

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following should be read in conjunction with the consolidated financial statements and related notes.

INTRODUCTION

The net income summaries below present the results of our operations before and after unusual items affecting our business. These summaries show the impact unusual items had on our net income and basic and

diluted net income per share. Due to the sale of the metal business in 2000, we present results separately for our continuing chemical and discontinued metal operations.

Years Ended December 31	Net Income (in millions)		
	2001	2000	1999
Net income from continuing operations before unusual items	\$141.5	\$144.7	\$146.0
Additional provision for bad debts	—	—	(4.0)
Provision for restructuring	—	—	(2.6)
One-time charges	—	—	(0.6)
Research & development and other tax credits	—	—	9.8
Purchased in-process research & development	(0.8)	(5.6)	—
Total unusual items	(0.8)	(5.6)	2.6
Net income from continuing operations after unusual items	140.7	139.1	148.6
Net income from discontinued operations	—	10.0	23.7
Gain on sale of discontinued operations, net of taxes	—	171.1	—
Net income	\$140.7	\$320.2	\$172.3

	Net Income Per Share — Basic		
	2001	2000	1999
Net income from continuing operations before unusual items	\$ 1.90	\$ 1.74	\$ 1.45
Additional provision for bad debts	—	—	(.04)
Provision for restructuring	—	—	(.03)
One-time charges	—	—	(.01)
Research & development and other tax credits	—	—	.10
Purchased in-process research & development	(.01)	(.07)	—
Total unusual items	(.01)	(.07)	.02
Net income from continuing operations after unusual items	1.89	1.67	1.47
Net income from discontinued operations	—	.12	.24
Gain on sale of discontinued operations, net of taxes	—	2.05	—
Net income	\$ 1.89	\$ 3.84	\$ 1.71

	Net Income Per Share — Diluted		
	2001	2000	1999
Net income from continuing operations before unusual items	\$ 1.88	\$ 1.73	\$ 1.45
Additional provision for bad debts	—	—	(.04)
Provision for restructuring	—	—	(.03)
One-time charges	—	—	(.01)
Research & development and other tax credits	—	—	.10
Purchased in-process research & development	(.01)	(.07)	—
Total unusual items	(.01)	(.07)	.02
Net income from continuing operations after unusual items	1.87	1.66	1.47
Net income from discontinued operations	—	.12	.24
Gain on sale of discontinued operations, net of taxes	—	2.05	—
Net income	\$ 1.87	\$ 3.83	\$ 1.71

MANAGEMENT'S DISCUSSION AND ANALYSIS

(\$ IN MILLIONS, EXCEPT PER SHARE DATA)

The following should be read in conjunction with the consolidated financial statements and related notes.

HIGHLIGHTS

Net income from continuing operations in 2001 increased 1.2% to \$140.7. The net income increase in 2000 of 85.8% to \$320.2 from \$172.3 in 1999 included a one-time gain of \$171.1 from the sale of our B-Line Systems metal business. Earnings per share for 2001 is \$1.89 and \$1.87 on a basic and diluted basis, respectively, compared to \$3.84 and \$3.83 on a basic and diluted basis, respectively, for 2000. Earnings per share in 2000 includes the gain on the sale of B-Line Systems of \$2.05 on a basic and diluted basis.

Net income from continuing operations before unusual items was \$141.5 compared to \$144.7 in 2000. The decrease in net income resulted from the increased dilutive effect of acquisitions and higher interest expense related to borrowings for acquisitions and stock repurchases. Unusual items decreased net income from continuing operations by \$0.8 or \$0.01 per basic and diluted share in 2001, \$5.6 or \$0.07 per basic and diluted share in 2000 and increased net income

by \$2.6 or \$0.02 per basic and diluted share in 1999.

For the year, diluted earnings per share from continuing operations before unusual items increased 8.7% to \$1.88 compared to \$1.73 in 2000. One-time, non-cash charges for purchased in-process research and development from the acquisition of businesses reduced diluted earnings per share by \$.01 and \$.07 in 2001 and 2000, respectively. Additionally, the operations of First Medical, Inc. and Amelung GmbH acquired in 2000 further reduced diluted earnings per share by \$.13 and \$.06 for 2001 and 2000, respectively. This dilution and less than acceptable sales performance for Diagnostics overall creates uncertainty about the ongoing direction of this business. The operations of Isotec, Inc., acquired in 2001, provided a \$.01 addition to diluted earnings per share. Discontinued operations, including the gain on the sale of the B-Line Systems metal business, added \$2.17 to diluted earnings per share in 2000.

ITEMS AFFECTING COMPARABILITY OF RESULTS

The following items affect the comparability of our results:

- On February 16, 2001, the Company purchased Isotec, Inc.
- On August 31, 2000, the Company purchased Amelung GmbH.
- On July 22, 2000, the Company purchased First Medical, Inc.
- On May 26, 2000, the Company purchased ARK Scientific GmbH.

- On May 1, 2000, the sale of B-Line Systems was completed. The metal operations are accounted for as discontinued operations, and accordingly, operating results are segregated in the accompanying Consolidated Statements of Income.
- On March 31, 1999, the Company purchased the remaining 25% interest in Riedel-de Haën.
- At December 31, 2001, 2000 and 1999, the Company had repurchased 29.7 million, 25.6 million and 2.6 million of its outstanding shares, respectively.

SIGNIFICANT ACCOUNTING POLICIES

The Company prepared the consolidated financial statements in conformity with generally accepted accounting principles. In doing so, management is required to make certain estimates, judgments and assumptions that it believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the years presented. Actual results could differ from those estimates. The significant accounting policies which the Company believes are the most critical to aid in fully understanding and evaluating its reported financial results include the following:

Inventories

Inventories are valued at the lower of cost or market. The Company regularly reviews inventories on hand and records a provision for slow-moving and obsolete inventory, inventory not meeting quality control standards and inventory subject to expiration. The provision for slow-moving and obsolete inventory is based on current estimates of future product demand, market conditions and related management initiatives. Any significant unanticipated changes in product demand or market conditions could have an impact on the value of inventories.

Long-Lived Assets

Long-lived assets, including goodwill and other intangibles, are amortized over their expected useful lives. Long-lived assets are reviewed for impairment when-

ever events or changes in business conditions indicate that the carrying amount of an asset may not be recoverable.

Pension and Other Post-Retirement Benefits

The determination of the obligation and expense for pension and other post-retirement benefits is dependent on the Company's selection of certain assumptions used by actuaries to calculate such amounts. Those assumptions are described in Note 14 to the consolidated financial statements and include, among others, the discount rate, expected return on plan assets and rates of increase in compensation and healthcare costs. In accordance with generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Company's pension and other post-retirement obligations and the Company's future expense.

Taxes

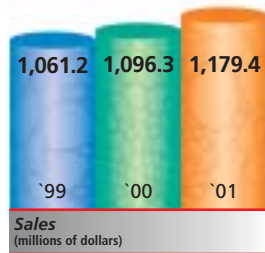
The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. In management's opinion, adequate provisions for income taxes have been made for all years presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(\$ IN MILLIONS, EXCEPT PER SHARE DATA)

The following should be read in conjunction with the consolidated financial statements and related notes.

