

# 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 fiscal 2023 are filed with the electronic German company register and are available on its website.

Merck KGaA, headquartered in Darmstadt, Germany, is the parent company of the Group.

Following the transfer of the Life Science, Healthcare and Electronics business sectors into separate legal entities, Merck KGaA, Darmstadt, Germany, primarily performs a holding company function for the Group. As part of the strategic management of the Group, this function makes strategically important decisions and ensures that compliance provisions are observed by the central enabling Group Functions on a Group-wide basis. It also performs Group-wide services for Group companies in the areas of information technology, strategic management and site management, especially at the Darmstadt site. Merck KGaA, Darmstadt, Germany, employs around 4,000 of the more than 11,000 employees at the Darmstadt site.

The financial statements of Merck KGaA, Darmstadt, Germany, have been prepared in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), and the supplementary requirements of the Articles of Association. 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 electronic company register and published there.

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

### Hive-down of the operating activities of the business sectors

As part of the strategic further development of Merck KGaA, Darmstadt, Germany, the existing operating activities of the Life Science, Healthcare, and Electronics business sectors within Merck KGaA, Darmstadt, Germany, together with the relevant assets and liabilities (hereinafter: "operating units"), were hived down at their carrying amounts into three separate legal entities (hereinafter: "OpCo" or plural "OpCos") with the legal form of a GmbH or German limited liability corporation and with economic effect from January 1, 2018 (operating hive-down).

Since the technical system requirements for the rollout of the business sector-specific enterprise resource planning systems (hereinafter "ERP") were not in place at the OpCos at the time of the hive-down, the business activities hived down to the OpCos have been temporarily leased back by the relevant OpCos to Merck KGaA, Darmstadt, Germany. Under the terms of a business lease agreement, Merck KGaA, Darmstadt, Germany, leased the entire operations from each of the three OpCos with economic effect from January 1, 2018. In this context, it also leased all fixed assets and acquired the current assets as well as certain liabilities and provisions at their carrying amounts under German commercial law.

The business lease agreement under which the Healthcare business sector was leased back to Merck KGaA, Darmstadt, Germany, was terminated with economic effect from March 31, 2019. Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany (formerly the Healthcare OpCo) assumed the power of operational management for the Healthcare business sector from Merck KGaA, Darmstadt, Germany, with effect from April 1, 2019. As a result of the termination of the business lease agreement, the leased objects allocated to the Healthcare business sector at the end of the lease were transferred to Merck Healthcare KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany.

The business lease agreement for the Electronics business sector (EL business lease agreement) was terminated with economic effect from December 31, 2019 for the part of the distribution and sales function belonging to the Electronics business sector. Accordingly, these functions were transferred from Merck KGaA, Darmstadt, Germany, to the EL OpCo (then Merck Performance Materials Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany) with economic effect from January 1, 2020. The contractual, process, procedural, and working relationships and leased objects allocated to the function were transferred to the EL OpCo as a result. The EL business lease agreement for the other functions of the Electronics business sector remained in place until December 31, 2022.

To facilitate the implementation and operation of the new ERP systems for the LS OpCo (then Merck Life Science Germany GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany) and the EL OpCo, the EL OpCo transferred the Darmstadt-based "Organics" and "OLED" production operations, including the production-related Electronics shared functions (EL Production, hereinafter: "ELP"), to the LS OpCo by way of a chain transformation in multiple steps on August 31, 2022. The function that was spun off from the EL business lease agreement via EL Production (the ELP business lease agreement) had been in place between Merck KGaA, Darmstadt, Germany, as the lessee and the LS OpCo as the lessor since this date.

By way of entries in the commercial register on November 1, 2022 (LS OpCo) and December 29, 2022 (EL OpCo), the LS OpCo and the EL OpCo changed their legal form to that of a German corporation with general partners (Kommanditgesellschaft auf Aktien) and have since been operating under the names Merck Life Science KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, and Merck Electronics KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany.

As a result of the aforementioned hive-down and restructuring measures and the existing EL and ELP business lease agreements, Merck KGaA, Darmstadt, Germany, continued to manage the operating business of the Electronics business sector with the exception of part of the distribution and sales function until December 31, 2022. Furthermore, as a result of the Life Science business lease agreement, Merck KGaA, Darmstadt, Germany, also ran the operating business of the Life Science business sector.

