

Healthcare

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Key figures

€ million	2015	2014	Change in %
Net sales ¹	6,933.8	6,620.5	4.7
Operating Result (EBIT)	1,096.7	1,106.4	-0.9
Margin (% of net sales) ¹	15.8	16.7	
EBITDA	1,970.4	1,946.4	1.2
Margin (% of net sales) ¹	28.4	29.4	
EBITDA pre exceptionals	2,001.7	2,000.3	0.1
Margin (% of net sales) ¹	28.9	30.2	
Business free cash flow	1,581.0	1,701.2	-7.1

¹ The composition of net sales has changed, see "Information on segment reporting" in the Notes to the Group accounts.

Development of net sales and results of operations

In 2015, our Healthcare business sector generated slight organic sales growth of 1.6%. Including positive exchange rate effects of 3.1%, net sales rose overall by 4.7% to € 6,934 million (2014: € 6,621 million). Nearly all the franchises contributed to the business sector's organic growth. In 2015, the organic increase in sales was driven in particular by products to treat diabetes (Glucophage®), cardiovascular diseases (Concor®), infertility (Gonal-f®), thyroid disorders (Euthyrox®), as well as Neurobion®, a brand marketed by the Consumer Health business. However, our two top-selling drugs Rebif® and Erbitux® posted organic sales declines.

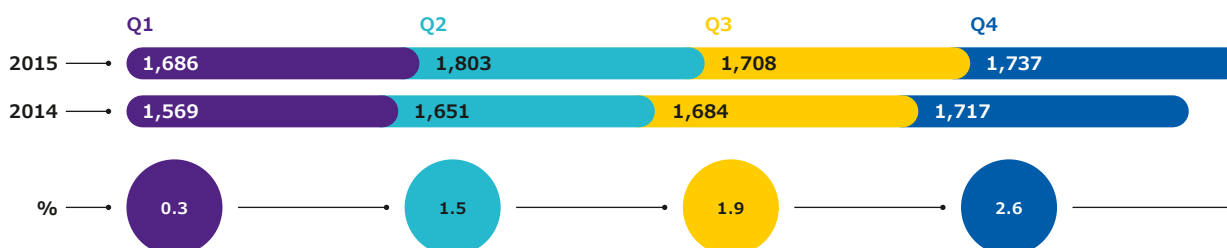
Commission income, which is also included in net sales, rose to € 103 million in 2015 (2014: € 71 million). The agreement reached with Bristol-Myers Squibb in 2013 on the co-promotion of Glucophage® in China had a positive effect on commission income in 2015.

The development of sales in the individual quarters in comparison with 2014 as well as the respective organic growth rates are presented in the following overview:

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Net sales and organic growth by quarter¹

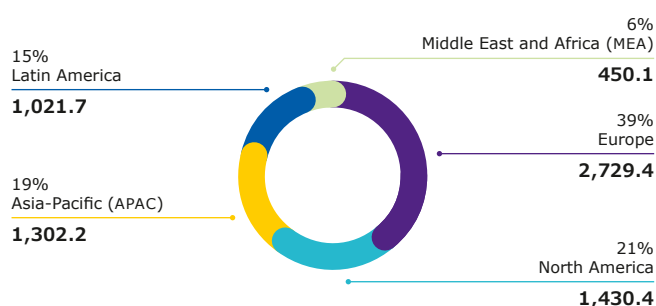
€ million/organic growth in %



¹ Quarterly breakdown unaudited.

HEALTHCARE**Net sales by region – 2015**

€ million/% of net sales of the business sector



In North America, the second-largest region in terms of sales, net sales amounted to € 1,430 million in 2015 (2014: € 1,292 million). This was due to an organic decline of –6.1%, offset by positive currency effects of 16.8%. Sales of Rebi®[®], which increased to € 1,042 million (2014: € 971 million) owing to currency effects, contributed significantly to the business sector's sales performance in North America. The share of Healthcare sales attributable to this region thus rose by one percentage point to 21% in 2015.

In the Asia-Pacific region, organic sales growth of 10.4% was recorded in 2015. Including positive exchange rate effects of 10.7%, sales thus rose to € 1,302 million (2014: € 1,075 million). Organic growth was driven in particular by the Fertility and CardioMetabolic Care franchises. This region's share of the business sector's net sales increased from 16% in 2014 to 19% in 2015.