OPERATING RESULTS FROM CONTINUING OPERATIONS



Sales

Sales increased 7.6%, 3.3% and 7.6% in 2001, 2000 and 1999, respectively. The sales growth is attributed to price increases, the annual addition of new products, acquisitions and volume gains provided by increased sales and marketing activities. Price increases for products listed in the sales catalogs averaged

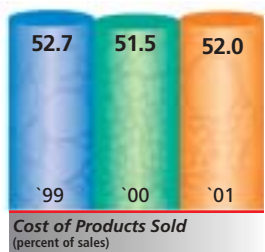
4.5%, 4.0% and 3.0% in 2001, 2000 and 1999, respectively. New product sales, while not material in the year introduced, do contribute to sales growth in subsequent years. Acquisitions contributed growth of 1.3% in 2001 and 2.9% in 1999. Acquisitions did not contribute to growth in 2000. The effect of translating foreign currency sales into U.S. dollars reduced the 2001, 2000 and 1999 sales growth by 2.9%, 4.4% and 0.8%, respectively.

Scientific Research currency adjusted sales growth was 10.0% in 2001, including benefits from the Isotec acquisition. Internal (currency adjusted) gains of 7.8% for 2001 continued to exceed market rates, benefiting from pricing gains and sales strength in international markets. Biotechnology sales gains met growth expectations for the year, with an increase of 12.2% in 2001, excluding currency impacts. Currency adjusted sales gains in Fine Chemicals of 11.5% for 2001 were also in line with growth expectations. Currency adjusted sales growth for Diagnostics of 7.4% for 2001 was below expectations primarily related to acquired businesses. A summary of reported and currency adjusted sales growth is as follows:

Twelve Months Ended December 31, 2001

	Reported	Currency Adjusted
Scientific Research	6.8%	10.0%
Biotechnology	8.7%	12.2%
Fine Chemicals	9.5%	11.5%
Diagnostics	5.8%	7.4%
Total Company	7.6%	10.5%

Excluding currency impacts, international direct sales increased 10.5%, 9.6% and 13.7% in 2001, 2000 and 1999, respectively. The increases in international direct sales in 2000 and 1999 were partially offset by declines in U.S. export sales of 9.8% and 39.7%, respectively.



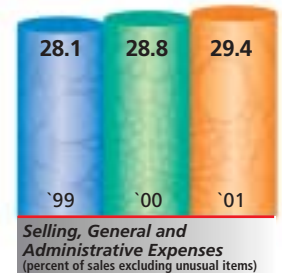
Cost of Products Sold

Cost of Products Sold was 52.0%, 51.5% and 52.7% of net sales in 2001, 2000 and 1999, respectively. The decrease in the gross profit rate in 2001 reflects increased investments to develop new products and growth in lower margin products, only partially offset by price

increases. The increase in the gross profit rate in 2000 reflects price increases and process improvement savings. Overall, the cost of products sold increased 8.6% and 1.0% compared to a sales increase of 7.6% and 3.3% in 2001 and 2000, respectively.

Selling, General and Administrative Expenses

Excluding unusual items, selling, general and administrative expenses were 29.4%, 28.8% and 28.1% of sales in 2001, 2000 and 1999, respectively. In 2001, selling, general and administrative expenses as a percent of sales increased 0.6% due to increases in benefits and insurance costs (experienced by many companies due to market conditions), enhanced sales force capabilities, added costs to continue implementation of global systems and acquired Diagnostics' businesses. In 2000, selling, general and administrative expenses, excluding unusual items, increased 0.7% as a percent of sales due to acquisitions, new catalogs, increased sales efforts, continued upgrades of our Web site and internal operating systems and product acquisitions and development.



Net interest expense reduced pretax earnings by \$16.5 and \$6.6 in 2001 and 2000, respectively, while net interest income contributed \$3.7 to pretax earnings in 1999. The increase in interest expense in 2001 and 2000 resulted from borrowings for acquisitions and share repurchases.

Accounting Changes

Recently enacted accounting standards will result in goodwill amortization being discontinued for all companies starting in 2002. The Company's goodwill amortization was \$8.4 million (\$.09 per share) for 2001 and would have been an equivalent amount in 2002, absent this change.

In 2000, to comply with new accounting requirements, sales were restated to include shipping and handling fees billed to customers that were previously offset against selling, general and administrative expenses. Shipping and handling costs previously included in selling, general and administrative expenses are now included in cost of products sold. The reclassifications had no effect on pretax or net income and all periods presented reflect these changes.

Income Taxes

Excluding unusual items, income taxes, which include federal, state and international taxes were 30.3%, 31.0% and 31.9% of pretax income from continuing operations in 2001, 2000 and 1999, respectively. The reduction in the income tax rate in 2001 is a result of an increase in the Foreign Sales Corporation (FSC) benefit, partially offset by an increase in international taxes. The reduction in the income tax rate from 1999 to 2000 is the result of increases in foreign tax credits, offset by a slight increase in state income taxes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(\$ IN MILLIONS, EXCEPT PER SHARE DATA)

The following should be read in conjunction with the consolidated financial statements and related notes.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash provided by operating activities was \$159.1, \$115.0 and \$230.9 in 2001, 2000 and 1999, respectively. The increase in 2001 primarily resulted from lower growth in inventories in 2001 compared to 2000, and reduced accounts receivable levels. The decrease in 2000 compared to 1999 primarily resulted from higher growth in inventories to support new product launches and stronger growth in Biotechnology and international sales and taxes paid on the gain on sale of B-Line Systems metal business.

Cash generated by operations and available from credit facilities continues to provide sufficient liquidity for present and future operating and capital needs.

Investing Activities

Cash used in investing activities was \$148.4 in 2001 compared to the cash provided by investing activities of \$319.6 in 2000. In 2001, cash used for investing activities related primarily to capital expenditures of \$109.8 and the acquisition of Isotec, Inc. for \$37.2. In 2000, the Company received cash proceeds of \$430.4 from the sale of the B-Line Systems metal business, and used \$69.2 for capital expenditures and \$41.2 for the acquisitions of ARK Scientific GmbH, First Medical, Inc. and Amelung GmbH. In 1999, the cash used of \$98.7 is primarily for capital expenditures of \$91.8.

During 2002, we anticipate capital spending in the range of \$60 – \$70 to further enhance distribution and production facilities.

Financing Activities

In 2001, the Company used cash of \$5.8 in financing activities for stock repurchases and payment of dividends offset by the issuance of debt and proceeds from the exercise of stock options. The Board of Directors authorized the purchase of up to 35 million shares of Company stock, of which 29.7 million shares were purchased by December 31, 2001. Outflows totaled \$24.5 and \$173.9 for dividend payments and stock repurchases in 2001, respectively, compared to dividends paid of \$26.1 and \$29.7 and stock repurchases of \$700.5 and \$77.8 for 2000 and 1999, respectively.

At December 31, 2001, the Company had short-term credit facilities totaling \$300, of which \$45 was available. These facilities were put in place to provide back-up liquidity for a commercial paper program launched in January 2002, at which time loans outstanding from the facilities were repaid.

In November 2001, the Company issued \$75 of 5.16% senior notes payable in 2006 and other long-term debt of \$1.9 bringing total long-term debt to \$177.7 from \$100.8 in 2000. The proceeds from the borrowings were used to reduce short-term borrowings, for stock repurchases, acquisitions and for general corporate purposes. Total debt as a percentage of total capitalization was 35.6% and 24.6% at December 31, 2001 and 2000, respectively.

ENVIRONMENTAL MATTERS

The operations of the Company, like those of other companies engaged in similar lines of business, are subject to various federal, state, foreign and local laws and regulations intended to protect the public health and the environment. These

regulations primarily relate to worker safety, air and water quality and waste handling. The Company believes it is in compliance in all material respects with these regulations.

