

Group Business Development

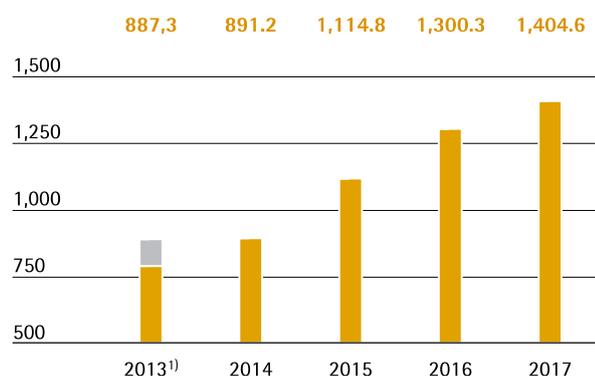
Sales Revenue and Order Intake

In the reporting year, the Sartorius Group continued to show positive development. Sales revenue thus rose 9.3% in constant currencies to €1,404.6 million, with the amounts contributed by organic growth and by acquisitions being approximately equal. On a reported basis, i.e., including currency effects, sales grew by 8.0%. Sartorius therefore reached its adjusted forecast for the third quarter of 2017.

For a full comparison of the Group's business development with its forecast, see page 50.

Sales Revenue 2013 – 2017

€ in millions



¹⁾ Including sales revenue of discontinued operations

Sales Revenue and Order Intake

€ in millions	2017	2016	in % reported	in % wb ¹⁾
Sales revenue	1,404.6	1,300.3	8.0	9.3
Order intake	1,501.4	1,334.7	12.5	13.7

¹⁾ In constant currencies

Sales Driven by Both Divisions

After two years of exceptionally high growth in 2015 and 2016, sales revenue for the Bioprocess Solutions Division increased in the reporting year at a slightly more moderate rate of 4.9% to €1,010.3 million. The division's business performance was impacted by several simultaneous, temporary effects, primarily in the Americas region. Therefore, transient bottlenecks in the business for cell culture media, inventory destocking by a few relatively large customers and interruption of production at the plant in Puerto Rico in the wake of Hurricane Maria all had a dampening effect. As a result of these impacts, the division's growth was lower than originally expected. Acquisitions of the two companies kSep and Umetrics contributed around one percentage point to the division's growth.

The Lab Products & Services Division also saw exceptionally dynamic growth due to strong development of organic sales and the expansion of its portfolio into bioanalytics. Sales revenue rose year over year by 22.0% to €394.2 million, with around 14 percentage points attributable to the consolidation of IntelliCyt, and ViroCyt acquired in 2016, as well as of Essen Bioscience taken over in 2017. Growth was driven by all regions and all product areas.

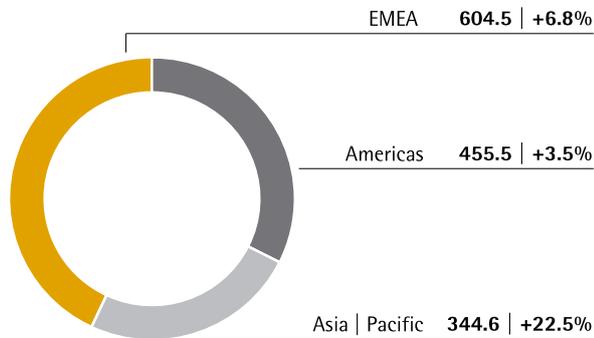
Sales by Division

€ in millions	2017	2016	in % reported	in % cc
Bioprocess Solutions	1,010.3	975.0	3.6	4.9
Lab Products & Services	394.2	325.3	21.2	22.0

Further information on the business development of the Group divisions is given on pages 42 et seq. for the Bioprocess Solutions Division and on pages 46 et seq. for the Lab Products & Services Division.

