

REPORT ON ECONOMIC POSITION

Macroeconomic and Sector-Specific Environment

The development of our net sales in 2015 was influenced by general global trends and by the growing importance of the Asia-Pacific region (APAC). In 2015, the APAC region accounted for approximately 56% of the organic growth in Group sales. All business sectors made positive contributions to the overall organic sales growth of the APAC region. In 2015, Healthcare and Performance Materials generated the APAC region’s largest share of sales in absolute terms. At 10.4%, the highest organic sales growth in the region was achieved by Healthcare. Life Science and Performance Materials followed far behind, with organic growth rates of 5.5% and 0.8%, respectively.

According to the most recent report by the International Monetary Fund (IMF), the recovery in industrialized countries continued in 2015, whereas economic activity in emerging economies and developing countries weakened for the fifth year in a row. The IMF reported that global gross domestic product (GDP) rose by 3.1% in 2015, representing a decrease of 0.3 percentage points compared with 2014. While

industrialized countries generated an increase of 1.9%, at 4.0% emerging economies again made the largest contribution to global growth.

According to the latest information, in 2015 the GDP of the United States, the world’s largest economy, grew by 2.5% (2014: 2.4%), which was 0.6 percentage points short of the 2014 forecast. Growth in the United States slowed down in 2015 due to a decline in investment spending by the oil industry and a harsh winter. For the eurozone, the IMF noted a 1.5% increase in GDP in 2015 (2014: 0.9%). In Asia (excluding Japan), GDP grew in 2015 by 6.6% (2014: 6.8%). India (7.3%) and China (6.9%) made noteworthy contributions to this development. Japan, South Korea and Taiwan remained behind the previous year’s growth expectations. However, with GDP growth of 0.6%, Japan returned to positive territory (2014: 0.0%). By contrast, economic activity slightly weakened in South Korea, with GDP growth of 2.7% (2014: 3.3%) and in Taiwan, with growth of 2.2% (2014: 3.8%).

	Development in 2015 ¹	Development in 2014
Healthcare		
Global pharmaceutical market	8.9%	8.7%
Market for multiple sclerosis therapies ²	8.0%	19.0%
Market for type 2 diabetes therapies ²	2.0%	9.0%
Market for infertility treatment ²	-7.0%	1.0%
Market for the treatment of colorectal cancer ²	-1.7%	-5.8%
Market for OTC pharmaceuticals	4.9%	4.0%
Life Science		
Market for laboratory products	3.0%	2.8%
Share of biopharmaceuticals in the global pharmaceutical market	24.0%	23.0%
Performance Materials		
Growth of LC display surface area	declining growth dynamics	13.8%
Global automobile sales volumes	slightly weaker growth	4.0%
Materials for production of cosmetics	2.0%	1.8%
Semiconductor industry sales	sales at the previous year’s level	8.0%

¹ Predicted development. Final development data for 2015 were not available for all industries when this report was prepared.

² Growth figures are based on market data stated in U.S. dollars. Market data from EvaluatePharma on the growth of indications are based on published company reports and are subject to exchange rate fluctuations.

Owing to the development of the €/US\$ exchange rate in 2014–2015, market growth in U.S. dollars is weaker than when viewed in terms of euros.

Healthcare

The IMS Health Global Market Prognosis 2015–2019, a study published by IMS Health, expects an 8.9% increase in sales for the global pharmaceutical market in 2015 (2014: 8.7%). This sales increase is primarily attributable to Latin America and the United States. The U.S. pharmaceutical market saw growth of 11.4% (2014: 12.6%) and in Latin America, growth was as high as 15.8% (2014: 11.6%). At 7.0%, growth of the Chinese market was weaker compared with the previous year (2014: 11.2%). However, at 5.8%, European market growth continued (2014: 4.1%).

Not only the growth of the pharmaceutical sector as a whole, but also in particular the development of the biopharmaceutical market are relevant for our business. According to EvaluatePharma, the share of sales accounted for by biopharmaceuticals as a proportion of the overall pharmaceutical market has steadily increased since 2006, amounting to 24.0% in 2015. In absolute terms, global biopharmaceutical sales amounted to around US\$ 183 billion in 2015. For the coming years, EvaluatePharma continues to expect increasing sales of biopharmaceuticals. It is also likely that the trend towards biopharmaceuticals making up an ever greater share of the overall pharmaceutical market will continue.

According to EvaluatePharma, among our therapeutic areas of focus, particularly the markets for multiple sclerosis therapies and type 2 diabetes treatments showed the highest growth, increasing by 8.0% (2014: 19.0%) and 2.0% (2014: 9.0%), respectively. Moreover, it should be emphasized that the market for infertility treatments recorded a sales decline of –7.0% (2014: 1.0%). Despite this difficult environment, the Biopharma business generated an organic sales increase of around 3.7% with Gonal-f®, a hormone used in the treatment of infertility. In 2015, the market for oncology drugs to treat colorectal cancer declined by a further 1.7% in comparison with the previous year (2014: –5.8%).

In a market study, the company Nicholas Hall quantified growth of the global over-the-counter pharmaceutical market at 4.9% in 2015 (2014: 4.0%). The market growth drivers were India at 8.9% (2014: 9.0%) as well as Latin America at 7.0% (2014: 8.2%). The Japanese and western European markets showed the weakest growth dynamics of 0.2% and 3.3%, respectively.

Life Science

Our Life Science business sector is a leading supplier of products and services for general laboratory applications, as well as researching, developing and producing drug therapies of biological and chemical origin.

