



Q2 2014 Results Conference Call

Sound business performance supported by inorganic growth

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Darmstadt · Germany

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Agenda

Executive overview

Business and financial review Q2 2014

Guidance

Highlights Q2 2014

Operations

- ▶ Organic sales growth and portfolio outweigh FX headwinds
- ▶ Double-digit growth in Emerging Markets, all divisions contribute
- ▶ AZ acquisition completed, integration to be concluded by end of 2014

Financials

- ▶ EBITDA pre margin improves to 30.3% (EBITDA pre at €846 m)
- ▶ Healthy balance sheet and solid cash generation
- ▶ Full-year guidance confirmed

Sound business performance supported by inorganic growth

All our businesses drive organic growth while currency headwinds remain

Q2 YoY sales	Organic	Currency	Portfolio	Total
Biopharmaceuticals	3.0%	-4.4%	0.0%	-1.4%
Consumer Health	8.5%	-5.2%	0.0%	3.3%
Performance Materials	1.8%	-5.1%	20.5%	17.3%
Life Science	4.0%	-4.2%	-0.9%	-1.1%
The Group	3.4%	-4.5%	3.0%	1.9%

Q2 YoY EBITDA pre contributors [€ m]

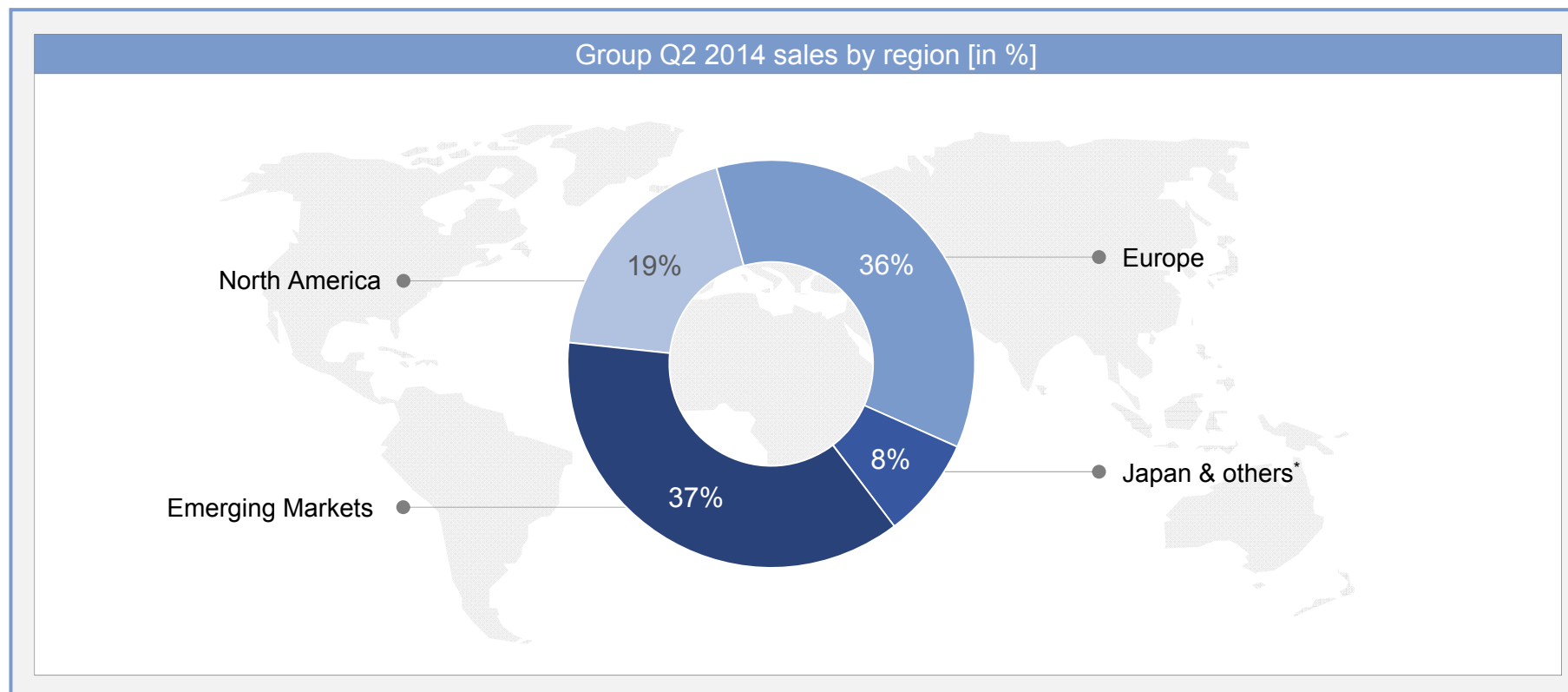


- Portfolio reflects the acquisition of AZ Electronic Materials
- Currency headwinds mainly driven by U.S. dollar and related currencies

- Performance Materials contains two months EBITDA pre from AZ
- Biopharmaceuticals affected by loss of Avonex and Enbrel royalty income
- Corporate & Other includes higher hedging gains (~€10 m) versus LY

