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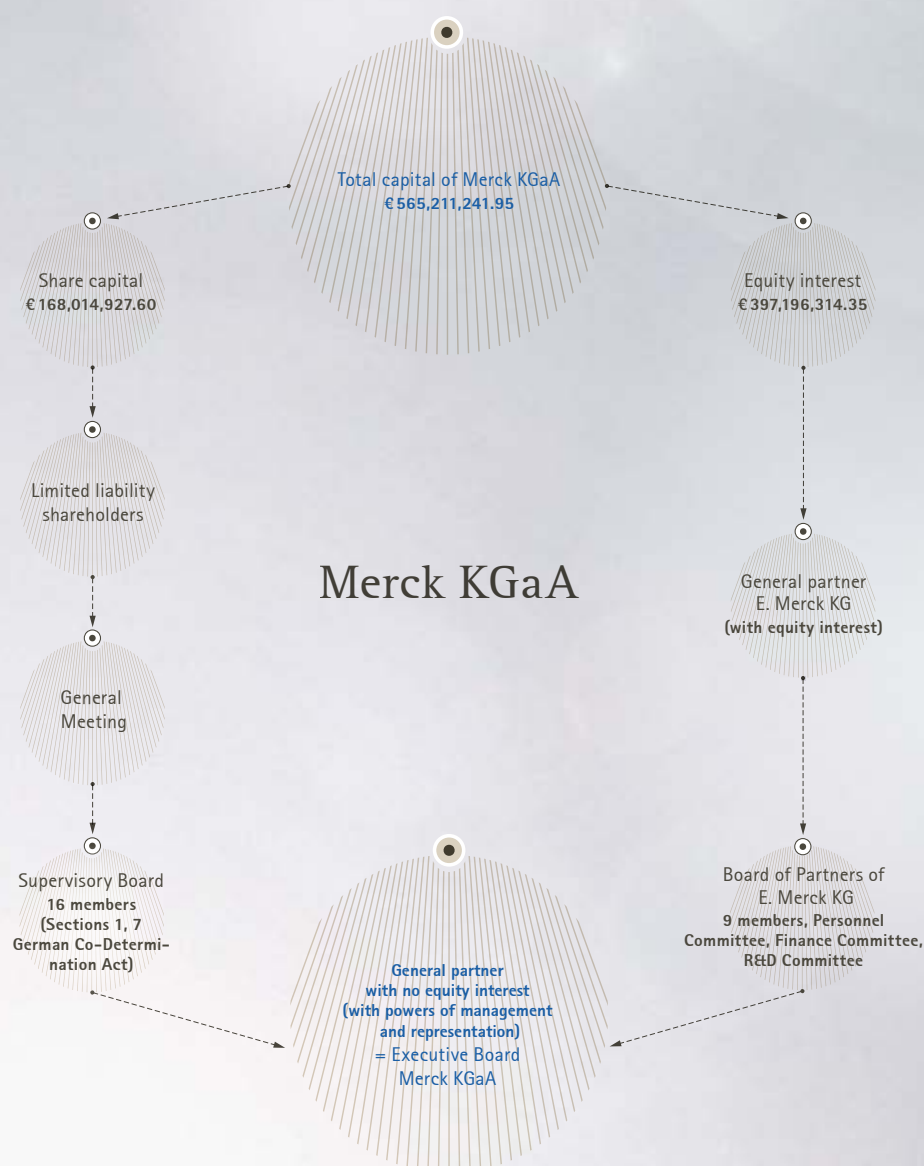
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Corporate Governance

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Merck KGaA at a glance

Capital structure and bodies of Merck KGaA



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Statement on Corporate Governance

The Statement on Corporate Governance contains the Statement of Compliance, relevant information on practices within the company as well as a description of the procedures of the corporate bodies.

Joint Report of the Executive Board and the Supervisory Board according to section 3.10 of the German Corporate Governance Code including Statement of Compliance

The German Corporate Governance Code is geared exclusively toward the conditions found in a German stock corporation (Aktiengesellschaft) and not toward a corporation with general partners (Kommanditgesellschaft auf Aktien) such as Merck KGaA. Merck KGaA has resolved to apply the Code logically to serve the interests of its shareholders. In order to enable shareholders to compare the situation at other companies more easily, we base corporate governance on the conduct recommendations made by the Code Commission relating to management and supervision (governance) and forego having our own, equally permissible, code. The recommendations of the Code, the intent and meaning of which are applied, were complied with in the period between the last Statement of Compliance and June 14, 2012, i.e. during the period of validity of the version of the Code dated May 26, 2010, with one exception, and since the change in the Code announced on June 15, 2012 with two exceptions. In the future, the recommendations of the Code will again be complied with, subject to the approval of the General Meeting. Further details can be found on page 103.

For a clearer understanding, the following gives a general explanation of the Kommanditgesellschaft auf Aktien (KGaA) company form. The specific situation at Merck is then described and additional references are made to the General Meeting and shareholder rights.

Corporation with general partners

The corporation with general partners is a company that constitutes a separate legal entity in which at least one partner has unlimited liability with regard to the creditors of the company (general partner) and in which the other shareholders are not personally liable for the obligations of the company (limited shareholders) (section 278 (1) of the German Stock Corporation Act – hereinafter referred to as "AktG"). It is therefore a hybrid of an Aktiengesellschaft (German stock corporation) and a Kommanditgesellschaft (limited partnership) with a focus on German stock corporation law. Distinctive differences to the Aktiengesellschaft include the presence of general partners, who essentially also manage the company's business activities, the absence of a management board, and the restriction of rights and obligations of the supervisory board (see page 116 for a description of the supervisory board procedures). This legal form also involves special features with regard to the General Meeting. For example, many of the resolutions made require the consent of the general partners (section 285 (2) AktG), particularly also the adoption of the annual financial statements (section 286 (1) AktG). A large number of the conduct recommendations contained in the Code, which is geared toward Aktiengesellschaften, can therefore only be applied to a KGaA as appropriate.

