Consumer Health

Overview of 2013

- → Successful turnaround achieved in 2013
- → EBITDA pre one-time items increases by 8.5% to € 72 million following the implementation of efficiency measures
- → EBITDA pre margin moves toward industry average thanks to profitability improvements
- → Solid base for development in future years established

Consumer Health | Key figures

€ million	2013	2012	Change in %
Total revenues	479.6	475.2	0.9
Sales	476.9	472.6	0.9
Operating result (EBIT)	62.2	7.6	–
Margin (% of sales)	13.0	1.6	
EBITDA	71.1	29.8	138.6
Margin (% of sales)	14.9	6.3	
EBITDA pre one-time items	72.5	66.8	8.5
Margin (% of sales)	15.2	14.1	
Business free cash flow	83.9	88.8	–5.5

Development of total revenues and sales as well as results of operations

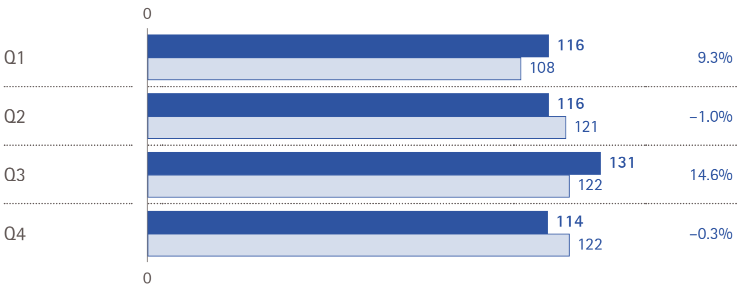
In 2013, the Consumer Health division reported a slight 0.9% increase in sales to € 477 million (2012: € 473 million). Strong organic growth of 5.6% was countered by a negative foreign exchange impact of –4.7%. Europe and Emerging Markets, the two largest regions in terms of sales, were the main drivers of the strong organic increases and the division's overall positive development. Four of the eight strategic brands (Cebion®, Sangobion®, Kytta® and Femibion®) delivered double-digit organic growth rates and gained market share in the division's key regions while the Bion®, Nasivin® and Sedalmerck® brands all posted growth rates in the mid-to-high single digits. The negative foreign exchange impact was broad-based, but particularly strong with respect to Latin American currencies, the British pound, the Indonesian rupiah, and the South African rand.

→ Consumer Health

The development of sales in the individual quarters in comparison with 2012 as well as the respective organic growth rates are presented in the following table:

Consumer Health | Sales and organic growth by quarter[1]

€ million/organic growth in %

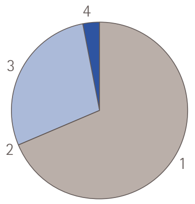


[1] Quarterly breakdown unaudited

2013 2012

Consumer Health | Sales by region – 2013

€ million/% of divisional sales



1	Europe	328.1	69%
2	North America	1.1	0%
3	Emerging Markets	131.9	28%
4	Rest of World	15.8	3%

From a geographic perspective, all of the division's key regions delivered strong organic sales growth while suffering from negative foreign exchange effects. Europe, which accounts for 69% of sales (2012: 67%) and is the division's largest region, posted organic sales growth of 5.0% lowered by a foreign exchange impact of −0.9%. The resulting 4.1% growth in this region thus generated sales of € 328 million (2012: € 315 million). Notable organic sales increases were achieved particularly in Germany, France and Russia, more than offsetting the weaker performance of the British subsidiary Seven Seas. In Germany, robust demand for Femibion® as well as the market launch of an odorless version of Kytta® had a visibly positive effect. France benefited in particular from the market launch of Bion® Energie Continue as well as from very good demand for cough and cold treatments in early 2013. Russia achieved strong growth with Nasivin® and Femibion®.

→ Consumer Health

In the Emerging Markets region, the division registered strong organic growth of 6.9%, which was mainly attributable to Cebion®, Sangobion®, Bion®3 and Nasivin®. Taking substantial foreign exchange headwinds of –12.3% into account, sales declined overall by –5.3% to € 132 million (2012: € 139 million). Good organic sales growth was achieved, for example, in India, Indonesia and Brazil. The share of divisional sales accounted for by the Emerging Markets region declined to 28% (2012: 29%), owing to negative foreign exchange effects that stemmed mainly from Latin American currencies.

With organic sales growth of 5.7% and significant currency headwinds of –12.2%, the Rest of World region generated sales of € 16 million (2012: € 17 million). The proportion of divisional sales accounted for by this region therefore also declined to 3% (2012: 4%).

Consumer Health | Sales components by region – 2013

€ million/change in %	Sales	Organic growth	Exchange rate effects	Acquisitions/ divestments	Total change
Europe	328.1	5.0	–0.9	–	4.1
North America	1.1	–1.1	–0.8	–	–1.9
Emerging Markets	131.9	6.9	–12.3	–	–5.3
Rest of World	15.8	5.7	–12.2	–	–6.5
Consumer Health	**476.9**	**5.6**	**–4.7**	**–**	**0.9**

Cost of sales increased slightly by 1.9%, totaling € 161 million in 2013 (2012: € 158 million). Gross profit amounted to € 318 million (2012: € 317 million), remaining at the previous year's level and leading to a gross margin of 66.7% (2012: 67.0%).

