

**UNRIVALED
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KNOWLEDGE**

Report for the
Period Ended
March 31, 2002

2002 FIRST QUARTER REPORT



SIGMA-ALDRICH



David R. Harvey
Chairman,
President and CEO

SIGMA-ALDRICH REPORTS INCREASE IN FIRST QUARTER SALES, NET INCOME AND DILUTED EPS. DIAGNOSTICS BUSINESS TO BE DISCONTINUED.

Dear Shareholder:

As a result of a recent announcement that the Company's Board of Directors authorized management to sell the assets of and discontinue the Diagnostics business, and due to accounting requirements effective at the beginning of 2002, reported results for the period ended March 31, 2002 include the discontinued operations in the consolidated financial statements. Based on the new accounting requirements, the Board's authorization after the close of the first quarter precludes separating the continuing and discontinued operations until second quarter 2002 results are reported. To facilitate a proper interpretation of this action while complying with generally accepted accounting principles, we have provided a dual presentation. Reported results exclude the effect of this decision and include the results of the Diagnostics business as part of continuing operations. Pro forma results and the commentary thereon, including

our outlook for the remainder of 2002, separately provide the results for our continuing operations and now discontinued Diagnostics business for all periods presented. We apologize for the complexity of this dual presentation. Net assets held for sale will be separately presented in future balance sheets.

Reported and currency adjusted sales for the first quarter of 2002 increased 3.7% and 6.4%, respectively. Diluted EPS (excluding goodwill amortization and a one-time charge in 2001) increased 5.9% to \$.54. We are pleased with our first quarter performance in our continuing businesses, indicating our on-going success in implementing a broad array of strategic initiatives to improve our customer, life science and high technology focus and the benefit from many process improvement initiatives. We've certainly done what we said we would to enhance our sales and income growth and improve our capital structure through share repurchase and the addition of debt.

At the beginning of 2000, efforts began to refocus the Diagnostics business on niche opportunities, with a three year plan to restore its contribution toward overall company targets of 10% growth in sales and profits. As I've said on previous occasions, results for this business, which now include those for the first quarter of 2002, have not met expectations, leading to the decision to discontinue our efforts and seek a quick and financially prudent resolution. We expect to be fair to our customers, vendors and employees as we pursue an outcome that provides future benefit to our shareholders. We will continue to supply customers under contract while seeking to transfer these commitments to other vendors as we seek to discontinue this business by the end of 2002. To minimize costs in the upcoming months, staffing will be reduced to the level necessary to service customers, assist in the sale of relevant assets and meet contractual obligations. Absent buyers willing to absorb employees as part of the purchase, reductions of up to 75% of Diagnostics worldwide staff of 512 employees will occur over the remaining of the year, with the majority occurring in the second quarter. Where possible, Diagnostics employees will be reassigned within the Sigma-Aldrich organization.

AS REPORTED

Overall results: First quarter sales, excluding currency impacts, grew 6.4%. For the Company's *Scientific Research*, *Biotechnology* and *Fine Chemicals* businesses, currency adjusted growth in the first two months was in-line with targeted (currency adjusted) levels, but was offset by somewhat slower growth in the month of March due largely to holidays observed near the end of the first quarter. The impact of these holidays had been reflected in second quarter (rather than first quarter) results in 2001. The Company has not experienced any discernible adverse impact from slower growth in the worldwide economy or declines in demand experienced by others in certain life science sectors.

Sales for *Diagnostics* declined 11.2%. Certain catalog-based products previously marketed by the *Diagnostics* unit that contributed \$11 million in sales and a modest positive contribution to earnings per share in 2001 were reclassified out of Diagnostics and into the Company's *Scientific Research* unit. Sales data for all periods presented has been restated to reflect this reclassification.

All remaining assets of the Diagnostics business are available for sale.

In March, 2002, the Company announced that it had signed a non-binding letter of intent to sell its enzyme immunoassay (EIA) product line to IVAX Diagnostics (AMEX:IVD). Successful negotiations for this sale are

expected to lead to the completion of this transaction in the current quarter. The EIA products contributed \$7 million in sales, but reduced diluted earnings per share by \$.04.