Significant Gains in All Regions

Sales Revenue and Growth¹⁾ by Region²⁾
 € in millions unless otherwise specified



¹⁾ In constant currencies

²⁾ Acc. to customers' location

In the reporting year, Sartorius recorded gains in all regions. In EMEA, the region contributing the highest share of revenue of around 43%, sales rose 6.8% to €604.5 million. While the Bioprocess Solutions Division achieved a gain of 2.5%, sales revenue for the Lab Products & Services Division was up 17.7% year over year.

The Americas region, in which sales grew at an especially strong rate over the past years, accounted for around 32% of consolidated revenue in 2017. Sales were up 3.5% to €455.5 million. Development of the Bioprocess Solutions Division was especially impacted by the temporary effects mentioned above; as a result, the division reported that sales decreased by 3.3% to €357.1 million. By contrast, the Lab Products & Services Division showed exceptionally dynamic development. Fueled by strong organic growth and by the acquisition of Essen BioScience, the division's sales were up 39.5%.

Business development for the Asia|Pacific region, which accounted for around 25% of Group revenue, showed the highest dynamics in the reporting year, with sales growing by 22.5% to €344.6 million. Sales revenue for the Bioprocess Solutions Division rose sharply by 25.3%, partly due to equipment shipments to fill relatively large orders. The Lab Products & Services Division also reported a double-digit gain of 16.6%. All growth rates are in constant currencies unless otherwise stated.

Sales by Region

€ in millions	2017	2016	in % reported	in % cc
EMEA	604.5	569.1	6.2	6.8
Americas	455.5	445.4	2.3	3.5
Asia Pacific	344.6	285.8	20.6	22.5

Development of Costs and Earnings

In the reporting year, the cost of sales stood at €697.7 million. In comparison with sales revenue growth of 8.0%, the cost of sales increased underproportionately by 4.4%, which was due to product mix effects and economies of scale. The cost of sales ratio was 49.7% relative to 51.4% a year ago.

Selling and distribution costs rose overproportionately relative to sales revenue, by 15.7% to €296.8 million. Accordingly, the ratio of selling and distribution costs to sales revenue increased from 19.7% in the previous year to 21.1%.

Expenses for research and development rose year over year by 15.8% to €68.8 million. The ratio of R&D expenses to sales revenue was 4.9%, slightly above the prior-year level of 4.6%.

Concerning general administrative expenses, Sartorius reported an 11.5% increase to €83.3 million, which can be primarily attributed to the expansion of the IT functional area. In relation to sales revenue, general administrative expenses rose from 5.7% in the previous year to 5.9% in the reporting year.

In fiscal 2017, the balance of other operating income and expenses was -€38.6 million relative to -€20.6 million a year earlier. This year-on-year change was driven, inter alia, by extraordinary items that totaled -€35.5 million in the reporting year (2016: -€30.7 million). These items were essentially incurred due to various cross-divisional projects, expenses related to the most recent acquisitions and to the consequences of Hurricane Maria.

In the year under review, the Group's EBIT edged down slightly by 0.5% to €219.4 million, especially due to higher PPA amortization in connection with the acquisition of Essen BioScience. The Group's EBIT margin was 15.6% because of higher depreciation as well as extraordinary items (2016: 17.0%).

The financial result was –€20.8 million in 2017 relative to –€16.4 million in 2016. This was essentially attributable to increased interest expenses.

In the reporting year, tax expenses of €39.3 million were substantially lower than the prior-year total of €59.1 million. This can essentially be attributed to the U.S. tax reform recently approved, which in the Sartorius Group resulted in positive extraordinary items due to reclassification of deferred tax liabilities of around €16 million in the USA. Because of this effect, the company's tax rate was just below 19.8%, down from 29.0% in the year before.

Net profit for the period rose 9.9% to €159.3 million (2016: €145.0 million).

Net profit attributable to shareholders of Sartorius AG amounted to €114.7 million in the reporting year relative to €102.9 million in 2016. Non-controlling interest stood at €44.6 million (2016: €42.1 million), which essentially reflected shares in Sartorius Stedim Biotech S.A. not held by the Sartorius Group.

