

**UNRIVALED  
SCIENTIFIC  
KNOWLEDGE**

Report for the  
Period Ended  
September 30, 2002

**2002 THIRD QUARTER REPORT**



**SIGMA-ALDRICH**



**David R. Harvey**  
Chairman,  
President and CEO

#### Dear Shareholder:

Sigma-Aldrich is pleased to report an increase in the third quarter sales and EPS from continuing operations.

#### OVERALL RESULTS:

**Continuing Operations:** The Company's *Scientific Research*, *Biotechnology* and *Fine Chemicals* businesses combined to produce reported sales growth of 11.7% in the third quarter of 2002 as compared to the third quarter of 2001. The weaker U.S. dollar enhanced this reported quarterly sales gain by 3.6%, resulting in currency adjusted sales growth of 8.1%. Earlier expectations for even better currency adjusted growth in the third quarter — due primarily to the adverse impact of the events of September 11, 2001 — were not fully realized. Improved demand for *Biotechnology* products was matched with continued growth for *Scientific Research* products, while *Fine Chemicals* growth slowed as sales to U.S. pharmaceutical customers

declined. Reported year-to-date sales growth was 8.6%, with 0.7% of this gain coming from the positive benefit of currency rates.

Diluted net income per share for the third quarter (adjusting 2001 results to exclude goodwill amortization) rose 10.0% to \$.55 in 2002 from \$.50 in 2001. Year-to-date diluted net income per share (adjusting 2001 results to exclude goodwill amortization and a one-time charge for purchased in-process research and development) increased 6.9% to \$1.71 in 2002 from \$1.60 in 2001. Currency added \$.01 to the third quarter 2002 EPS, while a one-time charge for a U.S. Commerce Department settlement reduced otherwise reportable EPS by \$.02. Otherwise reportable year-to-date diluted per share earnings were reduced by both the \$.02 Commerce Department settlement and a \$.03 currency impact.

**Discontinued (Diagnostics) Operations:** The Company sold its coagulation product line to Trinity Biotech plc in August 2002. To date, the Company has sold product lines representing approximately 42% of *Diagnostics* sales in 2001 (after reclassifying products that contributed \$11 million to 2001 *Diagnostics* sales to the Company's *Scientific Research* unit in both 2001 and 2002). Efforts to sell other product lines continue, with an expectation that all activity will be completed by the end of Q1 2003. Activities to minimize costs, together with sales resulting from supplying customers under contract and inventory liquidations, provided diluted EPS of \$.01 in the third quarter, reducing year-to-date operating losses to \$.06 per diluted share. The previously recorded one-time charge of \$63 million (\$.85 per diluted share) was reduced by \$5.6 million (\$.07 per diluted share) in the third quarter of 2002 as the sale of the coagulation product line reduced expected employee separation and customer costs.

#### NET INCOME ANALYSIS:

The Company's reported Q3 and YTD net income and diluted earnings per share for continuing and discontinued operations — before and after currency impacts in 2002, goodwill amortization in 2001 and one-time charges in 2002 and 2001 — are summarized to the right:

	Three Months Ended Sept. 30, 2002		Three Months Ended Sept. 30, 2001		Nine Months Ended Sept. 30, 2002		Nine Months Ended Sept. 30, 2001	
	Net Income (millions)	Diluted Earnings Per Share	Net Income (millions)	Diluted Earnings Per Share	Net Income (millions)	Diluted Earnings Per Share	Net Income (millions)	Diluted Earnings Per Share
Net income from continuing operations before currency impact, goodwill amortization and one-time charges	\$41.2	\$0.56	\$38.3	\$0.50	\$129.5	\$1.76	\$121.2	\$1.60
Currency impact on continuing operations	0.9	0.01	—	—	(1.9)	(0.03)	—	—
Goodwill amortization for continuing operations	—	—	(1.3)	(0.01)	—	—	(3.8)	(0.05)
<b>Net income from continuing operations before one-time charges</b>	<b>42.1</b>	<b>0.57</b>	<b>37.0</b>	<b>0.49</b>	<b>127.6</b>	<b>1.73</b>	<b>117.4</b>	<b>1.55</b>
Purchased in-process R&D	—	—	—	—	—	—	(0.8)	(0.01)
Department of Commerce Settlement	(1.8)	(0.02)	—	—	(1.8)	(0.02)	—	—
<b>Reported net income from continuing operations</b>	<b>40.3</b>	<b>0.55</b>	<b>37.0</b>	<b>0.49</b>	<b>125.8</b>	<b>1.71</b>	<b>116.6</b>	<b>1.54</b>
Net income (loss) from discontinued operations	0.6	0.01	(3.2)	(0.04)	(4.4)	(0.06)	(9.1)	(0.12)
Net gain (loss) on disposition of discontinued operations	5.6	0.07	—	—	(57.4)	(0.78)	—	—
<b>Total reported net income</b>	<b>\$46.5</b>	<b>\$0.63</b>	<b>\$33.8</b>	<b>\$0.45</b>	<b>\$ 64.0</b>	<b>\$0.87</b>	<b>\$107.5</b>	<b>\$1.42</b>

