

Additional Information in accordance with the German Commercial Code (HGB)

The management report of Merck KGaA, Darmstadt, Germany, has been combined with the Group management report. The Annual Financial Statements and the Combined Management Report of the Group and Merck KGaA, Darmstadt, Germany, for 2020 are being filed with the electronic German Federal Gazette (elektronischer Bundesanzeiger) and are available on the website of the German company register.

Merck KGaA, Darmstadt, Germany, headquartered in Darmstadt, Germany, is the parent company of the Group. In addition to its function as a holding company, Merck KGaA, Darmstadt, Germany, generates sales in the Healthcare, Life Science, and Performance Materials business sectors. The Healthcare business sector has been run as a separate company, Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, since April 1, 2019 (see Effects of material company agreements on the net assets, financial position, and results of operations). Merck KGaA, Darmstadt, Germany, employs the majority of the 11,000-plus workforce in Darmstadt.

The financial statements of Merck KGaA, Darmstadt, Germany, have been prepared in accordance with the provisions of the German Commercial Code (HGB), as amended by the German Accounting Directive Implementation Act (BilRUG), and the German Stock Corporation Act (AktG). The full version of the Annual Financial Statements of Merck KGaA, Darmstadt, Germany, together with the unqualified auditor's opinion has been submitted to the operator of the electronic Federal Gazette (elektronischer Bundesanzeiger), where they are published and forwarded to the company register.

Statement on Corporate Governance

For the fiscal year 2020, our company exercise the option to publish the corporate governance statement on the Group website in accordance with section 315d HGB in conjunction with section 289f (1) sentence 2 of the HGB. The corporate governance declaration is available on the website <https://www.emdgroup.com/en/investors/corporate-governance/reports>.

Effects of material company agreements on the net assets, financial position, and results of operations

End of the temporary business lease of the Healthcare and Performance Materials business sectors

As part of the strategic development of Merck KGaA, Darmstadt, Germany, the existing operating activities of the Healthcare, Life Science, and Performance Materials business sectors within Merck KGaA, Darmstadt, Germany, together with the relevant assets and liabilities (hereinafter: "operating sectors"), were spun off at their carrying amounts into three separate companies (hereinafter: "OpCo" or plural "OpCos") with the legal form of a GmbH or German limited liability corporation (operating spin-off). This operating spin-off is based on the spin-off and takeover agreement concluded between Merck KGaA, Darmstadt, Germany, and the OpCos in notarized form on March 2, 2018. Following approval by the 2018 Annual General Meeting, the operating spin-off took place with economic effect as of 0:00 on January 1, 2018.

Immediately after the spin-off took effect, all shares held by Merck KGaA, Darmstadt, Germany, in the respective OpCos were transferred to holding companies via a further spin-off (holding company spin-off), as a result of which the OpCos are each indirectly held by Merck KGaA, Darmstadt, Germany, via an intermediate holding company. The acquiring legal entities within the scope of the holding company spin-off were Merck Healthcare Holding GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, for the business shares of Healthcare OpCo, Merck Life Science Holding GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, for the business shares of Life Science OpCo, and Merck Performance Materials Holding GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, for the business shares of Performance Materials OpCo (referred to individually as "HoldCo", independently of the sector, and jointly as "HoldCos"). To this end, Merck KGaA, Darmstadt, Germany, and the HoldCos signed a notarized spin-off and takeover agreement on March 2, 2018. The holding company spin-off took place with economic effect as of 0:00 on January 1, 2018.

Since the technical system requirements for the introduction of the sector-specific enterprise resource planning (ERP) systems as regards the OpCos were not in place at the time of the spin-off, the business activities spun off to the OpCos have been temporarily leased back by the relevant OpCos to Merck KGaA, Darmstadt, Germany, until sector-specific ERP systems have been introduced. For this purpose, also on March 2, 2018, Merck KGaA, Darmstadt, Germany, entered into a business leasing contract with each respective OpCo with economic effect as of 0:00 on January 1, 2018, to lease back all the operating business previously spun off to the OpCo. Under the terms of the respective business leasing contract, Merck KGaA, Darmstadt, Germany, leases the entire operation from the respective OpCo, as well as all fixed assets in this context; it acquires the current assets as well as certain liabilities and provisions at their carrying amounts under German commercial law. The business lease allowed the spin-off measures to be implemented for all OpCos with economic effect at a uniform time, 0:00 on January 1, 2018, while retaining the flexibility of transitioning the management of the relevant operating business in accordance with the sector-specific ERP introduction at an individual time to the OpCo in question in a targeted manner. On the basis of the business leasing contract, Merck KGaA, Darmstadt, Germany, will temporarily continue to operate the spun-off business as a leaseholder in its own name and for its own account. Once the relevant ERP systems have been introduced for the respective OpCo, the business lease with this OpCo will be terminated and the business previously leased out will pass to the OpCo.