Statement of Profit or Loss

€ in millions	2017	2016	in %
Sales revenue	1,404.6	1,300.3	8.0
Cost of sales	-697.7	-668.5	-4.4
Gross profit on sales	706.8	631.8	11.9
Selling and distribution costs	-296.8	-256.6	-15.7
Research and development costs	-68.8	-59.4	-15.8
General administrative expenses	-83.3	-74.7	-11.5
Other operating income and expenses	-38.6	-20.6	-87.3
Earnings before interest and taxes (EBIT)	219.4	220.5	-0.5
Financial income	11.0	5.7	93.5
Financial expenses	-31.7	-22.0	-44.1
Financial result	-20.8	-16.4	-27.0
Profit before tax	198.6	204.1	-2.7
Income taxes	-39.3	-59.1	33.6
Net profit for the period	159.3	145.0	9.9
Attributable to:			
Equity holders of Sartorius AG	114.7	102.9	11.5
Non-controlling interest	44.6	42.1	6.0

Underlying EBITDA

The Sartorius Group uses underlying EBITDA – earnings before interest, taxes, depreciation and amortization and adjusted for extraordinary items – as its key profitability indicator to provide a better picture of its operating development, also in an international comparison. More information on extraordinary items is provided on page 138.

Reconciliation from EBIT to Underlying EBITDA

€ in millions	2017	2016
EBIT	219.4	220.5
Extraordinary items	35.5	30.7
Amortization depreciation	98.3	74.2
Underlying EBITDA	353.2	325.4

In fiscal 2017, the Sartorius Group increased its earnings yet again. Its underlying EBITDA thus rose by 8.5% to €353.2 million. The Group's respective underlying EBITDA margin was 25.1% (2016: 25.0%), thus reaching our forecast adjusted for the third quarter.

	Underlying EBITDA € in millions	Underlying EBITDA margin in %
Group	353.2	25.1
Bioprocess Solutions	282.4	28.0
Lab Products & Services	70.8	18.0

Underlying EBITDA for the Bioprocess Solutions Division totaled €282.4 million, up 3.3% from €273.5 million a year ago. These earnings would have been even slightly higher without unfavorable currency effects. Moreover, the product mix effects in the reporting year also dampened underlying earnings. The division's margin reached the previous year's level of 28.0%. The Lab Products & Services Division substantially increased its earnings: its underlying EBITDA rose 36.3% from €51.9 million a year earlier to €70.8 million. The division's earnings margin of 18.0% was higher than the prior-year figure of 16.0% due to the positive effects resulting from the acquisition of Essen BioScience.

Relevant Net Profit

The relevant net profit attributable to the shareholders of Sartorius AG rose 8.6% from €132.6 million in 2016 to €144.0 million in 2017. This figure is the basis for determining the profit to be appropriated and is calculated by adjusting for extraordinary items and eliminating non-cash amortization, and is based on the normalized financial result as well as the corresponding tax effects for each of these items. The underlying earnings per ordinary share climbed by 8.6% to €2.10, up from €1.93 a year earlier, and by 8.6% per preference share to €2.11 euros, up from €1.94 euros a year ago.

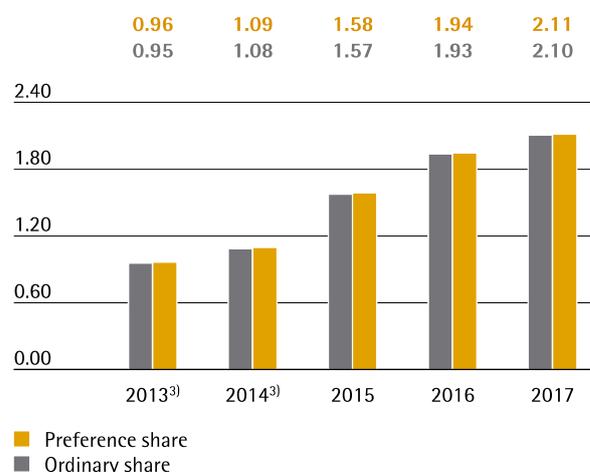
€ in millions	2017	2016
EBIT	219.4	220.5
Extraordinary items	35.5	30.7
Amortization	34.8	19.9
Normalized financial result ¹⁾	-17.7	-13.6
Normalized income tax (2016: 30%, 2015: 30%) ²⁾	-78.9	-77.3
Underlying earnings	193.1	180.3
Non-controlling interest	-49.1	-47.7
Underlying earnings after taxes and non-controlling interest	144.0	132.6
Underlying earnings per share		
per ordinary share (in €)	2.10	1.93
per preference share (in €)	2.11	1.94

