Merck Millipore

Overview of 2013

- → Robust portfolio and solid organic growth counterbalance difficult market environment and negative foreign exchange effects
- → All business units contribute to organic growth, especially in Emerging Markets
- → Profitability increases by approximately one percentage point owing to strong business performance and strict cost control

Merck Millipore | Key figures

€ million	2013	2012	Change in %
Total revenues	2,645.3	2,616.9	1.1
Sales	2,627.5	2,598.2	1.1
Operating result (EBIT)	262.0	251.7	4.1
Margin (% of sales)	10.0	9.7	
EBITDA	589.8	560.9	5.2
Margin (% of sales)	22.4	21.6	
EBITDA pre one-time items	642.8	614.4	4.6
Margin (% of sales)	24.5	23.6	
Business free cash flow	493.8	511.3	–3.4

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

In 2013, the Merck Millipore division generated strong organic sales growth of 5.5% despite a challenging market environment. Biochrom AG, Berlin, which was acquired in 2012, contributed 0.5% to the increase in sales in 2013. Taking into account a negative foreign exchange impact of –4.8%, divisional sales increased by 1.1% to € 2,628 million (2012: € 2,598 million). Currency headwinds stemmed mainly from the Japanese yen, the U.S. dollar, and the Indian rupee. At € 18 million, the royalty, license and commission income recorded by the Bioscience and Process Solutions business units remained at the previous year's level.

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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:

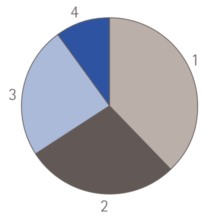
Merck Millipore | Sales and organic growth by quarter[1]

€ million/organic growth in %

[1] Quarterly breakdown unaudited

Merck Millipore | Sales by region – 2013

€ million/% of divisional sales



1	Europe	1,010.5	39%
2	North America	711.5	27%
3	Emerging Markets	642.4	24%
4	Rest of World	263.1	10%

In 2013, the Merck Millipore division achieved positive organic growth rates in all regions. However, negative foreign exchange effects were registered in all regions as well.

As the division's largest geographic market accounting for 39% of divisional sales (2012: 37%), Europe generated sales of € 1,010 million (2012: € 966 million), representing organic sales growth of 4.2%. The rise in sales was driven by all three business units: Process Solutions, Lab Solutions and Bioscience.

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In North America, sales grew organically by 4.1%, largely offset by negative foreign exchange effects. Reported growth was 1.2%, which represents an increase in sales to € 711 million (2012: € 703 million). The organic increase in sales in this region mainly came from products from the Process Solutions and Lab Solutions business units, offsetting weaker demand for laboratory materials from the Bioscience business unit.

The Emerging Markets region registered organic sales growth of 10.5% and a negative foreign exchange impact of −6.6%. Including acquisition effects of 0.1%, sales rose to € 642 million (2012: € 617 million). The strong organic sales development was fueled by good demand for products from all the division's business units. The share of divisional sales generated by the Emerging Markets region remained at the previous year's level of 24%.

As a result of significant currency headwinds of −18.2%, especially relative to the Japanese yen, sales in the Rest of World region declined to € 263 million (2012: € 312 million). With slight organic growth of 2.4%, this region's share of divisional sales declined to 10% (2012: 12%).

Merck Millipore | Sales components by region – 2013

€ million/change in %	Sales	Organic growth	Exchange rate effects	Acquisitions/ divestments	Total change
Europe	1,010.5	4.2	−0.7	1.2	4.6
North America	711.5	4.1	−2.9	–	1.2
Emerging Markets	642.4	10.5	−6.6	0.1	4.1
Rest of World	263.1	2.4	−18.2	–	−15.8
Merck Millipore	**2,627.5**	**5.5**	**−4.8**	**0.5**	**1.1**

All three business units contributed to the organic growth of the division in 2013. In particular, Lab Solutions and Process Solutions, the two top-selling business units, generated good growth rates owing to price increases and higher sales volumes. Lab Solutions, which accounted for an unchanged 42% share of divisional sales, delivered good organic sales growth of 5.4% with its broad range of products for researchers and scientific laboratories. However, negative foreign exchange effects of – 5.4% completely canceled out this growth. The business unit's sales thus remained on par with 2012, amounting to € 1,097 million. Organic growth was mainly driven by elevated demand for biomonitoring solutions, particularly from customers in the pharmaceutical industry, as well as by price increases.

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The Process Solutions business unit, which markets products and services for the pharmaceutical production value chain, generated organic sales growth of 7.7%, which was the highest rate within the Merck Millipore division. Taking into account a negative foreign exchange effect of –4.1% as well as the increase in sales of 1.1% due to the acquisition of Biochrom AG, sales amounted to € 1,096 million in 2013 (2012: € 1,046 million). Process Solutions thus accounted for 42% of divisional sales (2012: 40%). The increase was driven by higher demand from the pharmaceutical industry for products used in biopharmaceutical manufacturing, especially in Asia and the United States.

The Bioscience business unit, which primarily markets products and services for pharmaceutical, biotechnology and academic research laboratories, recorded a slight increase in organic sales of 0.3%. Including an adverse foreign exchange impact of –4.8%, sales amounted to € 434 million (2012: € 455 million). In particular, across-the-board health care spending cuts in the United States softened demand. The share of divisional sales accounted for by Bioscience in 2013 was 16% (2012: 18%).