The aforementioned spin-off and business leasing contracts form part of an overall entrepreneurial concept. They were submitted to the General Meeting of Merck KGaA, Darmstadt, Germany, for approval on April 27, 2018, at the 2018 Annual General Meeting, as a coherent restructuring measure and were approved. In 2018, the Healthcare OpCo changed its legal form to that of a German corporation with general partners (Kommanditgesellschaft auf Aktien) and has since been trading under the name of Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, Darmstadt.

The business leasing contract under which the Healthcare business sector was leased back to Merck KGaA, Darmstadt, Germany, was terminated on January 11, 2019, with economic effect as of 24:00 on March 31, 2019. The sector-specific ERP system for the Healthcare business sector was introduced as planned on April 1, 2019. As a result of the end of the business leasing contract, the leased objects allocated to the Healthcare business sector at the end of the lease – comprising current assets as well as certain liabilities and provisions, including the leased objects acquired or created by means of maintenance, replacement, and expansion investments – were transferred to Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, at their carrying amounts under German commercial law and in a condition commensurate with their continued and proper operational use up to the date the business leasing contract ended. As the carrying amounts of the liabilities exceeded the carrying amounts of the assets, Merck KGaA, Darmstadt, Germany, made a settlement payment to Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany. In addition, the licenses for the intangible assets and know-how leased to Merck KGaA, Darmstadt, Germany, came to an end.

As planned, the business leasing contract between Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, and Merck KGaA, Darmstadt, Germany, for the distribution and sales function of the Performance Materials business sector was terminated on November 18, 2019, with economic effect as of 24:00 on December 31, 2019. By way of an agreement dated November 18, 2019, the business leasing contract for the other functions of the Performance Materials business sector remains in place. Accordingly, the distribution and sales function of the Performance Materials business sector moved to Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, with economic effect as of 0:00 on January 1, 2020. The sector-specific ERP system for the distribution and sales function of the Performance Materials business sector was introduced at Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, as planned on January 1, 2020. As a result of the partial termination of the business leasing contract, the leased objects allocated to the distribution and sales function of the Performance Materials business sector at the end of the lease – comprising current assets as well as certain liabilities and provisions – were transferred to Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, at their carrying amounts under German commercial law. The contractual, process, procedural, and working relationships allocated to the function were also transferred to Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany.

As the carrying amounts of the assets exceeded the carrying amounts of the liabilities, Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, made a settlement payment to Merck KGaA, Darmstadt, Germany. In addition, the licenses for the intangible assets and know-how of the distribution and sales function leased to Merck KGaA, Darmstadt, Germany, came to an end.

The table below shows the assets and debt of Merck KGaA, Darmstadt, Germany, immediately before and after the partial termination of the business lease and the transfer of the assets and debt to Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany.