For the global laboratory product market relevant to Bioscience and Lab Solutions, the market research firm Frost & Sullivan calculated growth of 3.0% for 2015 (2014: 2.8%). Growth was primarily driven by biopharmaceutical industry customers, specifically emerging biotech start-ups. The stabilization of U.S. academic funding also helped to improve the

performance and prospects of research tools markets. In comparison with 2014, the European market grew by 1.9% (2014: 1.6%), especially as a result of positive market developments from the EU Research and Innovation program Horizon 2020. Growth of the U.S. market improved to 3.2% (2014: +3.0%) thanks to the robust performance of the biotech industry. Emerging economies delivered higher growth; however, a slowdown in China was visible.

The demand for Process Solutions products depends heavily on the volume of biological product sales as well as the research & development activities of biopharmaceutical companies. Global biopharmaceuticals are approaching US\$ 200 billion in sales and are expected to double by 2020. According to EvaluatePharma, there are more than 7,500 active biologics projects in the pipeline, 25% of which are monoclonal antibodies. Biosimilars are a small, but fast-growing part of the pharmaceutical market. In 2015, IMS expects spending on biosimilars to reach US\$ 2 billion annually, or approximately 1% of total global spending on biologics.

Performance Materials

With our Liquid Crystals business, we are the leading producer of liquid crystal mixtures for the display industry. Based on data collected by market researchers at DisplaySearch, in recent years the display industry has achieved growth rates in display surface areas averaging 10%. This dynamic growth was driven by higher sales volumes and increasing average display sizes. Owing to weak demand for televisions, 2015 saw waning growth dynamics. The display industry remains a growth sector in which the leading display technology is based on liquid crystals. OLED technology, for which we also rank among the leading material suppliers, is gaining importance in the high-quality display sector.

The markets for automotive coatings and cosmetics are crucial to our Pigments business. As reported by the German Automobile Industry Association (VDA), global automobile sales increased by 4% in 2014. The growth drivers were China (+13%), the United States (+6%) and western Europe (+5%), whereas automotive sales volumes declined in Latin America and eastern Europe. Owing to the weakening of economic activity in China, global growth of the automotive industry is expected to come in slightly weaker in 2015. According to Euromonitor International, global consumption of materials used to produce cosmetics grew by 2%, with Asia reporting the highest growth rate of 5%.

The semiconductor industry is the most important sales market for the business with integrated circuit materials (IC Materials). The long-term growth of the semiconductor industry has a cyclical demand pattern. According to Gartner, a market research institute specializing in the technology and electronics markets, in 2015 the industry's sales were at the previous year's level as a result of declining demand in the PC business. In 2014, dynamic growth of 8% was recorded.

REVIEW OF FORECAST AGAINST ACTUAL BUSINESS DEVELOPMENTS

In the Annual Report for 2014, we gave forecasts of the key financial performance indicators for the Group and our business sectors for 2015. At the time of the forecast, the acquisition of Sigma-Aldrich was still pending due to outstanding antitrust clearances. We therefore provided a separate forecast in the event of the successful acquisition of Sigma-Aldrich, in which we expected the first-time consolidation of Sigma-Aldrich in mid-2015. The following report reviews the forecast against the actual business developments, including the first-time consolidation of Sigma-Aldrich on November 18, 2015.

Net sales

We predicted slight organic sales growth for the Group in 2015, supplemented by a slight portfolio effect and a moderately positive exchange rate effect. All business sectors contributed significantly to the moderate 2.6% organic increase in the net sales of the Group, thus exceeding the forecast. In addition, despite the delay in the acquisition of Sigma-Aldrich owing to antitrust reviews, we recorded a solid portfolio effect of 4.3%, in part due to the good performance of AZ Electronic Materials, a company we acquired in 2014. The strengthening of the U.S. dollar and major Asian currencies against the euro in 2015 contributed significantly to the strong positive currency effect of 6.2% on net sales.

Our Healthcare business sector generated slight organic sales growth of 1.6% in 2015, thus slightly exceeding the guidance provided in the Annual Report for 2014. In addition to the performance of Rebif® in North America, which exceeded our expectations, this was due to the organic increase in sales of our products to treat diabetes (Glucophage®), cardiovascular diseases (Concor®), infertility (Gonal-f®), and thyroid disorders (Euthyrox®), as well as Neurobion®, a brand marketed by the Consumer Health business.

For our Life Science business sector, we forecast a moderate organic increase in sales in the Annual Report for 2014. Posting strong organic sales growth of 6.5% in 2015, the Life Science business sector of our company exceeded this forecast. Process Solutions made a significant contribution to this development with organic sales growth of 11.6%. In addition, our Life Science business sector saw a portfolio effect of 10.2% due to the acquisition of Sigma-Aldrich.

For our Performance Materials business sector, we predicted slight organic sales growth, supplemented by a strong portfolio effect. At 0.6%, the actual organic growth was only slightly below this forecast. Special mention should be made of the dynamic development of the OLED materials business, as well as the energy-saving UB-FFS technology from the Display Materials business unit. However, the mature LC technology TN-TFT suffered from an accelerated decline in volumes. The portfolio effect of the revenues from acquired businesses was 10.4%.

EBITDA pre exceptionals

In 2015, excluding the acquisition of Sigma-Aldrich, EBITDA pre exceptionals of the Group saw a solid increase over the previous year, thus exceeding the forecast we gave in the Annual Report for 2014. In addition, apart from operating performance, positive foreign exchange effects of the U.S. dollar and major Asian currencies contributed to this development. Including Sigma-Aldrich, we generated a strong EBITDA pre exceptionals increase of 7.1% to € 3,630 million for the Group in 2015.

For our Healthcare business sector, we predicted a slight decline in EBITDA pre exceptionals in the Annual Report for 2014. The good development of organic sales helped us to exceed this forecast, achieving the year-earlier level with EBITDA pre exceptionals of € 2,002 million.