### **Termination of the temporary business lease of the Life Science and Electronics business sectors**

Merck Life Science KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, went live on January 1, 2023. It assumed the power of operational management for the Life Science operating business and ELP from Merck KGaA, Darmstadt, Germany, at this date. Merck KGaA, Darmstadt, Germany, therefore terminated the LS and ELP business lease agreements with effect from January 1, 2023.

Merck KGaA, Darmstadt, Germany, also terminated the EL business lease agreement with effect from January 1, 2023. The power of operational management for the Electronics business sector, with the exception of EL Production, was therefore transferred from Merck KGaA, Darmstadt, Germany, to Merck Electronics KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, at this date. As a result of the termination of the business lease agreements, the leased objects allocated to the Life Science and Electronics business sectors and EL Production – comprising current and non-current assets as well as certain liabilities and provisions – were transferred to Merck Life Science KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, and Merck Electronics KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, respectively. In exchange, Merck Life Science KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, and Merck Electronics KGaA, Darmstadt, Germany, a subsidiary of Merck

KGaA, Darmstadt, Germany, paid compensation in the amount of the balance of the transferred carrying amounts under German commercial law. In addition, around 3,400 employees were transferred from Merck KGaA, Darmstadt, Germany, to Merck Life Science KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, and around 1,000 employees were transferred to Merck Electronics KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany. The remaining around 4,000 employees in Group functions remained with Merck KGaA, Darmstadt, Germany.

### **Additional transfers involving the Life Science business sector**

By way of a contribution agreement dated December 2, 2022, Merck KGaA, Darmstadt, Germany, also transferred the assets and liabilities allocated to the Life Science business sector that were not previously included in the operating hive-down of the Life Science business sector or the LS business lease agreement to Merck Life Science KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, with effect from January 1, 2023. This related to the “Packaging & Container” functional unit and the assets and liabilities of the Hohenbrunn site. The assets and liabilities mainly included property, plant, and equipment, cash and cash equivalents, pension provisions and other provisions and were contributed at their carrying amounts under German commercial law in exchange for the grant of new shares in Merck Life Science KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany.

Due to the hive-downs and transfers described above in connection with the termination of the business lease agreements (collectively referred to hereinafter as the “transfer of operating activities”), some balance sheet items for 2023 are only comparable with the prior-year figures to a limited extent. To improve comparability, additional information on the impact of the transfer of operating activities to Merck Life Science KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, and Merck Electronics KGaA, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, on individual balance sheet items of Merck KGaA, Darmstadt, Germany, is provided. The following table shows the balance sheet of Merck KGaA, Darmstadt, Germany, before (December 31, 2022) and after (January 1, 2023) the transfer of operating activities. In terms of the income statement of Merck KGaA, Darmstadt, Germany, for fiscal 2023, the transfer of operating activities resulted in lower net sales, material costs, personnel expenses and other operating expenses in particular (for details see the disclosures on the income statement in the **“Business development and results of operations”** section).

€ million	Merck KGaA, Darmstadt, Germany 01.01.2023	Merck KGaA, Darmstadt, Germany 31.12.2022	Change	
			€ million	%
<b>Assets</b>				
<i>A. Fixed assets</i>				
Intangible assets	192	192	-	0.0%
Tangible assets	961	969	-8	-0.8%
Financial assets	22,809	22,804	5	0.0%
	<b>23,962</b>	<b>23,965</b>	<b>-3</b>	<b>0.0%</b>
<i>B. Current assets</i>				
Inventories	25	546	-521	-95.4%
Trade accounts receivable	76	126	-50	-39.8%
Other receivables and other assets	1,347	968	379	39.2%
Cash and cash equivalents	0	0	-	0.0%
	<b>1,448</b>	<b>1,641</b>	<b>-192</b>	<b>-11.7%</b>
<i>C. Prepaid expenses</i>	74	74	-	0.0%
<b>Total assets</b>	<b>25,485</b>	<b>25,680</b>	<b>-195</b>	<b>-0.8%</b>
<b>Equity and liabilities</b>				
<i>A. Net equity</i>				
Subscribed capital	168	168	-	0.0%
General partner's equity	397	397	-	0.0%
Capital reserves	3,814	3,814	-	0.0%
Retained earnings	702	702	-	0.0%
Profit carried forward E. Merck KG, Darmstadt, Germany	80	80	-	0.0%
Net retained profit: shareholders	318	318	-	0.0%
	<b>5,479</b>	<b>5,479</b>	<b>-</b>	<b>0.0%</b>
<i>B. Provisions</i>				
Provisions for pensions and other post-employment benefits	1,487	1,509	-22	-1.5%
Other provisions	688	774	-86	-11.1%
	<b>2,175</b>	<b>2,283</b>	<b>-108</b>	<b>-4.7%</b>
<i>C. Liabilities</i>				
Financial liabilities	2,751	2,751	-	0.0%
Trade accounts payable	222	308	-86	-28.0%
Other liabilities	14,847	14,848	-1	0.0%
	<b>17,819</b>	<b>17,907</b>	<b>-87</b>	<b>-0.5%</b>
<i>D. Deferred income</i>	11	11	-	-1.7%
<b>Total equity and liabilities</b>	<b>25,485</b>	<b>25,680</b>	<b>-195</b>	<b>-0.8%</b>

