



# Q2 2015 Results Conference Call

Sound business performance

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The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included elsewhere, including the Report on Risks and Opportunities Section of the most recent annual report and quarterly report of Merck KGaA, Darmstadt, Germany, and the Risk Factors section of Sigma-Aldrich’s most recent reports on Form 10-K and Form 10-Q. Any forward-looking statements made in this communication are qualified in their entirety by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us or our business or operations. Except to the extent required by applicable law, we undertake no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

# Agenda

**Executive summary**

Financial review

Outlook and guidance

## Operations

- ▶ Healthcare growing despite Rebif decline
- ▶ Avelumab<sup>1</sup> progressing and ramping up according to plan
- ▶ Sigma: Further antitrust approvals<sup>2</sup> granted, in process of meeting EU conditions

## Financials

- ▶ Sales growth of 14.4% driven by FX tailwinds AZ and organic performance
- ▶ EBITDA pre increases by 6.3% to €899 m
- ▶ FY 2015 guidance confirmed

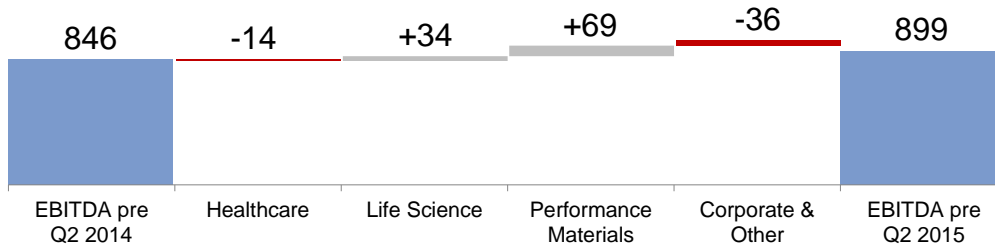
<sup>1</sup>Avelumab = proposed International Non-proprietary Name (INN), formerly referred to as anti-PD-L1 mAb (MSB0010718C);

<sup>2</sup>EU: subject to conditions and commitments as agreed with the EU

# A sound quarter

Q2 2015 YoY net sales	Organic	Currency	Portfolio	Total
Healthcare	1.5%	7.8%	0.0%	9.2%
Life Science	6.2%	11.2%	0.0%	17.3%
Performance Materials	-0.4%	16.8%	10.7%	27.2%
<b>Group</b>	<b>2.2%</b>	<b>10.2%</b>	<b>1.9%</b>	<b>14.4%</b>

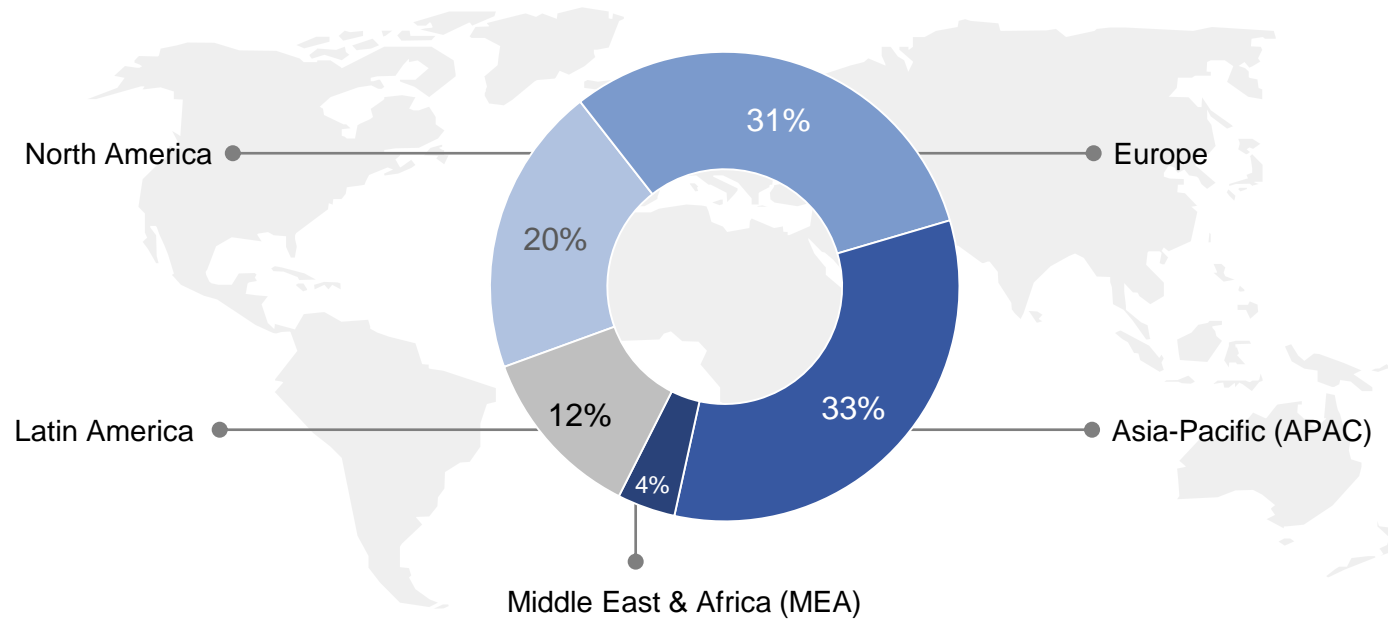
## Q2 YoY EBITDA pre contributors [€ m]



- Healthcare growth driven by General Medicine and Fertility, offsetting Rebif decline
  - Biopharma demand in all regions supports Life Science growth
  - Performance Materials growth driven by FX and AZ
- 
- Healthcare affected by Humira royalty loss, Rebif decline and higher R&D costs
  - Life Science increase supported by strong organic performance
  - Performance Materials reflects FX benefits, AZ and favorable product mix
  - Corporate EBITDA pre impacted by hedging losses

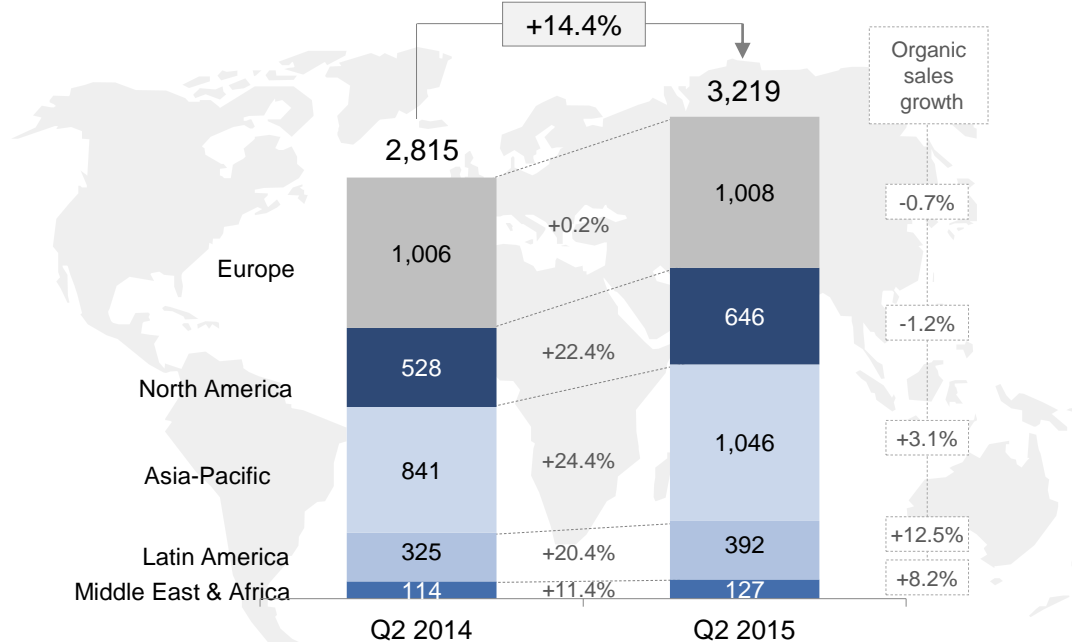
# Asia-Pacific largest region – China and India main growth drivers