#### RESULTS FOR CONTINUING OPERATIONS (all increases are to comparable periods in 2001):

Reported sales increased 11.7% to \$304.8 million for the third quarter and 8.6% to \$910.7 million year-to-date. On a currency-adjusted basis, third quarter and year-to-date sales gains were 8.1% and 7.9%, respectively. Sales volume gains of 4.8% remained consistent with first half 2002 levels, while ongoing price increases added another 3.1% to year-to-date growth. Reported and currency adjusted sales gains are as follows:

	Three Months Ended September 30, 2002		Nine Months Ended September 30, 2002	
	Reported	Currency Adjusted	Reported	Currency Adjusted
Scientific Research	10.3%	6.6%	7.0%	6.3%
Biotechnology	18.5%	15.1%	12.8%	12.4%
Fine Chemicals	8.5%	4.7%	8.7%	7.6%
Total	11.7%	8.1%	8.6%	7.9%

- *Scientific Research* sales gains in the third quarter (excluding currency impacts, but including product sales reclassified from *Diagnostics* for both 2001 and 2002) showed continued strength in U.S. and European markets while sales growth in other international markets, while still exceeding growth rates in the U.S. and Europe, did moderate from levels achieved earlier in 2002.
- *Biotechnology* sales gains improved in Q3, again exceeding our expectations. Percentage growth in our key life science areas was in the mid- to high-teens, with sales of chromatography products achieving a second consecutive quarter of growth. Market opportunities, new product development efforts and enhanced sales activities all contributed to this improved growth.
- Customers continued their migration to ordering through the Company's web site. Electronic orders increased to 22% of our U.S. and 15% of our worldwide research sales in Q3.

## Dear Shareholder (continued)

- **Fine Chemicals** growth moderated in the third quarter. A decline in custom orders from U.S. pharmaceutical customers was only partially offset by strong double-digit growth in international markets. Booked orders, including those from pharmaceutical customers, remained strong, but at lower levels than experienced in earlier quarters of 2002.

Reported pretax income from continuing operations was 19.4% and 20.1% of sales for the third quarter and first nine months of 2002, respectively. Third quarter pretax income, excluding the Commerce Department settlement of \$1.8 million, was 20.0% of sales. After adjusting 2002 results for the settlement and 2001 results for goodwill amortization and a one-time charge for purchased in-process research and development, YTD 2002 pretax income of 20.3% of sales was equal to that for the entire year of 2001. Price gains, process improvement savings, lower interest costs and the abatement of higher utility costs experienced in the first half of 2001 all benefited these results. But these benefits were offset by new costs to operate our Life Science and High Technology Center, higher insurance and employee benefit costs and the reassignment of roughly 80 former Diagnostics employees to various open positions in our continuing businesses.

The Commerce Department settlement of \$1.8 million, or \$.02 per share, recorded in the September 30, 2002 financial statements was finalized on November 4, 2002, when the Company, its wholly-owned subsidiary Research Biochemicals, Inc. ("RBI") and an intermediate subsidiary reached formal agreement with the U.S. Department of Commerce (the "Department") to settle allegations that they had exported certain scientific research toxins without first obtaining requisite licenses from the Department. This matter was inherited through the Company's acquisition of the assets of Research Biochemicals Limited Partnership in April 1997 and was discovered and corrected in April 1998. RBI has since applied for and received licenses for all subsequent shipments of such toxins.