INFLATION

Management recognizes that inflationary pressures may have an adverse effect on the Company through higher asset replacement costs and higher material costs. The Company tries to minimize these effects through cost reductions and

productivity improvements as well as price increases to maintain reasonable profit margins. It is management's view, however, that inflation has not had a significant impact on operations in the three years ended December 31, 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(\$ IN MILLIONS, EXCEPT PER SHARE DATA)

The following should be read in conjunction with the consolidated financial statements and related notes.

MARKET RISK SENSITIVE INSTRUMENTS AND POSITIONS

The market risk inherent in the Company's financial instruments and positions represents the potential loss arising from adverse changes in interest rates and foreign currency exchange rates.

Interest Rates

At December 31, 2001, the Company's outstanding debt represents 35.6% of total capitalization. Approximately 40% of the Company's outstanding debt at December 31, 2001 is at a fixed rate. Cash flows from operations and available credit facilities are sufficient to meet the working capital requirements of the Company. It is management's view that market risk or variable interest rate risk will not significantly impact the Company's results of operations.

Foreign Currency Exchange Rates

The Company uses forward currency contracts to manage some of the risks associated with certain receivables and payables denominated in foreign

currencies in order to stabilize the value of receivables and payables. Most of the contracts are single currency. Gains and losses on these contracts, based on the difference in the contract rate and the spot rate at the end of each month for all contracts still in force, are typically offset either partially or completely by transaction gains and losses, with any net gains and losses included in selling, general and administrative expenses. The market risk of foreign currency rate changes represents the potential loss in fair value of net currency positions at year-end due to an adverse change in foreign currency exchange rates. The Company does not enter into foreign currency contracts for speculative trading purposes.

The market risk of the Company's foreign currency positions at December 31, 2001, assuming a hypothetical 10% change in foreign currency exchange rates, would be \$0.2.

RESTRUCTURING ACTIVITIES

In 1999, the Company recorded charges for restructuring in the amount of \$3.9 (\$2.6 after taxes or \$.03 per basic and diluted share).

These charges related primarily to termination costs associated with the reorganization of the Company.

DISCONTINUED OPERATIONS

Results from discontinued operations represent the activity of the B-Line Systems metal business (B-Line). The sale of B-Line for \$430.4, which was completed on May 1, 2000, resulted in a \$171.1 gain. Operating results of

B-Line through April 30, 2000 and the gain on the sale of B-Line are included as discontinued operations in the Consolidated Statements of Income.

FORWARD-LOOKING STATEMENTS

Management's discussion and analysis and other sections of the Annual Report to shareholders should be read in conjunction with the consolidated financial statements and notes thereto. Except for historical information, the statements in this discussion may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve risk and uncertainty, including financial, business environment and projections, as well as statements that are preceded by, followed by, or that include words "believes," "expects," "anticipates," "should," or similar expressions, and other statements contained herein regarding matters that are not historical facts. Additionally, the Annual Report to shareholders contains forward-looking statements relating to future performance, goals, strategic actions and initiatives and similar intentions and beliefs, including without limitation statements regarding the Company's expectations, goals, beliefs, intentions and the like regarding future sales, earnings, return on equity and other

matters. These statements involve assumptions regarding Company operations, investments, acquisitions and conditions in the markets the Company serves. 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 Annual Report to shareholders, 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 health care reform, government regulations applicable to the business, including without limitation, export controls, the impact of fluctuations in interest rates and foreign currency exchange rates and the effectiveness of the Company's further implementation of its global software systems. The Company does not undertake any obligation to update these forward-looking statements.

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Years Ended December 31,		
	2001	2000	1999
Net sales	\$1,179,447	\$1,096,270	\$1,061,179
Cost of products sold	613,042	564,360	558,829
Gross profit	566,405	531,910	502,350
Selling, general and administrative expenses	347,030	315,730	298,457
Provision for restructuring	—	—	3,900
Purchased in-process research and development	1,200	6,700	—
Interest, net	16,542	6,571	(3,724)
Income from continuing operations before provision for income taxes	201,633	202,909	203,717
Provision for income taxes	60,928	63,859	55,112
Net income from:			
Continuing operations	140,705	139,050	148,605
Discontinued operations	—	10,081	23,665
Gain on sale of discontinued operations, net of taxes	—	171,067	—
Net income	\$ 140,705	\$ 320,198	\$ 172,270
Weighted average number of shares outstanding - Basic	74,559	83,345	100,672
Weighted average number of shares outstanding - Diluted	75,175	83,585	100,984
Net income per share - Basic:			
Net income from continuing operations	\$1.89	\$1.67	\$1.47
Net income from discontinued operations	—	.12	.24
Gain on sale of discontinued operations, net of taxes	—	2.05	—
Net income	\$1.89	\$3.84	\$1.71
Net income per share - Diluted:			
Net income from continuing operations	\$1.87	\$1.66	\$1.47
Net income from discontinued operations	—	.12	.24
Gain on sale of discontinued operations, net of taxes	—	2.05	—
Net income	\$1.87	\$3.83	\$1.71

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	December 31,	
	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	\$ 37,637	\$ 31,058
Accounts receivable, less allowance for doubtful accounts of \$6,176 and \$5,550, respectively	181,450	185,938
Inventories	468,926	444,277
Other current assets	39,298	52,352
Total current assets	727,311	713,625
Property, plant and equipment:		
Land	35,990	34,883
Buildings and improvements	405,669	347,465
Machinery and equipment	513,616	483,600
Construction in progress	37,677	37,487
Less – accumulated depreciation	(450,902)	(410,430)
Net property, plant and equipment	542,050	493,005
Goodwill, net	127,602	118,158
Other assets	42,839	22,919
Total assets	\$1,439,802	\$1,347,707
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable and current maturities of long-term debt	\$ 270,382	\$ 180,109
Accounts payable	59,509	58,050
Accrued payroll and payroll taxes	26,266	22,422
Accrued income taxes	13,391	47,819
Other accrued expenses	28,015	26,880
Total current liabilities	397,563	335,280
Long-term debt	177,700	100,846
Deferred post-retirement benefits	43,778	42,827
Other liabilities	11,046	9,479
Total liabilities	630,087	488,432
Stockholders' equity:		
Common stock, \$1.00 par value; 200,000 shares authorized; 101,040 and 101,056 shares issued at December 31, 2001 and 2000, respectively; 73,014 and 76,216 shares outstanding at December 31, 2001 and 2000, respectively	101,040	101,056
Capital in excess of par value	43,373	41,129
Common stock in treasury, at cost, 28,026 and 24,840 shares at December 31, 2001 and 2000, respectively	(903,479)	(756,968)
Retained earnings	1,648,214	1,532,044
Accumulated other comprehensive loss	(79,433)	(57,986)
Total stockholders' equity	809,715	859,275
Total liabilities and stockholders' equity	\$1,439,802	\$1,347,707