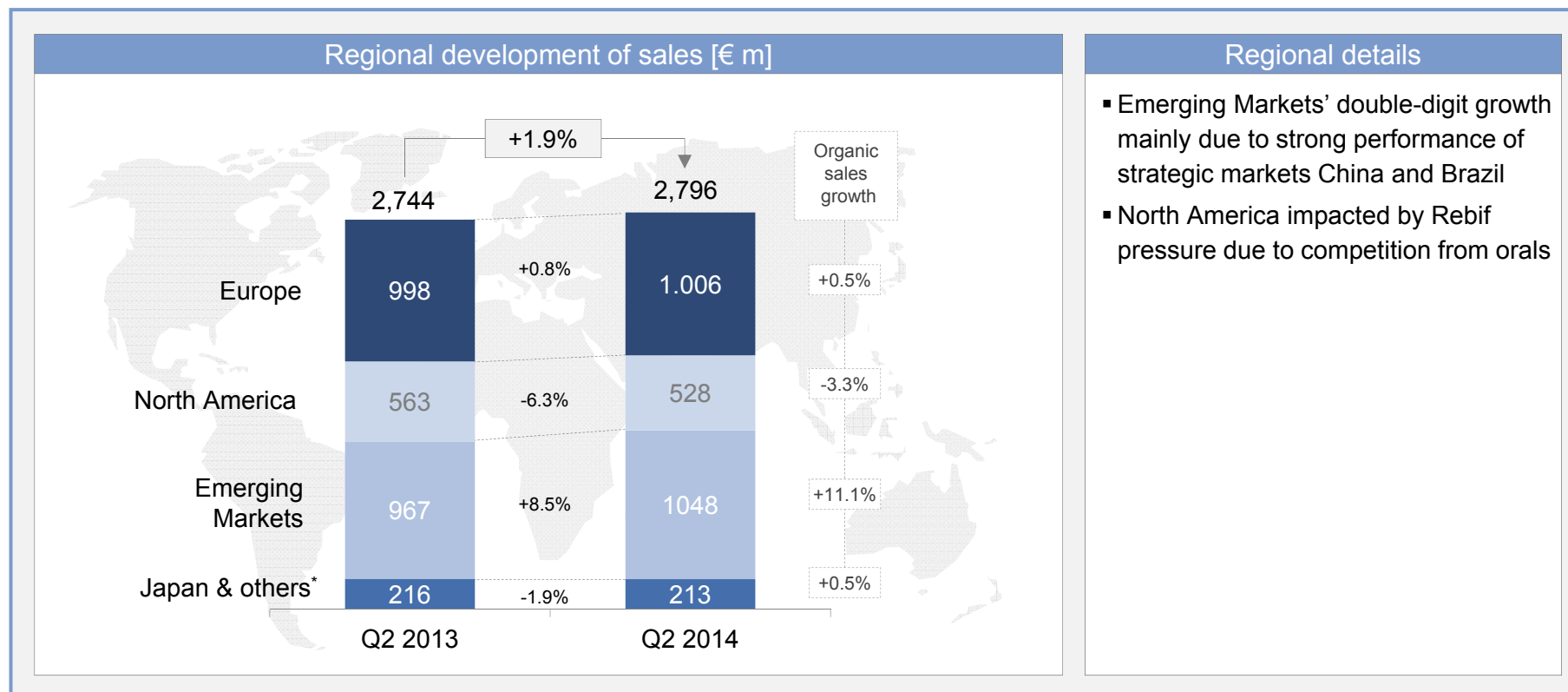
Totals may not add up due to rounding

Emerging Markets with highest share of sales, despite tough FX environment



*Australia/Oceania, Africa

Double-digit growth in Emerging Markets, all divisions contribute



*Australia/Oceania, Africa
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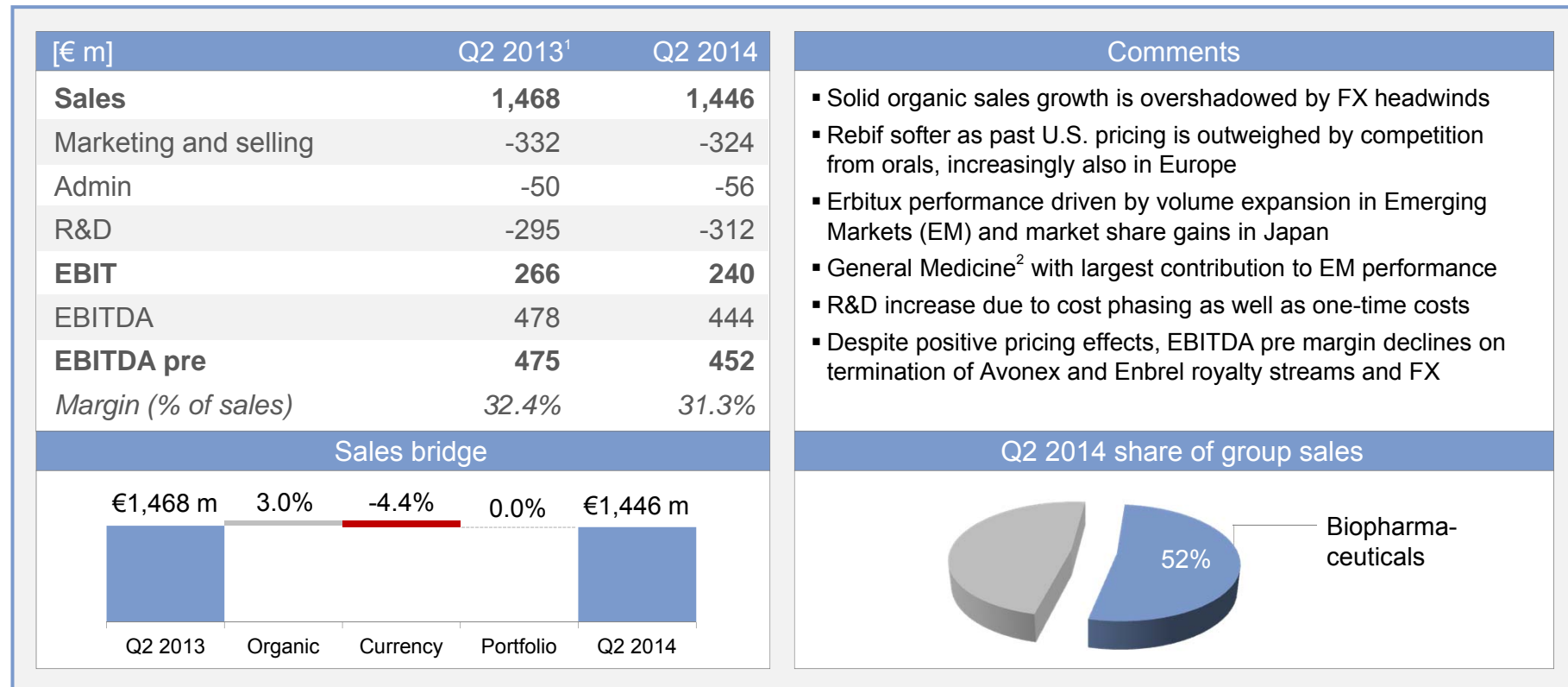
Q2 2014: Solid financials amid royalty reduction & FX

[€ m]	Q2 2013	Q2 2014	Δ	Q2 2014	
Sales	2,744	2,796	1.9%	<ul style="list-style-type: none"> ▪ Sales up on organic improvement and portfolio overcompensating for negative currency effects ▪ EBITDA pre and EPS pre up on organic performance and portfolio despite loss of royalty income ▪ Underlying operating cash flow remains on healthy level ▪ Jump in working capital reflects consolidation from AZ ▪ Increase in headcount includes ~1,150 employees from AZ 	
EBITDA pre	826	846	2.3%		
<i>Margin (% of sales)</i>	<i>30.1%</i>	<i>30.3%</i>			
EPS pre [€]	1.13	1.16	2.7%		
Operating cash flow	443	429	-3.0%		
[€ m]	Dec 31, 2013	June 30, 2014	Δ		
Net financial debt	307	2,220	>100%		
Working capital	2,132	2,434	14.2%		
Employees	38,154	39,230	2.8%		
Net financial debt increases on AZ acquisition					

Reported earnings contain AZ inventory step-up

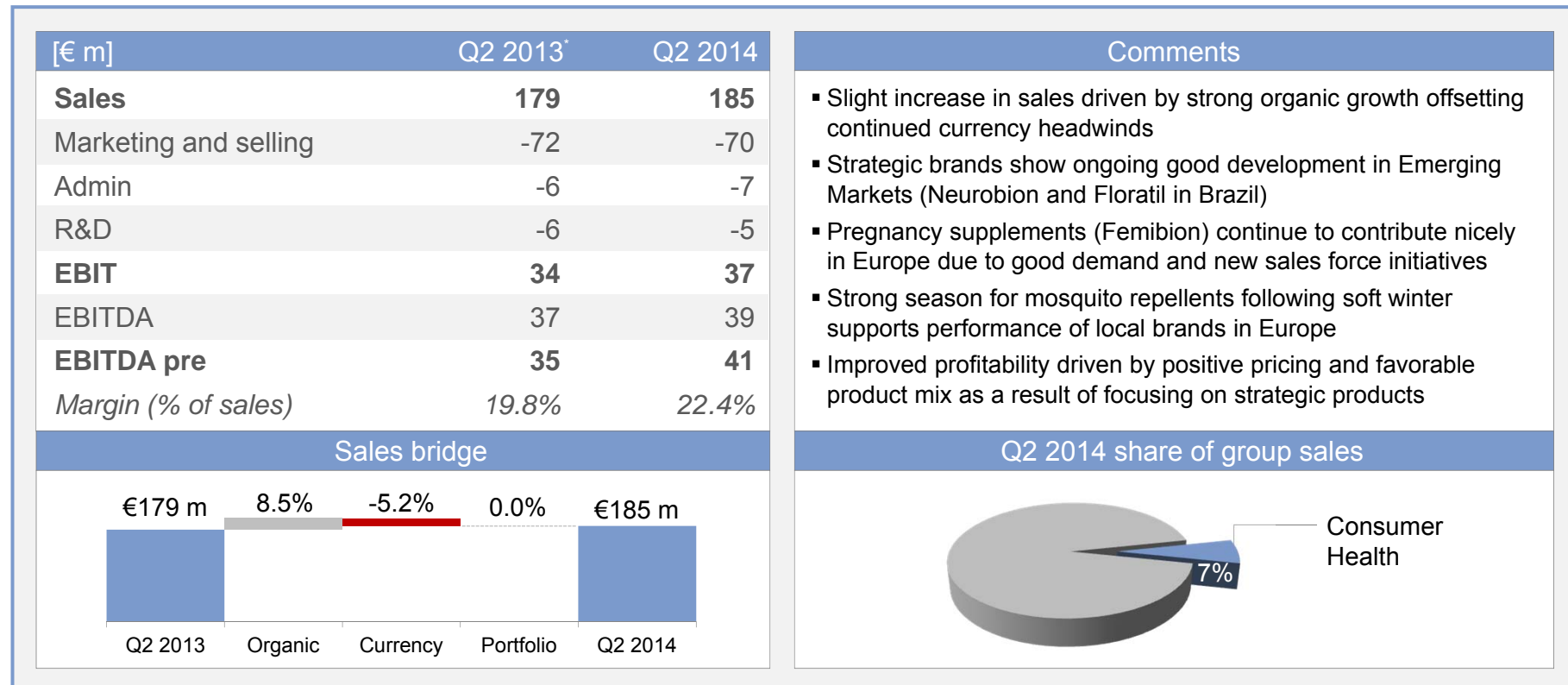
[€ m]	Q2 2013	Q2 2014	Δ	Reported results
EBIT	465	441	-5.2%	<ul style="list-style-type: none"> ▪ EBIT contains AZ inventory step-up of ~€30 m, fully expensed in cost of sales ▪ Tax rate benefits from favorable regional profit split as well as one-time tax refund
Financial result	-49	-50	3.5%	
Profit before tax	417	391	-6.3%	
Income tax	-101	-85	-15.8%	
<i>Tax rate (%)</i>	<i>24.2%</i>	<i>21.7%</i>		
Net income	316	303	-4.0%	
EPS (€)	0.73	0.70	-4.1%	