€ million	Merck KGaA, Darmstadt, Germany Dec. 31, 2019	Merck KGaA, Darmstadt, Germany Jan. 1, 2020
Assets		
<i>A. Fixed assets</i>		
Intangible assets	232.3	232.3
Tangible assets	859.9	859.9
Financial assets	22,457.6	22,457.6
	23,549.8	23,549.8
<i>B. Current assets</i>		
Inventories	567.0	504.9
Trade accounts receivable	186.2	178.6
Other receivables and other assets	972.9	1,037.8
Cash and cash equivalents	0.5	0.5
	1,726.6	1,721.8
<i>C. Prepaid expenses</i>	46.6	46.6
Total assets	25,323.0	25,318.2
Equity and liabilities		
<i>A. Net equity</i>		
Subscribed capital	168.0	168.0
General partner's equity	397.2	397.2
Capital reserves	3,813.7	3,813.7
Retained earnings	701.6	701.6
Profit carried forward E. Merck KG, Darmstadt, Germany	62.6	62.6
Net retained profit: shareholders	194.5	194.5
	5,337.7	5,337.7
<i>B. Provisions</i>		
Provisions for pensions and other post-employment benefits	378.6	378.6
Other provisions	604.7	600.9
	983.3	979.5
<i>C. Liabilities</i>		
Financial liabilities	3,000.0	3,000.0
Trade accounts payable	383.6	382.7
Other liabilities	15,604.8	15,604.7
	18,988.4	18,987.4
<i>D. Deferred income</i>	13.7	13.7
Total equity and liabilities	25,323.0	25,318.2

Merger of AB Pensions GmbH & Co. KG

With the agreement dated July 24, 2020, AB Pensionsverwaltung GmbH retired as complementary of AB Allgemeine Pensions GmbH & Co. KG (hereinafter "AB Pensions GmbH & Co. KG") with effect from August 31, 2020. At the same time, the AB Pensions GmbH & Co. KG merged to its sole limited partner Merck KGaA, Darmstadt, Germany. The assets and liabilities were transferred to Merck KGaA, Darmstadt, Germany, at their carrying amounts. For a better comparability, the main assets and liabilities are listed in the notes to the financial statements in the relevant financial statement caption. The main captions affected by the merger were pension provisions, cash pool and financial assets as well as other operating income in the income statement.

Business development

Net sales of Merck KGaA, Darmstadt, Germany, decreased in 2020. The decline of € -469 million resulted primarily from the Healthcare and Performance Materials business sectors. The Healthcare business sector has been held in a separate company, Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, since April 1, 2019. Accordingly, the prior-year figures included net sales from the operational Healthcare business in the first quarter. In addition, the Group services oncharged to the Healthcare business sector are allocated to Healthcare. On the other hand, net sales of the Life Science business sector rose, in particular.

€ million	2020	2019	Change	
			€ million	%
Healthcare	508	1,102	-594	-53.9
Life Science	1,169	987	182	18.4
Performance Materials	1,176	1,263	-87	-6.9
Other sales	323	293	30	10.2
Total	3,176	3,645	-469	-12.9

Other sales mainly included the intragroup oncharging of IT services, rent, and the umbrella brand, as well as other administrative services.

The share of sales with other Group companies (Group sales) amounted to 92.5% in the year under review (2019: 92.0%).

€ million	2020	2019	Change	
			€ million	%
Group sales	2,938	3,355	-417	-12.4
Sales to third parties	238	290	-52	-17.9
Total	3,176	3,645	-469	-12.9

At 66.2% (2019: 81.7%), the share of exports in 2019 was below the previous year's level.

€ million	2020	2019	Change	
			€ million	%
Outside Germany	2,103	2,978	-875	-29.4
Germany	1,073	667	406	60.9
Total	3,176	3,645	-469	-12.9

The decline in net sales of the Healthcare business sector is attributable to the fact that its business has been continued in a separate company, Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, since April 1, 2019. Accordingly, the prior-year figures included net sales from the operational Healthcare business in the first quarter.

In the Performance Materials business sector, sales in the Display Solutions business unit including OLED sales declined by -16.7% year-on-year. A sharp increase in sales in the Surface Solutions business unit (+27.0%), including Cosmetics sales, was not enough to offset this decline. This increase was largely due to the sale of inventories to Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, at their net carrying amount as of January 1, 2020. From a regional perspective, sales declined in North America and Latin America in particular.

Net sales in the Life Science business sector increased by a double-digit rate compared with the previous year, mainly due to the Process Solutions business unit (+35.7%). The Applied Solutions (+3.0%) and Research Solutions (+2.9%) business units also contributed to this development. Sales increased in the Europe, Asia-Pacific and North America regions in particular. By contrast, a decline was recorded in Latin America.