Group Q2 2015 net sales by region [in %]



# Organic growth in APAC and LatAm more than offsets Rebif decline in mature markets

Regional development of net sales Q2 2015 [€ m]



Regional details

- Reported sales growth reflects strong currency tailwinds
- Europe and North America organically lower: Rebif decline mitigated by biopharma demand in Life Science
- All businesses contribute to organic growth in Asia-Pacific
- Double-digit organic growth in Latin America driven by General Medicine and Consumer Health

Totals may not add up due to rounding



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# Q2 2015 overview

[€ m]	Q2 2014	Q2 2015	Δ
<b>Net sales</b>	<b>2,815</b>	<b>3,219</b>	<b>14.4%</b>
<b>EBITDA pre</b>	<b>846</b>	<b>899</b>	<b>6.3%</b>
<i>Margin (% of sales)</i>	<i>30.0%</i>	<i>27.9%</i>	
<b>EPS pre [€]</b>	<b>1.16</b>	<b>1.30</b>	<b>12.1%</b>
<b>Operating cash flow</b>	<b>429</b>	<b>326</b>	<b>-24.0%</b>
[€ m]	Dec 31, 2014	June 30, 2015	Δ
<b>Net financial debt</b>	<b>559</b>	<b>-567</b>	<b>n.m.</b>
<b>Working capital</b>	<b>2,356</b>	<b>2,527</b>	<b>7.2%</b>
<b>Employees</b>	<b>39,639</b>	<b>40,192</b>	<b>1.4%</b>

Q2 2015
<ul style="list-style-type: none"> <li>▪ Higher EBITDA pre, but margin softens due to royalty income loss, Rebif decline and higher R&amp;D</li> <li>▪ EPS pre increase supported by improved financial result*</li> <li>▪ Cash flow impacted by higher tax and interest payments and cash-out for R&amp;D terminations</li> <li>▪ Net cash position driven by operating cash flow and cash-in from Sigma hedging</li> <li>▪ Working capital increase mainly attributable to organic growth and FX</li> </ul>

Totals may not add up due to rounding; \*YoY change mainly driven by swing in time value of Long-Term Incentive Program (LTIP)

# Reported EPS benefits from higher EBIT and change in financial result

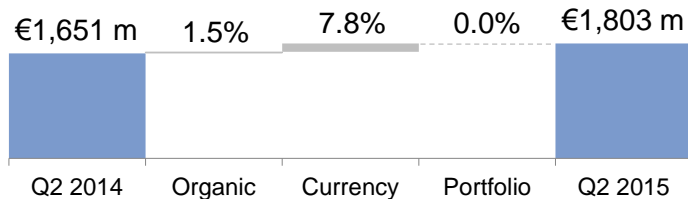
[€ m]	Q2 2014	Q2 2015	Δ	Reported results
<b>EBIT</b>	<b>441</b>	<b>501</b>	<b>13.7%</b>	<ul style="list-style-type: none"> <li>▪ EBIT increases driven by higher EBITDA pre and AZ inventory step-up last year</li> <li>▪ Tax rate in line with guidance range of 23-25%</li> </ul>
Financial result	-50	-41	-18.7%	
<b>Profit before tax</b>	<b>391</b>	<b>461</b>	<b>17.9%</b>	
Income tax	-85	-115	35.3%	
<i>Tax rate (%)</i>	<i>21.7%</i>	<i>24.9%</i>		
<b>Net income</b>	<b>303</b>	<b>343</b>	<b>13.2%</b>	
<b>EPS (€)</b>	<b>0.70</b>	<b>0.79</b>	<b>12.9%</b>	

Totals may not add up due to rounding

# Healthcare: Organic growth driven by strong General Medicine and Consumer Health

[€ m]	Q2 2014	Q2 2015
<b>Net sales</b>	<b>1,651</b>	<b>1,803</b>
Marketing and selling	-660	-730
Admin	-63	-69
R&D	-316	-358
<b>EBIT</b>	<b>277</b>	<b>267</b>
EBITDA	484	461
<b>EBITDA pre</b>	<b>493</b>	<b>480</b>
<i>Margin (% of sales)</i>	<i>29.9%</i>	<i>26.6%</i>

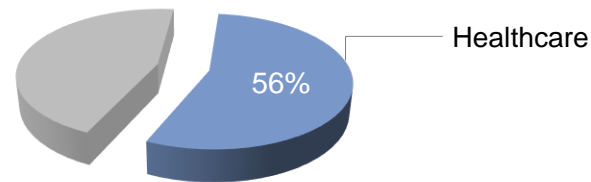
## Net sales bridge



## Comments

- Ongoing Rebif decline due to volume losses in Europe and U.S.
- Erbitux recovering – slight organic decline versus high prior year base
- General Medicine and Fertility remain key growth drivers
- CH driven by Neurobion in LatAm and local brands in Europe
- Marketing and selling expenses – mainly driven by FX
- R&D costs reflects ramp-up of Avelumab\* and other focus programs as well as promising earlier stage pipeline candidates
- Profitability decreases due to loss of Humira royalties, Rebif decline and investments in R&D

## Q2 2015 share of group net sales



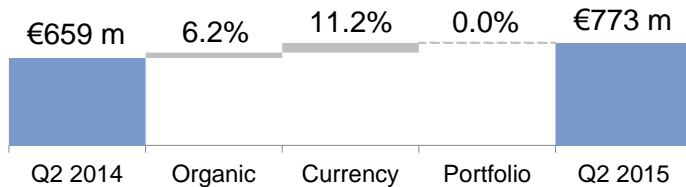
Healthcare includes Biopharmaceuticals, Consumer Health, Biosimilars and Allergopharma;

\*Avelumab = proposed International Non-proprietary Name (INN), formerly referred to as Anti-PD-L1 mAb (MSB0010718C)

# Life Science: Process Solutions fuels organic growth

[€ m]	Q2 2014	Q2 2015
<b>Net sales</b>	<b>659</b>	<b>773</b>
Marketing and selling	-205	-244
Admin	-26	-28
R&D	-39	-49
<b>EBIT</b>	<b>75</b>	<b>87</b>
EBITDA	150	170
<b>EBITDA pre</b>	<b>166</b>	<b>200</b>
<i>Margin (% of sales)</i>	<i>25.2%</i>	<i>25.9%</i>

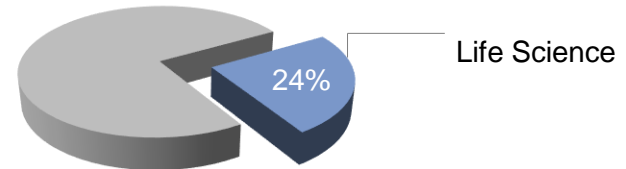
Net sales bridge



## Comments

- Process Solutions with strong organic growth mainly driven by biopharma demand for viral clearance and purification products
- Lab water consumables and biomonitoring remain main drivers of solid organic performance of Lab Solutions
- Bioscience slightly negative as research content business remains soft across all regions
- Increase in cost base is mainly attributable to FX
- EBITDA pre benefits from volume growth in Process Solutions and price increases across the portfolio