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Common Stock	Capital in Excess of Par Value	Common Stock in Treasury	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
Balance, December 31, 1998	\$100,623	\$29,238	\$ —	\$1,097,653	\$(11,134)	\$1,216,380	
Net income	—	—	—	172,270	—	172,270	\$172,270
Other comprehensive loss-foreign currency translation	—	—	—	—	(28,602)	(28,602)	(28,602)
Comprehensive income	—	—	—	—	—	—	\$143,668
Dividends (\$.2950 per share)	—	—	—	(29,739)	—	(29,739)	
Awards under deferred compensation plan	29	848	—	—	—	877	
Exercise of stock options	253	5,697	—	—	—	5,950	
Stock repurchases	—	—	(77,785)	—	—	(77,785)	
Balance, December 31, 1999	100,905	35,783	(77,785)	1,240,184	(39,736)	1,259,351	
Net income	—	—	—	320,198	—	320,198	\$320,198
Other comprehensive loss-foreign currency translation	—	—	—	—	(18,250)	(18,250)	(18,250)
Comprehensive income	—	—	—	—	—	—	\$301,948
Dividends (\$.3150 per share)	—	—	—	(26,077)	—	(26,077)	
Awards under deferred compensation plan	—	—	381	—	—	381	
Exercise of stock options	151	5,346	20,928	(2,261)	—	24,164	
Stock repurchases	—	—	(700,492)	—	—	(700,492)	
Balance, December 31, 2000	101,056	41,129	(756,968)	1,532,044	(57,986)	859,275	
Net income	—	—	—	140,705	—	140,705	\$140,705
Other comprehensive loss-foreign currency translation	—	—	—	—	(21,447)	(21,447)	(21,447)
Comprehensive income	—	—	—	—	—	—	\$119,258
Dividends (\$.3325 per share)	—	—	—	(24,535)	—	(24,535)	
Awards under deferred compensation plan	—	(372)	1,781	—	—	1,409	
Shares exchanged for stock options	(16)	—	—	—	—	(16)	
Exercise of stock options	—	2,616	25,607	—	—	28,223	
Stock repurchases	—	—	(173,899)	—	—	(173,899)	
Balance, December 31, 2001	\$101,040	\$43,373	\$(903,479)	\$1,648,214	\$(79,433)	\$ 809,715	

Common stock shares issued and common stock shares in treasury are summarized below:

	Common Stock Issued	Common Stock in Treasury
Balance, December 31, 1998	100,623	—
Awards under deferred compensation plan	29	—
Exercise of stock options	253	—
Stock repurchases	—	2,613
Balance, December 31, 1999	100,905	2,613
Awards under deferred compensation plan	—	(8)
Exercise of stock options	151	(704)
Stock repurchases	—	22,939
Balance, December 31, 2000	101,056	24,840
Awards under deferred compensation plan	—	(60)
Shares exchanged for stock options	(16)	—
Exercise of stock options	—	(818)
Stock repurchases	—	4,064
Balance, December 31, 2001	101,040	28,026

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Years Ended December 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income	\$140,705	\$320,198	\$172,270
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	71,373	67,563	66,919
Gain on sale of discontinued operations	—	(171,067)	—
Purchased in-process research and development	1,200	6,700	—
Deferred income taxes	4,746	(28,254)	7,086
Post-retirement benefits expense	4,314	3,988	4,695
Deferred compensation, net	(1,554)	(846)	(1,766)
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	2,472	(138)	(12,342)
Increase in inventories	(26,716)	(39,118)	(7,016)
Other	(37,451)	(44,050)	1,083
Net cash provided by operating activities	159,089	114,976	230,929
Cash flows from investing activities:			
Property, plant and equipment additions	(109,763)	(69,184)	(91,810)
Sale of equipment	1,531	841	990
Proceeds from sale of discontinued operations	—	430,389	—
Acquisition of businesses	(37,223)	(41,206)	—
Other, net	(2,908)	(1,278)	(7,913)
Net cash (used in) provided by investing activities	(148,363)	319,562	(98,733)
Cash flows from financing activities:			
Issuance (repayment) of short-term debt	91,369	159,409	(10,093)
Issuance of long-term debt	77,261	100,607	—
Repayment of long-term debt	(228)	—	(160)
Payment of dividends	(24,535)	(26,077)	(29,739)
Stock repurchases	(173,899)	(700,492)	(77,785)
Exercise of stock options	24,196	24,164	5,950
Net cash used in financing activities	(5,836)	(442,389)	(111,827)
Effect of exchange rate changes on cash	1,689	(4,938)	(867)
Net change in cash and cash equivalents	6,579	(12,789)	19,502
Cash and cash equivalents at beginning of year	31,058	43,847	24,345
Cash and cash equivalents at end of year	\$ 37,637	\$ 31,058	\$ 43,847
Supplemental disclosures of cash flow information:			
Income taxes paid	\$ 90,514	\$153,425	\$ 65,818
Interest paid, net of capitalized interest	18,182	8,288	1,765

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:

Sigma-Aldrich Corporation ("the Company") develops, manufactures and distributes the broadest range of high quality biochemicals, organic chemicals, chromatography products and diagnostic reagents available in the world. These products are used in scientific and genomic research, biotechnology, pharmaceutical development, chemical manufacturing and in the diagnosis of disease.

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Financial Instruments:

Except as described in note 6, the Company has no financial instruments that have a materially different fair value than the respective instrument's carrying value.

Revenue:

Revenue, which includes shipping and handling fees billed to customers, is recognized when the product is shipped to the customer.

Cash and Cash Equivalents:

Cash and cash equivalents include cash on hand and investments with original maturities of less than three months.

Property, Plant and Equipment:

The cost of property, plant and equipment is depreciated over the estimated useful lives of the assets using the straight-line method with lives ranging from three to twelve years for machinery and equipment and fifteen to forty years for buildings and improvements. Depreciation expense was \$61,360, \$54,964 and \$50,257 for the years ended December 31, 2001, 2000 and 1999, respectively. The Company capitalizes interest as part of the cost of constructing major facilities and equipment.

Goodwill:

Goodwill arising from acquisitions made by the Company is capitalized and amortized over periods of five to forty years. Accumulated goodwill amortization at December 31, 2001 and 2000 was \$26,154 and \$18,005, respectively.

Long-Lived Assets:

Long-lived assets, including goodwill and other intangibles, are reviewed for impairment whenever conditions indicate that the carrying value of assets may not be fully recoverable. Such impairment tests are based on a comparison of the undiscounted cash flows prior to income taxes to the recorded value of the asset. If impairment is indicated, the asset value is written down to its fair market value or using discounted cash flows if the fair market value is not readily determinable.

Foreign Currency Translation:

Assets and liabilities denominated in foreign currency are translated at current exchange rates and profit and loss accounts are translated at weighted average exchange rates. Resulting translation gains and losses are included as a separate component of stockholders' equity, as accumulated other comprehensive income or loss.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the years presented. Actual results could differ from those estimates.

Reclassifications:

The accompanying consolidated financial statements for prior years contain certain reclassifications to conform with the presentation used in 2001. The consolidated operating results include the Company's B-Line Systems metal business (sold in 2000) as a discontinued operation.

Effect of New Accounting Standards:

In June 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142).

SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. Under SFAS 141, intangible assets should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so.

With the issuance of SFAS 142, recorded goodwill and goodwill acquired in business combinations will no longer be systematically amortized against earnings over the estimated useful life. Goodwill recorded at June 30, 2001 is amortized until, but not after, December 31, 2001. Goodwill added after June 30, 2001, if any, is not amortized. Instead, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value based test, with any impairment charged to earnings at that time. Intangible assets with indefinite lives will not be amortized and will be subject to an assessment for impairment, similar to goodwill. Intangible assets with finite lives will be amortized accordingly. The Company's goodwill amortization is \$8,352 (\$.09 per share) for 2001 and would have been an equivalent amount in 2002, absent this change.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement will be effective for the Company for the year ending December 31, 2003. The Company is currently evaluating the impact of SFAS 143 on its financial statements.