Diluted net income per share rose 5.9% to \$.54 per share from \$.51 in 2001 (adjusting 2001 results to exclude goodwill amortization and a one-time charge for purchased in-process research and development). The overall sales decline in Diagnostics and disappointing sales of First Medical's cardiac point of care instrument together with high expense levels for First Medical reduced the reported diluted per share income by \$.04. The continued strengthening of the U.S. dollar masked even stronger performance in the Company's underlying operations by reducing otherwise reportable diluted per share earnings by \$.02.

Operations: Reported sales increased 3.7% to \$316.9 million. On a currency adjusted basis, the sales gain was 6.4%. The February 2001 acquisition of Isotec provided only modest benefit to the quarterly sales gain. A summary of reported and currency adjusted sales gains is as follows:

	Three Months Ended March 31, 2002	
	Reported	Currency Adjusted
Scientific Research	2.7%	5.6%
Biotechnology	6.8%	9.8%
Fine Chemicals	8.1%	10.1%
Subtotal	4.6%	7.3%
Diagnostics	(11.2)%	(9.4)%
Total Company	3.7%	6.4%

- **Scientific Research** sales (excluding currency impacts but including product sales reclassified from Diagnostics in both 2001 and 2002 results) increased 5.6% as the adverse impact from the first quarter-end 2002 holidays was reflected in both U.S. and international results.
- **Biotechnology** sales gains (excluding currency impacts) of 9.8% reflect targeted growth in most key life science areas, offset by a modest decline in sales of chromatography products. New product development activities at the Company's newly opened Life Science and High Technology Center in St. Louis are expected to support this unit's ability to meet its growth goals in upcoming quarters.
- Continuing enhancement and promotion of the Company's e-commerce capabilities again doubled our web based sales over the comparable prior period as electronic orders increased to 19% of our U.S. research sales and 12% of worldwide research sales.
- **Fine Chemicals** growth of 10.1% (excluding currency impacts) was driven by strong demand from pharmaceutical customers, with equivalent gains in sales to both U.S. and international customers.
- **Diagnostics** reversed an improving performance in 2001 as sales declined in all major product areas. Efforts to accelerate the placement of cardiac point of care instruments and sell products through new distribution agreements did not materialize as expected.

Consolidated pretax income was 18.2% of sales, slightly below the 18.4% (excluding goodwill amortization and a one-time charge for purchased in-process research and development) achieved in the first quarter of 2001. The increasing drag of the *Diagnostics* business and costs of new facilities were only partially offset by process improvement benefits and lower interest costs.

PRO FORMA

The following financial information gives effect to the Company's decision to discontinue the Diagnostics business in the first quarter results of operations.

Continuing Operations: Reported sales from continuing operations increased 4.6% to \$301.6 million. Currency adjusted sales from continuing operations were up 7.3%. Overall price gains approached 3.0% as price gains on our research sales averaged 3.5%. Overall volume gains were 4.5% as holidays at quarter-end reduced volume growth from the levels achieved in the final quarter of 2001 that had enabled us to achieve our targeted increase of 10% internal sales growth (currency adjusted) by year-end 2001. Reported and currency adjusted sales growth results for *Scientific Research* (which include products reclassified from *Diagnostics*), *Biotechnology* and *Fine Chemicals*, together with comments on these growth rates, are included under *Operations* in the **AS REPORTED** section of this report.

Dear Shareholder (continued)

A summary of reported net income and diluted earnings per share for the three months ended March 31, 2002 and 2001, before and after 2002 currency impacts, goodwill amortization and a one-time charge in 2001, and the net income and diluted earnings per share for both continuing and discontinued operations are as follows:

	Three Months Ended March 31, 2002		Three Months Ended March 31, 2001	
	Net Income (millions)	Diluted Earnings Per Share	Net Income (millions)	Diluted Earnings Per Share
Income from operations before currency impact and goodwill amortization	\$ 41.2	\$ 0.56	\$ 39.0	\$ 0.51
Currency impact	(1.5)	(0.02)	—	—
Goodwill amortization	—	—	(1.6)	(0.02)
Income from operations before one-time charge	\$ 39.7	\$ 0.54	\$ 37.4	\$ 0.49
Purchased in-process R&D (one-time pretax charge of \$1.2 million)	—	—	(0.8)	(0.01)
Reported net income	\$ 39.7	\$ 0.54	\$ 36.6	\$ 0.48
Net loss from discontinued operations	\$ (2.9)	\$ (0.04)	\$ (2.7)	\$ (0.04)
Net income from continuing operations	\$ 42.6	\$ 0.58	\$ 39.3	\$ 0.52

Selected financial data for continuing and discontinued operations for all quarters of 2001 is included in the Summary Pro Forma Financial Information section on the last page of this report. In subsequent quarters, our financial statements will present full results for continuing operations.