### OUTLOOK:

We expect reported sales gains in the final quarter of 2002 for our **Scientific Research** and **Biotechnology** businesses to continue to benefit from the weakening U.S. dollar, special pricing initiatives, the recent distribution of new Aldrich and Fluka/Riedel-de Haën catalogs and growth of web-based sales. We also expect **Biotechnology** sales to further benefit from new product initiatives in key life science areas. But, we expect **Fine Chemicals** sales to grow only in line with third quarter results, as stronger anticipated sales to international accounts may well continue to be offset by weaker demand from U.S. pharmaceutical customers. Operating our discontinued **Diagnostics** business in the final quarter of 2002 might reduce otherwise reportable diluted earnings per share by as much as \$.01. We expect profit improvement initiatives, lower interest cost, benefits from the weaker U.S. dollar and possible continued share repurchase activities to continue to enhance earnings and EPS from continuing operations in the fourth quarter. Including the \$.02 adverse impact of the Commerce Department pending settlement noted above, management expects EPS from continuing operations for all of 2002 in the \$2.26 to \$2.28 range.

Given the current economy, I am pleased with the growth in sales and earnings and continued improvement in return on equity that we have achieved. We are not entirely immune to economic slowdowns, but our broad product and customer base, major presence in growing life science and high technology markets, strong commitment to customer service and ongoing efforts to reduce costs through process improvement have kept us somewhat recession resistant. I'm particularly pleased that our efforts to gain recognition as a key supplier of biotechnology products paid off in the form of better than expected growth in this important part of our business. We expect continued increases in sales and earnings in the final quarter of 2002.

### OTHER INFORMATION:

**Share Repurchase:** At September 30, 2002, a total of 31.1 million shares (out of an authorized repurchase of 35 million shares) had been acquired at an average purchase price of \$32.86 per share. There were 71.7 million shares outstanding at October 31, 2002. Additional shares purchased in October bring total repurchases to 31.6 million shares. The Company expects to continue share repurchases to acquire the remaining 3.4 million authorized shares, but the timing and number of shares purchased, if any, will depend upon market conditions and other factors.

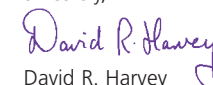
**Working Capital, Capital Expenditures, Debt and ROE:** Working capital management initiatives provided major benefits in the third quarter. Accounts receivable days outstanding of 59 at September 30, 2002 represent a decline of two days from June 30, 2002 and a one-day improvement from the prior year-end. Active inventory management programs reduced inventory quantities by \$20 million from prior year-end levels, but the impact of currency rates used in valuing inventories offset roughly \$15 million of that reduction. These initiatives, much lower capital expenditure levels and reduced tax payments related to the one-time charge for **Diagnostics** combined to generate sufficient cash flow for us to reduce total borrowings by \$130 million in the first nine months of 2002 to \$318 million. Capital expenditures for all of 2002 are expected to total less than \$60 million, representing a \$45 million reduction from spending levels in 2001. At September 30, 2002, short-term borrowings were \$141 million at a weighted average interest rate of 1.8% and long-term debt was \$177 million at a weighted average interest rate of 6.6%. The Company's return on equity improved to 18.5%. We remain committed to pursuing our goal of achieving a 20% return on equity by 2004.

**Financial Statement Audits:** In June 2002, KPMG LLP was selected to replace Arthur Andersen LLP as the Company's external auditor. As a result of our decision to discontinue **Diagnostics**, accounting standards require the restatement of prior period financials solely to present separate results for continuing and discontinued operations. Due to the inability of our previous external auditor to issue an opinion on such restatements, we have engaged KPMG to audit the Company's full financial statements for 2000 and 2001. KPMG's audit opinion for 2000, 2001 and 2002 will be provided with the Company's 2002 annual report. Management does not expect any other changes to the previously released financial statements.