In the Annual Report for 2014, we predicted a moderate increase for our Life Science business sector. Excluding Sigma-Aldrich, EBITDA pre exceptionals of our Life Science business sector saw a low double-digit increase, thus exceeding our guidance provided in the Annual Report for 2014. In addition to positive exchange rate effects, this development was also attributable to a favorable product mix.

We forecast a low double-digit increase in EBITDA pre exceptionals for our Performance Materials business sector in 2015. With medium double-digit growth (excluding Sigma-Aldrich), we significantly exceeded this forecast. Both good operating business performance and positive exchange rate effects were responsible for this development.

For EBITDA pre exceptionals of Corporate and Other, we expected a low double-digit percentage decline. Owing to expenses for currency hedging transactions as a result of the global exchange rate movements against the euro and the intensification of future-oriented Group initiatives (e.g. new branding), the Corporate and Other expense of EBITDA pre exceptionals more than doubled overall. Consequently, we did not meet our forecast.

Business free cash flow

For 2015, we had forecast a slight improvement in business free cash flow of the Group. Excluding the contribution from Sigma-Aldrich, we can confirm this forecast. While business free cash flows of the Life Science and Performance Materials business sectors of our company showed a sharp increase over 2014, both our Healthcare business sector and Corporate and Other saw a decline. The decrease in Healthcare is attributable to higher investments and the high amount of capital tied up in receivables. In Corporate and Other, expenses for the ONE Global Headquarters and strategic Group initiatives in particular led to a decrease in business free cash flow. Including Sigma-Aldrich, our Group business free cash flow increased sharply by 6.2%.

Review of forecast against actual business developments in 2015

Group	Actual results 2014 in € million	Forecast for 2015 in the Annual Report for 2014
Net sales ¹	11,363	Slight organic growth, slight portfolio effect, moderately positive foreign exchange effect Forecast incl. Sigma-Aldrich: Double-digit growth rates
EBITDA pre exceptionals	3,388	Slight increase due to operating business developments and positive foreign exchange effects; at least at the 2014 level Forecast incl. Sigma-Aldrich: Very strong growth
Business free cash flow	2,605	Slight increase Forecast incl. Sigma-Aldrich: Very strong growth
Healthcare		
Net sales ¹	6,621	Organic at the previous year's level
EBITDA pre exceptionals	2,000	Slight decline
Business free cash flow	1,701	Slight decline
Life Science		
Net sales ¹	2,682	Moderate organic growth Forecast incl. Sigma-Aldrich: Double-digit growth rates
EBITDA pre exceptionals	659	Moderate increase Forecast incl. Sigma-Aldrich: Double-digit growth rates
Business free cash flow	419	Strong increase Forecast incl. Sigma-Aldrich: Double-digit growth rates
Performance Materials		
Net sales ¹	2,060	Slight organic increase, strong portfolio effect
EBITDA pre exceptionals	895	Low double-digit percentage increase
Business free cash flow	700	Low double-digit percentage increase
Corporate and Other		
EBITDA pre exceptionals	-166	Double-digit percentage decline
Business free cash flow	-215	-

¹The composition of net sales has changed, see "Changes to accounting and measurement principles and disclosure changes" in the Notes to the Group accounts.

Forecast for 2015 in:

Q1/2015 Interim Report	Q2/2015 Interim Report	Q3/2015 Interim Report	Results 2015 in € million (% YoY)
€ 12.3–12.5 billion Forecast incl. Sigma-Aldrich: Double-digit growth rates	€ 12.3–12.5 billion Forecast incl. Sigma-Aldrich: Low double-digit percentage growth	€ 12.6–12.8 billion, of which Sigma-Aldrich: € 300 million	12,845 (+13.0% +2.6% org. +4.3% portfolio, +6.2% currency)
€ 3.45–3.55 billion Forecast incl. Sigma-Aldrich: Double-digit growth rates	€ 3.45–3.55 billion Forecast incl. Sigma-Aldrich: Low double-digit percentage growth	€ 3.58–3.65 billion, of which Sigma-Aldrich: € 80–95 million	3,630 (+7.1%)
€ 2.4–2.5 billion Forecast incl. Sigma-Aldrich: Strong growth	€ 2.4–2.5 billion Forecast incl. Sigma-Aldrich: Stable development	€ 2.6–2.7 billion, of which Sigma-Aldrich: € 50–70 million	2,766 (+6.2%)
Organic at the previous year's level	Organic at the previous year's level	Organic at the previous year's level	6,934 (+4.7% +1.6% org. +3.1% currency)
€ 1.9–2.0 billion	€ 1.9–2.0 billion	€ 1.93–2.0 billion	2,002 (+0.1%)
€ 1.5–1.55 billion	€ 1.5–1.55 billion	€ 1.5–1.55 billion	1,581 (–7.1%)
Moderate organic growth Forecast incl. Sigma-Aldrich: Double-digit growth rates € 730–760 million	Moderate organic growth Forecast incl. Sigma-Aldrich: Double-digit growth rates € 740–760 million	Solid organic growth, portfolio effect in the low double-digit percentage range € 760–780 billion, in addition from Sigma-Aldrich: € 80–95 million	3,355 (+25.1% +6.5% org. +10.2% portfolio, +8.4% currency)
Forecast incl. Sigma-Aldrich: Double-digit growth rates € 450–480 million	Forecast incl. Sigma-Aldrich: Double-digit growth rates € 450–480 million	€ 530–560 million, in addition from Sigma-Aldrich: € 50–70 million	856 (+30.0%) 676 (+61.2%)
Slight organic increase, strong portfolio effect € 1.05–1.1 billion	Slight organic increase, strong portfolio effect € 1.06–1.1 billion	Slight organic increase, strong portfolio effect € 1.1–1.14 billion	2,556 (+24.1% +0.6% org. +10.4% portfolio, +13.1% currency)
€ 850–900 million	€ 850–900 million	€ 890–940 million	1,132 (+26.5%) 931 (+33.0%)
€ –330– –280 million	€ –350– –300 million	€ –360– –340 million	–360 (+116.9%)
€ –420– –390 million	€ –420– –390 million	€ –440– –410 million	–421 (+96.2%)