Europe, our Healthcare business sector's largest region, accounting for 39% of net sales (2014: 42%), recorded a slight organic sales decline of –1.7%. Consequently, net sales totaled € 2,729 million (2014: € 2,787 million). The good sales performance by other franchises could not fully offset the organic decline in sales of Rebi®[®], which was particularly due to the difficult competitive environment.

Sales in Latin America amounted to € 1,022 million in 2015 (2014: € 1,059 million). This reflects an organic sales increase of 8.4% and negative exchange rate effects of –11.8%. Organic sales growth was mainly attributable to the development of sales in the CardioMetabolic Care franchise and of the Neurobion®[®] brand. The negative currency effects mainly stemmed from the translation of the Venezuelan bolivar into the reporting currency, euros. In this connection, reference is made to the explanations in Note [7] "Management judgments and sources of estimation uncertainty" in the Notes to the Group accounts. The contribution by the Latin America region to net sales of our Healthcare business sector fell by one percentage point to 15%.

With net sales of € 450 million (2014: € 408 million), the Middle East and Africa region recorded an organic sales increase of 7.6%, mainly in the CardioMetabolic Care franchise. Positive currency effects increased sales by 2.8%.

HEALTHCARE**Net sales components by region – 2015**

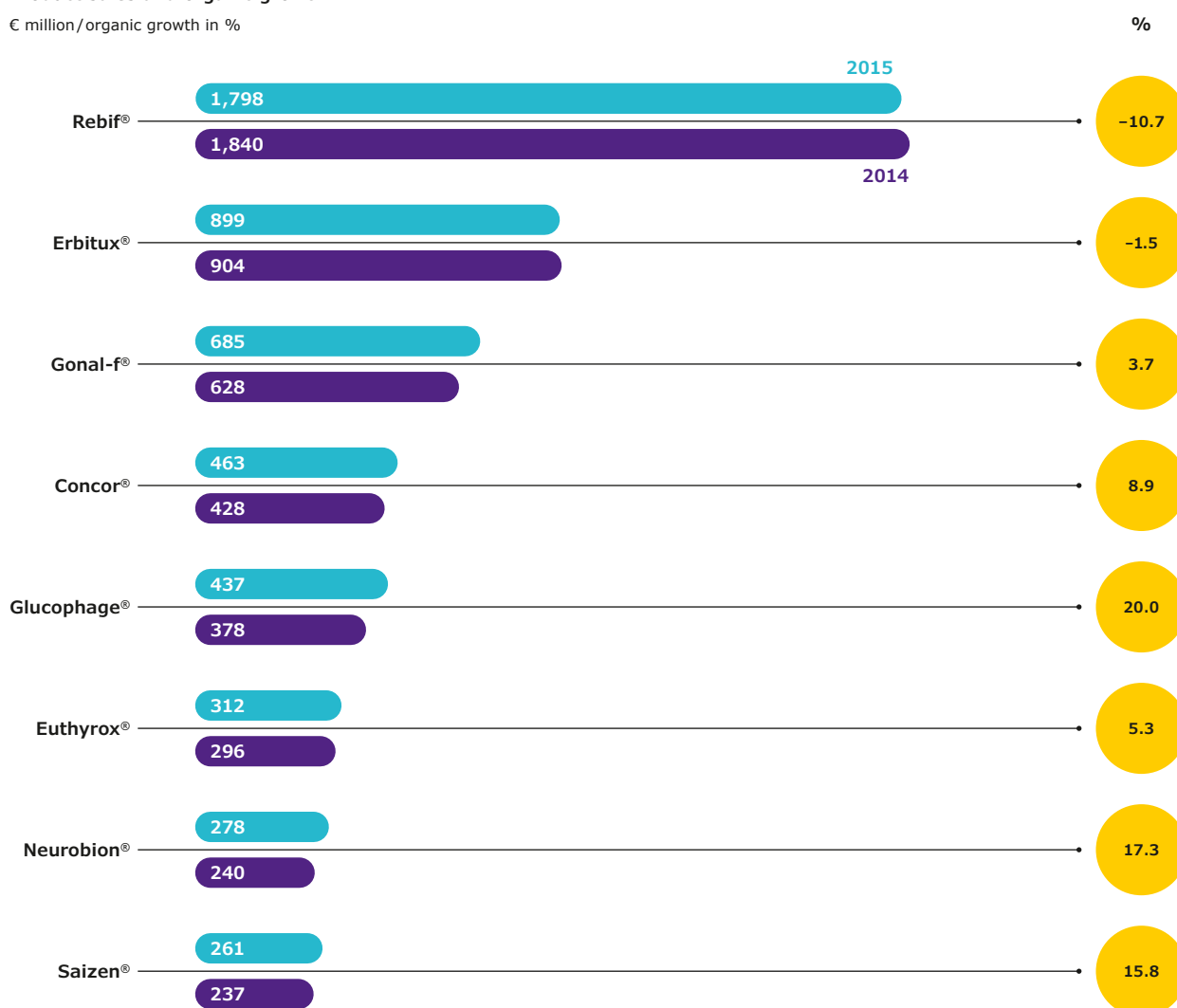
€ million/change in %	Net sales	Organic growth	Exchange rate effects	Acquisitions/divestments	Total change
Europe	2,729.4	-1.7	-0.4	-	-2.1
North America	1,430.4	-6.1	16.8	-	10.7
Asia-Pacific (APAC)	1,302.2	10.4	10.7	-	21.2
Latin America	1,021.7	8.4	-11.8	-	-3.5
Middle East and Africa (MEA)	450.1	7.6	2.8	-	10.5
Healthcare	6,933.8	1.6	3.1	-	4.7