Merck Millipore | Sales components by business unit – 2013

€ million/change in %	Sales	Organic growth	Exchange rate effects	Acquisitions/ divestments	Total change
Bioscience	434.2	0.3	–4.8	–	–4.5
Lab Solutions	1,097.4	5.4	–5.4	–	–
Process Solutions	1,095.9	7.7	–4.1	1.1	4.8

In 2013, cost of sales amounted to € 1,104 million (2012: € 1,086 million) and rose by 1.7% compared with 2012. Nevertheless, this yielded a slightly higher gross profit of € 1,541 million (2012: € 1,531 million). Despite negative foreign exchange effects, gross margin, as a percentage of sales, remained virtually unchanged at 58.6% (2012: 58.9%).

Marketing and selling expenses increased by 1.1% to € 683 million (2012: € 676 million). In 2013, the division recorded a decline of –2.1% in administration expenses to € 99 million (2012: € 101 million). The net increase in other operating expenses from € 117 million to € 121 million was mainly due to one-time items (including impairments) of € 70 million (2012: € 54 million).

Merck Millipore's R&D expenses fell as a result of foreign exchange effects, among other things, to € 160 million (2012: € 166 million). In 2013, the ratio of R&D spending to sales was therefore 6.1% (2012: 6.4%). In order to ensure a steady stream of product innovations, R&D expenses will remain at a high level going forward. The Process Solutions business unit accounts for the vast majority of the R&D budget.

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Currency translation effects were mainly responsible for the decline in amortization of intangible assets from € 204 million to € 200 million. Including these effects, the division's operating result (EBIT) rose by 4.1% to € 262 million (2012: € 252 million). After eliminating depreciation and amortization, EBITDA rose by 5.2% to € 590 million (2012: € 561 million). Adjusted for one-time charges, EBITDA pre rose by 4.6% to € 643 million, or 24.5% of sales (2012: € 614 million, 23.6% of sales). Despite unfavorable foreign exchange developments and the difficult market situation in North America, Merck Millipore increased its EBITDA pre margin, reflecting strong organic growth, a resilient portfolio, and strict cost control.

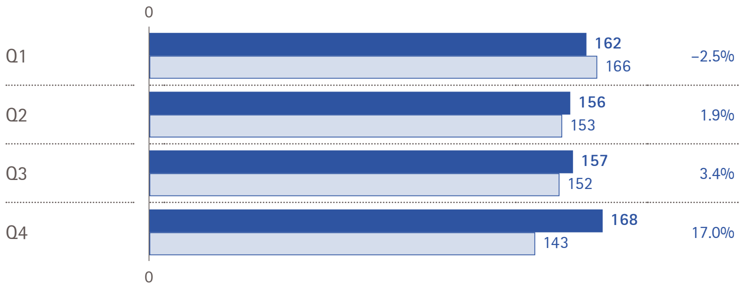
Merck Millipore | Reconciliation EBIT to EBITDA pre one-time items

€ million	2013	2012	Change in %
Operating result (EBIT)	**262.0**	**251.7**	**4.1**
Depreciation/Amortization/Reversals of impairments	327.8	309.2	6.0
EBITDA	**589.8**	**560.9**	**5.2**
One-time items	53.0	53.5	–0.9
EBITDA pre one-time items	**642.8**	**614.4**	**4.6**

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

Merck Millipore | EBITDA pre one-time items and change by quarter[1]

€ million/change in %



[1] Quarterly breakdown unaudited

2013 2012

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Development of business free cash flow

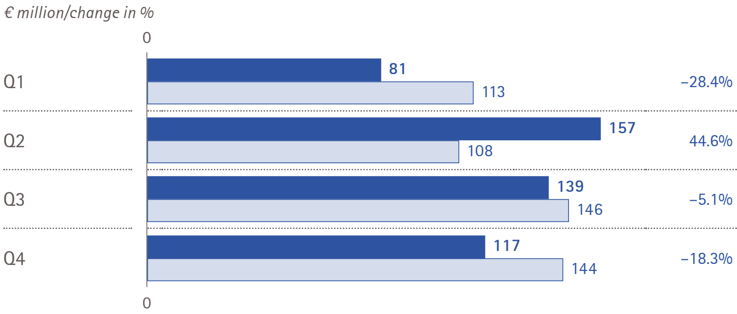
In 2013, the Merck Millipore division generated business free cash flow of € 494 million (2012: € 511 million). The –3.4% decline was largely due to the change in working capital. Whereas the total decrease of € –15 million in working capital had a positive impact on business free cash flow in 2012, the increase in the relevant balance sheet items by € 27 million in 2013 lowered this key figure accordingly. This effect was partially offset by the increase in EBITDA pre one-time items.

Merck Millipore | Business free cash flow

€ million	2013	2012	Change in %
EBITDA pre one-time items	642.8	614.4	4.6
Investments in property, plant and equipment, software as well as advance payments for intangible assets	–121.7	–118.0	3.1
Changes in inventories	–21.3	0.2	–
Changes in trade accounts receivable	–6.0	14.7	–
Business free cash flow	**493.8**	**511.3**	**–3.4**

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

Merck Millipore | Business free cash flow and change by quarter[1]



[1] Quarterly breakdown unaudited