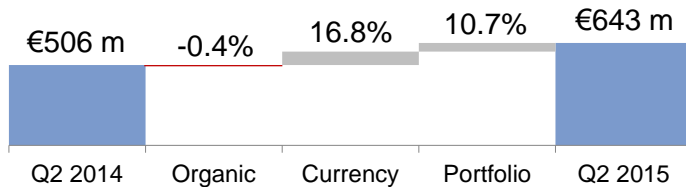
Q2 2015 share of group net sales



# Performance Materials: Strong FX tailwinds support profitability

[€ m]	Q2 2014	Q2 2015
<b>Net sales</b>	<b>506</b>	<b>643</b>
Marketing and selling	-49	-53
Admin	-15	-14
R&D	-39	-49
<b>EBIT</b>	<b>137</b>	<b>238</b>
EBITDA	178	299
<b>EBITDA pre</b>	<b>226</b>	<b>295</b>
<i>Margin (% of sales)</i>	<i>44.7%</i>	<i>45.9%</i>

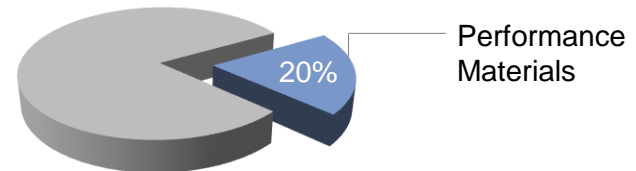
Net sales bridge



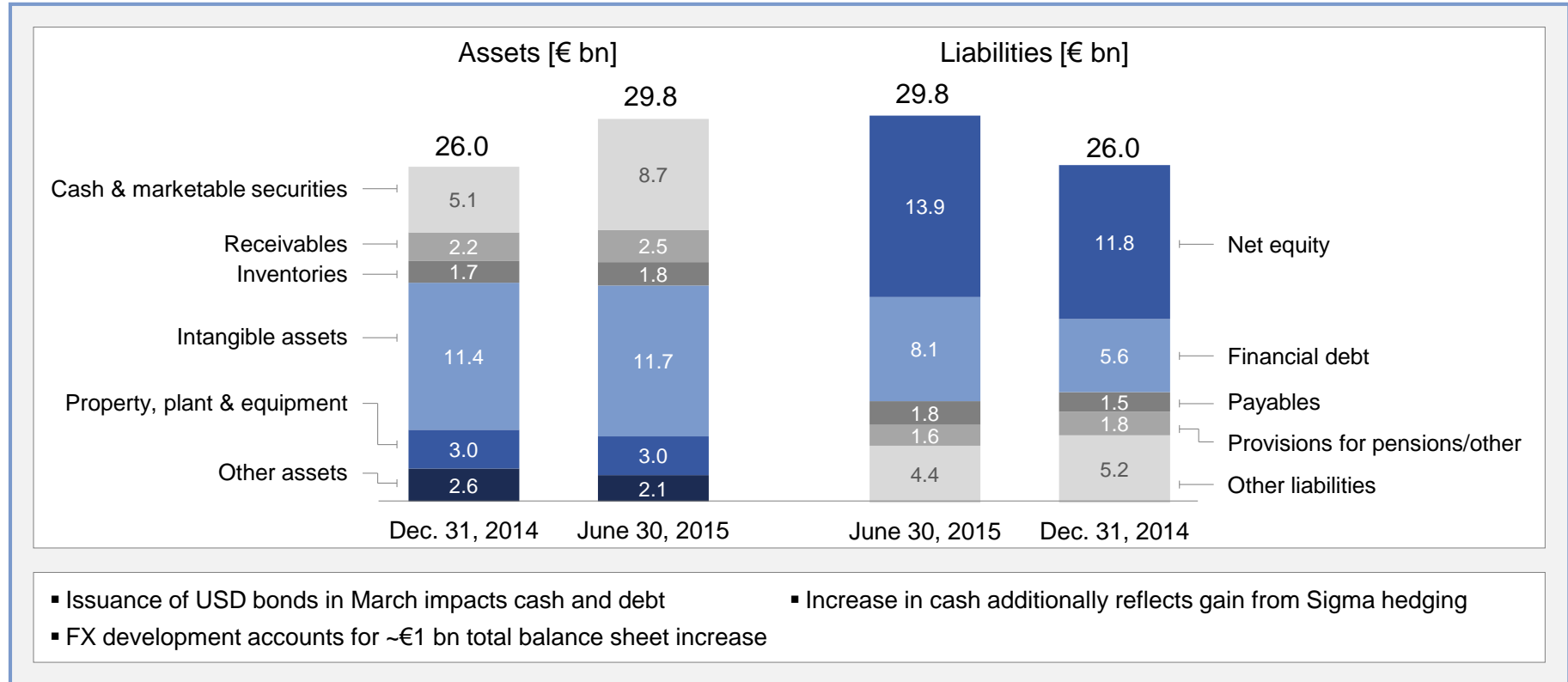
Comments

- Strong sales reflect FX tailwinds and portfolio effect
- Liquid Crystals with solid volumes in flagship technologies (PS-VA, IPS and UB-FFS), partially offset by shrinking TN-TFT market
- Integrated Circuits shows sound volume development driven by trend towards miniaturization & number of chips produced
- Significant EBITDA pre increase driven by FX, AZ and product mix

Q2 2015 share of group net sales



# Balance sheet reflects Sigma financing measures



Totals may not add up due to rounding

# Underlying operating cash flow remains solid

[€ m]	Q2 2014	Q2 2015	Δ	Cash flow drivers
<b>Profit after tax</b>	<b>306</b>	<b>346</b>	<b>40</b>	<ul style="list-style-type: none"> <li>▪ Changes in provisions reflect payments for LY R&amp;D terminations</li> <li>▪ Changes in other assets/liabilities mainly attributable to higher tax and interest payments</li> <li>▪ Investing cash flow contains cash-in from Sigma hedging; LY reflects purchase of AZ</li> <li>▪ Financing cash flow Q2 2014 contains payment for outstanding AZ shares</li> </ul>
D&A	326	343	17	
Changes in provisions	-42	-70	-28	
Changes in other assets/liabilities	-150	-270	-120	
Other operating activities	-10	3	13	
Changes in working capital	-1	-25	-24	
<b>Operating cash flow</b>	<b>429</b>	<b>326</b>	<b>-103</b>	
<b>Investing cash flow</b>	<b>-1,233</b>	<b>1,860</b>	<b>3,093</b>	
thereof Capex on PPE	-85	-93	-8	
<b>Financing cash flow</b>	<b>-855</b>	<b>-174</b>	<b>682</b>	