Marketing and selling expenses declined by –2.5% to € 213 million (2012: € 218 million) since activities directed to consumers, pharmacies and health care professionals were focused on higher-return opportunities. Administration expenses dropped by –8.7% to € 18 million (2012: € 20 million) and R&D expenses fell by –12.2% to € 17 million (2012: € 19 million) as the division continued to sharpen the focus of its R&D activities.

The net decline in other operating expenses to € 4 million (2012: € 46 million) was due mainly to the drop in one-time items to € 1 million (2012: € 37 million). Furthermore, impairments of property, plant and equipment as well as intangible assets, which totaled € 11 million in 2012, did not reoccur in 2013. The high level of one-time items in 2012 was attributable to the restructuring measures within the scope of the "Fit for 2018" transformation and growth program.

The reported operating result (EBIT) of the Consumer Health division increased by around € 54 million to € 62 million (2012: € 8 million) and EBITDA more than doubled, climbing to € 71 million (2012: € 30 million). Adjusted for one-time items, EBITDA pre one-time items rose by 8.5% to € 72 million, or 15.2% of sales (2012: € 67 million or 14.1% of sales).

→ Consumer Health

The implementation of the measures initiated as part of the "Fit for 2018" transformation and growth program as well as better resource allocation improved the division's cost structure, leading to a visible increase in profitability and the aforementioned organic top-line growth. In particular, the division's strategic brands, which benefited most from more focused investment in marketing, sales and R&D activities, showed a strong improvement in this respect.

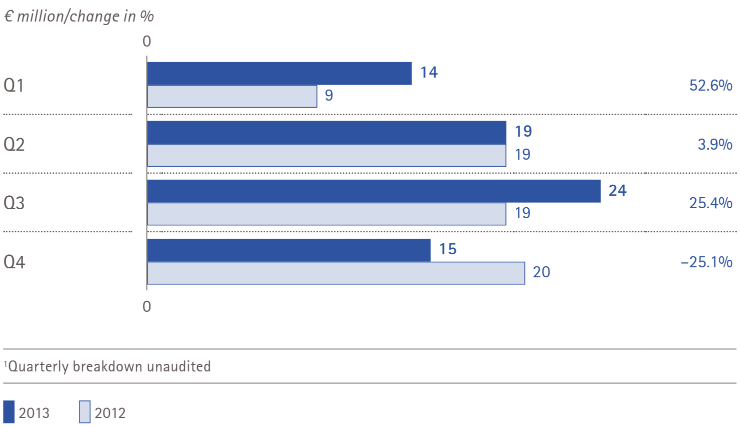
Structural adaptations, for example changes to the product portfolio and the exit from unprofitable markets, also resulted in a more profitable base for the division's business. Consumer Health thus established a good foundation and achieved a high profitability level, which should form a solid starting base for developments in the coming years.

Consumer Health | Reconciliation EBIT to EBITDA pre one-time items

€ million	2013	2012	Change in %
Operating result (EBIT)	**62.2**	**7.6**	**–**
Depreciation/Amortization/Reversals of impairments	8.9	22.2	–59.9
EBITDA	**71.1**	**29.8**	**138.6**
One-time items	1.4	37.0	–96.2
EBITDA pre one-time items	**72.5**	**66.8**	**8.5**

The development of EBITDA pre one-time items in the individual quarters in comparison with 2012 is presented in the following table:

Consumer Health | EBITDA pre one-time items and change by quarter[1]



[1]Quarterly breakdown unaudited

→ Consumer Health

Development of business free cash flow

In 2013, business free cash flow of the Consumer Health division declined by € –5 million or –5.5% to € 84 million (2012: € 89 million). This decrease was primarily due to changes in trade accounts receivable. The reduction in this balance sheet item by € –13 million in 2013 compares with an even higher reduction of € –23 million in 2012. The increase in EBITDA pre one-time items mitigated this impact on business free cash flow.

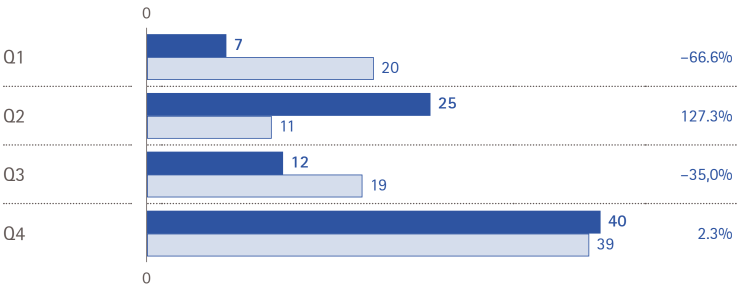
Consumer Health | Business free cash flow

€ million	2013	2012	Change in %
EBITDA pre one-time items	72.5	66.8	8.5
Investments in property, plant and equipment, software as well as advance payments for intangible assets	–4.1	–4.4	–7.7
Changes in inventories	2.1	3.2	–33.7
Changes in trade accounts receivable	13.4	23.2	–42.2
Business free cash flow	**83.9**	**88.8**	**–5.5**

The development of business free cash flow in the individual quarters in comparison with 2012 is presented in the following table:

Consumer Health | Business free cash flow and change by quarter[1]

€ million/change in %



[1] Quarterly breakdown unaudited

2013 2012