COURSE OF BUSINESS AND ECONOMIC POSITION

Group

Overview of 2015

- Sales increase by 13.0% to € 12.8 billion
- All business sectors report organic sales growth
- EBITDA pre exceptionals up 7.1% to around € 3.6 billion
- Earnings per share pre exceptionals rise 5.9% to € 4.87
- Business free cash flow increases by 6.2% to € 2.8 billion
- Healthcare: Robust base business; cooperation with Pfizer developing according to plan
- Life Science: Strong and profitable organic sales growth amid successful completion of the Sigma-Aldrich acquisition
- Performance Materials: Market positions in all businesses successfully defended with organic sales at 2014 level
- Corporate objectives for 2015 met in full

GROUP

Key figures

€ million	2015	2014	Change in %
Net sales ¹	12,844.7	11,362.8	13.0
Operating result (EBIT)	1,843.2	1,762.0	4.6
Margin (% of net sales) ¹	14.3	15.5	
EBITDA	3,354.1	3,122.9	7.4
Margin (% of net sales) ¹	26.1	27.5	
EBITDA pre exceptionals	3,629.8	3,387.7	7.1
Margin (% of net sales) ¹	28.3	29.8	
Earnings per share (€)	2.56	2.66	-3.8
Earnings per share pre exceptionals (€)	4.87	4.60	5.9
Business free cash flow	2,766.2	2,605.1	6.2

¹The composition of net sales has changed, see "Changes to accounting and measurement principles and disclosure changes" in the Notes to the Group accounts.

Development of net sales and results of operations

In 2015, we generated net sales of € 12,845 million (2014: € 11,363 million), representing an increase of 13.0% or € 1,482 million over 2014. This positive sales development was due to organic growth, positive exchange rate effects and acquisition-related increases. In 2015, the organic increase in sales amounted to 2.6% or € 293 million. As a consequence of the weaker value of the euro against the most important currencies, this led to net positive exchange rate effects of 6.2% or € 702 million. This was primarily due to the U.S. dollar and Asian currencies, especially the Chinese renminbi and the Taiwan dollar. Negative exchange rate effects resulted mainly from Latin American currencies, for instance

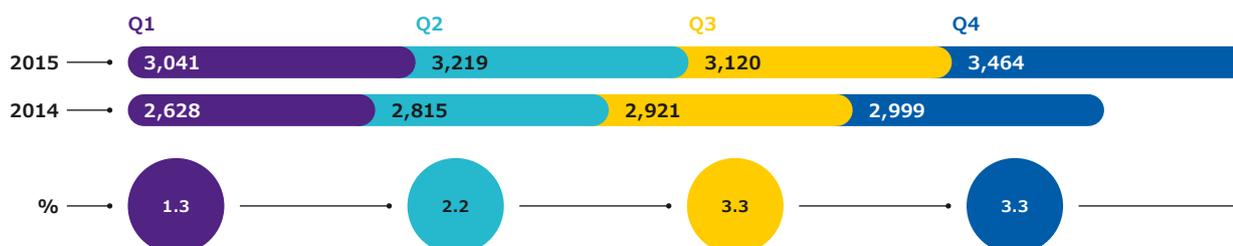
the Venezuelan bolivar and the Brazilian real. Acquisitions/divestments increased net sales overall by 4.3% or € 487 million. The acquisition-related effect from the first-time consolidation of AZ Electronic Materials (AZ) on May 2, 2014 amounted to € 203 million. The increase in sales due to the consolidation of Sigma-Aldrich since November 18, 2015 totaled € 289 million. Of this amount, € 279 million was generated by our Life Science business sector and € 10 million by our Performance Materials business sector. Subsequent to the divestment of the Discovery and Development Solutions business field in our Life Science business sector as of March 31, 2014, net sales declined by € 5 million compared with the previous year.

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

GROUP

Net sales and organic growth by quarter¹

€ million/organic growth in %



¹ Quarterly breakdown unaudited.

In 2015, Healthcare accounted for 54% (2014: 58%) of our total Group sales and thus remained our largest business sector in terms of sales. Life Science and Performance Materials followed behind, contributing 26% (2014: 24%) and 20% (2014: 18%) to Group sales, respectively. The respective two percentage-point increases in the share of sales accounted for by both Life Science and Performance Materials were mainly related to the acquisitions of Sigma-Aldrich and AZ.

GROUP

Net sales by business sector – 2015

€ million/% of net sales



GROUP

Net sales components by business sector – 2015

€ million/change in %	Net sales	Organic growth	Exchange rate effects	Acquisitions/divestments	Total change
Healthcare	6,933.8	1.6	3.1	-	4.7
Life Science	3,355.3	6.5	8.4	10.2	25.1
Performance Materials	2,555.6	0.6	13.1	10.4	24.1
Group	12,844.7	2.6	6.2	4.3	13.0

All our business sectors recorded organic sales increases and positive exchange rate effects in 2015. Achieving an organic growth rate of 6.5%, which corresponded to an absolute increase of € 173 million, Life Science made the strongest absolute contribution to organic sales growth, followed by Healthcare with organic sales growth of € 106 million, equivalent to a growth rate of 1.6%, and Performance Materials with € 13 million, or 0.6%. The overall change in net sales reflects the benefits of positive exchange rate effects and sales contributions from the acquired businesses. Driven mainly by the first-time consolidation of Sigma-Aldrich, Life Science delivered a growth rate of 25.1% or € 673 million, the strongest sales increase among our business sectors.