Merck KGaA

See diagram on page 100

The general partner E. Merck KG holds around 70% of the total capital of Merck KGaA (equity interest); the shareholders hold the remainder, which is divided into shares (share capital). E. Merck KG is excluded from the management of business activities. The general partners with no equity interest (Executive Board) manage the business activities. Nevertheless, due to its substantial capital investment and unlimited personal liability, E. Merck KG has a strong interest in the businesses of Merck KGaA operating efficiently and

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in compliance with procedures, and exercises its influence accordingly. Merck KGaA's participation in the profit/loss of E. Merck KG in accordance with Articles 26 et seq. of the Articles of Association further harmonizes the interests of the shareholders and of E. Merck KG.

E. Merck KG appoints and dismisses the Executive Board. In addition, E. Merck KG has created bodies – complementing the expertise and activities of the Supervisory Board – to monitor and advise the Executive Board. This task applies primarily to the Board of Partners of E. Merck KG. Based on the provisions of the German Stock Corporation Act, the Articles of Association of Merck KGaA and the rules of procedure of the various committees, Merck KGaA has a set of rules for the Executive Board and its supervision that meet the requirements of the Code. The investors, who bear the entrepreneurial risk, are protected as provided for by the Code.

The General Meeting of Merck KGaA

The seventeenth General Meeting of Merck KGaA was held in Frankfurt am Main, Germany, on April 20, 2012. At 63.5%, the proportion of share capital represented at the meeting was stable, significantly exceeding the proportion of 56.6% in 2011.

In particular, the Annual General Meeting passes resolutions concerning the approval of the annual financial statements, the appropriation of net retained profit, the approval of the actions of the Executive Board members and the Supervisory Board members, as well as the choice of the auditor. At the same time, the General Meeting has the power to pass resolutions concerning changes to the Articles of Association.

The shareholders of Merck KGaA exercise their rights at the General Meeting. They may exercise their voting rights personally, through an authorized representative, or through a proxy appointed by the company. All the documents and information concerning upcoming General Meetings (including a summary explanation of shareholder rights) are posted on our website. Moreover, the General Meeting is webcast live on the Internet from its commencement until the end of the speech by the Chairman of the Executive Board. The introductory speeches by the Chairman of the Executive Board and the Chairman of the Supervisory Board are recorded in order to make them available to interested members of the public at any time after the meeting. In this way, we are satisfying the high transparency requirements of the Merck Group.

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Statement of Compliance

The Executive Board and the Supervisory Board issued, in accordance with section 161 AktG, the following statement of compliance with the recommendations of the Government Commission German Corporate Governance Code:

"Declaration of the Executive Board and the Supervisory Board of Merck KGaA on the recommendations of the Government Commission German Corporate Governance Code pursuant to section 161 AktG.

Since the last statement of compliance on February 24, 2012, the Merck Group has complied with the recommendations of the Government Commission German Corporate Governance Code in the version dated May 26, 2010 and published in the official section of the German Federal Gazette during its period of validity with the following exception:

Contrary to section 5.4.1 sentence 2 of the Code, an age limit is not taken into account when proposing candidates for election to the Supervisory Board pursuant to the published objectives of the Supervisory Board. The age of Supervisory Board members is not a criterion for their qualifications and competence. Moreover, we do not wish to forgo the many years of experience of Supervisory Board members.

During the period from June 15, 2012 to the issuance of this Statement of Compliance, the recommendations of the Government Commission German Corporate Governance Code in the version dated May 15, 2012 and announced by the German Federal Ministry of Justice on June 15, 2012 in the official section of the German Federal Gazette were complied with apart from the aforementioned exception and the following deviations:

Since the announcement of the amendment to section 5.4.6 para 2 of the German Corporate Governance Code on June 15, 2012, the compensation of the Supervisory Board of the company, which up until that date complied with the Code, no longer corresponds to the current recommendations to the extent that the apart from reimbursement for expenses and fixed compensation, performance-related compensation is granted based on the dividend of the current fiscal year. Owing to the latest change to section 5.4.6 para 2 of the German Corporate Governance Code, the recommendation was introduced that performance-related compensation should be oriented toward the sustainable growth of the company. The aforementioned measurement basis for the current variable compensation paid to the company's Supervisory Board members does not meet these preconditions since it is only oriented toward the dividend of a year. A new compensation system that conforms to the new recommendations of the German Corporate Governance Code and only provides for fixed compensation will be proposed to the 2013 General Meeting.

The Government Commission German Corporate Governance Code amended the latest version of section 5.4.1 para 2 of the Code by adding the recommendation that the Supervisory Board shall also define the number of independent Supervisory Board members in the future. Subsequent to discussions of this matter and adoption by the Supervisory Board on March 6, 2013, this recommendation has been complied with since this date.

In view of future compliance with the current recommendations of the Government Commission German Corporate Governance Code, the Executive Board and the Supervisory Board declare the following: With the exception of the aforementioned deviation from section 5.4.1 sentence 2 (age limit) and subject to the approval of the General Meeting on the amendment of Supervisory Board compensation effective April 27, 2013, the company will comply with the recommendations of the Code in the version dated May 15, 2012."

Darmstadt, March 6, 2013

For the Executive Board

s. Karl-Ludwig Kley

For the Supervisory Board

s. Rolf Krebs

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Compensation report

(Sections 4.2.5 and 5.4.6 of the German Corporate Governance Code)

The compensation report is part of the audited Notes to the Group accounts.

Compensation of members of the Executive Board of Merck KGaA

Contrary to management board members of German stock corporations, the members of the Executive Board of Merck KGaA are not employed officers of the company. Rather, they are personally liable general partners of both Merck KGaA and the general partner E. Merck KG, and in this capacity they receive profit-based compensation from E. Merck KG. Therefore, the obligation to individually publish the compensation of management board members of publicly listed German stock corporations does not apply to the Executive Board of Merck KGaA. The following presentation of individual compensation is therefore being made on a voluntary basis.

Contrary to publicly listed German stock corporations, at Merck KGaA it is not the Supervisory Board, but the Board of Partners of E. Merck KG that decides on the amount and composition of compensation. E. Merck KG has transferred the execution of this right to its Personnel Committee. Among other things, the Personnel Committee is responsible for the following decisions: contents of contracts with Executive Board members, granting of loans and advance salary payments, approval for taking on honorary offices, board positions and other sideline activities, as well as the division of responsibilities within the Executive Board of Merck KGaA. The compensation system defined by the Personnel Committee for Executive Board members takes into account various compensation-relevant aspects, including the responsibility of the individual Executive Board members, their individual performance, the performance of the company, as well as the amount of compensation paid to executive board and management board members of comparable companies. The Personnel Committee regularly commissions an independent compensation consultant to review the appropriateness of compensation.