Biopharmaceuticals: Emerging Markets drive organic growth



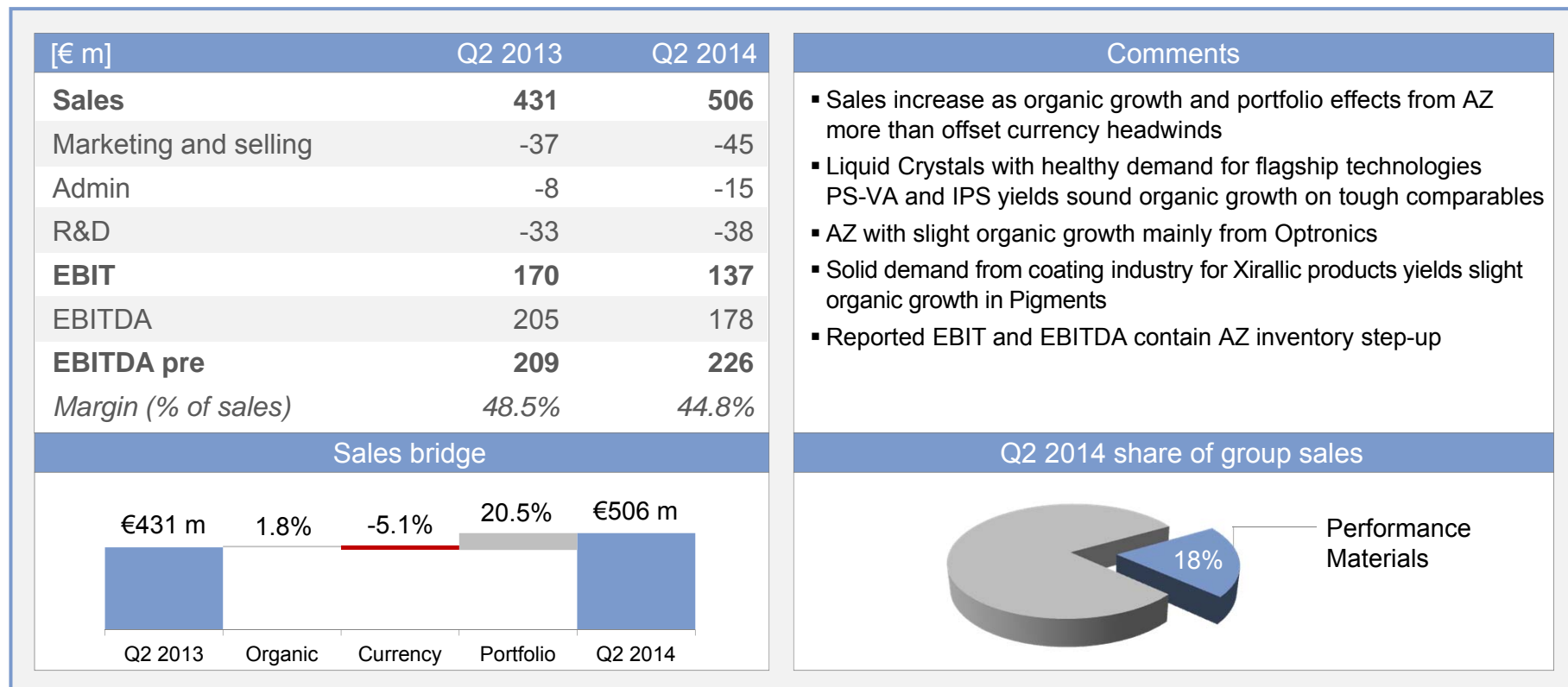
¹Restated for product reclassification of Neurobion and Floratil from Biopharmaceuticals to Consumer Health; ²includes "Cardiometabolic Care & General Medicine and Others"

Consumer Health: Strategic brands fuel growth

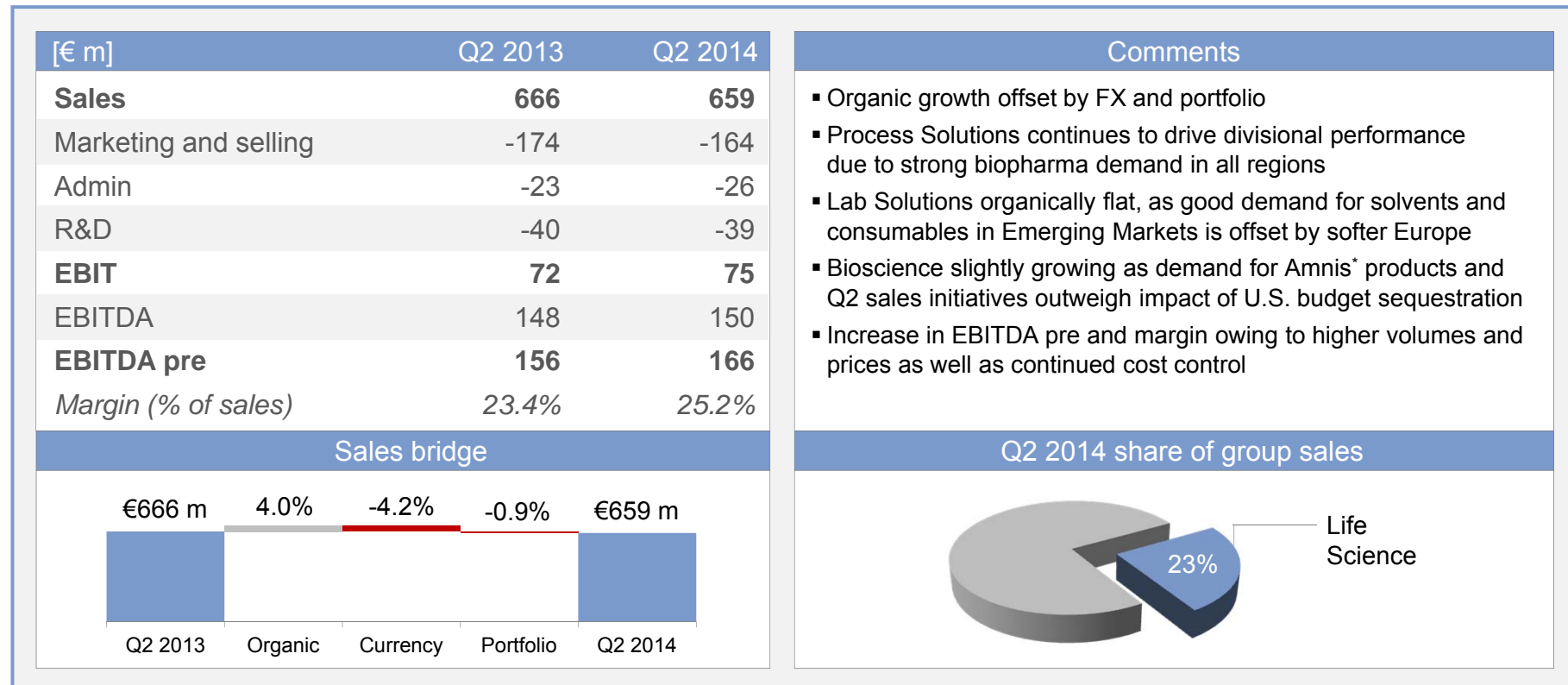


*Restated for product reclassification of Neurobion and Floratil from Biopharmaceuticals to Consumer Health