Net sales and organic growth rates of the key products developed in 2015 as follows:

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Product sales and organic growth

€ million/organic growth in %



Sales of Rebif®, which is used to treat relapsing forms of multiple sclerosis, declined organically by –10.7% in 2015 due to continued competitive pressure from oral formulations. Amid currency tailwinds of 8.5%, Rebif® sales amounted to € 1,798 million (2014: € 1,840 million).

North America generated 58% of Rebif® sales (2014: 53%) and is the largest market for this product. Owing to the strength of the U.S. dollar (currency effect: +16.7%), this region reported a strong increase in Rebif® sales to € 1,042 million (2014: € 971 million). Despite price increases in 2015, sales declined organically by –9.4% compared with 2014 due to the difficult market environment.

In Europe, which accounts for 34% of sales (2014: 38%) and is the second-largest region for the product, sales of Rebif® declined organically by –13.0% to € 605 million due to competition (2014: € 698 million).

Together, the remaining regions Latin America, Middle East and Africa, and Asia-Pacific accounted for an 8% share of sales (2014: 9%).

At € 899 million, Group sales of the oncology drug Erbitux® in 2015 were at the previous year's level (2014: € 904 million). The slight organic sales decline of –1.5% was partly offset by positive exchange rate effects of 0.9%.

In Europe, which accounted for 55% (2014: 56%) of Erbitux® sales and is thus the top-selling region for this product, sales declined organically by –1.4%, mainly owing to the competitive situation and customary price decreases. Including negative currency effects (–0.1%), sales amounted to € 496 million (2014: € 504 million).

The Asia-Pacific region, which contributed a 29% (2014: 27%) share of Erbitux® sales, generated an increase in sales to € 265 million (2014: € 240 million). Both organic growth of 1.6% and currency tailwinds of 9.0% had a positive impact on the development of sales.

In Latin America, the business sector generated net sales of € 87 million with Erbitux® (2014: € 112 million). The overall

-22.2% decline in sales was mainly attributable to the negative currency effects in Venezuela and an organic sales decline in Brazil. This region's contribution to total Erbitux® sales thus decreased to 10% (2014: 12%).

In the Middle East and Africa region, sales amounted to € 50 million and were thus slightly higher than in 2014.

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Product sales and organic growth of Rebif® and Erbitux® by region – 2015

	Total	Europe	North America	Asia-Pacific (APAC)	Latin America	Middle East and Africa (MEA)
Rebif®						
€ million	1,798.1	605.3	1,041.5	16.3	76.5	58.5
Organic growth in %	-10.7	-13.0	-9.4	-9.0	-7.4	-11.4
% of sales	100	34	58	1	4	3
Erbitux®						
€ million	898.7	496.4	-	265.2	87.3	49.8
Organic growth in %	-1.5	-1.4	-	1.6	-10.0	1.1
% of sales	100	55	-	29	10	6

In 2015, the Healthcare business sector of our company generated organic sales growth of 3.7% with Gonal-f®, the leading recombinant hormone used in the treatment of infertility. Including positive currency effects, sales rose to € 685 million (2014: € 628 million). Sales of this medicine showed the strongest growth in the Asia-Pacific region. The other products in the Fertility franchise also developed positively.