Totals may not add up due to rounding



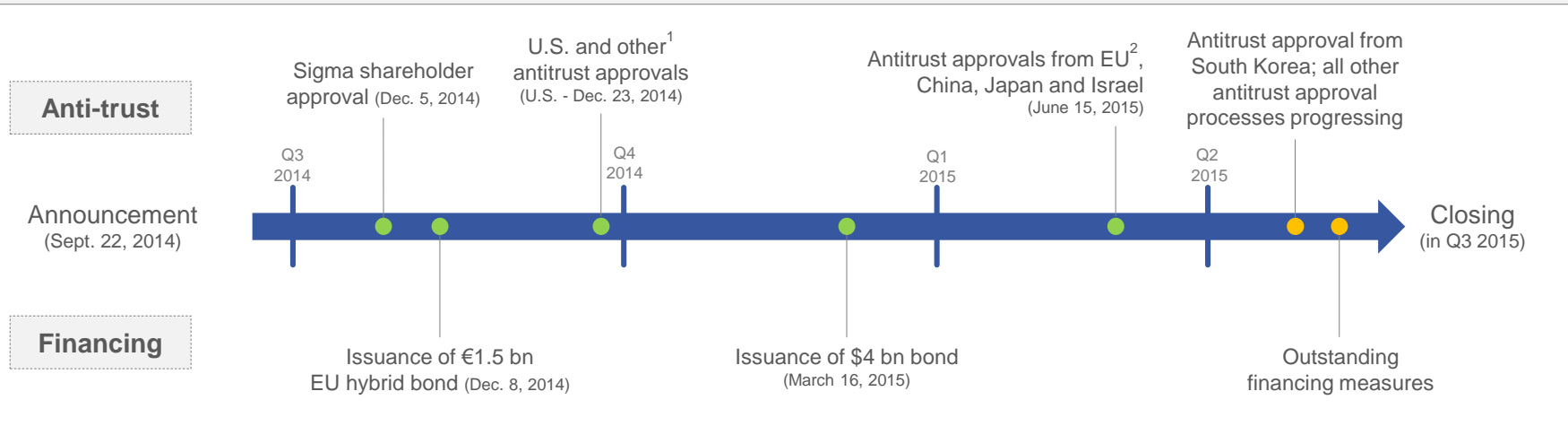
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# Sigma-Aldrich – Update



<sup>1</sup>Russia, Serbia, Ukraine, Taiwan, South Africa; <sup>2</sup>Subject to conditions and commitments as agreed with the EU

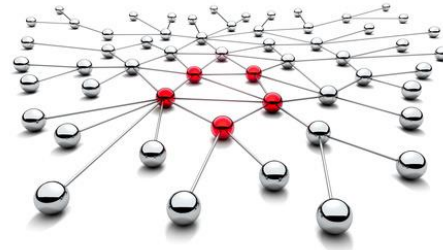
# Sigma-Aldrich – thorough preparation bolsters integration plans

## Integration Planning Office



- Preparation of integration has begun immediately after the announcement
- All work streams & functions in place for swift & smooth launch of integration

## Organizational structures



- New business organization structure determined
- Future leadership team consisting of well-balanced mix between Sigma-Aldrich and Merck KGaA Darmstadt, Germany managers

**Goal: Focusing on smooth and seamless integration without disruption**

# Full-year 2015 guidance confirmed

## Group guidance for 2015, without Sigma-Aldrich



**Net sales:**

**~ €12.3 – 12.5 bn**



**EBITDA pre:**

**~ €3,450 – 3,550 m**



**EPS pre:**

**~ €4.60 – 4.80**



## Healthcare



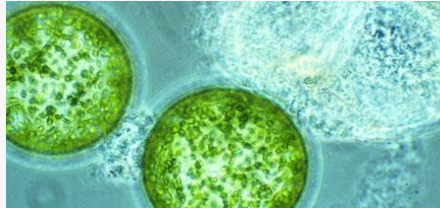
Net sales

Organically stable

EBITDA pre

~ €1.9 – 2.0 bn

## Life Science\*



Net sales

Moderate organic growth

EBITDA pre

~ €740 – 760 m

## Performance Materials



Net sales

Slight organic growth

EBITDA pre

~ €1.06 – 1.1 bn

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# Appendix

# Additional financial guidance 2015

## Further financial details

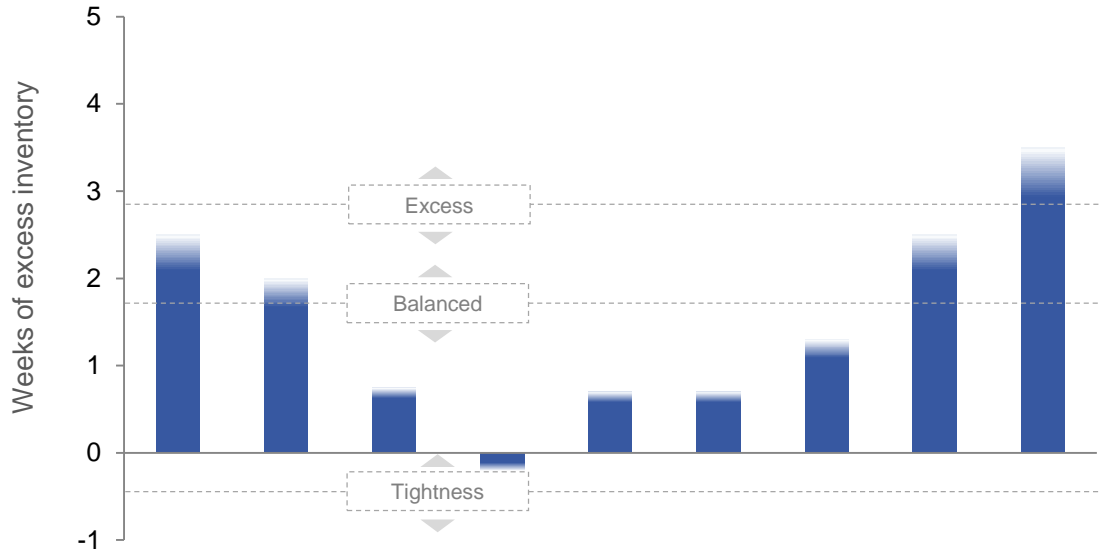
Group royalty, license and commission income in 2015	~€300 m
Corporate & Other EBITDA pre	~ -€300 – -350 m
Underlying tax rate	~23% to 25%
Capex on PPE	~€550 m
Hedging/USD assumption	2015 & 2016 hedge rate ~30% at EUR/USD ~1.22 to 1.26
2015 Ø EUR/USD assumption	~1.10 – 1.15





