

Healthcare

HEALTHCARE

Key figures¹

€ million	2018	2017	Change	
			€ million	in %
Net sales	6,246	6,190	56	0.9%
Operating result (EBIT) ²	731	1,337	-605	-45.3%
Margin (% of net sales) ²	11.7%	21.6%		
EBITDA ²	1,492	2,028	-536	-26.4%
Margin (% of net sales) ²	23.9%	32.8%		
EBITDA pre ²	1,556	1,773	-217	-12.2%
Margin (% of net sales) ²	24.9%	28.6%		
Business free cash flow ²	1,025	1,314	-289	-22.0%

¹ Previous year's figures have been adjusted, see Note (49) "Effects from new accounting standards and other presentation and measurement changes" in the Notes to the Consolidated Financial Statements.

² Not defined by International Financial Reporting Standards (IFRSs).

DEVELOPMENT OF NET SALES AND RESULTS OF OPERATIONS

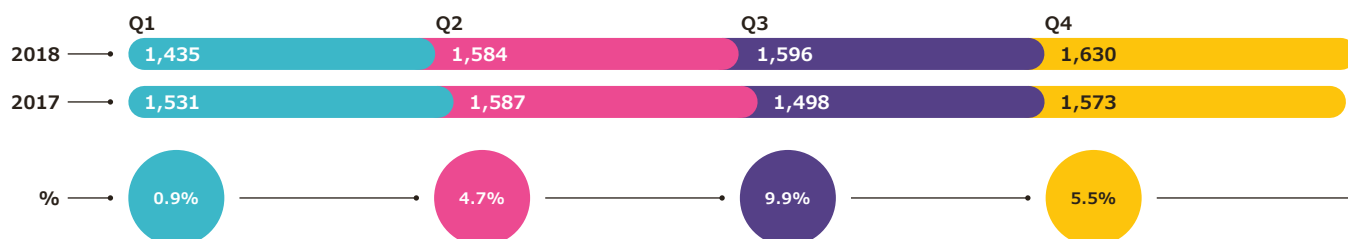
In 2018, generated organic sales growth of 5.2%. After negative foreign exchange effects of -4.3%, net sales rose to € 6,246 million (2017: € 6,190 million). The foreign exchange effect resulted essentially from the development of the U.S. dollar, the Turkish lira, the Russian ruble and a number of Latin American currencies.

The net sales in the individual quarters as well as the respective organic growth rates in 2018 are presented in the following graph:

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Net sales and organic growth¹ by quarter^{2,3}

€ million/organic growth in %



¹ Not defined by International Financial Reporting Standards (IFRSs).

² Quarterly breakdown unaudited.

³ Previous year's figures have been adjusted, see Note (49) "Effects from new accounting standards and other presentation and measurement changes" in the Notes to the Consolidated Financial Statements.

Net sales of the key product lines and products developed as follows in 2018:

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Net sales by major product lines/products¹

€ million	2018	Share	Organic growth ²	Exchange rate effects	Total change	2017	Share
Oncology	944	15%	4.2%	-4.5%	-0.3%	946	15%
of which: Erbitux®	816	13%	0.4%	-4.8%	-4.3%	853	14%
of which: Bavencio®	69	1%	>100.0%	-10.8%	>100.0%	21	0%
Neurology & Immunology	1,529	24%	-1.1%	-4.2%	-5.4%	1,616	26%
of which: Rebif®	1,438	23%	-6.5%	-4.1%	-10.7%	1,611	26%
of which: Mavenclad®	90	1%	>100.0%	-33.3%	>100.0%	5	0%
Fertility	1,162	19%	11.1%	-5.0%	6.2%	1,094	18%
of which: Gonal-f®	708	11%	5.3%	-4.8%	0.5%	704	11%
General Medicine & Endocrinology	2,341	38%	5.8%	-4.4%	1.5%	2,308	37%
of which: Glucophage®	733	12%	15.1%	-4.4%	10.7%	662	11%
of which: Concor®	475	8%	11.2%	-4.5%	6.7%	444	7%
of which: Euthyrox®	363	6%	1.9%	-3.8%	-1.9%	370	6%
of which: Saizen®	234	4%	-3.1%	-6.3%	-9.4%	259	4%
Other	270	4%				226	4%
Healthcare	6,246	100%	5.2%	-4.3%	0.9%	6,190	100%