Performance Materials: First quarter of AZ contribution

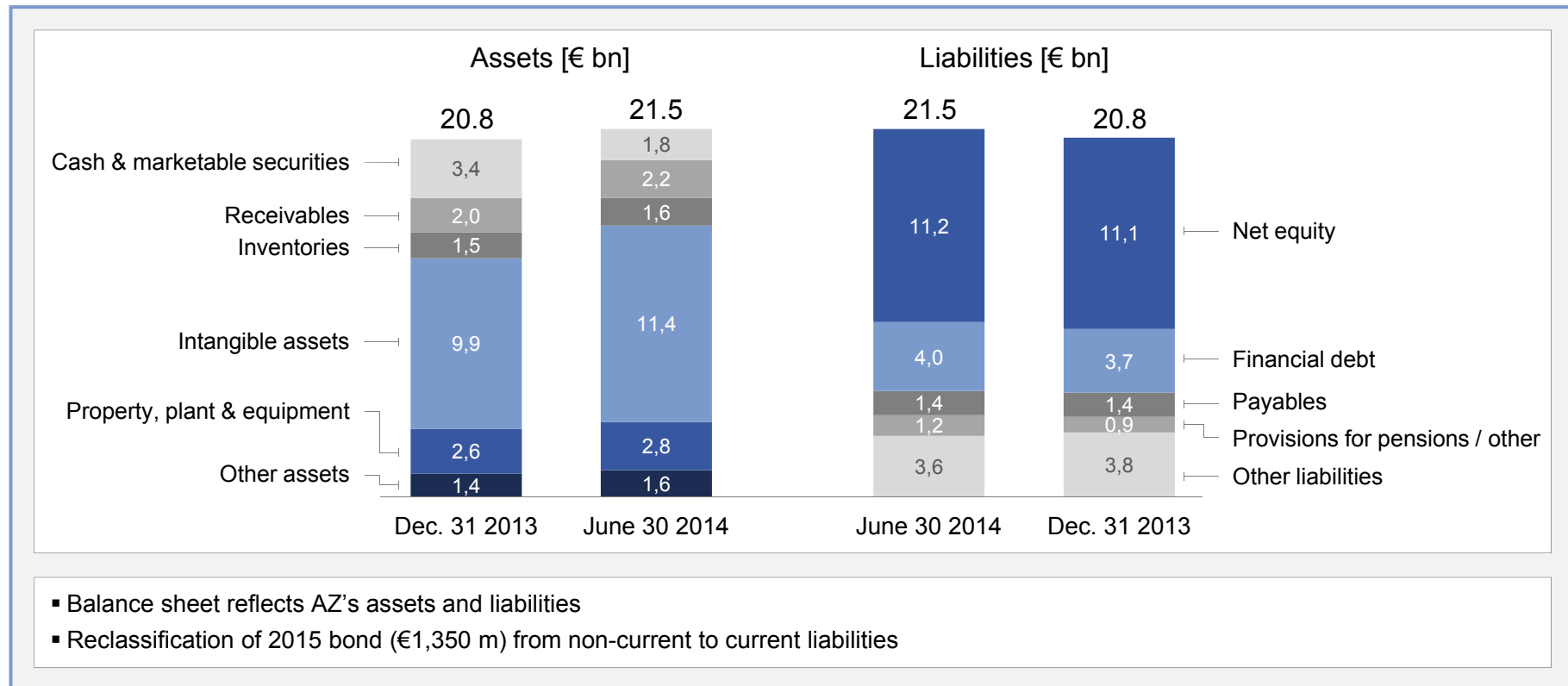


Life Science: Profitable growth in Process Solutions



*Amnis Corporation was acquired in August 2011. Amnis products focus on high speed cell imaging instrumentation

Balance sheet: A strong foundation



Totals may not add up due to rounding

Solid operating cash flow in Q2 2014

[€ m]	Q2 2013	Q2 2014	Δ	Cash flow drivers
Profit after tax	316	306	-10	<ul style="list-style-type: none"> ▪ Lower profit after tax impacted by one-time inventory step-up from AZ ▪ Lower interest and tax payments drive changes in other assets and liabilities ▪ Changes in working capital reflect increase in receivables ▪ Investing cash flow contains disposal of financial assets and purchase of AZ ▪ Payment for AZ and repayment of its loans drive financing cash flow
D&A	328	326	-2	
Changes in provisions	-20	-42	-22	
Changes in other assets / liabilities	-203	-141	62	
Other operating activities	-32	-10	23	
Changes in working capital	54	-10	-64	
Operating cash flow	443	429	-13	
Investing cash flow	-268	-1,233	-966	
thereof Capex*	-120	-85	35	
Financing cash flow	-115	-855	-740	

*Only PPE without intangibles
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Full-year guidance confirmed


Group guidance for 2014, including AZ ¹	
Sales:	~ €10.9 – 11.1 bn
EBITDA pre:	~ €3.3 – 3.4 bn
EPS pre²:	~ €4.50 – 4.75



¹Including AZ Electronic Materials from May to December 2014

²Based on number of shares after the share split, which has been effective since June 30, 2014

Guidance details

Biopharmaceuticals	Consumer Health	Performance Materials	Life Science
			
Sales	Sales	Sales	Sales
Slight organic growth	Moderate organic growth	Slight organic growth	Moderate organic growth
EBITDA pre	EBITDA pre	EBITDA pre*	EBITDA pre
~ €1,750 – 1,830 m	~ €170 – 180 m	~ €850 – 880 m	~ €640 – 670 m
Group 2014 guidance*: ~ €3.3 to €3.4 billion EBITDA pre			

*Including AZ Electronic Materials from May to December 2014

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Appendix

Additional financial guidance

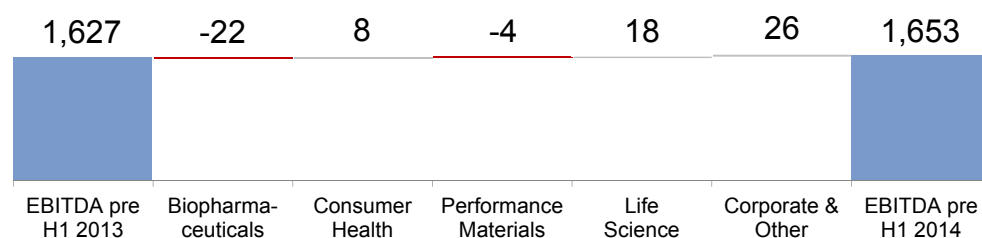
Further financial details	
Group royalty, license and commission income in 2015	~€130 – 150 m
Corporate & Other EBITDA pre	~€ -160 – 190 m
Underlying tax rate	~23% to 25%
Capex on PPE and software	~€450 – 500 m
Hedging / USD assumption	2014 & 2015 hedge rate ~30% at EUR/USD ~1.30 to 1.35



All divisions post organic growth while currency headwinds continue

H1 YoY sales	Organic	Currency	Portfolio	Total
Biopharmaceuticals	3.6%	-4.8%	0.0%	-1.2%
Consumer Health	7.1%	-5.8%	0.0%	1.2%
Performance Materials	1.5%	-5.4%	10.4%	6.5%
Life Science	3.8%	-4.9%	-0.4%	-1.5%
The Group	3.6%	-5.0%	1.5%	0.1%

H1 YoY EBITDA pre contributors [€ m]



- Portfolio reflects the acquisition of AZ Electronic Materials
- Currency headwinds mainly driven by the U.S. dollar

- Life Science contributes with solid organic performance
- Performance Materials faces strong comparables
- Biopharmaceuticals affected by loss of Avonex and Enbrel royalty income
- Corporate & Other includes higher hedging gains versus last year