Driven by positive exchange rate movements and acquisition-related growth, sales in the Asia-Pacific region rose by 23.2% or € 798 million to € 4,241 million (2014: € 3,443 million). Asia-Pacific thus became our top-selling region and the growth engine of the Group; more than half of total sales growth in 2015 was generated in this region. In particular, Performance Materials benefited in this region from positive currency effects and the consolidation of AZ Electronic Materials. All business sectors contributed to organic growth of 4.7%, although this development was mainly attributable to Healthcare, which reported organic growth of 10.4%. The contribution to Group sales by the Asia-Pacific region rose by three percentage points to 33% (2014: 30%).

Sales generated in Europe grew by 2.1% to € 4,103 million (2014: € 4,017 million). While the Life Science (+12.7%) and Performance Materials (+6.5%) business sectors achieved sales growth, Healthcare posted a sales decline (-2.1%). Overall, this region's contribution to Group sales in 2015 declined to 32% (2014: 36%).

GROUP

Net sales by region – 2015

€ million / % of net sales



Sales in North America amounted to € 2,723 million (2014: € 2,152 million), which represents a year-on-year increase of 26.5%. This was due in particular to favorable currency effects from the strong U.S. dollar and acquisition-related sales increases that were primarily attributable to the acquisition of Sigma-Aldrich. The organic growth generated by our Life Science business sector (+8.5%) was canceled out by the organic sales declines in the other two business sectors. The contribution to Group sales by this region in 2015 was 21%, representing an increase of two percentage points (2014: 19%).

In Latin America, Group sales decreased slightly owing to currency effects to € 1,265 million (2014: € 1,285 million). Negative exchange rate effects stemmed mainly from the change in 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. All business sectors contributed to organic sales growth of 8.6%. In 2015, Latin America generated 10% (2014: 11%) of Group sales.

Net sales in the Middle East and Africa region rose in 2015 by 10.1%, amounting to € 513 million (2014: € 466 million). Organic sales growth of 6.8% was mainly attributable to our Healthcare business sector. This region accounted for an unchanged 4% of Group sales.

GROUP

Net sales components by region – 2015

€ million/change in %	Net sales	Organic growth	Exchange rate effects	Acquisitions/ divestments	Total change
Europe	4,102.7	0.2	0.2	1.8	2.1
North America	2,722.9	-0.9	17.9	9.6	26.5
Asia-Pacific (APAC)	4,240.8	4.7	12.6	5.9	23.2
Latin America	1,265.3	8.6	-10.5	0.4	-1.5
Middle East and Africa (MEA)	513.0	6.8	2.5	0.8	10.1
Group	12,844.7	2.6	6.2	4.3	13.0

The consolidated income statement of the Group is as follows:

GROUP

Consolidated Income Statement¹

€ million	2015		2014		Change	
	in € million	in %	in € million	in %	in € million	in %
Net sales	12,844.7	100.0	11,362.8	100.0	1,481.9	13.0
Cost of sales	-4,076.3	-31.7	-3,526.4	-31.0	-549.9	15.6
<i>(of which: amortization of intangible assets)²</i>	<i>(-166.6)</i>		<i>(-94.0)</i>		<i>(-72.6)</i>	<i>(77.3)</i>
Gross profit	8,768.4	68.3	7,836.4	69.0	932.0	11.9
Marketing and selling expenses	-4,049.5	-31.5	-3,589.1	-31.6	-460.4	12.8
<i>(of which: amortization of intangible assets)²</i>	<i>(-778.9)</i>		<i>(-719.0)</i>		<i>(-59.9)</i>	<i>(8.4)</i>
Administration expenses	-719.9	-5.6	-608.6	-5.4	-111.3	18.3
Research and development costs	-1,709.2	-13.3	-1,703.7	-15.0	-5.5	0.3
<i>(of which: amortization of intangible assets)²</i>	<i>(-2.7)</i>		<i>(-3.8)</i>		<i>(1.1)</i>	<i>(-30.5)</i>
Other operating expenses and income	-446.6	-3.5	-173.0	-1.5	-273.6	158.2
Operating result (EBIT)	1,843.2	14.3	1,762.0	15.5	81.2	4.6
Financial result	-356.7	-2.8	-205.0	-1.8	-151.7	74.0
Profit before income tax	1,486.5	11.6	1,557.0	13.7	-70.5	-4.5
Income tax	-368.0	-2.9	-392.2	-3.5	24.2	-6.2
Profit after tax from continuing operations	1,118.5	8.7	1,164.8	10.3	-46.3	-4.0
Profit after tax from discontinued operations	5.6	-	-	-	5.6	-
Profit after tax	1,124.1	8.8	1,164.8	10.3	-40.7	-3.5
Non-controlling interests	-9.3	-0.1	-7.5	-0.1	-1.8	25.1
Net income	1,114.8	8.7	1,157.3	10.2	-42.5	-3.7

¹The reporting structure has changed, see "Changes to accounting and measurement principles and disclosure changes" in the Notes to the Group accounts.

²Excluding amortization of internally generated or separately acquired software.