In August 2001, the FASB also issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144, which supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", provides for a single accounting model for long-lived assets to be disposed of by sale. The main objective of this Statement is to resolve implementation issues related to SFAS 121 by clarifying certain of its provisions. This Statement will be effective for the Company for the year ending December 31, 2002. The Company is currently evaluating the impact of SFAS 144 on its financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)
(CONTINUED)

NOTE 2: ALLOWANCE FOR DOUBTFUL ACCOUNTS

Changes in the allowance for doubtful accounts for the years ended December 31, 2001, 2000 and 1999 are as follows:

	2001	2000	1999
Balance, beginning of year	\$5,550	\$9,695	\$ 6,473
Additions to reserves	5,060	3,285	10,968
Deductions from reserves	4,434	7,430	7,746
Balance, end of year	\$6,176	\$5,550	\$ 9,695

NOTE 3: INVENTORIES

The principal categories of inventories are:

	December 31,	
	2001	2000
Finished goods	\$384,498	\$367,283
Work in process	26,247	21,871
Raw materials	58,181	55,123
Total	\$468,926	\$444,277

Inventories are valued at the lower of cost or market. Costs for certain domestic inventories (22% of total inventories at December 31, 2001) are determined using the last-in, first-out method. Costs for other inventories are based on actual costs using purchase price and costs to manufacture, which includes material, labor and overhead. If the cost of all chemical inventories had been determined using the above method, inventories would have been \$1,513, \$1,178, \$1,627, and \$3,161 higher than reported at December 31, 2001, 2000, 1999, and 1998, respectively.

NOTE 4: DISCONTINUED OPERATIONS

The Company completed the sale of its B-Line Systems metal business in May 2000 for \$430,389, resulting in a net gain of \$171,067 after deducting taxes of \$102,301.

Operating results for the metal business prior to its sale are included in the Consolidated Statements of Income as net income from discontinued operations. Results for discontinued operations are as follows:

	Years ended December 31,	
	2000	1999
Net sales	\$101,093	\$252,587
Income before income taxes	\$ 16,002	\$ 37,563
Provision for income taxes	5,921	13,898
Net income	\$ 10,081	\$ 23,665

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)

(CONTINUED)

NOTE 5: NOTES PAYABLE

The Company has short term credit facilities totaling \$300,000, consisting of a 364-day committed facility in the amount of \$150,000 expiring on December 11, 2002, and a five-year committed facility in the amount of \$150,000 expiring on December 11, 2006. These facilities were added in 2001 to provide back-up liquidity for a commercial paper program launched in January 2002. The facilities are provided by a syndicate of banks and replaced several bilateral credit facilities totaling \$360,000. Borrowings under these facilities of \$255,000 at a weighted average interest rate of 2.7% and \$166,300 at a weighted average interest rate of 7.0% were outstanding at December 31, 2001 and 2000, respectively. The syndicated facilities contain financial covenants related to interest coverage and debt levels in relation to total capitalization. The Company is in full compliance with these covenants.

The Company intends to renew these facilities as they expire. These facilities may be terminated by the lending banks only in the event of default by the Company. The facilities may be terminated prior to their expiration dates by the Company upon notice to the participating banks. Interest rates for these facilities are based on LIBOR or prime at the Company's option.

Notes payable by international subsidiaries were \$14,881 and \$13,711 at December 31, 2001 and 2000, respectively. The notes are payable in local currencies with weighted average interest rates of 0.8% and 1.9% at December 31, 2001 and 2000, respectively.

NOTE 6: LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2001	2000
7.687% Senior Notes, due September 12, 2010	\$100,000	\$100,000
5.16% Senior Notes, due November 20, 2006	75,000	—
Other	3,201	944
Total	178,201	100,944
Less-Current maturities	(501)	(98)
	\$177,700	\$100,846

In November 2001, the Company issued \$75,000 of 5.16% Senior Notes to several insurance companies. The Company, at its option, may redeem all

or any portion of the Senior Notes by notice to the holder. The Senior Notes contain certain covenants that require the maintenance of net worth and restrict indebtedness. The Company is in full compliance with these covenants.

Total interest expense incurred by the Company, net of amounts capitalized, was \$18,161, \$10,189 and \$918 in 2001, 2000 and 1999, respectively.

The fair value of long-term debt for the Company, including current maturities, was approximately \$193,406 and \$100,944 at December 31, 2001 and 2000, respectively, based upon a discounted cash flow analysis using current market interest rates.

NOTE 7: FINANCIAL DERIVATIVES AND RISK MANAGEMENT

The Company transacts business in many parts of the world and is subject to risks associated with changing foreign currency exchange rates. The Company's objective is to minimize the impact of foreign currency exchange rate changes during the period of time between the original transaction date and its cash settlement. Accordingly, the Company enters into forward currency exchange contracts in order to stabilize the value of certain receivables and payables denominated in foreign currencies. The Company does not enter into foreign currency transactions for speculative trading purposes. The Company's policy is to manage the risks associated with existing receivables, payables and commitments.

The principal forward currency exchange contracts are for the British pound, the Euro, Swiss franc, Japanese yen and Canadian dollar. These contracts are recorded at fair value and are included in other current assets. Resulting gains and losses are recorded in selling, general and administrative expenses and are partially or completely offset by changes in the value of related exposures. The duration of the contracts typically does not exceed six months. The counterparties to the contracts are large, reputable commercial banks and, accordingly, the Company expects all counterparties to meet their obligations.

The notional amount of open forward exchange contracts at December 31, 2001 and 2000 was \$178,569 and \$284,218, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)
(CONTINUED)

NOTE 8: LEASE COMMITMENTS

The Company and its subsidiaries lease manufacturing, office and warehouse facilities and computer equipment under non-cancelable operating leases expiring at various dates. Rent charged to operations was \$17,811, \$15,602 and \$13,764 in 2001, 2000 and 1999, respectively. Minimum rental commitments for non-cancelable leases in effect at December 31, 2001, are as follows:

2002	\$11,658
2003	8,560
2004	5,378
2005	3,485
2006	2,672
2007 and thereafter	7,396

NOTE 9: INCOME TAXES

The provision for income taxes from continuing operations consists of the following:

	2001	2000	1999
Current:			
Federal	\$39,058	\$50,310	\$34,110
State	4,385	6,272	2,410
International	12,739	37,420	12,519
Total current	56,182	94,002	49,039
Deferred:			
Federal	2,381	(5,652)	6,320
State	326	(691)	479
International	2,039	(23,800)	(726)
Total deferred	4,746	(30,143)	6,073
Provision for income taxes	\$60,928	\$63,859	\$55,112

A reconciliation of statutory and effective tax rates is as follows:

	2001	2000	1999
Statutory tax rate	35.0%	35.0%	35.0%
FSC benefits	(4.4)	(2.7)	(2.7)
State income taxes, net of federal benefits	2.1	1.6	1.1
Research and development credits ..	(1.4)	(1.1)	(2.9)
International taxes	(.8)	(3.4)	(3.1)
Purchased in-process research and development	—	.7	—
Other, net	(.3)	1.4	(.3)
Total effective tax rate on continuing operations	30.2%	31.5%	27.1%

The Company's Foreign Sales Corporation ("FSC") subsidiary is taxed at a lower effective tax rate on its income from U.S. export sales. The increase in the FSC benefit in 2001 results from prior year redeterminations. The FSC has been replaced by the Extraterritorial Income Exclusion (EIE) on the Company's U.S. export sales for 2002 and beyond. The EIE will lower the effective tax rate on income from U.S. export sales and produce approximately the same benefit as was provided by the FSC. Research and development credits are a benefit of the Company's commitment of resources to new and enhanced products. The international tax rate reduction in prior years results from the benefit from international restructurings.