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Sales of the drug Rebif®, which is used to treat relapsing forms of multiple sclerosis, saw an organic sales decline of -6.5% in 2018. Including negative exchange rate effects of -4.1%, sales of € 1,438 million were recorded (2017: € 1,611 million). Sales in the biggest market, North America, declined by -5.0% in organic terms due to the persistently difficult competitive situation in the interferons market. A price increase made in February 2018 only partly offset this development. Consequently, sales in North America fell to € 920 million (2017: € 1,012 million). Competitive pressure in Europe was responsible for the organic sales decline of -11.7%. Taking into account slightly negative exchange rate effects, sales came to € 395 million (2017: € 456 million). The sales declines in the other regions, which generated total Rebif® sales of € 123 million (2017: € 142 million), were primarily due to negative exchange rate developments.

Sales of the oncology drug Erbitux® were stable in organic terms, and after negative exchange rate effects of -4.8%, sales decreased to € 816 million (2017: € 853 million). The negative organic development in Europe of -0.8% was the result of the difficult competitive setting and some price reductions. Erbitux® sales in the European market amounted to € 437 million (2017: € 447 million). Net sales of the oncology drug in the Asia-Pacific region were stable in organic terms (-0.3%). The drop in sales to € 255 million (2017: € 263 million) was attributable to negative exchange rate effects. Organic growth in Latin America was more than offset by very strong, negative foreign exchange rate effects, leading to a decline in sales to € 71 million (2017: € 87 million). In the Middle East and Africa, organic sales were at last year's level at € 54 million (2017: € 56 million).

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Sales and organic growth¹ of Rebif® and Erbitux® by region – 2018

	Total	Europe	North America	Asia-Pacific (APAC)	Latin America	Middle East and Africa (MEA)
€ million	1,438	395	920	12	48	62
Rebif® Organic growth ¹ in %	-6.5%	-11.7%	-5.0%	-10.2%	-3.5%	4.3%
% of sales	100%	28%	64%	1%	3%	4%
€ million	816	437	-	255	71	54
Erbitux® Organic growth ¹ in %	0.4%	-0.8%	-	-0.3%	8.7%	0.1%
% of sales	100%	53%	-	31%	9%	7%

¹ Not defined by International Financial Reporting Standards (IFRSs).

With the product Mavenclad®, a medicine for the oral short-course treatment of highly active relapsing multiple sclerosis, sales of € 90 million were generated in 2018 (2017: € 5 million). The product was approved in Europe in August 2017. Sales of Bavencio®, an immuno-oncology medicine, increased to € 69 million (2017: € 21 million).

Gonal-f®, the leading recombinant hormone used in the treatment of infertility, generated organic growth of 5.3%, to which the trend in the North America region, in particular, contributed with double-digit organic growth rates. Taking into account currency headwinds of -4.8%, global sales amounted to € 708 million (2017: € 704 million). The other products from the fertility portfolio also contributed to the increase in net sales with double-digit organic growth rates across all regions.

The General Medicine & Endocrinology franchise (including CardioMetabolic Care), which commercializes products to treat cardiovascular diseases, thyroid disorders, diabetes and growth disorders, among other things, generated organic growth of 5.8%. After negative foreign exchange effects of -4.4%, net sales rose to € 2,341 million (2017: € 2,308 million). Diabetes drug Glucophage®,

the best-selling product in this area, made a significant contribution to this development with organic growth of 15.1%. While all regions reported positive growth, the Asia-Pacific region was the main driver of higher Glucophage® sales. A negative exchange rate effect of -4.4% reduced growth and resulted in total sales of € 733 million (2017: € 662 million). Double-digit organic growth rates (11.2%) were also achieved with beta-blocker Concor®. Despite adverse exchange rate effects (-4.5%), net sales of this medicine increased to € 475 million (2017: € 445 million). All regions contributed to this gratifying organic development, primarily Europe and Asia-Pacific. Euthyrox®, a medicine to treat thyroid disorders, recorded organic growth of 1.9%. However, this was not able to offset the exchange rate effect (-3.8%). As a result, sales at € 363 million fell slightly short of the prior-year figure (2017: € 370 million). Saizen®, the top-selling product in the Endocrinology franchise, generated sales of € 234 million (2017: € 259 million).