¹⁾ Financial result excluding fair value adjustments of hedging instruments and non-periodic expenses and income

²⁾ Underlying income tax, based on the underlying profit before taxes and non-cash amortization

Underlying Earnings per Share¹⁾²⁾

in €



¹⁾ Adjusted for extraordinary items and non-cash amortization, based on the normalized financial result, including the corresponding tax effects

²⁾ 2013-15 adjusted for stock split; rounded values

³⁾ Including discontinued operation

Further information on earnings development and extraordinary items for the Group divisions is given on pages 42 et seq. and 46 et seq.

Research and Development

Sartorius continually invests in both new and further development of its products as well as the integration of new products through alliances. In 2017, the Sartorius Group spent €68.8 million on R&D, corresponding to an increase of 15.8% over the previous year's investment of €59.4 million. Owing to significantly higher sales, the ratio of R&D costs to sales revenue stood at 4.9%, slightly above last year's 4.6%.

The IFRS require that certain development costs be capitalized on the balance sheet and then amortized over subsequent years. During the reporting year, these development investments amounted to €27.4 million compared with €18.3 million the year before. This equates to a share of 28.5% (previous year: 23.5%) of the Group's total R&D expenses. Amortization related to capitalized development costs totaled €8.4 million during the reporting period (previous year: €9.4 million). These expenses are disclosed in the cost of sales.

We pursue a strategic intellectual and industrial property rights policy across our divisions to protect our expertise. Sartorius systematically monitors compliance with these rights on a cost|benefit basis to determine which specific individual rights are to be maintained.

In 2017, we filed a total of 161 applications for intellectual and industrial property rights (2016: 158). As a result of these applications, including those of prior years, we were issued 263 patents and trademarks during the reporting year (2016: 257). As of the balance sheet date, we had a total of 3,699 patents and trademarks in our portfolio (2016: 3,416).

Further information is provided in the sections covering the individual divisions on pages 42 et seq. and 46 et seq.

Capital Expenditures

Against a backdrop of strong organic growth in recent years, Sartorius is currently making above-average investments in the development of new capacity. In the reporting year, these development investments amounted to €209.4 million compared with €152.1 million the year before. At 14.9% (previous year: 11.7%), the ratio of investment to sales revenue was at the upper end of the forecast.

Our largest investment project is the expansion of our Group headquarters in Göttingen. As part of the consolidation of two formerly separate sites, our capacities for the production of filters and laboratory instruments will be extended there. New administration buildings were also opened during the reporting year.

And at our location in Yauco, Sartorius is investing in the expansion of its production capacities for filters and single-use bags. (Further information is provided in the sections covering the individual divisions on page 45.)

To extend the capacities in cell line development that we gained when Cellca was acquired in 2015, we began construction during the reporting year on a new building in Ulm.

Sartorius also made progress on the implementation of a new ERP system: in 2017 it was introduced at further sites in German, Switzerland and India and implementation is scheduled to be completed in 2019.

Employees

The numbers of employees reported include all staff members of the Sartorius Group, except for vocational trainees, interns, employees on extended leaves of absence and those participating in an early retirement plan. Numbers are reported as head counts.

On December 31, 2017, the Sartorius Group employed 7,501 people in 29 countries – 590 or 8.5% more than in the previous year. These figures include 214 employees who joined the Group in the reporting year through the acquisitions of the two companies Essen BioScience and Umetrics.