Deferred income tax provisions reflect the effect of temporary differences between financial statement and tax reporting of income and expense items. The net deferred tax asset at December 31, which is included in other assets in the consolidated balance sheets, results from the following temporary differences:

	2001	2000
Gross deferred assets:		
Inventories	\$25,774	\$25,564
Pension and post-retirement benefit plans ..	6,767	10,201
Total	32,541	35,765
Gross deferred liabilities:		
Depreciation and amortization	(22,118)	(15,890)
Other	(6,648)	(11,354)
Total	(28,766)	(27,244)
Net deferred tax asset	\$ 3,775	\$ 8,521

United States taxes are not provided on unremitted earnings and related cumulative translation adjustments of international subsidiaries because the Company intends to reinvest the earnings indefinitely. The estimated amount of income taxes that would be incurred should such earnings be distributed is not significant due to the availability of foreign tax credits.

NOTE 10: CONTINGENT LIABILITIES AND COMMITMENTS

At December 31, 2001, there were no known contingent liabilities (including guarantees, pending litigation, taxes and other claims) that management believes will have a material effect on the Company's results of operations or

financial position, nor were there any material commitments outside the normal course of business.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)
(CONTINUED)

NOTE 11: COMMON STOCK

The Company's deferred compensation plan provides for cash and common stock payments to certain key employees. Under this plan, a bonus pool is calculated by a formula based on the amount of increase in profitability. Bonus units are then awarded. Bonus units are distributed five years after being awarded in the form of one share of common stock for each bonus unit. In addition, the Company makes cash payments equal to the amount of Federal income taxes the employee would be required to pay for the receipt of such stock and cash at the highest marginal Federal income tax rate. During 2001, 2000 and 1999, 60,400, 7,800, and 28,700 shares of common stock, respectively, were issued under this plan. At December 31, 2001, 20,550 bonus units were awarded but not distributed. This plan permits the issuance of a maximum of 2,400,000 shares of the Company's common stock, of which 1,521,000 shares remain to be awarded.

The Company has a Directors' Non-Qualified Share Option Plan. This plan permits the award of non-qualified stock options to purchase up to 400,000 shares of the Company's common stock to those members of the Board of Directors who are not employees of the Company. Under this plan, the seven non-employee Directors received an initial option to purchase 10,000 shares of common stock. Additional awards of options to purchase 2,000 shares are made to each eligible Director on the day after each annual shareholders' meeting. Options were granted in the amounts of 44,000, 14,000 and 14,000 shares for 2001, 2000 and 1999, respectively, at prices ranging from \$28.625 to \$46.92 per share. Options for 244,000 shares remain to be granted at December 31, 2001.

The Company's Share Option Plan of 2000, which replaced the Share Option Plan of 1995, permits the granting of incentive stock options or non-qualified options to purchase up to 4,500,000 shares of the Company's common stock. Incentive stock options may not have an option price of less than the fair market value of the shares at the date of the grant. Options generally become exercisable one year following the grant date and expire ten years after the grant date. Options granted in 2001 and 2000 for 67,500 and

602,000 shares, respectively, become exercisable over a one to five year period. Options to purchase 3,136,250 shares of the Company's common stock under this plan remained to be granted at December 31, 2001.

Options granted under the 1995 Plan in 2000 and 1999 to purchase 31,000, and 312,000 shares, respectively, become exercisable over one to five years.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards in 2001, 2000 and 1999 consistent with the provisions of this Statement, the Company's net income and net income per share would have been as follows:

	2001	2000	1999
Pro-forma net income	\$139,447	\$302,930	\$164,326
Net income per share – Basic	\$ 1.87	\$ 3.63	\$ 1.63
Net income per share – Diluted	\$ 1.85	\$ 3.62	\$ 1.63

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for 2001: dividend yield of .85%, expected volatility of 30.4%, risk-free interest rate of 4.78% and expected life based on historical exercise periods of 6.5 years. The weighted-average assumptions for 2000 and 1999 are as follows: dividend yields of .91% and .86%, expected volatility of 47.1% and 24.2%, risk-free interest rates of 5.14% and 6.69% and expected life based on historical exercise of 6.3 and 6.0 years.

The following table summarizes information about stock options outstanding at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/01	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	Number Exercisable at 12/31/01	Wtd. Avg. Exercise Price
\$18.125 to \$24.00	217,417	34.4 months	\$18.73	217,417	\$18.73
\$25.50 to \$31.25	1,194,541	69.9 months	27.03	1,066,241	26.93
\$31.75 to \$36.00	572,025	70.8 months	35.49	572,025	35.49
\$36.50 to \$49.00	1,581,200	102.5 months	37.20	1,471,700	36.85
	3,565,183	82.3 months	\$32.39	3,327,383	\$32.08

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)

(CONTINUED)

NOTE 11: COMMON STOCK (CONTINUED)

A summary of the combined activity and balances for the Company's stock options for all plans as of December 31, 2001, 2000 and 1999 and changes during the years ended on those dates is as follows:

	2001		2000		1999	
	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Options outstanding, beginning of year	4,363,121	\$31.44	3,898,011	\$28.67	3,242,257	\$29.05
Options granted	111,500	41.61	1,341,250	36.20	1,240,000	27.16
Options exercised	(818,188)	29.43	(855,140)	26.10	(253,114)	23.47
Options cancelled	(91,250)	35.32	(21,000)	38.62	(331,132)	32.70
Options outstanding, end of year	3,565,183	\$32.39	4,363,121	\$31.44	3,898,011	\$28.67
Options exercisable at year-end	3,327,383	\$32.08	3,021,871	\$29.33	2,691,511	\$29.35
Weighted average fair value of options granted during the year		\$15.47		\$17.66		\$9.69

NOTE 12: COMPANY OPERATIONS BY SEGMENT

The Company is organized into four business units based on their product offerings and markets they serve. The Company's chief operating decision maker and Board of Directors review net sales for the Company's four business units to assess performance and make overall operating decisions and resource allocations. Because the business units share production and

distribution facilities, specific cost and income information is not provided for each business unit. Profit and loss information is reported on a consolidated basis to the chief operating decision maker and the Company's Board of Directors. Based on these factors, the Company concludes it has one reportable segment. Net sales by business unit are as follows:

	2001	2000	1999
Scientific Research	\$ 655,105	\$ 613,420	\$ 608,688
Biotechnology	240,163	220,969	198,934
Fine Chemicals	207,570	189,497	171,443
Diagnostics	76,609	72,384	82,114
Total	\$1,179,447	\$1,096,270	\$1,061,179

The United States sales to unaffiliated customers presented in the summary below include sales to international markets as follows:

	<u>Year</u> 2001	<u>Amount</u> \$40,249	<u>Year</u> 2000	<u>Amount</u> \$32,420	<u>Year</u> 1999	<u>Amount</u> \$35,959
Net sales to unaffiliated customers:						
United States	\$ 604,545		\$ 547,288		\$ 518,468	
International			548,982		542,711	
Net intercompany sales between geographic areas:						
United States	239,464		230,421		219,432	
International	53,102		49,596		41,796	
Eliminations	(292,566)		(280,017)		(261,228)	
Total	\$1,179,447		\$1,096,270		\$1,061,179	
Income before provision for income taxes:						
United States	\$ 155,446		\$ 168,062		\$ 164,603	
International	45,877		33,441		40,261	
Eliminations	310		1,406		(1,147)	
Total	\$ 201,633		\$ 202,909		\$ 203,717	
Long-lived assets at December 31:						
United States	\$ 404,993		\$ 333,402		\$ 329,083	
International	167,556		165,666		162,279	
Net long-lived assets of discontinued operations	—		—		66,187	
Total	\$ 572,549		\$ 499,068		\$ 557,549	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)
(CONTINUED)

NOTE 13: RESTRUCTURING ACTIVITIES

On November 22, 1999, the Company announced plans to reorganize the chemical business based upon an evaluation of competitive conditions in the market. Accordingly, the Company recorded a one-time restructuring charge

of \$3,900 in 1999. The major component of the restructuring charge related to severance packages for positions eliminated in the reorganization.