The increase in cost of sales as well as other functional costs, for example marketing and selling expenses and administration expenses, was significantly influenced by exchange rate effects and the first-time consolidation of Sigma-Aldrich. Despite the rise in cost of sales to € 4,076 million (2014: € 3,526 million), gross profit saw a double-digit increase (+11.9%) to € 8,768 million. Gross margin, i.e. gross profit as a percentage of sales, declined slightly to 68.3% (2014: 69.0%).

In 2015, research and development costs were at the previous year's level. Healthcare, which is the Group's most research-intensive business sector, accounted for 77% (2014: 80%) of Group-wide R&D spending. The Group research spending ratio (research and development costs as a percentage of sales) declined to 13.3% (2014: 15.0%). Our research spending ratio in our Healthcare business sector was 18.9% (2014: 20.6%).

GROUP

Research and development costs by business sector – 2015

€ million/in %



In 2015, other operating expenses and income (net) amounted to € -447 million (2014: € -173 million) and comprised expenses of € 917 million (2014: € 737 million) as well as income of € 471 million (2014: € 564 million). The increase in other operating expenses was primarily due to exchange rate losses in operating business and higher allowances for receivables. The decrease in other operating income was mainly due to one-time income in 2014 from the adjustment of provisions for litigation with Israel Bio-Engineering Project Limited Partnership ("IBEP"). This effect could not be offset by higher income from milestone payments largely attributable to the alliance entered into with Pfizer in November 2014 to co-develop and co-commercialize active ingredients in immunology. Further information about the development and composition of other operating expenses and income can be found in Note [12] "Other operating income" and Note [13] "Other operating expenses" in the Notes to the Group accounts.

Overall, our operating result (EBIT) increased by 4.6% to € 1,843 million.

In 2015, the negative financial result grew by € 152 million to € -357 million (2014: € -205 million), particularly owing to higher interest expenses in connection with the financing measures for the Sigma-Aldrich acquisition. Furthermore, we incurred higher exchange rate losses from financial transactions that burdened the financial result more strongly than in 2014 (see Note [14] "Financial result" in the Notes to the Group accounts).

Income tax expenses of € 368 million (2014: € 392 million) led to a tax ratio of 24.8% (2014: 25.2%). Further information about income taxes can be found in Note [15] "Income taxes" in the Notes to the Group accounts.

Profit after tax of discontinued operations comprises the business activities of Sigma-Aldrich acquired with a view to resale. As a consequence of the antitrust commitments imposed by the European Commission, our company and Sigma-Aldrich had agreed to sell parts of Sigma-Aldrich's solvents and inorganics business in Europe (see also Note [4] "Acquisitions, assets held for sale and disposal groups" in the Notes to the Group accounts).

Net income, i.e. profit after tax attributable to our shareholders, for 2015 was € 1,115 million (2014: € 1,157 million), resulting in earnings per share of € 2.56 (2014: € 2.66).

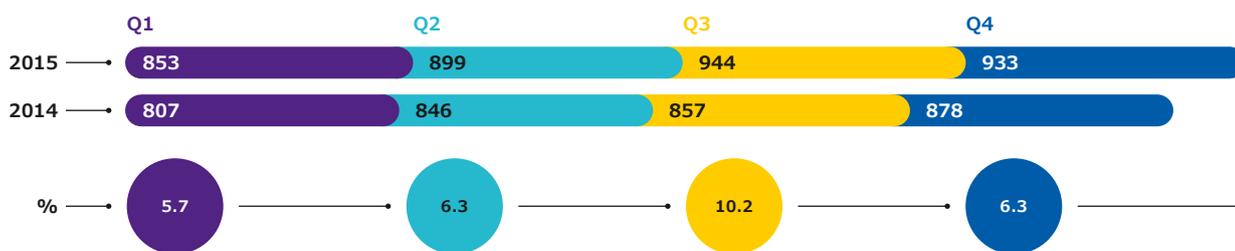
The key financial indicator used to steer operating business, EBITDA pre exceptionals, climbed 7.1% to € 3,630 million (2014: € 3,388 million). The resulting EBITDA margin pre exceptionals of 28.3% nearly reached the year-earlier level (29.8%). The reconciliation of the operating result (EBIT) to EBITDA pre exceptionals is presented under "Internal Management System".

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

GROUP

EBITDA pre exceptionals and change by quarter¹

€ million/change in %



¹ Quarterly breakdown unaudited.

The increase in Group EBITDA pre exceptionals was driven by our Life Science and Performance Materials business sectors. Life Science improved this key performance indicator by € 198 million or 30.0%, and Performance Materials delivered an increase of € 237 million or 26.5%. At € 2,002 million, EBITDA pre exceptionals of our Healthcare business sector remained at the level of 2014, accounting for a 50% share (2014: 56%) of Group EBITDA pre exceptionals (excluding the € -360 million decline due to Corporate and Other). The percentage shares of EBITDA pre exceptionals attributable to Life Science and Performance Materials rose to 22% (2014: 19%) and 28% (2014: 25%), respectively.

GROUP

EBITDA pre exceptionals by business sector – 2015

€ million/in %



Not presented: Decline in Group EBITDA pre exceptionals by € -360 million due to Corporate and Other.