Pretax income from continuing operations was 20.5% of related sales. After adjusting prior year results (continuing operations) for goodwill amortization and a one-time charge for purchased in-process research and development, the current pretax income level is in-line with that achieved in the first quarter of 2001 and shows a modest improvement over the 20.3% achieved for the entire year of 2001. Benefits from price gains, process improvement savings and abatement of the higher utility costs experienced early in 2001 were offset by costs to operate the new Life Science and High Technology Center and higher insurance and employee benefit costs. Interest expense for the first quarter of 2002 declined by \$6 million from that incurred in the first quarter of 2001 as interest rate reductions more than offset higher borrowing levels. Increases in borrowing levels continued to lower the Company's overall cost of capital, with share repurchase activity over the last twelve months continuing to contribute to the larger increase in earnings per share.

Outlook: We expect currency adjusted sales gains from our continuing *Scientific Research*, *Biotechnology* and *Fine Chemicals* businesses to benefit from the ongoing implementation of our strategic plan initiatives. Overall currency adjusted sales gains are expected to range from 8% to 12% in the remaining quarters of 2002, with each of our business units achieving their targeted sales growth (currency adjusted) in total for the nine month period. Pricing should continue to benefit from special initiatives in 2002. New product additions, active promotion of existing and new products and the distribution of a new Sigma catalog in January 2002 are expected to enhance market awareness of our leading position in life science and high technology and drive sales growth. Our expanding e-commerce capabilities should continue to enhance sales as we seek to achieve more than 25% of our sales from web based orders in the next year or so. At current rates of exchange, currency is likely to continue to impact otherwise reportable sales and earnings growth for the remainder of 2002, but at a reduced level from that experienced in the first quarter. The desire to add 2% to our growth from acquisitions remains questionable for 2002, as seller's expectations remain unrealistic and we remain committed to grow profits in line with sales in the longer term and to achieve a 20% return on equity by 2004. Expected diluted earnings per share from continuing operations should range from \$2.24 to \$2.29 for 2002. For our discontinued *Diagnostics* business, a one-time after tax charge of up to \$63 million (\$.86 per share) will be recorded in the second quarter to reflect reductions in the carrying value of applicable assets to an expected realizable amount and costs of staff reductions. The write-off of unamortized goodwill and other intangibles of \$21 million, net of applicable taxes, from the acquisitions of First Medical, Inc. and Amelung GmbH is included in this one-time charge. Results from operating the discontinued operations as assets are held for sale are expected to further reduce diluted earnings per share by up to \$.05 in the second quarter of 2002 and by as much as \$.01 in both the third and fourth quarters of 2002.

OTHER FINANCIAL DATA

Research and Development: Research and development expenses are now reported as a separate cost component in the Company's Consolidated Statements of Income. As reported, these expenses were 3.8% and 3.5% of sales for the quarters ended March 31, 2002 and 2001, respectively. At 3.4% of continuing

operations sales in the first quarter of 2002, these expenses increased from 3.2% of comparable sales in the first quarter of 2001. The research and development expenses relate solely to the efforts to add new manufactured products, which account for approximately 55% of total sales. The majority of these expenses had been included in Cost of Products Sold in previously issued financial statements. In line with how other Life Science competitors report, research and development expenses are now reported as a separate line item between our Gross Profit and Income Before Income Taxes subtotals in the Consolidated Statements of Income. Research and development expenses for all quarters of 2001 are presented in the Supplemental Financial Information section of this report. Such expenses were 3.1% of sales for continuing operations in 2000.

Share Repurchase: At March 31, 2002, a total of 29.7 million (out of an authorized repurchase of 35 million) shares had been acquired at an average purchase price of \$32.12 per share. A total of 75,000 shares were purchased in the first quarter, with 73.1 million shares remaining outstanding at quarter-end. The Company expects to continue share repurchases to acquire the remaining 5.3 million authorized shares, but timing and number of shares purchased, if any, will depend upon market conditions and other factors.