Totals may not add up due to rounding

H1 2014: Stable financials amid royalty income reduction and currency headwinds

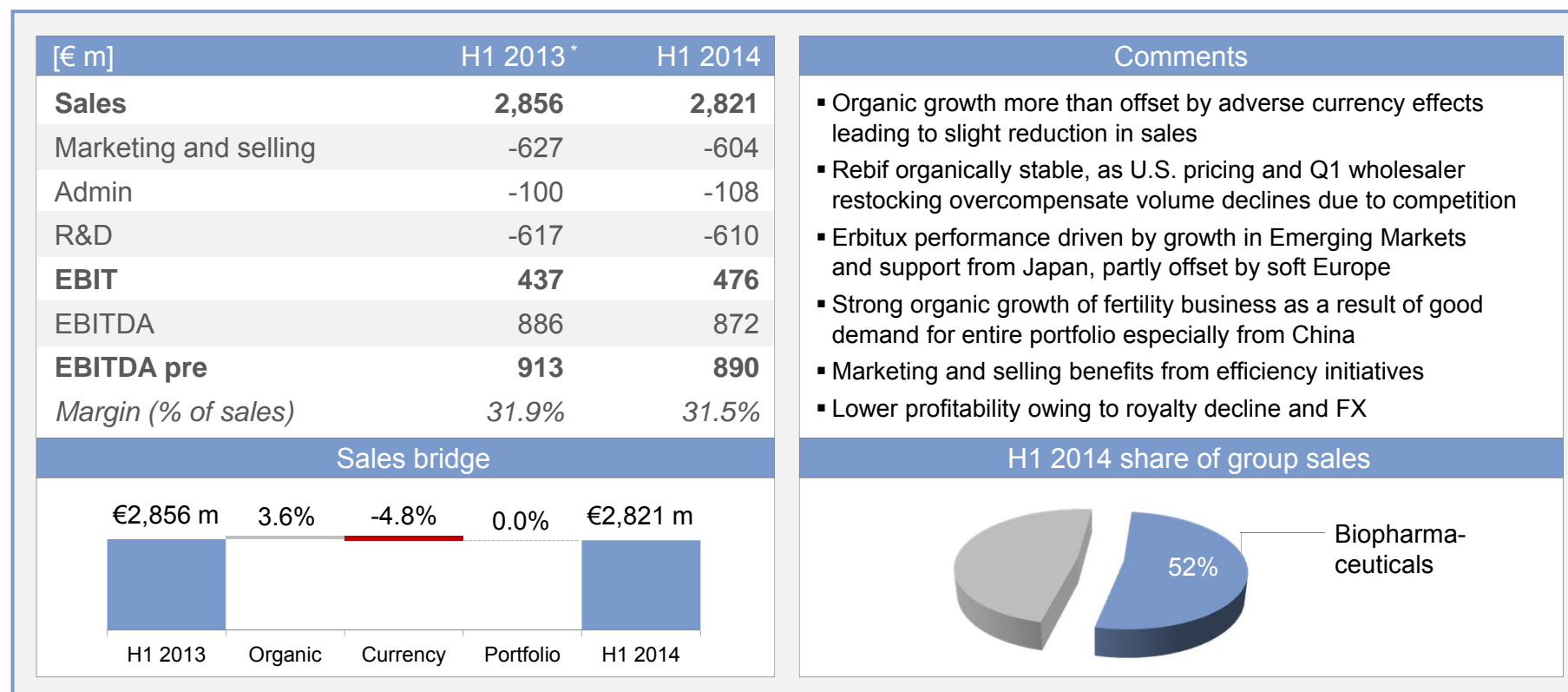
[€ m]	H1 2013	H1 2014	Δ	H1 2014
Sales	5,404	5,409	0.1%	<ul style="list-style-type: none"> ▪ Sales stable as organic growth and portfolio offset negative FX effects ▪ EBITDA pre and EPS pre improve on solid organic performance and AZ despite loss of royalty income ▪ Operating cash flow burdened by higher tax payments ▪ Jump in working capital reflects consolidation from AZ ▪ Increase in headcount includes ~1,150 employees from AZ
EBITDA pre	1,627	1,653	1.6%	
<i>Margin (% of sales)</i>	<i>30.1%</i>	<i>30.6%</i>		
EPS pre [€]	2.19	2.32	5.9%	
Operating cash flow	958	838	-12.5%	
[€ m]	Dec 31, 2013	June 30, 2014	Δ	
Net financial debt	307	2,220	>100%	
Working capital	2,132	2,434	14.2%	
Employees	38,154	39,230	2.8%	
Net financial debt increases on AZ acquisition				

Solid business performance leads to EPS increase

[€ m]	H1 2013	H1 2014	Δ	Reported results
EBIT	865	909	5.1%	<ul style="list-style-type: none"> ▪ EBIT up on organic growth and lean cost structure, offsetting lower royalties, one-time costs and FX ▪ Financial result improves on lower interest payments due to bond repayment and CTA* funding ▪ Net income increases on solid H1 operational performance, partly offset by one-time effects of AZ acquisition
Financial result	-107	-85	-20.8%	
Profit before tax	758	824	8.8%	
Income tax	-172	-191	10.7%	
<i>Tax rate (%)</i>	<i>22.8%</i>	<i>23.2%</i>		
Net income	582	628	8.0%	
EPS (€)	1.34	1.45	8.2%	

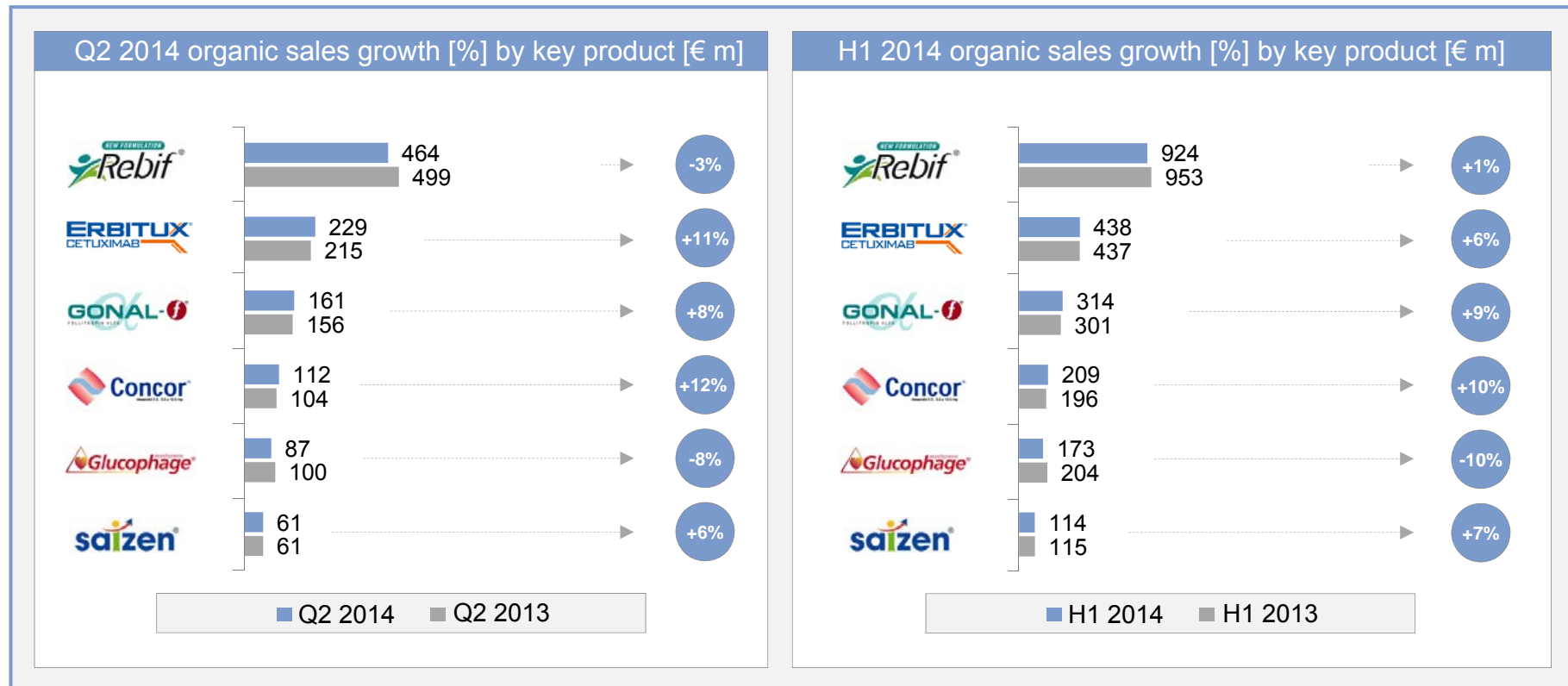
*Contractual Trust Arrangement

Biopharmaceuticals: Solid performance supported by all franchises amid royalty income reduction