Features of the compensation system

The compensation paid to the Executive Board members of Merck KGaA in fiscal 2012 comprises fixed components, variable compensation components and additions to pension provisions. Benefits in kind and other benefits are additionally granted.

Fixed compensation

Fixed compensation is paid in the form of 12 equivalent monthly installments. The table on page 106 provides an overview of the amount of the fixed compensation paid in 2011 and 2012.

Variable compensation

Variable compensation is based on the three-year rolling average of profit after tax of the E. Merck Group. Exceptional factors that amount to more than 10% of the Group profit and for which the Executive Board member is not responsible are eliminated. The members of the Executive Board receive an individually fixed per mille rate of the Group profit calculated in this manner.

Additionally, in exceptional cases the Personnel Committee of E. Merck, which is responsible for the compensation of the Executive Board, may grant one-time payments voluntarily and at its own discretion. In such cases, the Personnel Committee ensures that the one-time payments do not exceed the respective total compensation of the individual Executive Board member composed of fixed and variable compensation (excluding the one-time payment).

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Additional variable compensation (Merck Long-Term Incentive Plan)

In 2012, a long-term variable compensation component known as the Merck Long-Term Incentive Plan was added to the variable compensation of the members of the Executive Board. It aims to enhance the sustainability of the compensation system and to align it not only with target achievement based on key performance indicators, but above all with a sustainable performance of Merck shares.

Subject to the resolution of the Personnel Committee each year, under the Merck Long-Term Incentive Plan the members of the Executive Board could be eligible to receive a certain number of virtual shares – Merck Share Units (MSUs) – at the end of a three-year performance cycle. The number of MSUs that could be received depends on the total value defined for the respective person and the average closing price of Merck shares in Xetra trading during the last 60 trading days prior to January 1 of the respective fiscal year (reference price). In order to participate in the Plan, members of the Executive Board must personally own an investment in Merck shares equivalent to 10% of their respective fixed annual compensation, taking into account the equity interest held in E. Merck KG as a personally liable general partner. It is not permitted to sell these shares during the performance cycle. After termination of the three-year performance cycle, the number of MSUs to be granted then is determined based on the development of two key performance indicators (KPIs). These are:

- a) the performance of the Merck share price compared to the DAX® with a weighting of 70%, and
- b) the development of the EBITDA pre margin, during the performance cycle as a proportion of a defined target value with a weighting of 30%.

Depending on the development of the KPIs, at the end of the respective performance cycle the members of the Executive Board are granted between 0% and 150% of the MSUs they could be eligible to receive. Based on the number of MSUs granted, the members of the Executive Board receive a cash payment at a defined point in time in the year following the expiration of the three-year performance cycle. The value of an MSU corresponds to the average closing price of Merck shares in Xetra trading during the last 60 trading days prior to January 1 after the performance cycle. The payment amount is limited to three times the reference price. The net amount after taking tax into account is invested in Merck shares by the members of the Executive Board. One third of these shares may be sold at the earliest one year after termination of the performance cycle, another third after two years, and another third after three years.

In fiscal 2012, the following total values were specified for members of the Executive Board, which resulted in the respective number of MSUs they were eligible to receive based upon the definitive reference price of Merck shares (60 trading days preceding January 1, 2012) of € 69.57: Karl-Ludwig Kley € 1.5 million (21,562 MSUs), Kai Beckmann € 1.0 million (14,375 MSUs), Stefan Oschmann € 1.0 million (14,375 MSUs), Bernd Reckmann € 1.0 million (14,375 MSUs), and Matthias Zachert € 1.0 million (14,375 MSUs).

For fiscal 2013, the Personnel Committee authorized the Chairman of the Personnel Committee to assign potential numbers of MSUs to the Executive Board members for a performance cycle from January 1, 2013 to December 31, 2015. The following total values were defined as the initial basis: Karl-Ludwig Kley € 1.5 million, Kai Beckmann € 1.0 million, Stefan Oschmann € 1.0 million, Bernd Reckmann € 1.0 million and Matthias Zachert € 1.0 million.

Additional benefits

The members of the Executive Board also receive certain additional benefits, mainly contributions to insurance policies as well as a company car, which they are entitled to use privately. The members of the Executive Board must declare these benefits in their tax returns. Overall, the value of other additional benefits totaled € 122 thousand in 2012 (2011: € 121 thousand). Of this amount, in 2012 € 28 thousand was attributable to

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Karl-Ludwig Kley (2011: € 28 thousand), € 23 thousand to Kai Beckmann (2011: € 14 thousand), € 21 thousand to Stefan Oschmann (2011: € 15 thousand), € 26 thousand to Bernd Reckmann (2011: € 25 thousand) and € 24 thousand to Matthias Zachert (2011: € 14 thousand).

Total compensation

Accordingly, the following total compensation results for the members of the Executive Board of Merck KGaA broken down by performance-independent and performance-related components:

		Performance-independent components		Performance-related components		Total	Share-based compensation expensed in the period ⁴
				without a long-term incentive effect	with a long-term incentive effect		
		Fixed compensation	Additional benefits	Variable compensation ¹	Merck Long-Term Incentive Plan		
					Number of MSUs ² (units)	Fair value ³ (€ thousand)	
		(€ thousand)	(€ thousand)	(€ thousand)		(€ thousand)	(€ thousand)
Current members							
Karl-Ludwig Kley	2012	1,100	28	2,795	21,562	1,626	5,549
	2011	1,100	28	3,100	n/a	n/a	4,228
Kai Beckmann ⁷	2012	800	23	1,746	14,375	1,084	3,653
	2011	600	14	1,188	n/a	n/a	1,802
Stefan Oschmann	2012	1,000	21	2,295	14,375	1,084	4,400
	2011	1,000	15	2,100	n/a	n/a	3,115
Bernd Reckmann	2012	1,000	26	2,295	14,375	1,084	4,405
	2011	1,000	25	3,300	n/a	n/a	4,325
Matthias Zachert ⁸	2012	1,000	24	2,045	14,375	1,084	4,153
	2011	583	14	1,079	n/a	n/a	1,676
Total	2012 ⁵	4,900	122	11,176	79,062	5,962	22,160
	2011 ⁶	5,533	121	13,891	n/a	n/a	19,545

¹ The variable compensation for 2012 is based on an extrapolation since the consolidated result of the E. Merck Group was not yet available when this information was prepared. For the same reasons the variable compensation stated for 2011 above deviates in some cases slightly from the amounts actually reported in 2012. The one-time payments made in 2011 to Karl-Ludwig Kley, Michael Becker and Bernd Reckmann for the achievement of targets in connection with the Millipore transaction are included in the variable compensation component reported for 2011.