Working Capital, Capital Expenditures and Debt: Initiatives to manage working capital provided major benefits in the first quarter. Accounts receivable days outstanding declined by one day from the December 31, 2001 level to 59 days. Inventory management programs, together with cuts in *Diagnostics* production activities to better match reduced demand, reduced inventory by nearly \$12 million from prior year-end levels. With the completion of the new Life Science and High Technology Center late in 2001, capital expenditures in the first quarter of 2002 were \$14.1 million, a \$10.4 million reduction from expenditures in the first quarter of 2001. We expect capital expenditures for all of 2002 to be approximately \$60 million, \$49 million less than what was spent in 2001. Total borrowings declined by \$39 million in the first quarter to \$408.9 million. In January 2002, the Company launched a commercial paper program, replacing its existing bank debt and lowering short-term interest costs by roughly 50 basis points. At March 31, 2002, short-term borrowings were \$232 million at an average interest rate of 2.2%. The Company's return on equity remained in line with the year-end level at 17.0%.

Share Ownership: To align the interests of the Company's management and owners, senior executives and other officers of the Company are required to own Company stock valued at 1/2 to 3 times their annual salaries. This program began in 2000 and is being phased in over a three to five year period for U.S. based and internationally based managers. At March 31, 2002, Sigma-Aldrich's senior management group held \$19.0 million of Company stock.

DIVIDEND

At the Board of Directors meeting held May 7, 2002 the Directors declared a quarterly cash dividend of \$.085 per share. The dividend is payable on June 14, 2002 to shareholders of record on May 31, 2002.

ANNUAL MEETING

At the annual meeting of shareholders, held on May 7, 2002 in St. Louis, the following directors were re-elected: Nina V. Fedoroff, David R. Harvey, W. Lee McCollum, William C. O'Neil Jr., J. Pedro Reinhard, Jerome W. Sandweiss, D. Dean Spatz and Barrett Toan.

CAUTIONARY STATEMENT

This report contains forward-looking statements relating to future performance, goals, strategic actions and initiatives and similar intentions and beliefs, including without limitation the "Outlook" section above and other statements regarding the Company's expectations, goals, beliefs, intentions and the like regarding future sales, earnings, return on equity, the discontinuance of its *Diagnostics* business, including the effect on sales and earnings from running the discontinued business as assets are held for sale and possible cash proceeds from the discontinuance, and other matters. These statements involve assumptions regarding Company operations, investments and acquisitions, conditions in the markets the Company serves and the sale of assets and actions related to the discontinuance of its *Diagnostics* business. Although the Company believes its expectations are based on reasonable assumptions, such statements are subject to risks and uncertainties, including, among others, certain economic, political and technological factors. Actual results could differ materially from those stated or implied in this report, due to, but not limited to, such factors as changes in pricing and the competitive environment, other changes in the business environment in which the Company operates, changes in research funding, uncertainties surrounding government healthcare reform, government regulations applicable to the business, the impact of fluctuations in interest rates and foreign currency exchange rates, the effectiveness of the Company's further implementation of its global software systems and expectations for the discontinuance of the *Diagnostics* business, including the ability to supply customers while assets are held for sale and the ability to retain customers, suppliers and employees. The Company does not undertake any obligation to update these forward-looking statements.

Sincerely,



David R. Harvey
Chairman, President and CEO

Consolidated Statements of Income
(As Reported - Unaudited - in thousands except per share amounts)

	Three Months Ended March 31,	
	2002	2001
Net sales	\$ 316,893	\$ 305,646
Cost of products sold	156,025	147,170
Gross profit	160,868	158,476
Selling, general and administrative expenses	87,079	88,808
Research and development expenses	12,139	10,801
Purchased in-process research and development	—	1,200
Interest, net	4,063	4,674
Income before income taxes	57,587	52,993
Provision for income taxes	17,852	16,350
Net income	39,735	36,643
Add back: goodwill amortization, net of taxes	—	1,552
Adjusted net income	\$ 39,735	\$ 38,195
Weighted average shares outstanding – Basic	73,017	75,510
Weighted average shares outstanding – Diluted	73,604	76,134
Net income per share – Basic:		
Net income	\$ 0.54	\$ 0.49
Add back: goodwill amortization, net of taxes	—	0.02
Adjusted net income	\$ 0.54	\$ 0.51
Net income per share – Diluted:		
Net income	\$ 0.54	\$ 0.48
Add back: goodwill amortization, net of taxes	—	0.02
Adjusted net income	\$ 0.54	\$ 0.50

Condensed Consolidated Balance Sheets
(As Reported - in thousands)