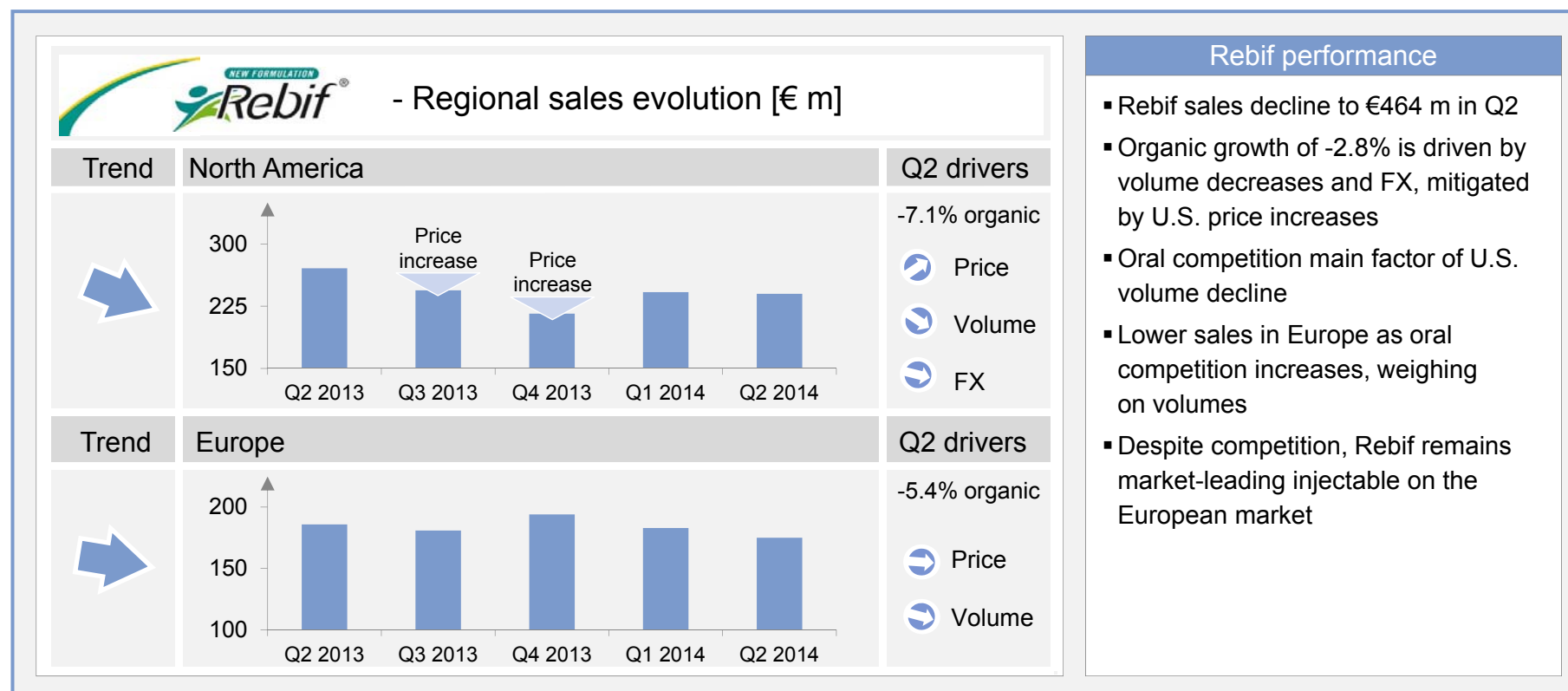


*Restated for product reclassification of Neurobion and Floratil from Biopharmaceuticals to Consumer Health

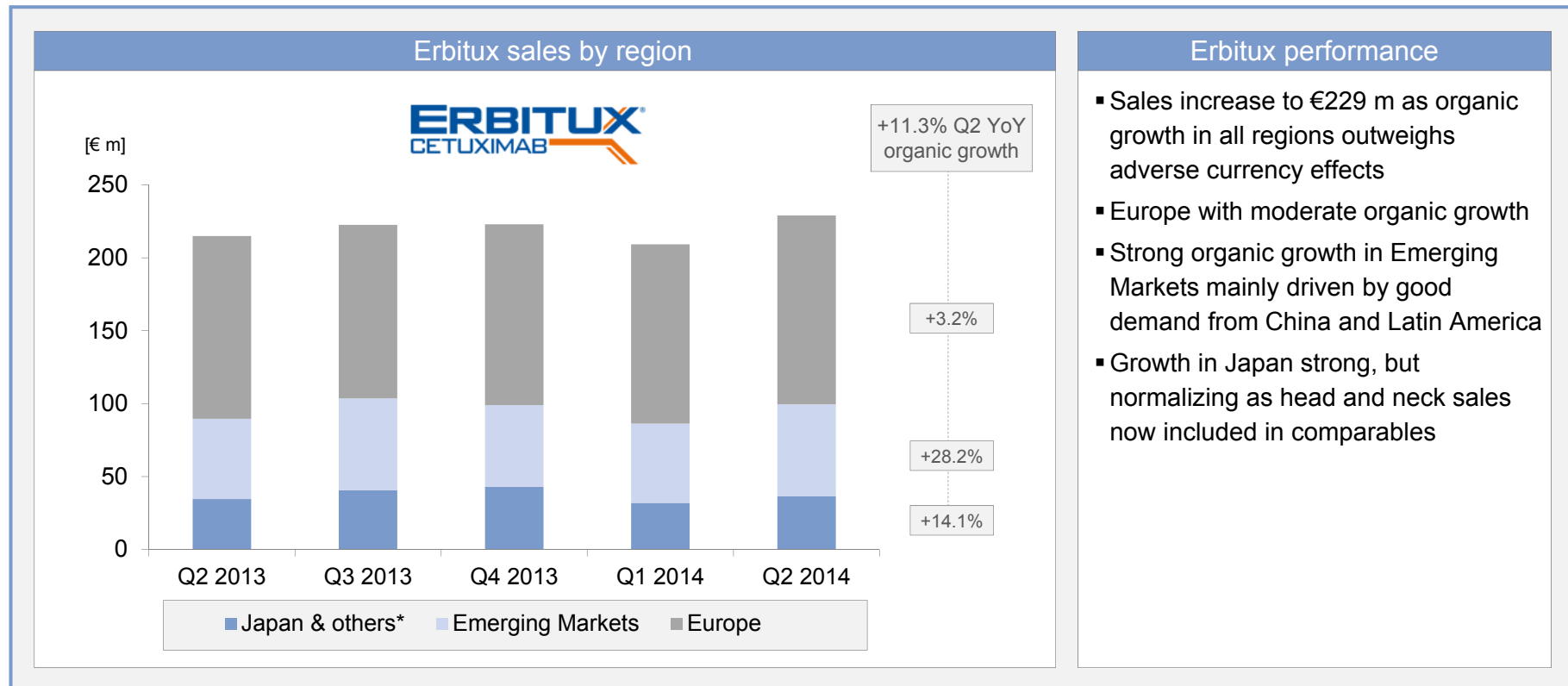
Biopharmaceuticals organic growth by product



Rebif – defending market leadership in Europe; competitive pressure in the U.S.