² Number of the potential MSUs subject to target achievement. For details on the calculation thereof, see page 105. The actual number of MSUs to be granted after the expiration of the three-year performance cycle may deviate from this.

³ Fair value on the date of the grant (date of the legally binding entitlement). The amount of a payment is not predefined. Payment is subject to target achievement and is only made on a specified date after the expiration of a three-year performance cycle. The fair value of the obligations was calculated using a Monte Carlo simulation based on the previously described KPIs. The expected volatilities are based on the implicit volatility of Merck shares and the DAX[®] index in accordance with the remaining term of the LTIP tranche. The dividend payments incorporated into the valuation model orient towards medium-term dividend expectations.

⁴ In accordance with IFRS.

⁵ In 2012, no compensation was paid to former members.

⁶ Including compensation for former members (basic compensation € 1,250 thousand, additional benefits € 25 thousand, variable compensation € 3,124 thousand – total € 4,399 thousand).

⁷ Kai Beckmann has been a Member of the Executive Board since April 1, 2011.

⁸ Matthias Zachert has been a Member of the Executive Board since June 1, 2011.

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Pension provisions

The individual contractual pension obligations grant the members of the Executive Board entitlement to a lifelong old-age pension or surviving dependents' pension in the event of reaching the individual contractually agreed age limit, permanent disability, or death.

The amount of the old-age pension is determined by a percentage share of pensionable compensation defined by the Personnel Committee.

The individual values are presented in the following table:

	Pensionable compensation (€ thousand)	Percentage entitlement
Karl-Ludwig Kley	790	70
Kai Beckmann	300	43
Stefan Oschmann	500	45
Bernd Reckmann	500	58
Matthias Zachert	400	42

The percentage entitlement increases up until retirement by 2 percentage points per year of service up to 70% for Kai Beckmann, Bernd Reckmann and Matthias Zachert. Their pension entitlements were correspondingly increased in fiscal 2012.

The following amounts were added to pension provisions in 2012:

€ thousand	Additions to pension provisions		Amount of pension provi- sions as of Dec. 31, 2012
	2012	2011	
Karl-Ludwig Kley	2,023	-1,699	7,290
Kai Beckmann	653	1,053	2,478
Stefan Oschmann	156	498	654
Bernd Reckmann	1,446	693	5,755
Matthias Zachert	195	153	348
Total	4,473	698	16,525

The surviving dependents' pension grants the spouse a lifelong surviving dependents' pension amounting to 60% of the pension entitlement, dependent children either a half-orphan's or an orphan's pension maximally until the age of 25.

As an alternative to an old-age pension, upon reaching the age limit specified in their individual contracts, the members of the Executive Board have the possibility to receive their pension entitlement in the form of a one-time lump-sum payment calculated in accordance with actuarial principles.

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Benefits in the event of termination of the duties as an Executive Board member

The employment contracts of Karl-Ludwig Kley, Kai Beckmann, Stefan Oschmann and Bernd Reckmann each contain a post-contractual non-competition clause. An amount equal to 50% of the average contractual benefits paid to the respective Executive Board Member within the past 12 months prior to leaving the company shall be provided as compensation for each year of the two-year non-competition period. During the period of the non-competition clause, other employment income as well as pension payments will be credited toward this compensation. Within certain time limits, E. Merck KG has the possibility to dispense with adherence to the non-competition clause with the consequence that the obligation to make the compensation payments shall cease to apply.

Above and beyond existing pension obligations, no further obligations additionally exist in the event of the termination of the contractual relationships of the Executive Board members.

Miscellaneous

The members of the Executive Board do not receive additional compensation for serving on the boards of Group companies.

Should members of the Executive Board be held liable for financial losses while executing their duties, under certain circumstances this liability risk is covered by a D&O insurance policy from Merck KGaA. The D&O insurance policy has a deductible in accordance with the legal requirements and the recommendations of the German Corporate Governance Code.

Payments to former Executive Board members and their surviving dependents

Pension payments to former members of the Executive Board or their surviving dependents amounted to € 10,478 thousand in 2012 (2011: € 9,734 thousand). Pension provisions totaling € 108,473 thousand exist for pension entitlements of this group of persons (2011: € 89,204 thousand).

Compensation of the Supervisory Board members of Merck KGaA

The compensation of the Supervisory Board members is defined by Article 20 of the Articles of Association of Merck KGaA. However, a new compensation system will be proposed to the General Meeting to reflect the changes in the German Corporate Governance Code announced on June 15, 2012. The rules that still apply at the present time provide for the following:

Apart from reimbursement of their expenses, the members of the Supervisory Board receive fixed and variable compensation.

The fixed compensation amounts to € 7,000 per year. The Chairman receives double this amount and the Vice Chairman receives one and a half times this amount.

The members of the Supervisory Board also receive € 550 for each percent of the dividend resolved by the General Meeting in excess of 6% of the share capital, with a corresponding portion for fractions of a percent. The Chairman receives double this amount and the Vice Chairman receives one and a half times this amount.

Supervisory Board members who have only been in office for part of the fiscal year receive lower compensation in proportion to their term of office. The company reimburses the value-added tax levied on the compensation.