# Display industry shows higher channel inventory levels

Quarterly weeks of inventory delta at panel / set makers over last two years\*



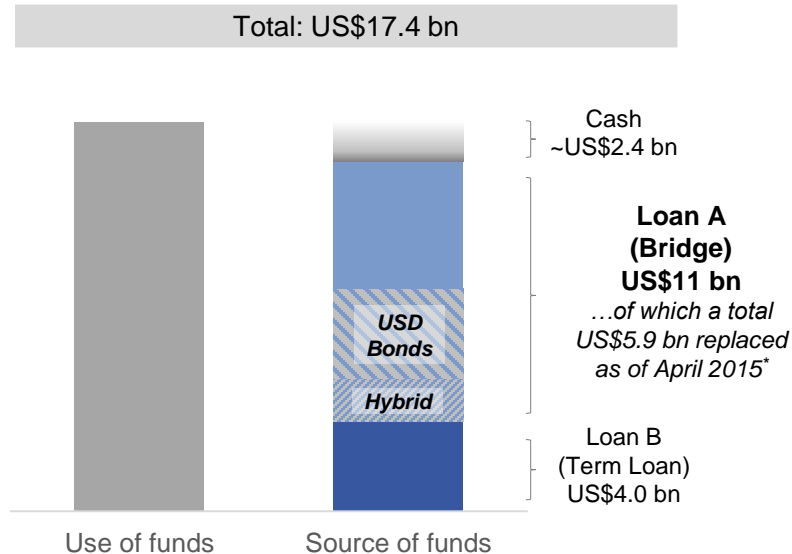
## Inventory dynamics

- Downstream inventory levels high
- Stock levels need to be monitored

**Inventories high but  
underlying growth trends  
remain intact**

# Solid structure to finance Sigma-Aldrich transaction

## Financing structure



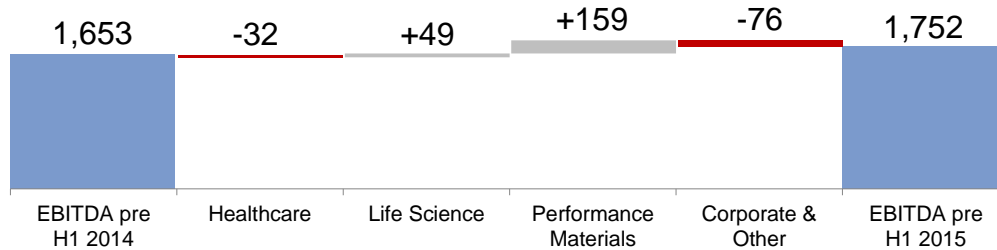
## Update on funding structure

- Acquisition 100% cash & debt financed
- Intention to replace the bridge until closing of acquisition through various capital markets transactions
- Accomplished transactions:
  - Dec. 2014: ~US\$1.9 bn hybrid bond
  - March 2015: US\$4 bn USD bond
- Strong combined cash flows available for rapid deleveraging
- Strong investment grade rating maintained
- Expected financing costs below 2%

# Top-line growth driven by FX, AZ and organic performance of Life Science

H1 2015 YoY net sales	Organic	Currency	Portfolio	Total
Healthcare	0.9%	7.5%	0.0%	8.4%
Life Science	4.8%	10.5%	-0.4%	14.9%
Performance Materials	0.5%	15.9%	22.4%	38.8%
<b>Group</b>	<b>1.8%</b>	<b>9.6%</b>	<b>3.6%</b>	<b>15.0%</b>

H1 YoY EBITDA pre contributors [€ m]



- Rebif and Erbitux declines are more than offset by other franchises driving organic stability of Healthcare
  - Life Science benefits from ongoing biopharma demand
  - Performance Materials driven by FX tailwinds, AZ and LC volume growth
- 
- Healthcare affected by Humira royalty loss, Rebif decline and higher R&D costs
  - Increase in Life Science softened by significant USD cost base
  - Performance Materials contains FX benefits and AZ
  - Hedging losses reduce Corporate EBITDA pre

# H1 2015: Overview

[€ m]	H1 2014	H1 2015	Δ
<b>Sales</b>	<b>5,443</b>	<b>6,261</b>	<b>15.0%</b>
<b>EBITDA pre</b>	<b>1,653</b>	<b>1,752</b>	<b>6.0%</b>
<i>Margin (% of sales)</i>	<i>30.4%</i>	<i>28.0%</i>	
<b>EPS pre [€]</b>	<b>2.32</b>	<b>2.43</b>	<b>4.7%</b>
<b>Operating cash flow</b>	<b>838</b>	<b>605</b>	<b>-27.8%</b>
[€ m]	Dec 31, 2014	June 30, 2015	Δ
<b>Net financial debt</b>	<b>559</b>	<b>-567</b>	<b>n.m.</b>
<b>Working capital</b>	<b>2,356</b>	<b>2,527</b>	<b>7.2%</b>
<b>Employees</b>	<b>39,639</b>	<b>40,192</b>	<b>1.4%</b>

## H1 2015

- Sales increase mainly driven by FX, AZ and organic performance
- EBITDA pre increases, while margin softens due to royalty loss, Rebif decline, higher R&D spending
- Operating cash flow burdened by higher tax and interest payments
- Net cash position driven by operating cash flow and cash-in from realization of Sigma hedging instrument
- Working capital increase mainly attributable to organic growth and FX

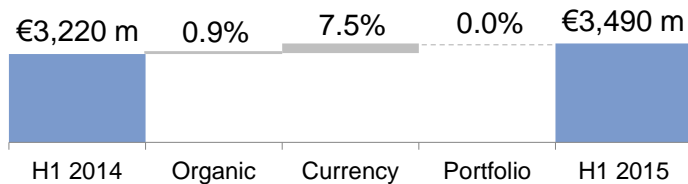
# Reported EPS stable despite Sigma financing costs

[€ m]	H1 2014	H1 2015	Δ	Reported results
<b>EBIT</b>	<b>909</b>	<b>981</b>	<b>7.9%</b>	<ul style="list-style-type: none"> <li>▪ EBIT reflects increased EBITDA pre and higher exceptionals last year</li> <li>▪ Financial result impacted by higher interest expenses (hybrid &amp; USD bond)</li> <li>▪ Tax rate in line with guidance range of 23-25%</li> </ul>
Financial result	-85	-141	-66.5%	
<b>Profit before tax</b>	<b>824</b>	<b>840</b>	<b>1.9%</b>	
Income tax	-191	-209	9.4%	
<i>Tax rate (%)</i>	23.2%	24.9%		
<b>Net income</b>	<b>628</b>	<b>625</b>	<b>-0.5%</b>	
<b>EPS (€)</b>	<b>1.45</b>	<b>1.44</b>	<b>-0.7%</b>	

# Healthcare: Investments in future growth

[€ m]	H1 2014	H1 2015
<b>Net sales</b>	<b>3,220</b>	<b>3,490</b>
Marketing and selling	-1,269	-1,390
Admin	-121	-135
R&D	-620	-706
<b>EBIT</b>	<b>549</b>	<b>536</b>
EBITDA	951	910
<b>EBITDA pre</b>	<b>973</b>	<b>941</b>
<i>Margin (% of sales)</i>	<i>30.2%</i>	<i>27.0%</i>

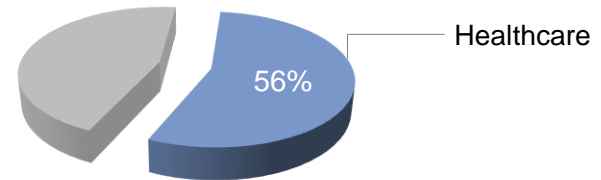
## Net sales bridge



## Comments

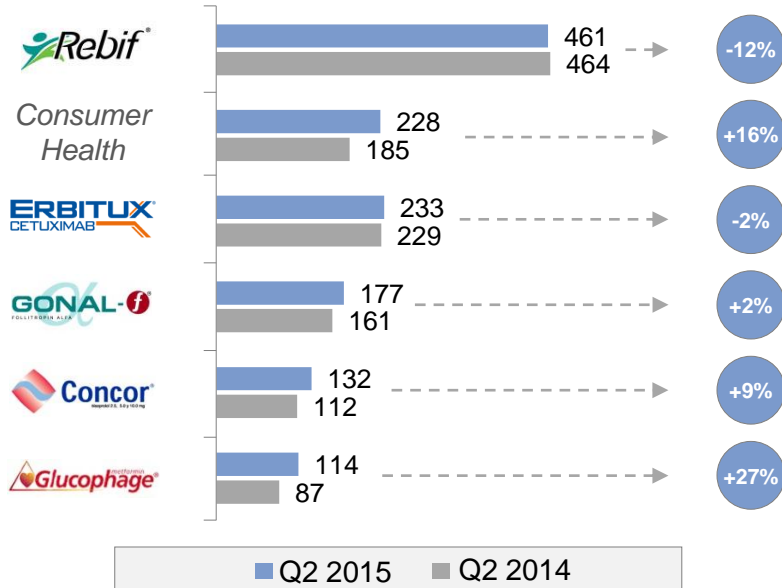
- Expected Rebif decline driven by volume losses in EU & U.S.
- Erbitux soft, mainly affected by tender phasing and mandatory EU pricing cuts as well as tough Q2 comparables
- General Medicine and Fertility remain key growth drivers
- Consumer Health with strong organic growth as new marketing concept fuels demand - especially for Neurobion in Latin America
- Investments in growth markets and FX drive higher M&S spending
- R&D reflects ramp-up of priority projects and earlier stage pipeline
- EBITDA pre and margin lower, as loss of Humira royalties, Rebif decline and investments in R&D outweigh currency tailwinds