Results of operations

€ million	2020	2019	Change	
			€ million	%
Net sales	3,176	3,645	-469	-12.9
Other income	355	215	140	65.2
Cost of materials	-1,265	-1,459	195	-13.3
Personnel expenses	-1,070	-1,128	58	-5.1
Depreciation, amortization, and write-downs	-131	-122	-9	7.4
Other operating expenses	-1,047	-1,382	335	-24.2
Investment income/write-downs of financial assets	1,092	1,099	-7	-0.7
Financial result	-345	-228	-117	51.4
Profit before profit transfers and taxes	765	641	124	19.3
Profit transfers	-520	-456	-64	13.9
Taxes	-64	-16	-48	299.4
Profit after profit transfers and taxes	181	169	12	7.2

The increase in **other income** mainly resulted from the merger of AB Pensions GmbH & Co. KG. This was offset by a negative effect from changes in inventories.

The **cost of materials** fell overall due to fact that the Healthcare business has been continued in a separate company, Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, since April 1, 2019. Accordingly, the prior-year figures included the cost of materials of the operational Healthcare business in the first quarter. The cost of materials in relation to sales remained stable at 39.9% (2019: 40.0%).

The decline in **personnel expenses** was mainly attributable to the business transfer of almost 3,000 employees from the Healthcare business sector to Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany. Accordingly, the prior-year figures included the personnel expenses of the operational Healthcare business in the first quarter.

Depreciation, amortization, and write-downs rose as a result of the investments made in 2019 and 2020.

The continuation of the Healthcare business sector in a separate company since April 1, 2019, led to a fall in **other operating expenses**, mainly in marketing, research and other external services and remuneration. The prior-year figures included the other operating expenses of the operational Healthcare business in the first quarter.

Investment income was at the same level as the previous year. An overall increase in profit transfers from subsidiaries is offset by lower dividends from subsidiaries.

The year-on-year downturn in the **financial result** was primarily due to higher interest expenses for the financing of the Versum Materials acquisition and increased interest expenses resulting from the provisions for pensions assumed in connection with the accretion of AB Pensions GmbH & Co. KG.

Net assets and financial position

Assets

€ million	Dec. 31, 2020	Dec. 31, 2019	Change	
			€ million	%
Fixed assets	23,883	23,550	333	1.4
Intangible assets	229	232	-4	-1.5
Tangible assets	862	860	2	0.2
Financial assets	22,793	22,458	335	1.5
Current assets	1,447	1,726	-280	-16.2
Inventories	470	567	-97	-17.1
Trade accounts receivable	133	186	-53	-28.4
Other receivables and other assets	843	973	-130	-13.3
Cash and cash equivalents	1	1	0	20.0
Prepaid expenses	52	47	5	10.9
	25,382	25,323	59	0.2

Equity and liabilities

€ million	Dec. 31, 2020	Dec. 31, 2019	Change	
			€ million	%
Net equity	5,351	5,338	13	0.2
Provisions	1,735	983	752	76.5
Provisions for pensions and other post-employment benefits	1,104	379	726	191.6
Other provisions	631	605	27	4.4
Liabilities	18,283	18,988	-706	-3.7
Financial liabilities	3,517	3,000	517	17.2
Trade accounts payable	263	384	-120	-31.4
Other liabilities	14,503	15,605	-1,102	-7.1
Deferred income	13	14	-1	-4.5
	25,382	25,323	59	0.2

The change in the net assets and financial position of Merck KGaA, Darmstadt, Germany, was mainly due to the accretion of AB Pensions GmbH & Co. KG in August 2020 and the performance of additional financing measures for the Group. With total assets increasing by 0.2%, the equity ratio remained stable at 21.1% (2019: 21.1%).

The partial termination of the business lease for the distribution and sales function of the Performance Materials business sector resulted in a decline in the assets and liabilities attributable to this function (see "Effects of material company agreements on the net assets, financial position, and results of operations").

Financial assets increased due to the equity investment in Merck Capital Holding Ltd., a subsidiary of Merck KGaA, Darmstadt, Germany, acquired as part of the accretion of AB Pensions GmbH & Co. KG.

Current assets (€ -280 million) decreased primarily as a result of the assets transferred to Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany (see “Effects of material company agreements on the net assets, financial position, and results of operations”). In addition, other receivables and other assets declined in respect to affiliated companies in particular.