Employees

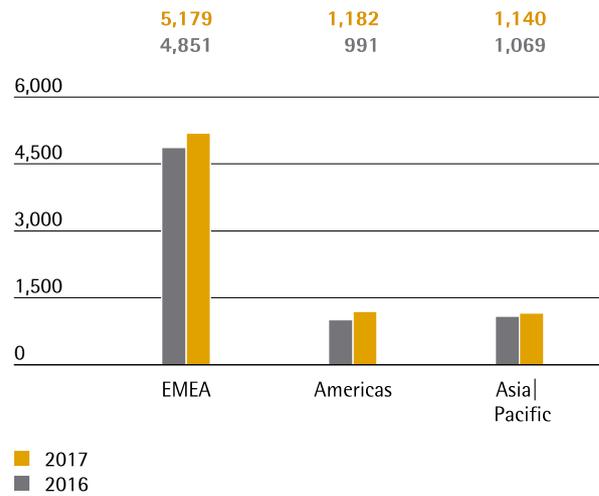
	2017	2016	Growth in %
Group	7,501	6,911	8.5
Bioprocess Solutions	4,980	4,584	8.6
Lab Products & Services	2,521	2,327	8.3

In the Bioprocess Solutions Division, 4,980 people were employed as of the end of the reporting year, 386 or 8.6% more than at year-end 2016. The acquisition of Umetrics resulted in a gain of 36 new staff.

The Lab Products & Services Division employed 2,521 people as of the year ended December 31, 2017; this was an increase of 194 or 8.3% compared with the year-earlier period. The acquisition of Essen BioScience contributed significantly to this growth of the workforce, with 178 new people joining Group staff.

Employees in central administrative functions were allocated to the divisions in proportion to cost of the services they performed during the year.

Employees by Region

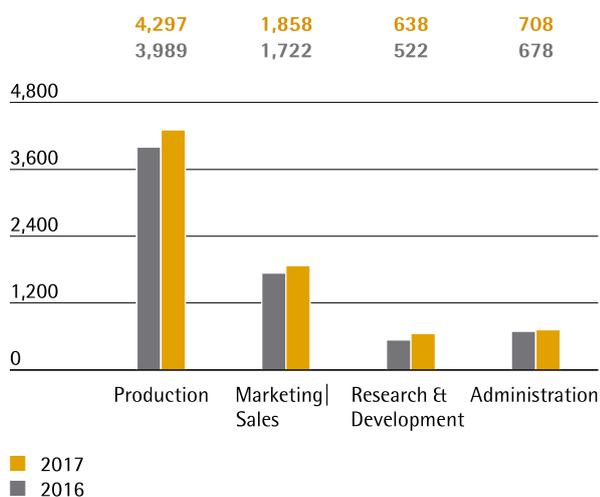


Regionally, EMEA with the highest number of employees added 6.8% or 328 new people. As of the end of the reporting year, Sartorius employed 2,807 people in Germany, or 37.4% of the total Group workforce, of which most staff members work at the Göttingen-based headquarters.

The Americas region charted an increase of 19.3% or 191 new people, again reporting the highest percentage of staff hired in the year under review.

The number of employees in the Asia|Pacific region grew by 6.6% or 71 people.

Employees by Function



Most employees at Sartorius work in production; at the end of 2017, they numbered 4,297, thus 7.7% more than at the end of 2016. In our production head count, we also include service staff and employees who perform services such as testing as part of our customers' core processes.

In marketing and sales, 1,858 people were employed at year-end, close to 8% more than a year ago.

In R&D, head count was 638 for the year ended December 31, 2017, thus around 22% higher than twelve months earlier. In this case, the company's acquisitions considerably increased the workforce, with 39 employees from Essen BioScience and 17 staff members from Umetrics joining the Sartorius Group.

As of the reporting date, 708 employees worked in administration, 4.4% more than in the prior year.

Expressed in percentages, 57.3% of Sartorius employees worked in production, close to 25% in marketing and sales, 8.5% in research and development and slightly more than 9% in administration (nearly 10% in 2016) at the end of 2017.

For more information on employees, see the Non-financial Group Declaration starting on page 86.