## H1 2015 share of group net sales

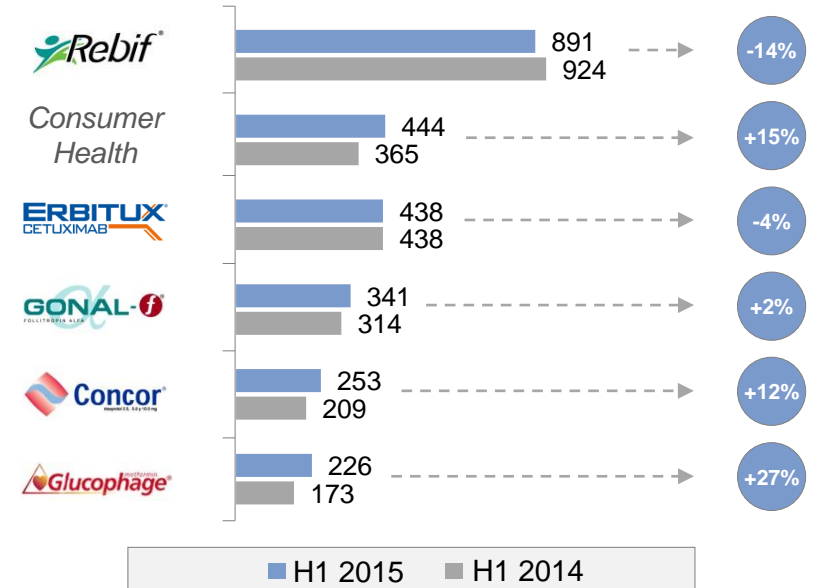


# Healthcare organic growth by franchise/product

Q2 2015 organic sales growth [%] by key products [€ m]



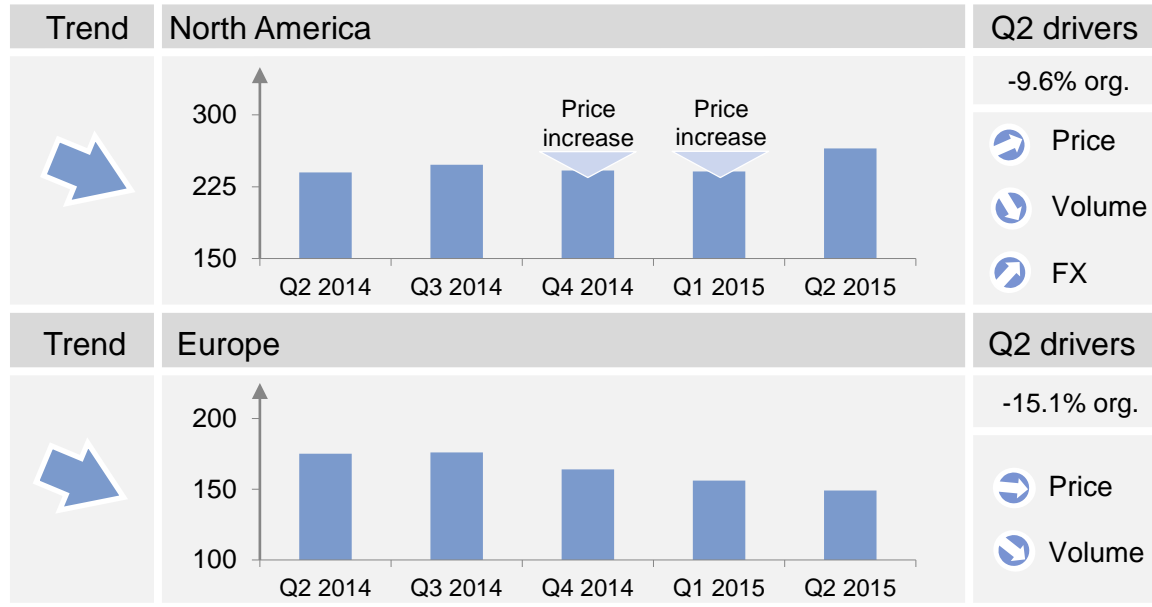
H1 2015 organic sales growth [%] by key products [€ m]



# Rebif: Defending the franchise – competitive pressure in the U.S. and Europe



- Regional sales evolution [€ m]



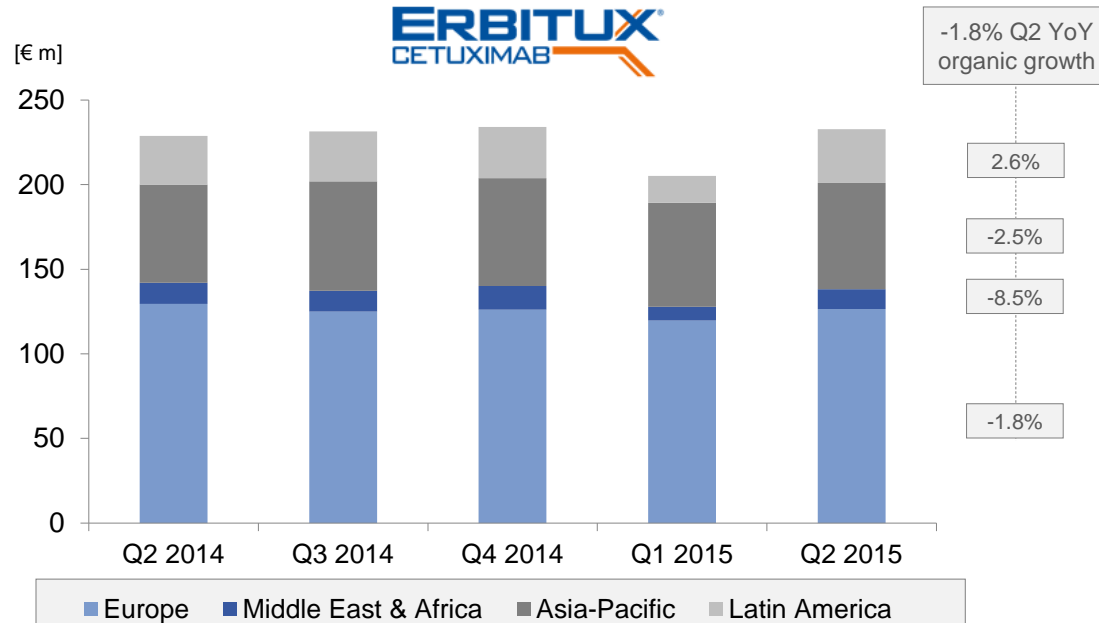
## Rebif performance

- Rebif sales of €461 m in Q2 benefiting from FX tailwinds
- Organic decline of -12.0% due to lower volumes slightly mitigated by U.S. pricing
- Competition from orals main factor of U.S. and European volume decline
- Recent U.S. price increases supporting performance