Sales by the Endocrinology franchise, which mainly consists of products to treat metabolic and growth disorders, amounted to € 461 million, thus considerably exceeding the year-earlier figure of € 394 million. The reported sales increase reflected good organic growth of 9.9% and a positive foreign exchange impact of 7.2%. Sales of the growth hormone Saizen®, the top-selling product of this franchise, saw an organic increase of 6.7% and positive foreign exchange effects of 3.4%. Consequently, sales amounted to € 261 million (2014: € 237 million).

General Medicine (including CardioMetabolic Care), which commercializes products to treat cardiovascular diseases and diabetes, among other things, generated organic sales growth of 7.4%. Including negative foreign exchange effects of -1.2%, mainly in Venezuela, sales amounted to € 1,849 million (2014: € 1,742 million).

Glucophage®, which is used for the treatment of diabetes, also delivered a strong organic sales increase of 20.0%. Including negative foreign exchange effects, sales climbed to € 437 million (2014: € 378 million). Organic sales growth was mainly achieved in Europe and the Middle East and Africa region.

In 2015, the Consumer Health business delivered a very strong organic increase of 10.2% with sales of over-the-counter pharmaceuticals. Including negative exchange rate effects of -1.4%, sales amounted to € 833 million (2014: € 766 million). Organic sales growth was mainly generated in Latin America. Here, the growth rate was 11.6% and was especially bolstered by demand for the strategic brands Neurobion® and Dolo-Neurobion®, as well as local brands.

The results of operations developed as follows:

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Result of operations¹

€ million	2015		2014		Change	
	€ million	in %	€ million	in %	€ million	in %
Net sales	6,933.8	100.0	6,620.5	100.0	313.3	4.7
Cost of sales	-1,442.4	-20.8	-1,370.5	-20.7	-71.9	5.3
<i>(of which: amortization of intangible assets)²</i>	<i>(-0.9)</i>		<i>(-)</i>		<i>(-0.9)</i>	<i>(-)</i>
Gross profit	5,491.4	79.2	5,250.0	79.3	241.4	4.6
Marketing and selling expenses	-2,801.3	-40.4	-2,550.8	-38.5	-250.5	9.8
<i>(of which: amortization of intangible assets)²</i>	<i>(-565.8)</i>		<i>(-555.4)</i>		<i>(-10.4)</i>	<i>(1.9)</i>
Administration expenses	-259.4	-3.7	-246.9	-3.7	-12.5	5.1
Research and development costs	-1,310.1	-18.9	-1,366.0	-20.6	55.9	-4.1
<i>(of which: amortization of intangible assets)²</i>	<i>(-1.5)</i>		<i>(-1.0)</i>		<i>(-0.5)</i>	<i>(50.0)</i>
Other operating expenses and income	-23.9	-0.3	20.1	0.3	-44.0	-
Operating result (EBIT)	1,096.7	15.8	1,106.4	16.7	-9.7	-0.9
Depreciation/amortization/impairment losses/ reversals of impairment losses	873.7	12.6	840.0	12.7	33.7	4.0
<i>(of which: exceptionals)</i>	<i>(90.3)</i>		<i>(4.7)</i>		<i>(85.6)</i>	<i>-</i>
EBITDA	1,970.4	28.4	1,946.4	29.4	24.0	1.2
Restructuring costs	30.4		51.5		-21.1	-40.8
Integration costs/IT costs	0.9		2.4		-1.5	-61.6
Gains/losses on the divestment of businesses	-		-		-	-
Acquisition-related exceptionals	-		-		-	-
Other exceptionals	-		-		-	-
EBITDA pre exceptionals	2,001.7	28.9	2,000.3	30.2	1.4	0.1

¹The reporting structure has changed, see "Information on segment reporting" in the Notes to the Group accounts.

²Excluding amortization of internally generated or separately acquired software.