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The individual values are presented in the following table:

Compensation of the Supervisory Board members of Merck KGaA

€	Fixed compensation		Variable compensation		Total compensation	
	2012	2011	2012	2011	2012	2011
Rolf Krebs ¹ (Chairman)	14,000	14,000	65,318	56,859	79,318	70,859
Heiner Wilhelm (Vice Chairman)	10,500	10,500	48,988	42,644	59,488	53,144
Crocifissa Attardo	7,000	7,000	32,659	28,429	39,659	35,429
Mechthild Auge	7,000	7,000	32,659	28,429	39,659	35,429
Johannes Baillou ²	7,000	7,000	32,659	28,429	39,659	35,429
Frank Binder ³	7,000	7,000	32,659	28,429	39,659	35,429
Wolfgang Büchele ²	7,000	7,000	32,659	28,429	39,659	35,429
Michael Fletterich	7,000	7,000	32,659	28,429	39,659	35,429
Edeltraud Glänzer	7,000	7,000	32,659	28,429	39,659	35,429
Jürgen Glaser ⁵	4,686	–	21,862	–	26,548	–
Michaela Freifrau von Glenck ⁴	7,000	7,000	32,659	28,429	39,659	35,429
Frieder Kaufmann ⁶	2,505	7,000	11,689	28,429	14,194	35,429
Hans-Jürgen Leuchs ²	7,000	7,000	32,659	28,429	39,659	35,429
Albrecht Merck ³	7,000	7,000	32,659	28,429	39,659	35,429
Karl-Heinz Scheider	7,000	7,000	32,659	28,429	39,659	35,429
Theo Siegert ¹	7,000	7,000	32,659	28,429	39,659	35,429
Osman Ulusoy ⁷	2,314	7,000	10,797	28,429	13,111	35,429
Berthold Wagner ⁸	4,495	–	20,969	–	25,464	–
Total	122,500	122,500	571,531	497,509	694,031	620,009

¹ As members of corporate bodies of E. Merck KG, these Supervisory Board members each received an additional payment of €150,000 for performing this function in 2012 (2011: €150,000).

² As members of corporate bodies of E. Merck KG, these Supervisory Board members each received an additional payment of €140,000 for performing this function in 2012 (2011: €140,000).

³ As members of corporate bodies of E. Merck KG, these Supervisory Board members each received an additional payment of €120,000 for performing this function in 2012 (2011: €120,000).

⁴ As members of corporate bodies of E. Merck KG, these Supervisory Board members each received an additional payment of €80,000 for performing this function in 2012 (2011: €80,000).

⁵ Member of the Supervisory Board since May 1, 2012

⁶ Member of the Supervisory Board until May 10, 2012

⁷ Member of the Supervisory Board until April 30, 2012

⁸ Member of the Supervisory Board since May 11, 2012

By contrast, the new compensation system to be proposed to the 2013 General Meeting in conformity with the new recommendations of the German Corporate Governance Code provides exclusively for fixed compensation. To this extent, annual fixed compensation of € 47,000 (the Chairman receives twice this amount, the Vice Chairman one and a half times this amount) as well as additional compensation of € 750 per meeting will be proposed.

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Section 6.6 of the
German Corporate
Governance Code

Ownership, purchase or sale of shares in the company by members of the Executive Board and of the Supervisory Board

As of December 31, 2012, the members of the Executive Board and of the Supervisory Board either directly or indirectly held 14,316 shares of Merck KGaA. Their total ownership represents less than 1% of the issued shares of Merck KGaA. Transactions executed by members of the Executive Board and of the Supervisory Board are disclosed on the Merck website at www.merckgroup.com/investors → Corporate Governance → Directors' Dealings.

Information on Corporate Governance Practices

Reporting

It is Merck KGaA's objective to provide the latest information to all shareholders, media, financial analysts and interested members of the public, while creating the greatest possible transparency. For this reason, Merck uses a wide range of communication platforms to engage in a timely dialogue with all interested parties about the situation of the company and business changes. Merck's principles include providing factually correct, comprehensive and fair information.

Information subject to disclosure requirements, as well as information that is not, can be accessed worldwide on the Merck KGaA website (www.merckgroup.com), which is the company's most important publication platform. Apart from a detailed financial calendar, quarterly and half-year financial reports covering the past three years are available here in German and English. In addition, in line with the legal requirements, ad hoc announcements are published on the website. These contain information on circumstances that could impact the Merck share price.

Regular press conferences, investor meetings on the occasion of investor conferences as well as road shows offer another platform for dialogue. The company presentations prepared for this purpose are also available on the Merck KGaA website. In addition, the Investor Relations team is always available to private and institutional investors who wish to receive further information.

To ensure the greatest possible transparency, all documents concerning the General Meeting are available on the company website. Additionally, some parts of the General Meeting are webcast live on the Internet.

Dealing with insider information

Dealing properly with insider information is very important to us. Our insider committee examines the existence of insider information, ensures compliance with legal obligations, and prepares any necessary measures. The members of the insider committee are appointed by the Executive Board; at least two members work in Group Legal & Compliance. The insider committee meets at regular intervals, yet also meets when circumstances require. The Chief Financial Officer is vested with the authority to make the final decision on handling potential insider information.

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In order to ensure a high level of protection for insider information, in 2011 the Executive Board issued an internal insider guideline applicable throughout the Merck Group worldwide. This guideline informs employees about their responsibilities under insider trading laws and gives clear instructions for compliant behavior.

In addition, it describes the function of the insider committee in detail. Moreover, our Code of Conduct, which is binding on all employees, also contains an explicit, detailed reference to the ban on using insider information. Within the scope of obligatory training courses on the Code of Conduct, all employees are instructed on the subject of insider trading.

Accounting and audits of financial statements

Merck KGaA prepares its consolidated financial statements and Group management report in accordance with International Financial Reporting Standards (IFRS), as applicable in the EU, as well as the supplementary rules applicable under section 315a (1) of the German Commercial Code (HGB) and as stipulated by our Articles of Association. The Group financial statements and the Group management report are prepared by the Executive Board and examined by an auditor, taking into account the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW).

The Supervisory Board commissioned KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, to audit the Group financial statements and the Group management report for 2012. Neither party identified any conflicts of interest. Moreover, the Supervisory Board agreed with KPMG AG that the auditor shall inform the Supervisory Board without delay of any grounds for bias or disqualification occurring during the audit if these cannot be immediately rectified. Additionally, the auditor must immediately report to the Supervisory Board any findings and issues which emerge during the audit that have a direct bearing upon the tasks of the Supervisory Board. The auditor shall inform the Supervisory Board or note in the audit report any circumstances determined during the audit that would render inaccurate the Statement of Compliance made by the Executive Board and the Supervisory Board. It has also been agreed with the auditor that in order to assess whether the Executive Board has fulfilled its obligations in accordance with section 91 (2) AktG, the audit will also cover the company's early warning risk identification system. Moreover, the auditor is required to examine and evaluate the accounting-relevant internal control system insofar as this is necessary and appropriate for assessing the accuracy of financial reporting.