Net assets and financial position

GROUP

Balance sheet structure¹

	Dec. 31, 2015		Dec. 31, 2014		Change	
	€ million	in %	€ million	in %	€ million	in %
Non-current assets	30,657.0	80.7	15,529.7	59.7	15,127.3	97.4
of which:						
Intangible assets	25,339.0		11,395.5		13,943.5	
Property, plant and equipment	4,009.1		2,990.4		1,018.7	
Other non-current assets	1,308.9		1,143.8		165.1	
Current assets	7,350.2	19.3	10,480.4	40.3	-3,130.2	-29.9
of which:						
Inventories	2,619.8		1,659.7		960.1	
Trade accounts receivable ²	2,738.3		2,219.5		518.8	
Current financial assets	227.0		2,199.4		-1,972.4	
Other current assets ²	932.9		1,523.3		-590.4	
Cash and cash equivalents	832.2		2,878.5		-2,046.3	
Total assets	38,007.2	100.0	26,010.1	100.0	11,997.1	46.1
Equity	12,855.3	33.8	11,801.0	45.4	1,054.3	8.9
Non-current liabilities	15,768.9	41.5	7,607.7	29.2	8,161.2	107.3
of which:						
Provisions for pensions and other post-employment benefits	1,836.1		1,820.1		16.0	
Other non-current provisions	855.3		626.1		229.2	
Non-current financial liabilities	9,616.3		3,561.1		6,055.2	
Other non-current liabilities	3,461.2		1,600.4		1,860.8	
Current liabilities	9,383.0	24.7	6,601.4	25.4	2,781.6	42.1
of which:						
Current provisions	535.4		561.7		-26.3	
Current financial liabilities	4,096.6		2,075.9		2,020.7	
Trade accounts payable	1,921.2		1,539.4		381.8	
Other current liabilities	2,829.8		2,424.4		405.4	
Total liabilities and equity	38,007.2	100.0	26,010.1	100.0	11,997.1	46.1

¹Since January 1, 2015, the consolidated balance sheet has been structured in descending order of maturity.²Previous year's figures have been adjusted, see "Changes to accounting and measurement principles and disclosure changes" in the Notes to the Group accounts.

As of December 31, 2015, total assets amounted to € 38,007 million. This represents an increase of € 11,997 million or 46.1% over December 31, 2014 (€ 26,010 million). Both this very strong increase and the change in the balance sheet structure were mainly due to the acquisition of Sigma-Aldrich, which closed in November 2015. As part of the preliminary purchase price allocation for this transaction, the acquired assets and liabilities were measured at fair values in the balance sheet. On the date of first-time consolidation, this increased intangible assets (excluding goodwill) by € 5,873 million. The goodwill from the acquisition amounted to € 8,613 million. Further information on the purchase price allocation for the Sigma-Aldrich acquisition can be found in

Note [4] "Acquisitions, assets held for sale and disposal groups" in the Notes to the Group accounts. The purchase price of € 15,974 million was financed through cash on our balance sheet, bank loans and bonds. Following the issuance of a hybrid bond (€ 1.5 billion) in December 2014, we issued a further bond with a volume of US\$ 4 billion in March 2015. Lastly, in August 2015, we issued a euro bond amounting to € 2.1 billion. Moreover, credit lines totaling € 2.95 billion were utilized for the purchase price payment. An overview of the outstanding bonds can be found in Note [28] "Financial liabilities/Capital management" in the Notes to the Group accounts.

The composition and the development of net financial debt were as follows:

GROUP

Net financial debt

	Dec. 31, 2015	Dec. 31, 2014	Change	
	€ million	€ million	€ million	in %
Bonds and commercial paper	9,851.4	4,624.2	5,227.2	113.0
Loans to banks	3,006.0	267.4	2,738.6	-
Liabilities to related parties	577.8	501.4	76.4	15.2
Loans from third parties and other financial liabilities	89.2	84.5	4.7	5.6
Liabilities from derivatives (financial transactions)	183.7	153.0	30.7	20.1
Finance lease liabilities	4.8	6.5	-1.7	-26.2
Total financial liabilities	13,712.9	5,637.0	8,075.9	143.3
less				
Cash and cash equivalents	832.2	2,878.5	-2,046.3	-71.1
Current financial assets	227.0	2,199.4	-1,972.4	-89.7
Net financial debt	12,653.7	559.1	12,094.6	-

GROUP

Reconciliation of net financial debt

€ million	2015
January 1	559.1
Currency translation	-737.2
Dividend payments to shareholders and to E. Merck KG, Darmstadt, Germany	567.8
Acquisitions ¹	13,482.3
Assumption of financial liabilities from Sigma-Aldrich	425.3
Payment from the disposal of assets held for sale ¹	-86.0
Free cash flow	-1,538.5
Other	-19.1
December 31	12,653.7

¹ According to the consolidated cash flow statement.

Thanks to the strong internal financing power of the Group, the increase in net financial debt in 2015 was significantly lower than the cash outflow in connection with the acquisition of Sigma-Aldrich.

GROUP

Working capital

€ million	Dec. 31, 2015	Dec. 31, 2014	Change	
			in € million	in %
Trade accounts receivable	2,738.3	2,219.5	518.8	23.4
Receivables from royalties and licenses	11.5	16.1	-4.6	-28.6
Inventories	2,619.8	1,659.7	960.1	57.8
Trade accounts payables	-1,921.2	-1,539.4	-381.8	24.8
Working capital	3,448.4	2,355.9	1,092.5	46.4

The increase in working capital was likewise due to the first-time consolidation of Sigma-Aldrich and to exchange rate effects. Excluding these effects, working capital would have been at the level of 2014.

Our equity increased by € 1,054 million, amounting to € 12,855 million on December 31, 2015 (December 31, 2014: € 11,801 million). This strong increase of 8.9% was mainly driven by profit after tax generated in 2015 amounting to € 1,124 million and the development of currency translation differences from the translation of assets held in foreign currencies into euros, the reporting currency. This was countered by the reclassification of the Sigma-Aldrich purchase price

hedging gains, dividend payments, and the profit transfer to E. Merck KG, Darmstadt, Germany, (see "Consolidated Statement of Comprehensive Income" and "Consolidated Statement of Changes in Net Equity" in the Consolidated Financial Statements). Owing to the sharp increase in total assets, the equity ratio decreased by 11.6 percentage points, amounting to 33.8% as of December 31, 2015 (December 31, 2014: 45.4%).