## Business development and results of operations

Net sales of Merck KGaA, Darmstadt, Germany, decreased to € 1,628 million in fiscal 2023. The € 1,552 million reduction was mainly due to the transfer of operating activities of the Life Science and Electronics business sectors into separate legal entities with effect from January 1, 2023 (see “[Effects of material company agreements on the net assets, financial position, and results of operations](#)”). Following the transfer, Merck KGaA, Darmstadt, Germany, no longer generates any income from operating product and service business (2022: € 1,813 million).

In the past fiscal year, net sales of Merck KGaA, Darmstadt, Germany, exclusively comprised income from the intragroup on-charging of services. This primarily related to site management services, IT services, strategic management costs and license fees for the Group umbrella brand. All in all, the intragroup on-charging of services was higher than in the previous year due to the increase in on-charged site and administrative services in particular.

### Results of operations

€ million	2023	2022	Change	
			€ million	%
Net sales	1,628	3,180	-1,552	-48.8
Other income	105	184	-79	-43.0
Cost of materials	-721	-1,269	548	-43.2
Personnel expenses	-581	-1,256	675	-53.7
Depreciation, amortization, and write-downs	-132	-142	11	-7.5
Other operating expenses	-821	-1,150	329	-28.6
Investment result	2,203	2,015	188	9.3
Other financial result	-685	-414	-272	65.7
<b>Profit before profit transfers and taxes</b>	<b>996</b>	<b>1,148</b>	<b>-152</b>	<b>-13.2</b>
Profit transfers	-696	-677	-18	2.7
Taxes	-16	-228	213	-93.1
<b>Profit after profit transfers and taxes</b>	<b>285</b>	<b>242</b>	<b>43</b>	<b>17.7</b>

The year-on-year change in individual items of the income statement of Merck KGaA, Darmstadt, Germany, was substantially impacted by the transfer of operating activities. These effects are discussed below and above in the “[Effects of material company agreements on the net assets, financial position, and results of operations](#)” section. As a result, the income statement for fiscal 2023 mainly saw a decline in expense and income items relating to operating activities, such as net sales, material costs, personnel expenses and other operating expenses.

In addition to the effects of the transfer of operating activities, higher profit transfers from subsidiaries and lower tax expense in particular more than offset the higher level of other financial expenses, resulting in an increase in total profit after taxes and profit transfers.

The reduction in **other income** primarily resulted from the fact that the prior-year figure included changes relating to certain inventory items that were transferred as of January 1, 2023, as well as from the lower level of insurance compensation payments.

The transfer of operating activities meant the total **cost of materials** decreased in line with net sales. By contrast, the cost of materials in relation to sales increased to 44.3% (2022: 39.9%), as net sales in the past fiscal year resulted solely from the intragroup oncharging of services whose performance involves a proportionally higher level of material costs (see "[Effects of material company agreements on the net assets, financial position, and results of operations](#)").

The lower level of **personnel expenses** was due in particular to the transfer of around 4,400 employees to different legal entities as the result of the transfer of operating activities (see "[Effects of material company agreements on the net assets, financial position, and results of operations](#)"). The level of additions to pension provisions was also lower. This was offset by salary increases for employees covered by and exempt from collective agreements, as well as the collectively agreed inflation allowance.