NOTE 14: PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The Company maintains several retirement plans covering substantially all U.S. employees and employees of certain international subsidiaries. Pension benefits are generally based on years of service and compensation. The Company also maintains post-retirement medical benefit plans covering most of its U.S. employees. Benefits are subject to deductibles, co-payment

provisions and coordination with benefits available under Medicare. The Company may amend the plans periodically.

The following chart summarizes the balance sheet impact, as well as the benefit obligations, assets, funded status and rate assumptions associated with the pension and post-retirement medical benefit plans.

	Pension Plans				Post-Retirement Medical Benefit Plans	
	United States		International		2001	2000
	2001	2000	2001	2000		
Reconciliation of funded status of the plans and the amounts included in the Company's Consolidated Balance Sheets:						
Change in benefit obligations						
Beginning obligations	\$57,086	\$58,780	\$56,991	\$52,152	\$ 37,908	\$ 36,903
Service cost	2,858	2,728	3,034	2,623	1,582	1,373
Interest cost	4,129	4,850	2,932	2,851	2,787	2,808
Plan participant contributions	—	—	1,277	1,208	—	—
Amendments/New plans	—	—	667	—	—	—
Foreign currency exchange rate changes	—	—	(1,601)	(1,641)	—	—
Actuarial (gains)/losses	(63)	5,370	3,513	1,300	2,650	707
Effect of curtailment – B-Line participants	—	(1,235)	—	—	—	(2,386)
Effect of settlement – B-Line participants	—	(7,230)	—	—	—	—
Benefits paid	(5,630)	(6,177)	(5,424)	(1,502)	(1,640)	(1,497)
Ending obligations	\$58,380	\$57,086	\$61,389	\$56,991	\$ 43,287	\$ 37,908
Changes in plans' assets						
Beginning fair value	\$71,133	\$84,551	\$63,500	\$60,959	\$ —	\$ —
Actual return on plans' assets	(5,031)	(1,011)	590	2,863	—	—
Foreign currency exchange rate changes	—	—	(1,742)	(2,033)	—	—
Employer contributions	9,923	1,000	2,427	2,005	1,640	1,497
Plan participant contributions	—	—	1,277	1,208	—	—
Effect of settlement – B-Line participants	—	(7,230)	—	—	—	—
Benefits paid	(5,630)	(6,177)	(5,424)	(1,502)	(1,640)	(1,497)
Ending fair value	\$70,395	\$71,133	\$60,628	\$63,500	\$ —	\$ —
Balance sheet amount						
Funded status	\$12,015	\$14,047	\$ (761)	\$ 6,509	\$(43,287)	\$(37,908)
Unrecognized net actuarial (gains) losses	11,644	111	3,924	(3,022)	(2,130)	(4,836)
Unrecognized prior service cost	5,408	6,014	1,962	1,540	—	—
Unrecognized net transition asset	(241)	(322)	(38)	(78)	—	—
Additional liability	—	—	(612)	—	—	—
Net balance sheet asset/(liability)	\$28,826	\$19,850	\$ 4,475	\$ 4,949	\$(45,417)	\$(42,744)
Weighted average assumptions as of December 31						
Discount rate	7.00%	7.50%	5.40%	5.40%	7.00%	7.50%
Expected return on plan assets	9.50%	9.50%	6.70%	6.90%	n/a	n/a
Compensation rate increase	4.50%	5.00%	4.20%	4.40%	n/a	n/a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)
(CONTINUED)

NOTE 14: PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

The components of the net periodic benefit costs are as follows:

	Pension Plans						Post-Retirement Medical Benefit Plans		
	United States			International			2001	2000	1999
	2001	2000	1999	2001	2000	1999			
Service cost	\$2,858	\$2,728	\$3,634	\$3,034	\$2,623	\$2,532	\$1,582	\$1,373	\$1,908
Interest cost	4,129	4,850	4,188	2,932	2,851	2,561	2,787	2,808	2,787
Expected return on plan assets	(6,565)	(7,410)	(6,680)	(3,943)	(4,281)	(3,823)	—	—	—
Plan settlement and curtailment	—	250	—	—	—	—	—	—	—
Amortization	525	479	699	131	(57)	(12)	(55)	(193)	—
Net periodic benefit cost	\$ 947	\$ 897	\$1,841	\$2,154	\$1,136	\$1,258	\$4,314	\$3,988	\$4,695

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement medical benefit plans. Medical costs were assumed to increase at an annual rate of 8.0% in 2001, decreasing ratably to a growth rate of 5.0% in 2004 and remaining at 5.0% per year thereafter. The effects of a one-percentage point decrease in the assumed health care cost trend rates on the aggregate service and interest cost components and on the post-retirement benefit obligations are decreases of \$210 and \$1,620, respectively. The effects of a one-percentage point increase on the aggregate service and interest cost components and on the post-retirement benefit obligations are increases of \$230 and \$1,760, respectively. Benefits are funded as claims are paid.

The Company's 401(k) retirement savings plan provides retirement benefits to eligible U.S. employees in addition to those provided by the pension plan. The plan permits participants to voluntarily defer up to 15% of their compensation, subject to Internal Revenue Code limitations. The Company also contributes a fixed amount per year to the account of each eligible employee plus a percentage of the employee's salary deferral. The Company's policy is to fully fund this plan. The cost for this plan was \$5,553, \$5,393 and \$5,831 for the years ended December 31, 2001, 2000 and 1999, respectively.

NOTE 15: EARNINGS PER SHARE

A reconciliation of basic and diluted earnings per share, together with the related shares outstanding is as follows:

	2001	2000	1999
Net income available to common shareholders			
Net income from continuing operations	\$140,705	\$139,050	\$148,605
Net income from discontinued operations	—	10,081	23,665
Gain on sale of discontinued operations, net of taxes	—	171,067	—
Net income	\$140,705	\$320,198	\$172,270
Weighted average shares			
Basic shares	74,559	83,345	100,672
Effect of dilutive securities – options outstanding	616	240	312
Diluted shares	75,175	83,585	100,984
Net income per share – Basic			
Net income from continuing operations	\$ 1.89	\$ 1.67	\$ 1.47
Net income from discontinued operations	—	.12	.24
Gain on sale of discontinued operations, net of taxes	—	2.05	—
Net income	\$ 1.89	\$ 3.84	\$ 1.71
Net income per share – Diluted			
Net income from continuing operations	\$ 1.87	\$ 1.66	\$ 1.47
Net income from discontinued operations	—	.12	.24
Gain on sale of discontinued operations, net of taxes	—	2.05	—
Net income	\$ 1.87	\$ 3.83	\$ 1.71

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)
(CONTINUED)

NOTE 16: STOCKHOLDER RIGHTS PLAN

On August 8, 2000, the Board of Directors declared a dividend of one common share purchase right (a "Right") for each outstanding share of common stock of the Company. The dividend distribution was made on August 22, 2000 (the "Record Date") to stockholders of record as of the close of business on that date. Each Right entitles the registered holder to purchase from the Company one share of common stock at a price of \$150.00 per share (the "Purchase Price"), subject to adjustment.

The Rights generally will be exercisable only after the close of business on the tenth business day following the date of a public announcement or the date on which the Company first has notice or determines that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired, or obtained the right to acquire, 15% or more of the outstanding shares of voting stock of the Company without the prior express written consent of the Company, or the close of business on the tenth business day following the commencement of a tender offer or exchange offer, without the prior written consent of the Company, by a person which, upon consummation, would result in such party's control of 15% or more of the Company's voting stock.