Values and compliance

Based on a corporate culture that places the fundamental company values – courage, achievement, responsibility, respect, integrity and transparency – at the center of our entrepreneurial actions, the Code of Conduct helps those involved in the business process to implement the values when dealing with one another on a daily basis.

Merck has created the Code of Conduct as a set of rules and regulations intended to help Merck employees to act responsibly and to make the right decisions in their daily work. The Code of Conduct explains the principles for dealings with business associates, general partners, colleagues, and employees, as well as the communities in which we operate. Thus, it supports all employees in acting ethically – not only in their dealings with one another, but also outside the company. The Code of Conduct is thus the main set of rules of our compliance program.

The Code of Conduct
can be found on the
Merck website at:
www.merckgroup.com
→ Publications
→ Code of Conduct

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To Merck, compliance means observing legal and company-internal regulations and the basic ethical principles anchored in the company values. With the Code of Conduct and the various unit-specific compliance rules, the values are integrated into daily work and business practice. The Code of Conduct is binding on all employees, both at headquarters as well as the legal entities abroad. The Compliance Office monitors observance of the Code of Conduct with support from corresponding auditing and training programs throughout the Group. All employees are called upon to report compliance violations to their supervisor, Legal, HR or other relevant departments. Merck created the position of Group Compliance Officer (GCO) in 2002. This employee is responsible for setting up, maintaining and further developing our global compliance program. By taking appropriate measures, the GCO and his team, including regional compliance officers, help to lower the risk of serious legal violations of, for instance, antitrust law or anticorruption rules. The role of the Group Compliance Officer is reflected in the legal entities by the approximately 80 local compliance officers, who ensure that compliance measures are implemented in the legal entities in the countries. Regular regional and global compliance meetings are held to promote the exchange of information within the network. Newcomer training seminars were introduced in 2010 for newly appointed compliance officers. These seminars serve to build up compliance expertise and strengthen cooperation within the compliance organization. This Group-wide network is used to steer the global compliance program.

The SpeakUp line
is available 24 hours
a day

Within the scope of this program, a high degree of importance is attached to regular compliance seminars of the Merck Compliance Training Plan, which are conducted as web-based training courses and on-site events. By presenting various training topics, particularly on the Code of Conduct, corruption, antitrust and competition law as well as health care compliance, they serve to sensitize employees and management to the consequences of compliance violations and to show ways of avoiding them. By setting up a central SpeakUp line, employees can report compliance violations by telephone or via a web-based application in their respective national language. The SpeakUp line is available 24 hours a day, free of charge. Case numbers enable anonymous, two-way communication. The reports received are individually reviewed. If a compliance violation exists, corresponding corrective action is taken based on concrete action plans. If necessary, disciplinary measures are taken. These can range from a simple warning up to the dismissal of the employee who violated a compliance rule. In 2010, Merck set up a compliance committee to guide these processes. The Compliance Committee consists of members from various Group functions; they are involved in reviewing compliance violations and introducing countermeasures. The joint work in the Compliance Committee enables processes between the various Group functions to be optimized. Further significant elements of the Compliance program include requirements on locally identifying and assessing risks and reporting these, both within the subsidiary and to the Group functions. Group Compliance regularly reviews and assesses the implementation status of the Compliance program at the subsidiaries.

In cooperation with Group Internal Auditing, the Compliance Office regularly reviews the implementation of Group-wide compliance measures at the legal entities abroad. The audits regularly focus on the local compliance structure, the compliance measures taken, as well as the existence of corresponding compliance guidelines and processes.

The Compliance department reports regularly to the Executive Board, informing it of the status of compliance activities (including training status), compliance risks as well as serious compliance violations. The Executive Board informs the supervisory bodies at least once a year about the key compliance issues.

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Risk and opportunity management

The Executive Board, the Supervisory Board and the Finance Committee are regularly informed about the current risk portfolio of the Group and the individual companies. More detailed information can be found in the Risk Report on page 84 et seq.

Avoidance of conflicts of interest

Within the framework of their work, all Executive Board and Supervisory Board members of Merck KGaA are exclusively committed to the interests of the company and pursue neither personal interests nor grant unjustified advantages to third parties.

Before an Executive Board member takes on honorary offices, board positions or other sideline activities, this must be approved by the Personnel Committee of the Board of Partners of E. Merck KG.

The Chairman of the Executive Board, Karl-Ludwig Kley, and the Chief Financial Officer, Matthias Zachert, are both members of the Executive Board of E. Merck KG. This does not, however, lead to conflicts of interest. In its report to the General Meeting, the Supervisory Board discloses any conflicts of interest involving its members and how they were dealt with. Consultancy agreements as well other service and work contracts of a Supervisory Board member with Merck require the approval of the Supervisory Board. In fiscal 2012, there were neither conflicts of interest nor consultancy agreements or other service or work contracts with Merck KGaA involving Supervisory Board members.

Adherence to environmental and safety standards

At Merck, closed-loop thinking guides the way in which we address environmental concerns and environmental protection issues. To this end, we integrate precautionary measures into our planning processes. Our Environment, Health and Safety Policy with its principles and strategies implements the guidelines formulated by the national and international associations of the chemical industry in the Responsible Care guidelines. The Responsible Care Global Charter developed by the International Council of Chemical Associations (ICCA) in 2006 puts even more emphasis than before on overall responsibility for products, supply chains and the community. Merck signed this expanded version of Responsible Care for the entire Group in February 2007.

Many guidelines specify how the sites and employees of the Merck Group are to observe the principles in their daily work. The Group function Environment, Health, Safety, Security & Quality steers these global activities and ensures compliance with regulatory requirements, standards and business needs throughout the entire Group. In this way, Group-wide risks are minimized and continuous improvement is promoted in the areas of Environment, Health, Safety, Security, and Quality. Corporate Responsibility reports are also published at regular intervals.