Net sales of the Healthcare business sector by region in 2018 developed as follows:

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Net sales by region¹

€ million	2018	Share	Organic growth ²	Exchange rate effects	Acquisitions/divestments	Total change	2017	Share
Europe	2,203	35%	4.6%	-2.2%	-	2.4%	2,152	35%
North America	1,432	23%	0.1%	-4.2%	-	-4.1%	1,494	24%
Asia-Pacific (APAC)	1,501	24%	8.7%	-3.1%	-	5.6%	1,421	23%
Latin America	661	11%	10.9%	-14.5%	-	-3.7%	687	11%
Middle East and Africa (MEA)	448	7%	5.9%	-3.2%	-	2.8%	436	7%
Healthcare	6,246	100%	5.2%	-4.3%	-	0.9%	6,190	100%

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The results of operations developed as follows:

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Results of operations¹

€ million	2018		2017		Change	
	€ million	in %	€ million	in %	€ million	in %
Net sales	6,246	100.0%	6,190	100.0%	56	0.9%
Cost of sales	-1,425	-22.8%	-1,340	-21.6%	-85	6.4%
Gross profit	4,820	77.2%	4,850	78.4%	-30	-0.6%
Marketing and selling expenses	-2,339	-37.4%	-2,373	-38.3%	34	-1.4%
Administration expenses	-301	-4.8%	-271	-4.4%	-30	11.0%
Research and development costs	-1,686	-27.0%	-1,600	-25.8%	-86	5.4%
Remaining operating expenses and income	237	3.8%	731	11.8%	-494	-67.6%
Operating result (EBIT)²	731	11.7%	1,337	21.6%	-605	-45.3%
Depreciation/amortization/impairment losses/reversals of impairment losses	761	12.2%	691	11.2%	69	10.0%
(of which: adjustments)	(11)		(-51)		(63)	(>100%)
EBITDA²	1,492	23.9%	2,028	32.8%	-536	-26.4%
Restructuring expenses	12		17		-5	-31.9%
Integration expenses/IT expenses	18		27		-9	-34.5%
Gains (-)/losses (+) on the divestment of businesses	26		-316		342	>100%
Acquisition-related adjustments	-		-		-	-
Other adjustments	8		16		-8	-51.0%
EBITDA pre²	1,556	24.9%	1,773	28.6%	-217	-12.2%

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Gross profit of the Healthcare business sector was weighed down by foreign exchange rate effects in 2018. At € 4,820 million (2017: € 4,850 million) it remained flat, resulting in a gross margin of 77.2% (2017: 78.4%).

The decrease in marketing and selling expenses was due mainly to foreign exchange effects. Research and development costs reflected continued investments in the Biopharma development pipeline and amounted to € 1,686 million (2017: € 1,600 million). The decline in other operating expenses and income was due to multiple factors in both 2018 and 2017. Thus the 2017 figure included the gain on the divestment of the Biosimilars business amounting to € 319 million, which was adjusted when calculating EBITDA pre. The previous year's figures also included milestone payments for the approval of Bavencio® (€ 124 million) as well as income from an agreement on a one-time payment for future license payments (€ 116 million). The year 2018 included receipt of a milestone payment of € 50 million from BioMarin Pharmaceutical Inc., United

States, in connection with the sale of PALYNZIQ® (Peg-Pal) in 2016. Moreover, income from license agreements and from the transfer of rights had a positive effect on the fourth quarter of 2018. The following impairments and reversals of impairment losses were also included in remaining other expenses and income. In 2017, the reversals of impairment losses on the intangible asset for cladribine of € 17 million as a result of the marketing authorization of Mavenclad® had boosted other operating expenses. In 2018, a reduction in the fair value of contingent consideration from the sale of the Biosimilars business led to expenses of € -27 million.