**DIVIDEND:** At the Board of Directors meeting held today, the Directors declared a 5.9% increase in the quarterly cash dividend to \$.09 per share from \$.085. The dividend is payable on January 2, 2003 to shareholders of record on December 13, 2002.

**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 "Overall Results-Discontinued (**Diagnostics**) Operations" and "Outlook" sections contained 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, 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 (Unaudited - in thousands except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
<b>Net sales</b>	<b>\$304,830</b>	\$272,816	<b>\$ 910,723</b>	\$ 838,774
Cost of products sold	<b>152,115</b>	134,396	<b>447,484</b>	402,546
Gross profit	<b>152,715</b>	138,420	<b>463,239</b>	436,228
Selling, general and administrative expenses	<b>80,416</b>	73,094	<b>238,626</b>	226,870
Research and development expenses	<b>9,855</b>	9,263	<b>30,436</b>	28,272
Purchased in-process research and development	-	-	-	1,200
Interest, net	<b>3,269</b>	4,598	<b>11,030</b>	13,243
Income from continuing operations before income taxes	<b>59,175</b>	51,465	<b>183,147</b>	166,643
Provision for income taxes	<b>18,888</b>	14,454	<b>57,318</b>	50,081
Net income from continuing operations	<b>40,287</b>	37,011	<b>125,829</b>	116,562
Discontinued operations:				
Net income (loss) from operations of discontinued business, net of taxes	<b>617</b>	(3,228)	<b>(4,474)</b>	(9,090)
Net gain (loss) on disposition of discontinued operations, net of taxes	<b>5,600</b>	-	<b>(57,400)</b>	-
<b>Net income</b>	<b>\$ 46,504</b>	\$ 33,783	<b>\$ 63,955</b>	\$ 107,472
<b>Supplemental net income information</b>				
Net income from continuing operations	<b>\$ 40,287</b>	\$ 37,011	<b>\$ 125,829</b>	\$ 116,562
Add back: goodwill amortization, net of taxes	-	1,286	-	3,778
<b>Adjusted net income from continuing operations</b>	<b>\$ 40,287</b>	\$ 38,297	<b>\$ 125,829</b>	\$ 120,340
Weighted average number of shares outstanding - Basic	<b>72,979</b>	74,196	<b>73,083</b>	75,011
Weighted average number of shares outstanding - Diluted	<b>73,623</b>	74,826	<b>73,677</b>	75,666
<b>Net income per share - Basic</b>				
Net income from continuing operations	<b>\$ 0.55</b>	\$ 0.50	<b>\$ 1.72</b>	\$ 1.55
Net income (loss) from operations of discontinued business, net of taxes	<b>0.01</b>	(0.04)	<b>(0.06)</b>	(0.12)
Net gain (loss) on disposition of discontinued operations, net of taxes	<b>0.08</b>	-	<b>(0.78)</b>	-
<b>Net income</b>	<b>\$ 0.64</b>	\$ 0.46	<b>\$ 0.88</b>	\$ 1.43
<b>Net income per share - Diluted</b>				
Net income from continuing operations	<b>\$ 0.55</b>	\$ 0.49	<b>\$ 1.71</b>	\$ 1.54
Net income (loss) from operations of discontinued business, net of taxes	<b>0.01</b>	(0.04)	<b>(0.06)</b>	(0.12)
Net gain (loss) on disposition of discontinued operations, net of taxes	<b>0.07</b>	-	<b>(0.78)</b>	-
<b>Net income</b>	<b>\$ 0.63</b>	\$ 0.45	<b>\$ 0.87</b>	\$ 1.42
<b>Supplemental net income per share - Diluted</b>				
Net income from continuing operations	<b>\$ 0.55</b>	\$ 0.49	<b>\$ 1.71</b>	\$ 1.54
Add back: goodwill amortization, net of taxes	-	0.01	-	0.05
<b>Adjusted net income from continuing operations</b>	<b>\$ 0.55</b>	\$ 0.50	<b>\$ 1.71</b>	\$ 1.59