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Procedures of the Executive Board, Supervisory Board, Board of Partners and its Committees

Members of the Executive Board of Merck KGaA

Notes on memberships of statutory supervisory boards and comparable German and foreign supervisory bodies (section 285 No. 10 HGB in conjunction with section 125 (1) sentence 5 AktG)

<i>Member</i>	Memberships of (a) statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
Karl-Ludwig Kley Darmstadt Chairman	(a) – Bertelsmann AG/Bertelsmann SE & Co. KGaA ¹ , Gütersloh – Bertelsmann Management SE, Gütersloh (since May 4, 2012) – BMW AG, Munich (Vice Chairman) – 1. FC Köln GmbH & Co. KGaA, Cologne (Chairman)
Kai Beckmann Griesheim, Head of Group Human Resources	no board positions
Stefan Oschmann Munich, Responsible for the Merck Serono and Consumer Health divisions	(b) – Merck Serono S.A., Coinsins, Switzerland (Chairman) (until April 18, 2012)
Bernd Reckmann Seeheim-Jugenheim, Responsible for the Performance Materials and Merck Millipore divisions	no board positions
Matthias Zachert Bonn, Chief Financial Officer	no board positions

¹ Pursuant to the Commercial Registry entry dated August 20, 2012, Bertelsmann AG was transformed into Bertelsmann SE & Co. KGaA on August 20, 2012 by means of a change in legal form.

The general partners with no equity interest (Executive Board) manage the business activities in accordance with the laws, the Articles of Association and the rules of procedure. They are appointed by E. Merck KG with the consent of a simple majority of the other general partners. The members of the Executive Board are jointly responsible for the entire management of the company. Certain tasks are assigned to individual Executive Board members based on a responsibility distribution plan. Each Executive Board member promptly informs the other members of any important actions or operations in his respective business area. The Executive Board is responsible for preparing the annual financial statements of Merck KGaA and of the Group as well as for approving the quarterly and half-year financial statements of the Merck Group. In addition, the Executive Board ensures that all legal provisions, official regulations and the company's internal policies are abided by, and works to achieve compliance with them by all the companies of the Merck Group. A Group-wide guideline defines in detail which transactions require prior Executive Board approval.

The Executive Board provides the Supervisory Board with regular, up-to-date and comprehensive reports about all company-relevant issues concerning strategy, planning, business developments, the risk situation, risk management and compliance. The rules of procedure of the Executive Board and of the Supervisory Board as well as a Supervisory Board resolution regulate further details on the information and reporting duties of the Executive Board vis-à-vis the Supervisory Board.

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The Executive Board informs the Board of Partners and the Supervisory Board at least quarterly of the progress of business and the situation of the company. In addition, the Executive Board informs the stated boards at least annually of the company's annual plans and strategic considerations.

The Executive Board passes its resolutions in meetings that are normally held twice a month.

Supervisory Board

<i>Member</i>	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
Rolf Krebs Mainz, Physician, Chairman	(a) – Epigenomics AG, Berlin (Chairman) (until April 2012) – Ganymed Pharmaceuticals AG, Mainz (Chairman) – Merz GmbH & Co. KGaA, Frankfurt – Merz Pharmaceuticals GmbH, Frankfurt – Senator GmbH & Co KGaA, Frankfurt (until June 2012) (b) – E. Merck KG, Darmstadt ¹ – Air Liquide S.A., Paris (until May 10, 2012)
Heiner Wilhelm Reinheim, Chairman of the Works Council of the Darmstadt site of Merck KGaA, Vice Chairman	no board positions
Crocifissa Attardo Darmstadt, Full-time member of the Works Council of the Darmstadt site of Merck KGaA	no board positions
Mechthild Auge Wehrheim, Full-time member of the Works Council of the Darmstadt site of Merck KGaA	no board positions
Johannes Baillou Vienna, Austria, Managing Partner of Bondi Immobilien-Consulting GmbH, Vienna	(b) – E. Merck KG, Darmstadt ¹ (Vice Chairman)
Frank Binder Zurich, Switzerland, Chief Executive Officer of Novarca Deutschland GmbH, Frankfurt/Main	(a) – Landbell AG für Rückhol-Systeme, Mainz (Chairman) (b) – E. Merck KG, Darmstadt ¹ – BMR-Yachting AG, Zurich (Chairman) – Lloyd Yachts SAM, Monaco (Chairman) (since March 14, 2012)
Wolfgang Büchele Mannheim, Member of the Board of Directors of Kemira Oyj, Finland	(b) – E. Merck KG, Darmstadt ¹ – Kemira Oyj, Helsinki, Finland
Michael Fletterich Gernsheim, Chairman of the Works Council of the Gernsheim site of Merck KGaA	no board positions
Edeltraud Glänzer Wiesbaden, Member of the Managing Board of Industriegewerkschaft Bergbau, Chemie, Energie (IG BCE)	(a) – B. Braun Melsungen AG, Melsungen – Solvay Deutschland GmbH, Hannover (Vice Chairman)

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<i>Member</i>	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
Jürgen Glaser (since May 1, 2012) Bingen, Regional Director of the Industrie- gewerkschaft Bergbau, Chemie, Energie (IG BCE) Darmstadt	no board positions
Michaela Freifrau von Glenck ² Zurich, Switzerland Teacher	no board positions
Frieder Kaufmann (until May 10, 2012) Rossdorf, Full-time member of the Works Council of the Darmstadt site of Merck KGaA	no board positions
Hans-Jürgen Leuchs Ingelheim, Graduate chemist	(b) – E. Merck KG, Darmstadt ¹ – Zeton B.V., Enschede, Netherlands – Zeton International Inc., Burlington, ONT, Canada
Albrecht Merck ² Schriesheim, Commercial Director of the Castel Peter winery, Bad Dürkheim	(b) – E. Merck KG, Darmstadt ¹
Karl-Heinz Scheider Gross-Zimmern, Head of Contract Manufacturing Chemicals, Merck KGaA	no board positions
Theo Siegert Düsseldorf, Managing Partner of de Haen Carstanjen & Söhne, Düsseldorf	(a) – Deutsche Bank AG, Frankfurt (until May 2012) – E.ON AG, Düsseldorf – Henkel AG & Co KGaA, Düsseldorf (b) – E. Merck KG, Darmstadt ¹ – DKSH Holding Ltd., Zurich, Switzerland
Berthold Wagner (since May 11, 2012) Frankfurt, Member of the Works Council of the Darmstadt site of Merck KGaA	no board positions
Osman Ulusoy (until April 30, 2012) Wiesbaden, Vice Regional Director (Hesse-Thuringia) of Industriegewerkschaft Bergbau, Chemie, Energie (IG BCE)	no board positions