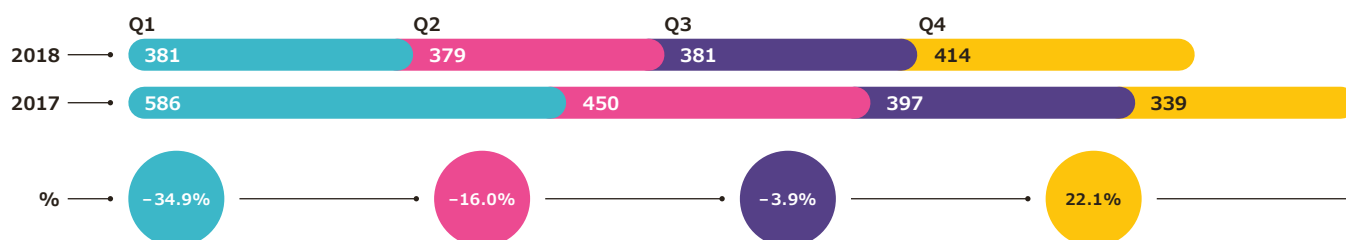
After eliminating depreciation, amortization, impairments and reversals of impairment losses as well as adjustments, EBITDA pre decreased by -12.2% to € 1,556 million (2017: € 1,773 million) in 2018. Negative foreign exchange effects of -10.7% had a material effect on the development of this key figure. The EBITDA pre margin relative to sales came to 24.9% (2017: 28.6%).

The development of EBITDA pre in the individual quarters in comparison with 2017 is presented in the following overview:

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EBITDA pre¹ and change by quarter^{2,3}

€ million/change in %



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² Quarterly breakdown unaudited.

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DEVELOPMENT OF BUSINESS FREE CASH FLOW

In 2018, business free cash flow amounted to € 1,025 million (2017: € 1,314 million). The decline was primarily attributable to lower EBITDA pre and a rise in receivables.

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Business free cash flow^{1,2}

€ million	2018	2017	Change	
			€ million	in %
EBITDA pre ²	1,556	1,773	-217	-12.2%
Investments in property, plant and equipment, software as well as advance payments for intangible assets	-395	-375	-19	5.2%
Changes in inventories	-55	-34	-21	63.1%
Changes in trade accounts receivable as well as receivables from royalties and licenses	-81	-49	-32	64.6%
Business free cash flow²	1,025	1,314	-289	-22.0%

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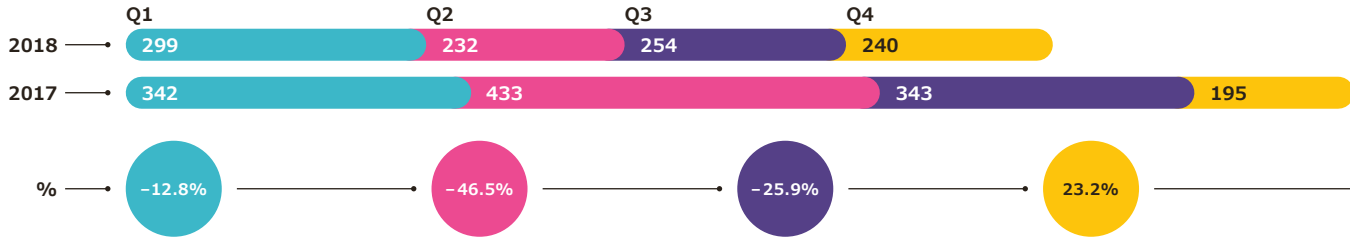
² Not defined by International Financial Reporting Standards (IFRSs).

The development of business free cash flow items in the individual quarters in comparison with 2017 is presented in the following overview:

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Business free cash flow¹ and change by quarter^{2,3}

€ million/change in %



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