**Depreciation, amortization, and adjustments** remained essentially unchanged as against the previous year. The transfer of operating activities did not have a material impact on the amount of fixed assets (see "[Effects of material company agreements on the net assets, financial position, and results of operations](#)").

The reduction in other **operating expenses** was due to the transfer of operating activities (see "[Effects of material company agreements on the net assets, financial position, and results of operations](#)") and mainly resulted from the lower level of external services for sales and advertising as well as other external services and procurements.

Following the transfer of operating activities, the relevance of **investment income** as the largest income item is increasing. It increased by € 188 million to € 2,203 million (2022: € 2,015 million) on the back of higher income from profit and loss transfer agreements with subsidiaries in the Healthcare business sector. The general rise in interest rates also led to an increase in the profit transfer from the Group financing company, Merck Financial Services GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany. This was offset by lower dividends from other subsidiaries and higher expenses from profit and loss transfer agreements.

The increased interest expense in the **other financial result** was primarily due to higher interest expenses in respect of the Group financing company, Merck Financial Services GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, as a result of rising interest rates; this was offset by positive adjustments to the fair value of the plan assets in connection with pension provisions.

Additions to provisions for uncertain tax obligations in particular led to a higher **tax** expense in the previous year, whereas these did not occur to the same extent in 2023.

## Net assets and financial position

### Assets

€ million	Dec. 31, 2023	Dec. 31, 2022	Change	
			€ million	%
<b>Fixed assets</b>	<b>24,065</b>	<b>23,965</b>	<b>99</b>	<b>0.4</b>
Intangible assets	181	192	-11	-5.6
Tangible assets	1,076	969	107	11.0
Financial assets	22,808	22,804	3	0.0
<b>Current assets</b>	<b>1,708</b>	<b>1,641</b>	<b>68</b>	<b>4.1</b>
Inventories	29	546	-517	-94.7
Trade accounts receivable	62	126	-64	-50.9
Other receivables and other assets	1,617	968	649	67.1
Cash and cash equivalents	0	0	-	-
<b>Prepaid expenses</b>	<b>78</b>	<b>74</b>	<b>4</b>	<b>5.5</b>
	<b>25,851</b>	<b>25,680</b>	<b>171</b>	<b>0.7</b>

### Equity and liabilities

€ million	Dec. 31, 2023	Dec. 31, 2022	Change	
			€ million	%
<b>Net equity</b>	<b>5,481</b>	<b>5,479</b>	<b>2</b>	<b>0.0</b>
<b>Provisions</b>	<b>2,198</b>	<b>2,283</b>	<b>-85</b>	<b>-3.7</b>
Provisions for pensions and other post-employment benefits	1,415	1,509	-94	-6.2
Other provisions	783	774	9	1.2
<b>Liabilities</b>	<b>18,162</b>	<b>17,907</b>	<b>256</b>	<b>1.4</b>
Financial liabilities	2,476	2,751	-275	-10.0
Trade accounts payable	152	308	-156	-50.5
Other liabilities	15,534	14,848	686	4.6
<b>Deferred income</b>	<b>10</b>	<b>11</b>	<b>-1</b>	<b>-12.1</b>
	<b>25,851</b>	<b>25,680</b>	<b>171</b>	<b>0.7</b>

The year-on-year change in individual items of the balance sheet of Merck KGaA, Darmstadt, Germany, was substantially impacted by the transfer of operating activities. These effects are discussed below and above in the [“Effects of material company agreements on the net assets, financial position, and results of operations”](#) section. In terms of the balance sheet for fiscal 2023, this primarily resulted in a reduction in inventories and trade accounts receivable on the asset side of the balance sheet and in trade payables on the equity and liabilities side, while other receivables increased.

Largely irrespective of the transfer of operating assets, one notable increase on the asset side of the balance sheet related to fixed assets (€ +99 million). This was mainly due to the investments in property, plant and equipment at the Darmstadt site.

The higher level of income from profit and loss transfers meant that other receivables and other assets also increased (€ +649 million). On the equity and liabilities side, the biggest increase related to other liabilities (€ +686 million), whereas financial liabilities decreased (€ -275 million). All in all, net assets rose slightly by 0.7%.

