alex Kleban.

Alex Kleban - *Barclays - Analyst*

Just one shortage list question, thanks, and one, I guess, Helios question. So just on the shortage list, the products that rolled off during the course of the quarter, it looks like two of them are really driving some impact, and I don't think we maybe need to get into names.

But just going into H2, is it a fair assumption that those two products together are going to be taking something like $40 million/$50 million overall sales for the half? And then maybe getting an impact something in the negative $10 million/$20 million range, just to understand the downside risk? That's question one and I appreciate if you can't comment specifically on the individual products.

Just on the Helios, just looking at the improved admissions, I'm just wondering if there are any efforts underway to try to drive a higher recruiter case mix and try to drive some better margin on top of that? Or this quarter is really just a case of getting the delayed Easter and the spillover effect from that and then also just capturing more admissions off of that increased volume from the delayed Easter?

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

Alex, on your first question, apologies and asking for your understanding, I'm afraid no, I don't want to get near individual drugs. And that also applies to a pair of drugs, I'm sorry.

And number two, on Helios, this last quarter, but frankly also the coming quarters, are meant to focus on capturing patient growth. You know that over the course of 2015, and there was a lot of writing on that, we had a bit of a brief spell. We told you it had to do with management at the individual hospital level being fairly tied up with the integration. It had to do with a higher than normal rate of fluctuation among doctors, who are all important for getting the referrals from the GPs.

And it seems that that is now behind us; that we can well keep our head down and plow away and make the case that at Helios, we can render superior treatment quality. And I am assured that this is now also translating into organic revenue growth and into EBIT. So I don't mind a higher EBIT, a higher EBIT margin, of course not. But frankly, I believe in the current set up that we have, we're best advised to drive the top line to capture market positions, and profitability is going to follow suit. Not automatically, but capturing the revenue is the more difficult task than capturing the corresponding EBIT.

Alex Kleban - *Barclays - Analyst*

Okay, great. Thanks a lot.

Operator

Lisa Clive, Sanford Bernstein.

Lisa Clive - *Sanford Bernstein - Analyst*

Three questions within the Kabi division. First, on your infusion therapy business, a nice uptick in growth to 8%, fastest growth I think you've seen in a few years. How much of this was from your recently signed collaboration with Becton Dickinson, or has that not really gotten off the ground yet? Just some comments on the trajectory of that relationship would be very helpful.

Second, on clinical nutrition, if you could provide us with any update on your three-chamber bag rollout in the US; how has the uptake been so far, feedback from your sales force on interest in moving towards premixed parental nutrition?

And then third, on medical devices, good growth there as well. If you could just comment on where the main drivers of growth were coming from; particularly, if you can comment on the US market where you've historically said you're subscale and that's been a strategic priority?

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

Thank you, Lisa. On infusion therapy, yes, as you know we entered into that agreement with Becton Dickinson earlier this year. In the foreground was us acquiring their facility for prefilled syringes; more in the background but from my perspective of the very same strategic importance, our supply agreement for infusion solutions.

That hasn't kicked in, in any major way and, therefore, that is not the driver of a nice performance that we have seen in that particular category. I'd rather attribute it to good growth, pretty much across the board, not in any particular region, across the board. And you mentioned it yourself, we haven't seen that much growth for a while. So a relatively modest comp also does play a role in this nice growth rate that we're showing for this past quarter.

For clinical nutrition, we are still in the ramp-up phase and that could take a little longer. In any case, what we're projecting here, in terms of organic top-line growth for Kabi in North America, does not have a major contribution from the three-chamber bag. This is in contrast to what we've been doing in North America, a product that requires substantial explanation, convincing, i.e., marketing. Therefore, we're still in the process of gearing up towards a more pronounced group of key opinion leaders who can transport our message of product superiority in the market. So we are, in our own minds, on track, and the benchmark that I keep on using here is what we did with the three-chamber bag in China. There also it has taken quite a while to convince the practitioners of that product. By now, it is our dominant product in that market.

As far as medical devices is concerned, I'd give you the same answer; nothing really that stands out. Very pleasing to see that, after a while of fairly mediocre growth rates, we are now seeing a bit of an acceleration. But neither product-wise, nor regionally, I can point you to anything specific which, in my mind, is good news because it points to a rather broad-based progress that we've made.

Lisa Clive - *Sanford Bernstein - Analyst*

Thanks very much.

Operator

Tom Jones, Berenberg.