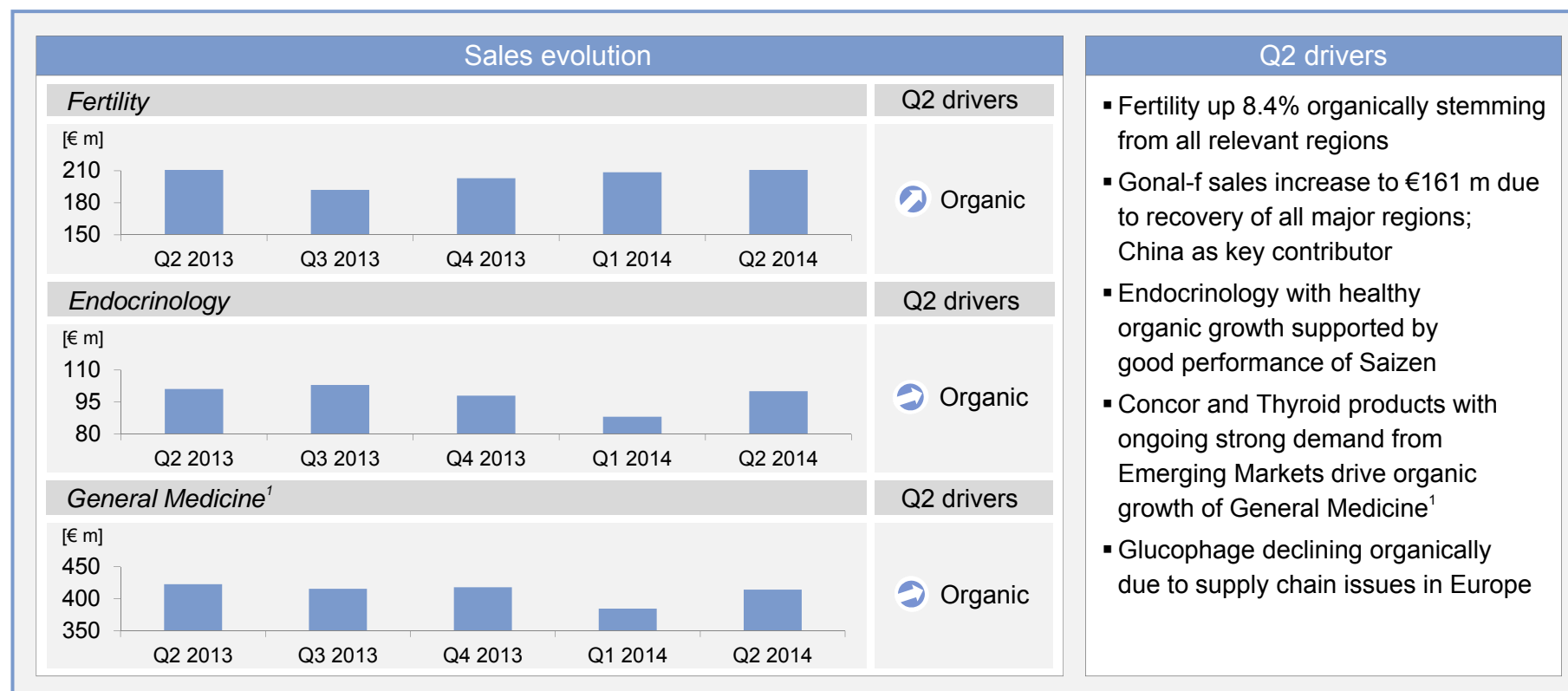


Erbitux – Strong in Emerging Markets and Japan



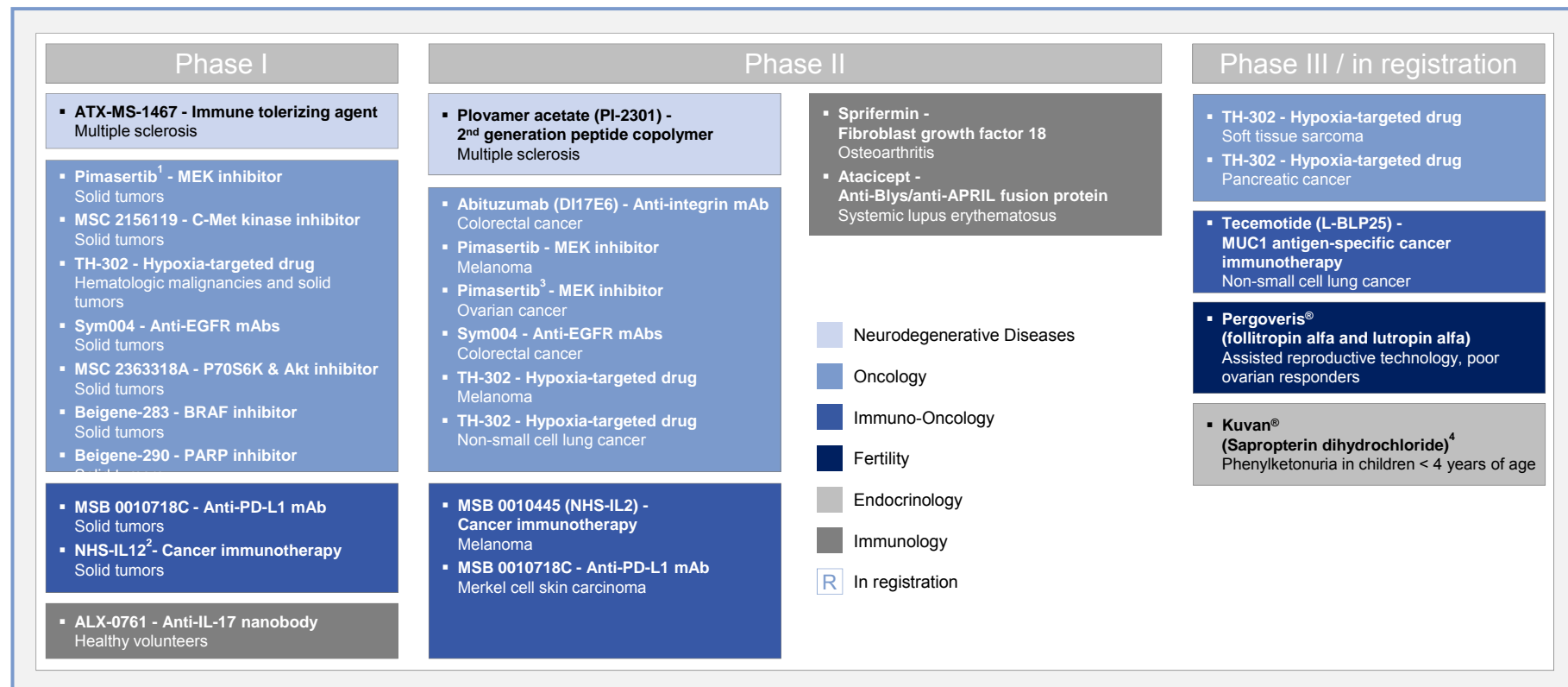
*Australia/Oceania, Africa

Strong growth in Fertility while Endocrinology and General Medicine grow more moderately



¹includes "Cardiometabolic Care & General Medicine and Others"