# Erbitux: Challenging market environment drives moderate performance amid tough base

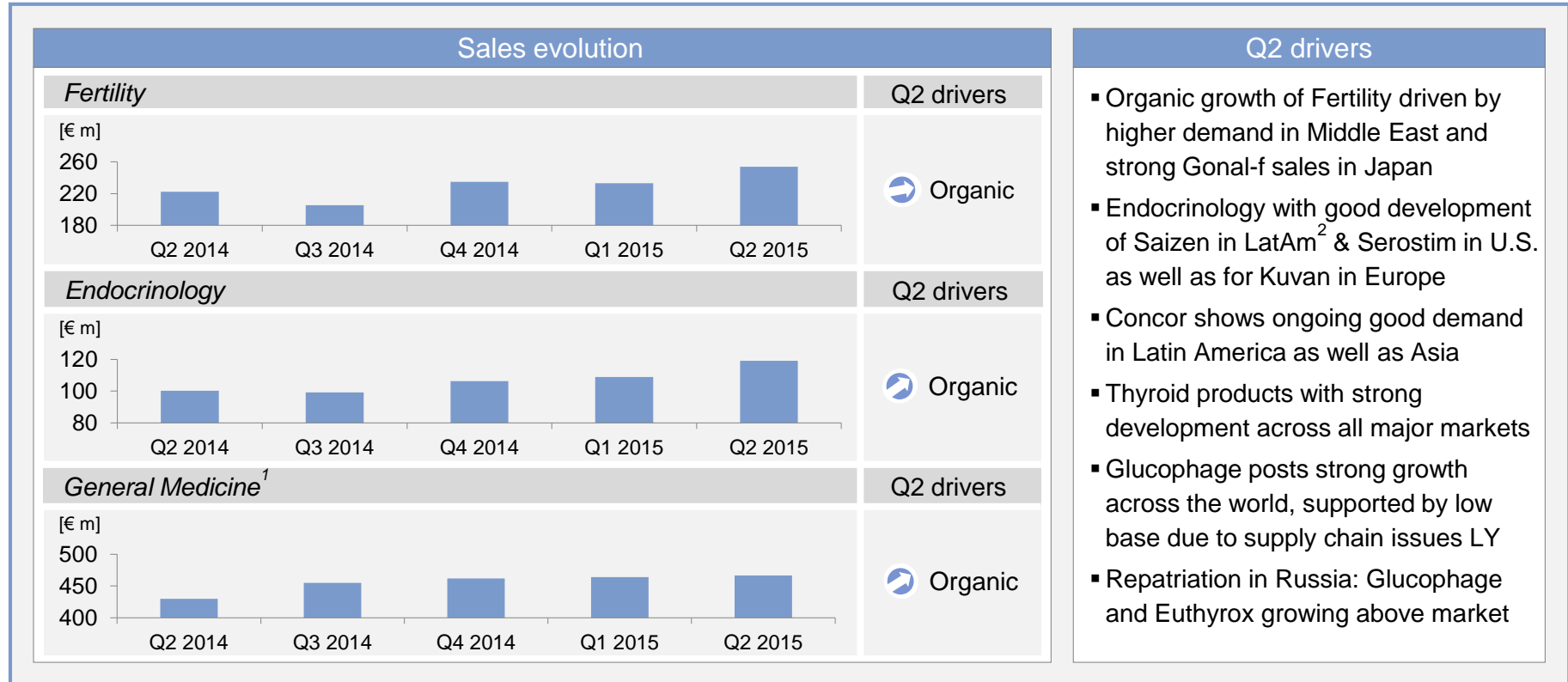
Erbitux sales by region



Erbitux performance

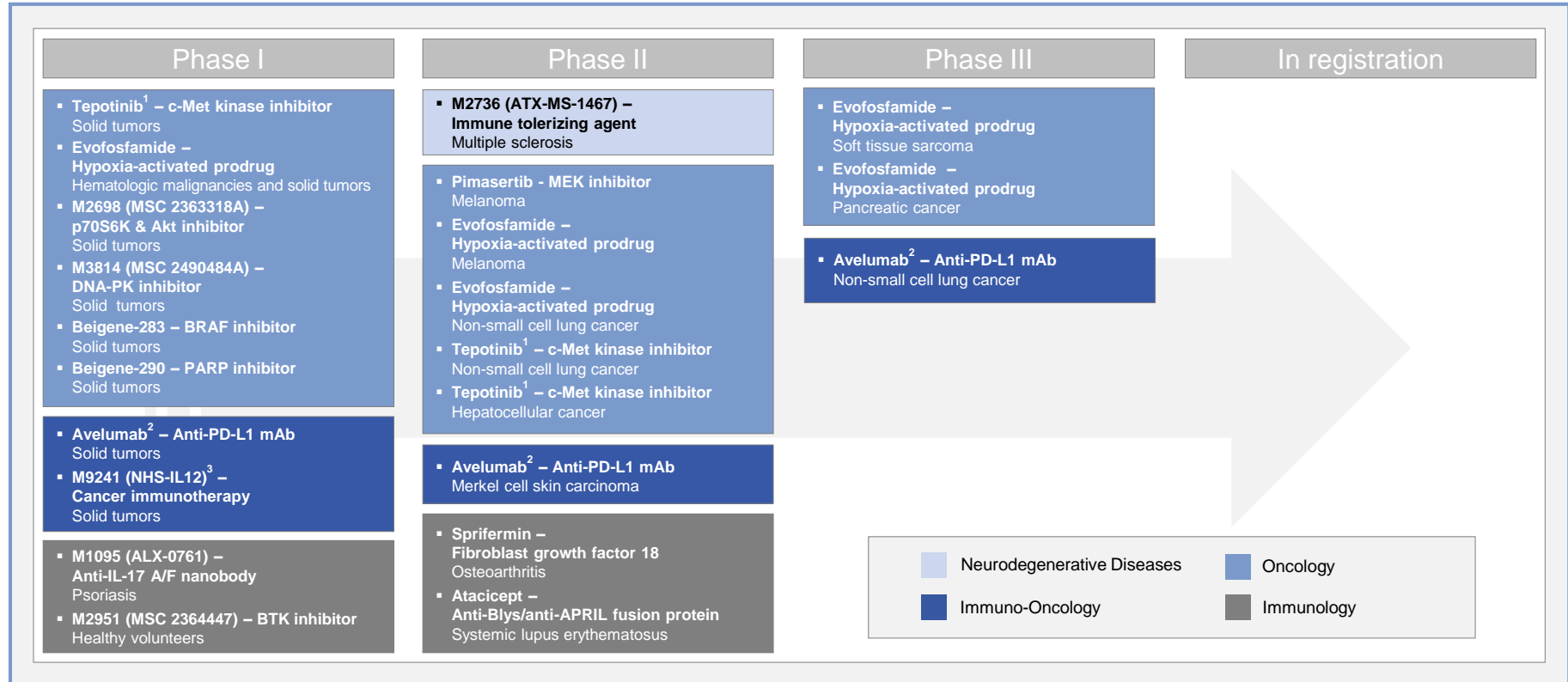
- Sales increase to €233 m as positive FX offsets moderate organic decline
- Ongoing price cuts in Europe (France and Turkey)
- Tender business partially picking up
- APAC decline mainly due to channel stock corrections in China, while in-market sales show healthy growth