Tom Jones - *Berenberg - Analyst*

I had two questions; one on Kabi and one on Helios. Firstly, on Kabi, I wondered if you could talk, fairly generally I guess, about the IV drug business outside of North America? I know we all focus on APP in the North American business, but if I mesh your IV drug growth rate in Q2 and your North American growth rate in Q2, it seems to me that the IV drug business outside of the US enjoyed some very, very healthy growth. We don't know much about that business, it doesn't get talked about, so maybe just some general comments about the growth outlook and the trends you're seeing in that part of the business would be very helpful.

And then on Helios, congratulations on the bounce back in volume; I know I've given you some stick in the past for that, so I should be gracious and congratulate you on the recovery. But perhaps, really, what's become more interesting is kind of your longer-term thoughts for that business. As you get bigger and bigger, it gets progressively harder to grow at above market rates. Just wondering what your three- to five-year thoughts are on that business.

And maybe within the context of that, give us an update on where you are looking at hospital businesses outside of Germany; something you mentioned earlier in the year, but seems to have gone a little bit quiet since.

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

Tom, thank you. The IV drugs business outside North America, you're absolutely right, gets a bit short-changed, relative to the dominating former APP business. In reality, as you know, you follow us for quite a while, it all started outside North America. It all pretty much started in 2005 with us acquiring that Portuguese company, Labesfal, and us getting more into the IV drug business. And ever since, we have grown fairly vigorously outside the US as well.

This is fairly broad based. You may recall that, in particular on the back of the APP acquisition in 2008, we had some extra revenue growth from bringing APP files into Europe; just as much as on the back of the Labesfal acquisition in 2005, we exported some of those Portuguese files into the rest of Europe. That is something that we have pretty much exploited. We keep on launching new drugs, but at a relatively modest scale. And this is very much, in Europe, down to a bit of market share gains and losses here and there and underlying volumes.

Much more important/interesting, even though at a smaller absolute level, are the emerging markets. And what you're seeing here driving the growth in the category, overall, is our business in Asia Pacific and, to a lesser degree, also in Latin America. China is an important market for us in that category, even though, when I was referring to some strategic blanks that I would like to see filled, going forward. Whilst it is not a complete blank in China, I certainly would see room for us for further growth.

Tom Jones - *Berenberg - Analyst*

Perfect. That was going to be my next question, so, and then on Helios?

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

On Helios, thank you for your appreciation of the re-pickup in organic growth, and I want to be very clear; us to take a look whether or not it does make sense to go abroad is independent of organic growth opportunities in Germany. It is a recognition that privatization opportunities are so few and far between. And it is recognition of our strategic approach that we used to have, and that I will continue, that we only want to be in businesses where we see a good combination of organic and non-organic growth opportunities.

As far as organic growth opportunities in Germany are concerned, you heard my mantra before, I can only repeat it here; we can't wait for there to be a mandatory rule to make quality data publicly available. As you know, we have voluntarily done that for as long as I can think of. We are certain that, once for a patient, once for a GP, it is easy to make a comparison between quality outcomes in individual hospitals, that we're going to see more volume growth and more organic revenue growth.

Therefore, I'm not worried about organic growth opportunities in Germany, going forward. I'd love to see more and faster progress in that respect, but the general direction that is absolutely clear, and that is the right one that's going to help us.

Tom Jones - *Berenberg - Analyst*

Yes, do you think, on the M&A front in Germany, that the combination of the shift to publishing quality data and/or quality-based payments, one can easily see how that's going to drive volume away from the public hospitals and into the private operators, and cause financial problems for the public operators?

Then if we look at past historical elections cycles in Germany, you usually get a bit of a giveaway the year in front of one, and then you get the pain comes in the year afterwards. If I put those two things together, they both look like they might happen, the bad bits for the public hospitals, in 2018. So I don't want to hold you to it, but is there a prospect that we might see a bit of a pickup in M&A activity, or privatizations rather, in 2018 in Germany, or is that a bit too optimistic?

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

As much as I would like to see it happen, Tom, I think it is a bit too optimistic; at least, I'm skeptical. Look, the general election does not have a lot to do with privatization activity because the Federal, as you know, doesn't own a single hospital. The decision makers are sitting in the municipalities and districts and for them, the key decision making criteria is their own household situation. That is driven by trade tax income; that is driven by the economic situation in Germany as a whole. From the latest data that I'm seeing, the German economy is holding up pretty well and, therefore, I don't see that, in the short term, there's going to be that much appetite for privatizations; hospital privatizations, in particular, not.

Now as far as that giveaway is concerned that you were talking about, look, for quite a while now, we've seen the DRG inflator track wage inflation pretty closely. And be that an election year or not, I think that is going to be also the case, that's my best guess at this point in time, for 2017 and 2018.