The provisions for pensions assumed in connection with the accretion of AB Pensions GmbH & Co. KG accounted for the majority of the increase in provisions for pensions at Merck KGaA, Darmstadt, Germany (€ +726 million).

The increase in financial liabilities was due to the issue of bonds as well as additional borrowings to finance the Group.

The decrease in other liabilities primarily resulted from the reduction in cash pool liabilities due to the cash pool deposits acquired in connection with the accretion of AB Pensions GmbH & Co. KG as well as the issue of bonds and additional borrowings.

Research and development

In 2019, research and development expenditure totaled € 229 million (2019: € 434 million). A large portion was also incurred by companies outside the Group. The decline of € 206 million (47.3%) was mainly attributable to the fact that the Healthcare business sector has been continued in a separate company, Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, since April 1, 2019. Accordingly, the prior-year figures included the research and development expenses of the operational Healthcare business in the first quarter. Further information can be found in the “Research and Development” section in the Combined Management Report.

Research and development expenses

€ million	2020	2019	Change	
			€ million	%
Healthcare	0	132	-132	-100.0
Life Science	57	57	1	1.4
Performance Materials	159	244	-85	-34.9
Other R&D spending that cannot be allocated to individual business sectors	13	2	11	599.5
Total	229	434	-206	-47.3

The ratio of research and development spending to sales was 7.2% (2019: 11.9%). Overall, the average number of employees working in research and development was 1,076. The decline is mainly attributable to the fact that the R&D activities of the research-intensive Healthcare business sector have been continued at Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, since April 1, 2019.

Dividend

For 2020, we are proposing to the General Meeting the payment of a dividend of € 1.40 per share.

Personnel

As of December 31, 2020, Merck KGaA, Darmstadt, Germany, had 8,578 employees, representing an increase as against the previous year (2019: 8,474).

The average number of employees by functional area is as follows:

Personnel

Average number of employees during the year	2020	2019
Production	3,222	3,164
Administration	3,119	3,143
Research	1,076	1,678
Logistics	633	620
Marketing and sales	470	510
Other	16	23
Total	8,536	9,138

Risks and opportunities

Merck KGaA, Darmstadt, Germany, is largely subject to the same opportunities and risks as the Group. More information can be found in the Report on Risks and Opportunities.

Forecast for Merck KGaA, Darmstadt, Germany

Deviations of actual business development in 2020 from the previously reported guidance

The Combined Management Report for 2019 initially forecast a substantial decline in net sales in 2020. This was due to the planned termination of the business leasing contracts with Merck Life Science Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, and Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, as well as the resulting transfer of the operating business of the Life Science and Performance Materials business sectors. In the updated forecast on May 12, 2020, net sales in the Life Science and Performance Materials business sectors were expected to be at the same level as in 2019 based on the revised project planning and the development of the Covid-19 pandemic at the time of the update. Net income was also expected to be the same as in the previous year.

In the Performance Materials business sector, sales in the Display Solutions business unit including OLED sales declined by -16.7% year-on-year. A sharp increase in sales in the Surface Solutions business unit (+27.0%) including Cosmetics sales, was not enough to offset this decline. This increase largely resulted from the sale of inventories to Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, at their net carrying amount as of January 1, 2020.

Net sales in the Life Science business sector increased by a double-digit rate compared with the previous year, mainly due to the Process Solutions business unit (+35.7%). The Applied Solutions (+3.0%) and Research Solutions (+2.9%) business units also contributed to this development.

The continuation of the Healthcare business sector in Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, led to a fall in the associated net sales and cost of materials and personnel, and other operating expenses at Merck KGaA, Darmstadt, Germany, as expected. Overall, the net income for the year was at a comparable level to the previous year.

Forecast 2021

In fiscal 2021, net sales are expected to be at a similar level to 2020.

As in the previous year, the financing costs of the Sigma-Aldrich acquisition and the Versum Materials acquisition will continue to adversely affect net income. Nevertheless, net income for 2021 is expected to be at a comparable level to 2020 due to the positive investment income and dividends from the subsidiaries.

Merck Financial Services GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, Darmstadt, will provide the company with sufficient financial resources and thus ensure liquidity.

No risks that could jeopardize the continued existence of the company have been identified.