Inventories declined as a result of the transfer of operating activities (see [“Effects of material company agreements on the net assets, financial position, and results of operations”](#)). At the balance sheet date, they comprised the consumables and supplies required for site operations.

Merck KGaA, Darmstadt, Germany, was financed by equity in the amount of € 5,481 million (2022: € 5,479 million). This corresponds to an equity ratio of 21.2% (2022: 21.3%). Equity increased in particular as a result of the net income generated in fiscal 2023, which offset the dividend payments made during the year.

Merck KGaA, Darmstadt, Germany, is also financed via the Group financing company, Merck Financial Services GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, which provides Merck KGaA, Darmstadt, Germany, with sufficient financial resources and hence ensures liquidity. Other liabilities rose by € 686 million and primarily relate to current loans and clearing account liabilities in respect of Merck Financial Services GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, in the amount of € 14,476 million (2022: € 13,963 million). Financial liabilities of € 2,476 million relate to bonds issued in previous years to finance the acquisitions of Sigma-Aldrich and Versum Materials, Inc., United States, in particular. The € -275 million reduction in financial liabilities was attributable to the repayment of bonds, which resulted in an increase in other liabilities from intragroup financing. Additional information on the financing conditions and maturity structure of the bonds can be found in Note (21) "[Financial liabilities](#)" of the Notes to the Financial Statements in accordance with HGB.

The reduction in provisions was due in particular to the lower level of pension provisions, which primarily resulted from pension payments and employees being transferred to other legal entities within the Group.

## Research and development

Research and development (R&D) expenditure declined to € 69 million in fiscal 2023 (2022: € 289 million), largely as a result of the transfer of operating activities (see "[Effects of material company agreements on the net assets, financial position, and results of operations](#)"). Merck KGaA, Darmstadt, Germany, continues to recognize expenses for global R&D services.

## Dividend

For fiscal 2023, we are proposing to the Annual General Meeting the payment of a dividend of € 2.20 per share.

## Personnel

Merck KGaA, Darmstadt, Germany, had 3,924 employees as of December 31, 2023 (2022: 8,485). The year-on-year decline of 4,561 employees was largely attributable to the transfer of operating activities (see "[Effects of material company agreements on the net assets, financial position, and results of operations](#)").

The average number of employees by functional area:

### Personnel

Average number of employees during the year	2023	2022
Administration	2,615	3,085
Production and site operations	869	2,940
Research	341	1,091
Logistics	66	614
Marketing and sales	43	523
Other	74	122
<b>Total</b>	<b>4,008</b>	<b>8,375</b>

## Risks and opportunities

As the parent of the Group, Merck KGaA, Darmstadt, Germany, is largely subject to the same opportunities and risks as the Group. Merck KGaA, Darmstadt, Germany, participates in these risks and opportunities via its equity investments and subsidiaries. This can have consequences for its investment income or the valuation of shares in subsidiaries. More information can be found in the Group "[Report on Risks and Opportunities](#)".



## Forecast for Merck KGaA, Darmstadt, Germany

### Deviations of actual business development in fiscal 2022 from the previously reported guidance

The Combined Management Report for 2022 initially forecast a downturn in net sales in fiscal 2023 due to the transfer of operating activities and the fact that the product-related sales of the transferred business sectors are no longer recognized. The remaining business sector was expected to see a similar level of sales to 2022. Net income was forecast to be slightly higher than in 2022.

Net sales declined from € 3,180 million in the previous year to € 1,628 million, largely as a result of the € 1,813 million in sales from operating product and service business that were no longer recognized as anticipated following the transfer of operating activities. Sales in the reporting year relate solely to the intragroup on-charging of services. The increase in on-charged site and administrative services in particular meant that these were higher than the prior-year forecast of € 1,366 million.

Net income was above the forecast level due to higher investment income and lower taxes in particular. Taken together, these more than offset the higher level of other financial expenses.

### Forecast for 2024

Following the transfer of operating activities, net sales are becoming less relevant for Merck KGaA, Darmstadt, Germany, while the relevance of investment income as the largest income item is increasing. With this in mind, investment income is replacing net sales as a key financial performance indicator starting from fiscal 2023, and a forecast for the next fiscal year is provided below.

In line with the Group's development, we expect investment income to see moderate growth compared with the figure recorded in fiscal 2023. Accordingly, net income is forecast to be slightly higher than in 2023 overall.

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

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