Free cash flow was € 1,539 million in 2015, which did not meet the high level achieved in 2014. The composition and the development of the relevant items are presented in the following table:

GROUP

Free cash flow

€ million	2015	2014	Change	
			in € million	in %
Cash flow from operating activities according to the cash flow statement	2,195.2	2,705.5	-510.3	-18.9
Payments for investments in intangible assets	-179.1	-143.3	-35.8	25.0
Payments from the disposal of intangible assets	27.4	2.1	25.3	-
Payments for investments in property, plant and equipment	-513.9	-480.9	-33.0	6.9
Payments from the disposal of property, plant and equipment	8.9	14.0	-5.1	-36.3
Free cash flow	1,538.5	2,097.4	-558.9	-26.6

Driven by the development of EBITDA pre exceptionals, business free cash flow of the Group rose in 2015 by 6.2% to € 2,766 million (2014: € 2,605 million). The composition of this financial indicator is presented under "Internal Management System".

The distribution of business free cash flow across the individual quarters and the percentage changes in comparison with 2014 were as follows:

GROUP

Business free cash flow and change by quarter¹

€ million/change in %



¹ Quarterly breakdown unaudited.

GROUP

Business free cash flow by business sector – 2015

€ million/in %



Not presented: Decline in Group business free cash flow by € -421 million due to Corporate and other.

The investments in property, plant, equipment and software included in the calculation of business free cash flow as well as advance payments for intangible assets increased in 2015 by 15.4% to a total of € 609 million (2014: € 528 million). The investments in property, plant and equipment included therein amounted to € 564 million in 2015 (2014: € 485 million), of which € 262 million was attributable to strategic investment projects each with a project volume of more than € 2 million; the remainder was attributable to smaller capital spending projects.

In 2015, strategic investments of € 83 million were made to expand the Darmstadt site. Of this amount, € 29 million was used to upgrade global headquarters; the projects include an Innovation Center, a Visitor Center and an employee cafeteria, among other things. Moreover, in our Performance Materials business sector, OLED production capacity was expanded with an investment of € 13 million in order to better meet growing demand. In our Healthcare business sector, € 8 million was invested in a new laboratory research building.

The increase in Group business free cash flow in 2015 was attributable to the two operating business sectors Life Science and Performance Materials. Healthcare generated business free cash flow amounting to € 1,581 million (2014: € 1,701 million). Consequently, with a 50% share (2014: 60%) of Group business free cash flow (excluding the decline of € -421 million due to Corporate and Other), Healthcare was once again the business sector with the highest cash flows. In 2015, our Life Science business sector achieved a 61.2% increase in business free cash flow to € 676 million (2014: € 419 million), thus also increasing its share of Group business cash flow to 21% (2014: 15%). Performance Materials contributed € 931 million (2014: € 700 million) to this Group financial indicator, equivalent to 29% (2014: 25%).

Globally, strategic investments were made in the Healthcare business sector of our company. Special mention should be made of the production facility in Nantong, China (€ 50 million), a new production plant for the Allergy business in Reinbek, Germany (€ 17 million), an expansion of the existing filling plant at the Bari site in Italy (€ 18 million), and the construction of a new packaging unit at the Aubonne site in Switzerland (€ 8 million). Within our Life Science business sector, € 7 million was invested in a new production unit in Spain.

In 2015, there were no changes to our long-term credit ratings by the two rating agencies Moody's and Standard & Poor's. The latter continues to issue a rating of "A" with a negative outlook and Moody's a "Baa1" rating with a negative outlook. An overview of the development of our rating in recent years is presented in the Report on Risks and Opportunities.

The development of key balance sheet figures was as follows:

GROUP

Key balance sheet figures

in %		Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Equity ratio	Equity	33.8	45.4	53.2	48.1	47.4
	Total assets					
Asset ratio	Non-current assets	80.7	59.7	64.5	69.4	71.1
	Total assets					
Asset coverage	Equity	41.9	76.0	82.4	69.4	66.7
	Non-current assets					
Finance structure	Current liabilities	37.3	46.5	40.0	40.6	37.5
	Liabilities (total)					

Overall assessment of business performance and economic situation

We again achieved very good operational success with our strong businesses in 2015. At the same time, we also realized important strategic objectives concerning the long-term direction of the Group. Net sales grew by 13% to € 12,845 million and EBITDA pre exceptionals, our key financial indicator to assess operational performance, rose by 7.1% to € 3,630 million. All our business sectors contributed to this success.

The successful acquisition of Sigma-Aldrich in November 2015, through which our Life Science business sector has become a leading supplier in the lucrative Life Science market, was of major significance to us. We thus achieved an important step in the implementation of our long-term strategy, through which we want to secure future growth and profitability. Additionally, we made progress with the further development of our pharmaceutical pipeline in 2015. The

operating business of our Performance Materials business sector benefited from the successful integration of AZ Electronic Materials.

The solid accounting and finance policy of the Group is again reflected by the very good key balance sheet figures. The equity ratio as of December 31, 2015 was 33.8%, thus remaining at a good level. As expected, net financial debt rose massively owing to the acquisition of Sigma-Aldrich. We assume that our strong internal financing power will enable us to quickly reduce our financial liabilities. This is underscored by the unchanged long-term ratings from Moody's and Standard & Poor's. Against the backdrop of our solid net assets and financial position as well as the earning strength of our businesses, we assess the economic position of the Group positively overall. It represents a superb starting basis for future organic growth of the Group.