	March 31, 2002	December 31, 2001
Assets	(UNAUDITED)	
Cash and cash equivalents	\$ 35,401	\$ 37,637
Accounts receivable, net	208,498	181,450
Inventories	456,963	468,926
Other current assets	41,892	39,298
Total current assets	742,754	727,311
Property, plant and equipment, net	535,007	542,050
Other assets	169,368	170,441
Total assets	\$1,447,129	\$ 1,439,802
Liabilities and Stockholders' Equity		
Short-term debt	\$ 232,041	\$ 270,382
Accounts payable	55,896	59,509
Accrued expenses	59,651	54,281
Accrued income taxes	29,358	13,391
Total current liabilities	376,946	397,563
Long-term debt	176,810	177,700
Noncurrent liabilities	57,021	54,824
Stockholders' equity	836,352	809,715
Total liabilities and equity	\$1,447,129	\$ 1,439,802

Condensed Consolidated Statements of Cash Flows
(As Reported - Unaudited - in thousands)

	Three Months Ended March 31,	
	2002	2001
Cash Flows from operating activities:		
Net income	\$ 39,735	\$ 36,643
Adjustments:		
Depreciation and amortization	17,165	17,952
Purchased in-process research and development	—	1,200
Net changes in assets and liabilities	(4,075)	(47,103)
Net cash provided by operating activities	52,825	8,692
Cash Flows from investing activities:		
Net property additions	(13,554)	(22,128)
Acquisitions	—	(37,574)
Other	205	2,822
Net cash (used in) investing activities	(13,349)	(56,880)
Cash flows from financing activities:		
Net (repayment) borrowings of debt	(39,062)	78,350
Payment of dividends	(6,206)	(6,220)
Treasury stock purchases	(3,129)	(48,258)
Exercise of stock options	4,237	15,856
Net cash (used in) provided by financing activities	(44,160)	39,728
Effect of exchange rate changes on cash	2,448	7,706
Net change in cash and cash equivalents	(2,236)	(754)
Cash and cash equivalents at January 1	37,637	31,058
Cash and cash equivalents at March 31	\$ 35,401	\$ 30,304

Supplemental Financial Information
(As Reported - Unaudited - in thousands)

	Three Months Ended March 31,	
	2002	2001
Business Unit Sales (restated)		
Scientific Research	\$177,438	\$172,838
Biotechnology	65,844	61,654
Fine Chemicals	58,323	53,934
Subtotal	301,605	288,426
Diagnostics	15,288	17,220
Total	\$316,893	\$305,646
		2001
	Amount	% of Sales
Research and Development		
First Quarter	\$ 10,801	3.5%
Second Quarter	11,454	3.9%
Third Quarter	11,060	3.8%
Fourth Quarter	11,077	3.8%

	Three Months Ended March 31,	
	2002	2001
Selected Financial Information		
Property, plant and equipment additions, net	\$ 13,554	\$ 22,128
Share repurchase	3,129	48,258

Summary PRO FORMA Financial Information

(Unaudited - in thousands except for per share amounts)

	Three Months Ended 2001				Twelve Months Ended 2001	Three Months Ended 2002
	March 31	June 30	Sept. 30	Dec. 31	Dec. 31	March 31
Continuing Operations:						
Sales	\$288,426	\$277,532	\$272,816	\$275,714	\$1,114,488	\$301,605
Net Income	39,383	40,168	37,011	36,208	152,769	42,655
EPS – diluted	0.52	0.53	0.49	0.49	2.03	0.58
Discontinued Operations:						
Sales	\$ 17,220	\$ 16,201	\$ 14,917	\$ 16,621	\$ 64,959	\$ 15,288
Net Loss	(2,740)	(3,121)	(3,228)	(2,975)	(12,064)	(2,920)
EPS – diluted	(0.04)	(0.04)	(0.04)	(0.04)	(0.16)	(0.04)
Reported:						
Sales	\$305,646	\$293,733	\$287,733	\$292,335	\$1,179,447	\$316,893
Net Income	36,643	37,047	33,783	33,233	140,705	39,735
EPS – diluted	0.48	0.49	0.45	0.45	1.87	0.54

Note: The above presentation reflects the Company's decision in April 2002 to discontinue the Diagnostics business.



SIGMA-ALDRICH

**More investor information is available on our web site at
sigma-aldrich.com or email: krichter@sial.com**

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