Gross profit of our Healthcare business sector rose by € 241 million to € 5,491 million (2014: € 5,250 million), resulting in a gross margin of 79.2% (2014: 79.3%). Due to ongoing investments in growth markets as well as currency effects, marketing and selling expenses were higher in 2015 than in 2014.

The business sector's research spending ratio decreased to 18.9% (2014: 20.6%). The decline in research and development costs was mainly due to one-time effects in connection with the discontinuation of clinical development projects that had increased research and development costs in 2014.

The development of other operating expenses and income (net) in 2015 was mainly due to one-time effects in 2014. On the one hand, the adjustment of provisions for litigation fol-

lowing the settlement with Israel Bio-Engineering Project Limited Partnership (IBEP) led to higher income in 2014 whereas, on the other hand, the discontinuation of the aforementioned clinical development projects led to impairments of intangible assets. In 2015, income generated in connection with the alliance entered into with Pfizer in 2014 to co-develop and co-commercialize active ingredients in immuno-oncology had a positive impact.

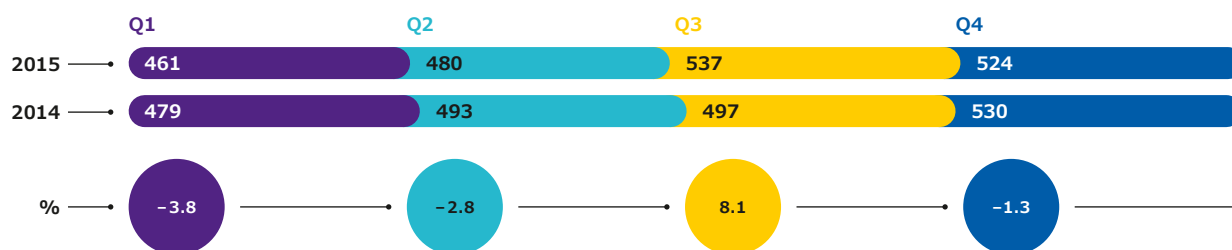
After adjusting for depreciation, amortization and exceptionals, EBITDA pre exceptionals, the key financial indicator used to steer operating business, amounted to € 2,002 million (2014: € 2,000 million), which was thus at the previous year's level. The EBITDA margin pre exceptionals declined to 28.9% (2014: 30.2%).

The development of EBITDA pre exceptionals in the individual quarters in comparison with 2014 is presented in the following overview:

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EBITDA pre exceptionals and change by quarter¹

€ million/change in %



¹Quarterly breakdown unaudited.

Development of business free cash flow

In 2015, business free cash flow of our Healthcare business sector amounted to € 1,581 million, falling short of the previ-

ous year's level of € 1,701 million. The decline of € 120 million was mainly due to higher investments and the high amount of capital tied up in receivables.

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Business free cash flow

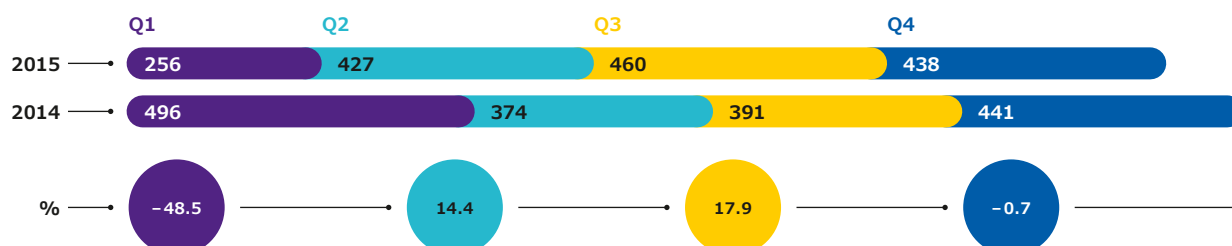
€ million	2015	2014	Change in %
EBITDA pre exceptionals	2,001.7	2,000.3	0.1
Investments in property, plant and equipment, software as well as advance payments for intangible assets	-289.1	-240.0	20.4
Changes in inventories	-26.7	-42.4	-37.0
Changes in trade accounts receivables as well as receivables from royalties and licenses	-104.9	-16.7	-
Business free cash flow	1,581.0	1,701.2	-7.1

The development of business free cash flow in the individual quarters in comparison with 2014 is presented in the following overview:

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Business free cash flow and change by quarter¹

€ million/change in %



¹Quarterly breakdown unaudited.