# Strong growth in General Medicine, Fertility and Endocrinology



- ### Q2 drivers
- Organic growth of Fertility driven by higher demand in Middle East and strong Gonal-f sales in Japan
  - Endocrinology with good development of Saizen in LatAm<sup>2</sup> & Serostim in U.S. as well as for Kuvan in Europe
  - Concor shows ongoing good demand in Latin America as well as Asia
  - Thyroid products with strong development across all major markets
  - Glucophage posts strong growth across the world, supported by low base due to supply chain issues LY
  - Repatriation in Russia: Glucophage and Euthyrox growing above market

<sup>1</sup>includes "Cardiometabolic Care & General Medicine and Others"; <sup>2</sup>Latin America

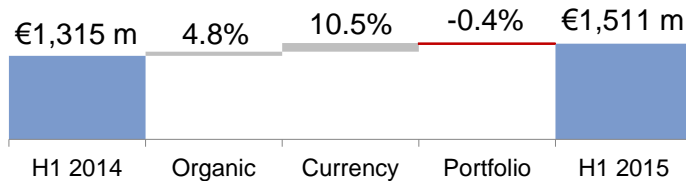


Pipeline as of 31 July, 2015; <sup>1</sup>Tepotinib is the proposed International Nonproprietary Name (INN) for the c-Met kinase inhibitor (MSC 2156119J); <sup>2</sup>Avelumab = proposed International Non-proprietary Name (INN), formerly referred to as anti-PD-L1 mAb (MSB0010718C); <sup>3</sup>Sponsored by the National Cancer Institute (USA)

# Life Science: Sound organic performance fueled by ongoing demand for Process Solution products

[€ m]	H1 2014	H1 2015
<b>Net sales</b>	<b>1,315</b>	<b>1,511</b>
Marketing and selling	-415	-477
Admin	-54	-59
R&D	-78	-94
<b>EBIT</b>	<b>162</b>	<b>170</b>
EBITDA	314	334
<b>EBITDA pre</b>	<b>335</b>	<b>384</b>
<i>Margin (% of sales)</i>	<i>25.5%</i>	<i>25.4%</i>

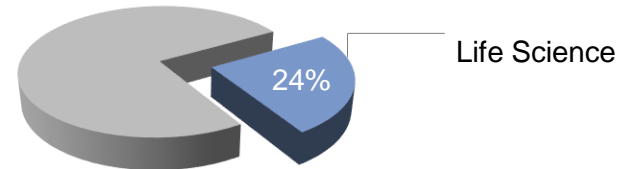
Net sales bridge



Comments

- Process Solutions drives divisional growth mainly due to strong demand from biopharma for single-use and purification products
- Lab Solutions with moderate organic growth especially in lab water consumables and biomonitoring
- Bioscience slightly negative as good development of protein detection is offset by softness for research content products
- Ongoing investments in R&D – several product launches in H1
- EBITDA pre benefits from FX tailwinds and organic growth, partially offset by investments in marketing and selling

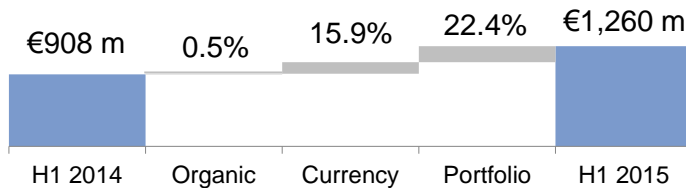
H1 2015 share of group net sales



# Performance Materials: Healthy trends and strong currency tailwinds drive top-line growth

[€ m]	H1 2014	H1 2015
<b>Net sales</b>	<b>908</b>	<b>1.260</b>
Marketing and selling	-85	-99
Admin	-22	-32
R&D	-76	-95
<b>EBIT</b>	<b>289</b>	<b>452</b>
EBITDA	357	572
<b>EBITDA pre</b>	<b>413</b>	<b>572</b>
<i>Margin (% of sales)</i>	<i>45.5%</i>	<i>45.4%</i>

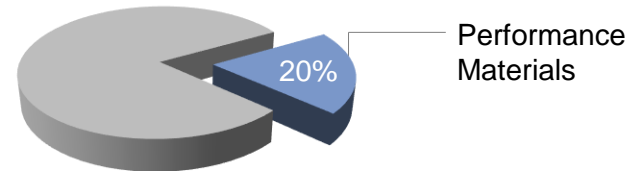
## Net sales bridge



## Comments

- Strong sales mainly reflect portfolio effect and FX tailwinds
- Liquid Crystals volume trends remain largest organic contributor
- Innovative UB-FFS mode main driver in LC\*; ongoing demand for high-end TVs benefits flagship technologies (PS-VA & IPS)
- Pigments softer – lower volumes of Functional Materials more than offset good growth of automotive coatings (Xirallic)
- Integrated Circuits supports organic performance with sound volume development especially in dielectrics and silica business
- Significant EBITDA pre increase driven by AZ, currency tailwinds and positive product mix

## H1 2015 share of group net sales



# Operating cash flow burdened by tax payment for upfront payment from Pfizer

[€ m]	H1 2014	H1 2015	Δ	Cash flow drivers
<b>Profit after tax</b>	<b>633</b>	<b>631</b>	<b>-2</b>	<ul style="list-style-type: none"> <li>▪ D&amp;A increase due to AZ</li> <li>▪ Changes in provisions reflect higher litigation provisions</li> <li>▪ Higher tax payments and release of Pfizer accruals main drivers of changes in other assets/liabilities</li> <li>▪ Changes in working capital driven by higher inventories due to increased business activity</li> <li>▪ Investing cash flow contains cash-in from Sigma hedging instrument as well as sale of financial assets</li> <li>▪ Financing cash flow includes U.S. dollar bonds and repayment of eurobond; LY reflects purchase of AZ</li> </ul>
D&A	628	669	41	
Changes in provisions	-89	20	109	
Changes in other assets/liabilities	-182	-501	-319	
Other operating activities	-4	-18	-13	
Changes in working capital	-148	-197	-49	
<b>Operating cash flow</b>	<b>838</b>	<b>605</b>	<b>-233</b>	
<b>Investing cash flow</b>	<b>-134</b>	<b>2,252</b>	<b>2,386</b>	
thereof Capex*	-142	-167	-25	
<b>Financing cash flow</b>	<b>-848</b>	<b>2,114</b>	<b>2,962</b>	

\*Only PPE without intangibles  
Totals may not add up due to rounding

# Exceptionals in Q2 2015

Exceptionals in EBIT				
[€ m]	Q2 2014		Q2 2015	
	Exceptionals	thereof D&A	Exceptionals	thereof D&A
Healthcare	12	3	21	2
Life Science	15	0	30	0
Performance Materials	48	0	-3	0
Corporate & Other	5	0	9	0
<b>Total</b>	<b>81</b>	<b>3</b>	<b>56</b>	<b>2</b>

Totals may not add up due to rounding

# Exceptionals in H1 2015

Exceptionals in EBIT				
[€ m]	H1 2014		H1 2015	
	Exceptionals	thereof D&A	Exceptionals	thereof D&A
Healthcare	26	4	32	2
Life Science	21	0	50	0
Performance Materials	56	0	0	0
Corporate & Other	16	0	21	0
<b>Total</b>	<b>119</b>	<b>4</b>	<b>104</b>	<b>2</b>

Totals may not add up due to rounding



Date	Event
November 12, 2015	Q3 2015 Earnings release
March 8, 2016	Q4 2015 Earnings release
April 29, 2016	Annual General Meeting
May 19, 2016	Q1 2016 Earnings release



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