It is a reflection of the public will to avoid privatizations, to prevent them. And on that basis, yes, I think what we can, on the one hand positively rely on, should be a healthy DRG inflator yet again driving our -- or at least supporting our organic revenue growth. On the other hand, privatizations, that is my skepticism, will remain a rather rare opportunity.

Tom Jones - *Berenberg - Analyst*

Fair enough. That's very clear. Thanks for taking my questions.

Operator

Gunnar Romer, Deutsche Bank.

Gunnar Romer - *Deutsche Bank Research - Analyst*

Starting with Kabi, and let me come back on the development, specifically the sequential development in the quarter, you've seen an 11% drop in revenue but quite meaningful margin expansion quarter over quarter of almost 300 basis points, while I would assume that you've lost some neostigmine sales which, again, presumably you were high margin. So I was wondering whether you could comment on the mix more specifically, and what has outweighed the neostigmine effect potentially.

Also in this context, if you could please just confirm that there are no one-off type effects at work here, be it negative in Q1 and/or positive in Q2? And looking ahead, if you could please share your assumptions regarding the North American EBIT margin of Kabi in H2?

Then turning on to Helios, I was wondering whether you could please provide us with an update on where you stand in terms of your investments, and the margin expansion plans for HSK in Wiesbaden?

And then, last but not least, coming back on some of the quotes from you that hit the tape earlier this morning, specifically that we shouldn't expect fundamental change under your leadership, but maybe somewhat greater emphasis on certain aspects, I was just wondering whether you could comment a bit further on this. Thank you.

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

Okay. Gunnar, on the margin development in this past quarter, I'm afraid there's not much more that I can say. I would agree that neostigmine is a high margin product. I won't quantify that; I will only tell you that there are other products that have an even higher margin, that there are other products where we are in a profit-share model and that, therefore, we are operating at a substantially lower margin. Therefore, as I mentioned earlier, the effect that we've seen is that, in particular, those drugs where we have a below average margin, there we have lost revenue. That is the driver of that margin increase that you have rightly observed.

And, Gunnar, what is a one-off effect in a fairly volatile and lumpy business, I think I know what you mean. And in that sense, I can absolutely confirm, there are no funnies in the numbers here. At the same time, I will also say, there are individual drugs that trade by appointment. There are individual drugs that only trade once or twice a year and, therefore, that can also have an effect on a quarterly performance.

I don't want to rule that out, not for this quarter and also not for the coming ones, but I don't think that that is what you mean. There was nothing funny in terms of discounting, extra pricing, stocking, destocking, nothing of that nature and I think that is what you were after; absolutely not.

Over to Helios, and you may have seen the headlines. We had the formal groundbreaking for the new facility in Wiesbaden recently and, therefore, that major investment plan, on the back of us acquiring the Rhoen hospitals, that is now well underway. So you should expect a bit more cash outflow on the CapEx front for that particular exercise in the coming quarters. I think the community there, just as much as we, can't wait for a new superior facility where we will be in an even better position to render good quality to the patients.

And, lastly, Gunnar, I'm a bit at a loss with regards to the second statement that you seem to have picked up from the press headlines. Yes, what I absolutely did say is that people shouldn't expect any major strategic change under my leadership. But what was the second bit?

Gunnar Romer - *Deutsche Bank Research - Analyst*

I think that you basically would emphasize certain new aspects more than Mark and I was just wondering what that may be and to put that into context. Maybe you've been quoted wrong, I don't know; I just wanted to confirm what you said in that regard.

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

Maybe it got a bit lost in translation. I think what this may be referring to is that I said, most certainly, I will also try to put some own ideas to work in my tenure as Fresenius' CEO. But, frankly, you would expect that because, obviously, I need to have a chance to react to changing markets, to changing competitors' behavior.

I do see major opportunities, going forward, that maybe didn't exist five years ago, so very clearly, there will be things changing, going forward, proactively and reactively. And I think that is all that I wanted to bring across and maybe it got translated in a funny way.

Gunnar Romer - *Deutsche Bank Research - Analyst*

That's perfectly clear. Thank you very much.

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

Thank you, Gunnar, and thank you, everybody. I enjoyed my first earnings call as CEO and CFO. I hope that was constructive. Be assured, we're going to continue to work away to bring a year that has started very well to a successful close.

Enjoy the summer and we will be back to you over the course of the third quarter and, in particular, in late October when we're back here on this earnings call to discuss our Q3 results. Thanks for now.

Markus Georgi - *Fresenius SE & Co KGaA - SVP, IR*

Thanks, Stephan, answering all your questions. And if there are any upcoming questions, please do not hesitate to contact the IR team. Thanks for joining us today and goodbye.

Operator

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

Editor

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