Biopharmaceuticals pipeline

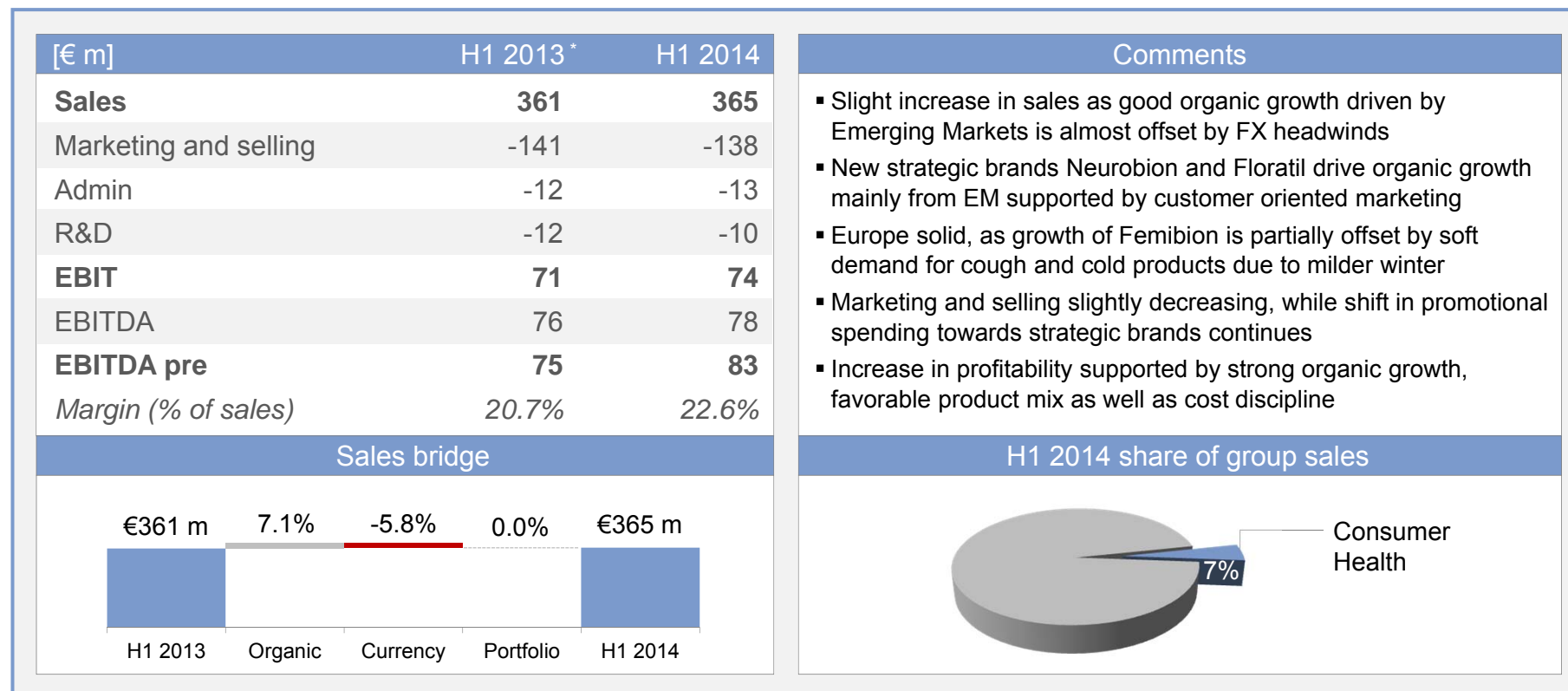


Pipeline as of July 31, 2014; ¹Combined with hDM2 inhibitor (SAR405838) from Sanofi, conducted under the responsibility of Sanofi;

²Sponsored by the National Cancer Institute (USA); ³Combined with PI3K/mTOR inhibitor (SAR245409) from Sanofi, conducted under the responsibility of Merck KGaA, Darmstadt, Germany;

⁴Post-approval request by the European Medicines Agency

Consumer Health: Focus on strategic brands in Emerging Markets drives performance

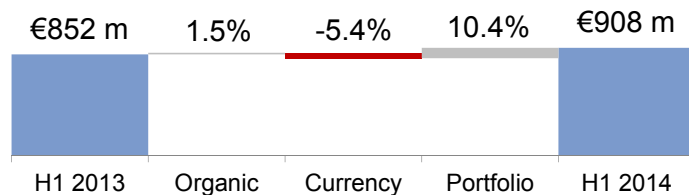


*Restated for product reclassification of Neurobion and Floratil from Biopharmaceuticals to Consumer Health

Performance Materials: Solid performance amid high comparables and strong currency headwinds

[€ m]	H1 2013	H1 2014
Sales	852	908
Marketing and selling	-72	-78
Admin	-15	-22
R&D	-70	-75
EBIT	343	289
EBITDA	408	357
EBITDA pre	416	413
<i>Margin (% of sales)</i>	48.8%	45.5%

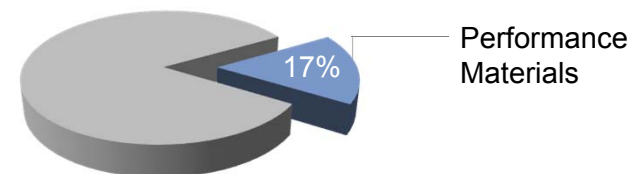
Sales bridge



Comments

- Sales increase as slight organic growth and portfolio effects overcompensate for negative FX effects
- LC* organically flat, facing tough comparables due to last year's strong demand and subsidy program for consumers in China
- LC* flagship technologies benefitting from ongoing demand
- Pigments benefits from coating industry demand for Xirallic products
- Cost base reflects portfolio effects from AZ
- EBITDA pre stable, reflecting high comparables, FX headwinds as well as the contribution from AZ

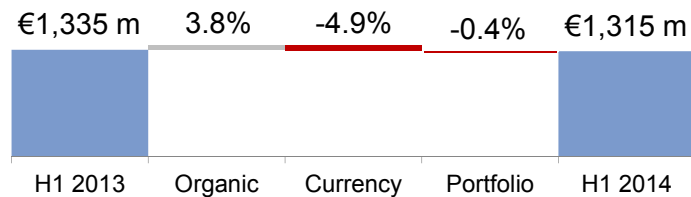
H1 2014 share of group sales



Life Science: Growth in Process Solutions improves profitability

[€ m]	H1 2013	H1 2014
Sales	1,335	1,315
Marketing and selling	-343	-333
Admin	-50	-54
R&D	-81	-78
EBIT	145	162
EBITDA	300	314
EBITDA pre	318	335
<i>Margin (% of sales)</i>	23.8%	25.5%

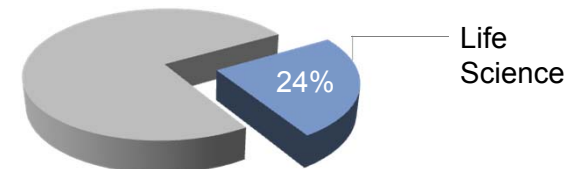
Sales bridge



Comments

- Sales decrease slightly as organic growth is more than offset by FX mainly driven by U.S. dollar and Japanese yen
- Process Solutions growth driven by biopharma demand for filtration and single-use products mainly stemming from EM and Europe
- Bioscience organically flat, as solid demand for cell imaging devices in Q2 mitigates soft U.S. academia demand
- Demand for consumables and water purification solutions in Emerging Markets drive organic growth in Lab Solutions
- Profitability increases due to solid volumes, pricing as well as ongoing cost discipline in marketing and selling

H1 2014 share of group sales



Underlying cash flow strength

[€ m]	H1 2013	H1 2014	Δ	Cash flow drivers
Profit after tax	585	633	48	<ul style="list-style-type: none"> ▪ Higher profit after tax due to sound business performance ▪ D&A lower as LY included restructuring related-impairment as well as amortization for Avonex intangible ▪ Changes in provisions contains lower provisions for LTIP² & pensions vs. LY ▪ Increase in changes in other assets and liabilities is mainly driven by higher tax payments ▪ Operating cash flow decreases on lower provisions & higher tax payments ▪ Investing and financing cash flows reflect AZ acquisition
D&A	682	628	-54	
Changes in provisions	3	-89	-92	
Changes in other assets / liabilities	-131	-215	-84	
Other operating activities	-40	-4	36	
Changes in working capital	-141	-115	26	
Operating cash flow	958	838	-120	
Investing cash flow	-592	-134	458	
thereof Capex ¹	-157	-142	15	
Financing cash flow	-222	-848	-627	

¹Only PPE without intangibles; ²Long Term Incentive Plan
Totals may not add up due to rounding

One-time items in Q2 2014

One-time items in EBIT				
[€ m]	Q2 2013		Q2 2014	
	One-time items	thereof D&A	One-time items	thereof D&A
Biopharmaceuticals	1	4	10	3
Consumer Health	-1	0	2	0
Performance Materials	4	1	48	0
Life Science	8	0	15	0
Corporate & Other	26	0	5	0
Total	38	5	81	3

Totals may not add up due to rounding

One-time items in H1 2014

One-time items in EBIT				
[€ m]	H1 2013		H1 2014	
	One-time items	thereof D&A	One-time items	thereof D&A
Biopharmaceuticals	57	30	22	4
Consumer Health	-1	0	4	0
Performance Materials	9	1	56	0
Life Science	18	0	21	0
Corporate & Other	29	0	16	0
Total	112	31	119	4

Totals may not add up due to rounding

Financial calendar

Date	Event
September 18, 2014	Biopharmaceuticals: Investor and Analyst Day
November 13, 2014	Q3 2014 Earnings release
March 3, 2015	Q4 2014 Earnings release
April 17, 2015	Annual General Meeting 2015
May 19, 2015	Q1 2015 Earnings release



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