The Rights Agreement requires the Board of Directors to review the Rights after they have been outstanding for four years, provided they have not then become exercisable, to determine whether they should be terminated or left in effect. The Rights will expire, if not previously exercised, exchanged or redeemed, or if the Rights Agreement has not been terminated following such review, on August 8, 2010.

Generally, if any person or group acquires 15% or more of the Company's outstanding voting stock without the prior written consent of the Board of Directors, each Right, except those held by such persons, would entitle each holder of a Right to acquire such number of shares of the Company's common stock as shall equal the result obtained by multiplying the then current

Purchase Price by the number of shares of common stock for which a Right is then exercisable and dividing that product by 50% of the then current per-share market price of Company common stock.

Generally, if any person or group acquires more than 15% but less than 50% of the outstanding Company common stock without prior written consent of the Board of Directors, each Right, except those held by such persons, may be exchanged by the Board of Directors for one share of Company common stock.

If the Company were acquired in a merger or other business combination transaction where the Company is not the surviving corporation or where Company common stock is exchanged or changed or 50% or more of the Company's assets or earnings power is sold in one or several transactions without the prior written consent of the Board of Directors, each Right would entitle the holders thereof (except for the Acquiring Person) to receive such number of shares of the acquiring company's common stock as shall be equal to the result obtained by multiplying the then current Purchase Price by the number of shares of Company common stock for which a Right is then exercisable and dividing that product by 50% of the then current market price per-share of the common stock of the acquiring company on the date of such merger or other business combination transaction.

At any time prior to the tenth business day following the time an Acquiring Person becomes such, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of \$0.01 per Right (the "Redemption Price"). The redemption of the Rights may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)
(CONTINUED)

NOTE 17: ACQUISITIONS

On February 16, 2001, the Company acquired the stock of Isotec, Inc., a leading producer and supplier of stable isotopes and isotopically labeled compounds used in life science research, medical diagnostics and PET imaging applications. The purchase price was approximately \$37,200.

In August 2000, the Company acquired the assets of Amelung GmbH for approximately \$28,000, which includes an initial payment of \$25,000 and assumed debt of \$3,000. A payment of up to an additional \$6,000 may be made in mid-2003 if there have been no adverse impacts against the sellers representations at that time. Amelung GmbH uses leading edge technology to develop and manufacture coagulation instruments.

In July 2000, the Company acquired the stock of First Medical, Inc. First Medical has developed a rapid immunoassay system that provides results to

diagnose acute myocardial infarction. The initial investment was approximately \$15,000, with additional payments required if certain contingent sales and income growth targets are met through 2005.

In May 2000, the Company acquired the stock of ARK Scientific GmbH for approximately \$2,000.

In March 1999, the Company acquired the remaining 25% interest in Riedel-de Haën.

The above transactions have been accounted for using the purchase method of accounting and accordingly are included in the Company's consolidated financial statements from the date of acquisition. The acquisitions were immaterial for proforma presentation requirements.

NOTE 18: PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT

One-time pretax charges for purchased in-process research and development (IPR&D) from the acquisition of Isotec, Inc. amounted to \$1,200 in 2001 and charges for Amelung GmbH and First Medical, Inc. totaled \$6,700 in 2000. IPR&D represents the value assigned to research and development projects of the acquired businesses that had commenced but had not yet been completed at the date of acquisition.

It is the Company's belief that the projects in process were currently not technologically feasible and the projects had no alternative future use for the Company and accordingly the amount of purchase price assigned to these projects was immediately written off to the income statement. The method used to determine the value of IPR&D was a net present value cash flow method.

NOTE 19: SHARE REPURCHASES

At December 31, 2001, the Company had repurchased approximately 29.7 million shares of an authorized 35 million shares. The shares were acquired at an average purchase price of \$32.10. Additional purchases through February 12, 2002 brought the total shares repurchased to approximately 29.8 million.

As of February 12, 2002, approximately 5.2 million shares remained available under the repurchase program. The Company expects to continue share repurchases to acquire the remaining shares, but the timing and number of shares repurchased will depend upon market conditions and other factors.

REPORT OF MANAGEMENT

The management of Sigma-Aldrich Corporation (the Company) prepared and is responsible for the consolidated financial statements and other information in this Annual Report. The statements have been prepared in conformity with accounting principles generally accepted in the United States and include amounts that are based on estimates and judgments that management believes are reasonable under the circumstances.

The Company established and maintains a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of the consolidated financial statements, the protection of assets from unauthorized use and the execution and recording of transactions in accordance with management's authorization. These systems and controls are reviewed by our internal auditors in order to ensure compliance and by our independent accountants to support their audit work.

The Audit Committee of the Board of Directors meets regularly with management, internal auditors and our independent public accountants to review accounting, auditing and financial matters. Our Audit Committee is composed of only outside, non-employee Directors. To ensure complete independence, the Audit Committee, internal auditors and the independent accountants have free access to each other with or without management being present, to discuss the results of their examinations and their opinions on the adequacy of internal controls and the quality of financial reporting.



David R. Harvey
Chairman, President and
Chief Executive Officer



Michael R. Hogan
Chief Administrative Officer,
Chief Financial Officer and Secretary

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Sigma-Aldrich Corporation:

We have audited the accompanying consolidated balance sheets of Sigma-Aldrich Corporation (a Delaware Corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sigma-Aldrich Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP
St. Louis, Missouri
February 12, 2002

SELECTED FINANCIAL DATA

(UNAUDITED)

Common Stock Data (per share):

	2001 Price Range		2000 Price Range		Dividends	
	High	Low	High	Low	2001	2000
First Quarter	\$50.21	\$37.09	\$35.25	\$20.19	\$.0825	\$.0775
Second Quarter	51.20	38.47	36.25	25.50	.0825	.0775
Third Quarter	47.23	38.38	34.13	25.38	.0825	.0775
Fourth Quarter	47.65	36.17	40.88	31.81	.0850	.0825

The common stock is traded on the National Market System ("NMS") of the National Association of Securities Dealers Automated Quotation System ("NASDAQ"). The trading symbol is SIAL. Options in the Company's common stock are traded on the Chicago Board Options Exchange. On March 8, 2002, there were 1,214 record holders of the Company's common stock.

Annual Financial Data (in millions, except per share data):

	2001	2000	1999	1998	1997
Net sales	\$1,179.4	\$1,096.3	\$1,061.2	\$ 986.2	\$ 919.4
Net income from continuing operations	140.7	139.1	148.6	144.8	142.7
Per share:					
Net income from continuing operations – Basic	1.89	1.67	1.47	1.44	1.43
Net income from continuing operations – Diluted	1.87	1.66	1.47	1.43	1.39
Dividends	.3325	.3150	.2950	.2825	.2575
Total assets	1,439.8	1,347.7	1,432.0	1,416.7	1,226.2
Long-term debt	177.7	100.8	.2	.4	.6

Quarterly Financial Data (in millions, except per share data):

	2001 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net sales	\$305.7	\$293.7	\$287.7	\$292.3
Gross profit	148.3	142.2	134.2	141.7
Net income from continuing operations	36.6	37.1	33.8	33.2
Net income per share from continuing operations – Basic	.49	.49	.46	.45
Net income per share from continuing operations – Diluted	.48	.49	.45	.45

	2000 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net sales	\$290.1	\$273.8	\$269.8	\$262.6
Gross profit	143.0	134.9	130.6	123.4
Net income from continuing operations	41.7	37.8	27.9	31.7
Net income per share from continuing operations – Basic	.45	.45	.35	.41
Net income per share from continuing operations – Diluted	.45	.45	.35	.41