## Condensed Consolidated Balance Sheets (Unaudited - in thousands)

	September 30,		September 30,	
	2002	December 31, 2001	2002	December 31, 2001
<b>Assets</b>				
Cash and cash equivalents	<b>\$ 39,718</b>	\$ 37,637		
Accounts receivable, net	<b>198,775</b>	181,450		
Inventories	<b>422,456</b>	427,094		
Other current assets	<b>37,165</b>	35,231		
Current assets held for sale	<b>5,064</b>	45,899		
<b>Total current assets</b>	<b>703,178</b>	727,311		
Property, plant and equipment, net	<b>531,634</b>	531,391		
Other assets	<b>151,426</b>	140,844		
Noncurrent assets held for sale	-	40,256		
<b>Total assets</b>	<b>\$1,386,238</b>	\$1,439,802		
<b>Liabilities and Stockholders' Equity</b>				
Short-term debt			<b>\$ 141,118</b>	\$ 270,382
Accounts payable			<b>58,647</b>	59,509
Accrued expenses			<b>73,085</b>	54,281
Accrued income taxes			<b>21,541</b>	13,391
Current liabilities of discontinued operations			<b>9,939</b>	-
<b>Total current liabilities</b>			<b>304,330</b>	397,563
Long-term debt			<b>176,708</b>	177,700
Noncurrent liabilities			<b>58,153</b>	54,824
Stockholders' equity			<b>847,047</b>	809,715
<b>Total liabilities and equity</b>			<b>\$1,386,238</b>	\$1,439,802

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

	Nine Months Ended September 30,	
	2002	2001
<b>Cash flows from operating activities:</b>		
Net income	<b>\$ 63,955</b>	\$ 107,472
Adjustments:		
Net loss from operations of discontinued business	<b>4,474</b>	9,090
Net loss on disposition of discontinued operations	<b>57,400</b>	-
Depreciation and amortization	<b>50,346</b>	49,426
Purchased in-process research and development	-	1,200
Net changes in assets and liabilities	<b>70,010</b>	(58,519)
Net cash provided by operating activities of continuing operations	<b>246,185</b>	108,669
Net cash provided by (used in) operating activities of discontinued operations	<b>9,582</b>	(5,805)
<b>Net cash provided by operating activities</b>	<b>255,767</b>	102,864
<b>Cash flows from investing activities:</b>		
Net property additions	<b>(41,232)</b>	(75,277)
Acquisitions	-	(37,574)
Proceeds from disposition of discontinued operations	<b>3,559</b>	-
Other	<b>(7,255)</b>	(5,307)
Net cash (used in) investing activities of continuing operations	<b>(44,928)</b>	(118,158)
Net cash (used in) investing activities of discontinued operations	<b>(2,286)</b>	(4,124)
<b>Net cash (used in) investing activities</b>	<b>(47,214)</b>	(122,282)
<b>Cash flows from financing activities:</b>		
Net (repayment) borrowings of debt	<b>(131,298)</b>	165,319
Payment of dividends	<b>(18,693)</b>	(18,632)
Treasury stock purchases	<b>(69,008)</b>	(142,986)
Exercise of stock options	<b>18,893</b>	21,366
Net cash (used in) provided by financing activities	<b>(200,106)</b>	25,067
Effect of exchange rate changes on cash	<b>(6,366)</b>	566
Net change in cash and cash equivalents	<b>2,081</b>	6,215
Cash and cash equivalents at January 1	<b>37,637</b>	31,058
<b>Cash and cash equivalents at September 30</b>	<b>\$ 39,718</b>	\$ 37,273

## Supplemental Financial Information - Continuing Operations (Unaudited - in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
<b>Business Unit Sales</b>				
Scientific Research	<b>\$179,480</b>	\$162,710	<b>\$536,907</b>	\$ 501,726
Biotechnology	<b>69,688</b>	58,811	<b>202,697</b>	179,660
Fine Chemicals	<b>55,662</b>	51,295	<b>171,119</b>	157,388
<b>Total</b>	<b>\$304,830</b>	\$272,816	<b>\$910,723</b>	\$ 838,774
			Nine Months Ended September 30,	
			2002	2001
<b>Selected Financial Information</b>				
Property, plant and equipment additions, net	<b>\$ 41,232</b>	\$ 75,277		
Share repurchase	<b>69,008</b>	142,986		