¹ Internal board position

² Members appointed by E. Merck KG according to Article 6 (5) of the Articles of Association

Tasks of the Supervisory Board of Merck KGaA

The Supervisory Board performs a monitoring function. It supervises the management of the company by the Executive Board. In comparison with the supervisory board of a German stock corporation, the role of the supervisory board of a corporation with general partners (KGaA) is limited. This is due to the fact that the members of the Executive Board are personally liable partners and therefore are themselves responsible

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No restriction of
information rights
or audit duties

for the management of the company. In particular, the Supervisory Board is not responsible for appointing and dismissing general partners or for regulating the terms and conditions of their contracts. This is the responsibility of E. Merck KG. Nor does the Supervisory Board have the authority to issue rules of procedure for the Executive Board or a catalog of business transactions requiring approval. This authority likewise belongs to E. Merck KG (Article 13 (3) sentence 1 and (4) sentence 1 of the Articles of Association). However, the fact that the Supervisory Board has no possibilities to directly influence the Executive Board restricts neither its information rights nor audit duties. The Supervisory Board must monitor the Executive Board in terms of legality, regularity, usefulness, and economic efficiency. In particular, the Supervisory Board has the duty to examine the reports provided by the Executive Board. This includes regular reports on the intended business policy, as well as other fundamental issues pertaining to corporate planning, especially financial, investment and HR planning; the profitability of the Merck Group; the progress of business; the risk situation; risk management (including compliance), and the internal auditing system. In addition, by means of consultation with the Executive Board, it creates the basis for supervision of the management of the company by the Supervisory Board according to section 111 (1) of the German Stock Corporation Act (AktG).

The Supervisory Board examines the annual financial statements and management report of Merck KGaA, as well as the Group financial statements and the Group management report, taking into account in each case the reports of the auditor. Moreover, the Supervisory Board also examines the quarterly reports and the half-year financial report, taking into account in the latter case the report of the auditor on the audit review of the abridged financial statements and the interim management report of the Group. The adoption of the annual financial statements is not the responsibility of the Supervisory Board, but of the General Meeting. The Supervisory Board normally meets four times a year. Further meetings may be convened if demanded by a member of either the Supervisory Board or the Executive Board. As a rule, resolutions of the Supervisory Board are passed at meetings. At the instruction of the chairman, in exceptional cases a resolution may be passed by other means, details of which are given in the rules of procedure.

The members of the Board of Partners of E. Merck KG and of the Supervisory Board may be convened to a joint meeting if so agreed by the chairmen of the two boards.

The rules of procedure prescribe that the Supervisory Board may form committees as and when necessary. Owing to the aforementioned limited authority, and since a corresponding need has not yet arisen, the Supervisory Board currently has no committees.

The German Stock Corporation Act (Aktiengesetz) prescribes that the Supervisory Board of a publicly listed company must have at least one independent member on its Supervisory Board who has professional expertise in accounting or auditing. Theo Siegert satisfies these requirements and is furthermore the Chairman of the Finance Committee of the Board of Partners of E. Merck KG.

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Board of Partners of E. Merck KG

Some of the responsibilities that lie with the supervisory board of a German stock corporation are fulfilled at Merck by E. Merck KG. This applies primarily to the Board of Partners of E. Merck KG. Therefore, the Board of Partners and the composition and procedures of its committees are described in the following.

The Board of Partners has nine members.

<i>Member</i>	Memberships of (a) statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
Frank Stangenberg-Haverkamp Darmstadt, Vice Chairman of the Executive Board and General Partner of E. Merck KG, Chairman	(a) – Fortas AG, Rösrath (Chairman) – M.A.X. Automation AG, Düsseldorf (b) – Oras Invest. Ltd., Helsinki, Finland (member of the Board of Directors) (since March 29, 2012)
Johannes Baillou Vienna, Austria, Managing Partner of Bondi Immobilien-Consulting GmbH, Vienna	(a) – Merck KGaA, Darmstadt
Jon Baumhauer Munich, Chairman of the Executive Board and General Partner of E. Merck KG	no board positions
Frank Binder Zurich, Switzerland Managing Director of Novarca Deutschland GmbH, Frankfurt/Main	(a) – Merck KGaA, Darmstadt – Landbell AG für Rückhol-Systeme, Mainz (Chairman) (b) – BMR-Yachting AG, Zurich (Chairman) – Lloyd Yachts, SAM, Monaco (Chairman) (since March 14, 2012)
Wolfgang Büchele Mannheim, Member of the Board of Directors of Kemira Oyj, Finland	(a) – Merck KGaA, Darmstadt (b) – Kemira Oyj, Helsinki, Finland
Rolf Krebs Mainz, Physician	(a) – Merck KGaA, Darmstadt – Epigenomics AG, Berlin (Chairman) (until April 2012) – Ganymed Pharmaceuticals AG, Mainz (Chairman) – Merz GmbH & Co. KGaA, Frankfurt – Merz Pharmaceuticals GmbH, Frankfurt – Senator GmbH & Co KGaA, Frankfurt (until June 2012) (b) – Air Liquide S.A., Paris (until May 10, 2012)
Hans-Jürgen Leuchs Ingelheim, Graduate chemist	(a) – Merck KGaA, Darmstadt (b) – Zeton B.V., Enschede, Netherlands – Zeton International Inc., Burlington ONT, Canada
Albrecht Merck Schriesheim, Commercial Director of the Castel Peter winery, Bad Dürkheim	(a) – Merck KGaA, Darmstadt
Theo Siegert Düsseldorf, Managing Partner of Haen Carstanjen & Söhne, Düsseldorf	(a) – Merck KGaA, Darmstadt – Deutsche Bank AG, Frankfurt (until May 2012) – E.ON AG, Düsseldorf – Henkel AG & Co KGaA, Düsseldorf (b) – DKSH Holding Ltd., Zurich, Switzerland

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The Board of Partners supervises the Executive Board in its management of the company. It informs itself about the business matters of Merck KGaA, and may inspect and examine the company's accounts and other business documents, and the assets for this purpose. According to Article 13 (4) of the Articles of Association of Merck KGaA, the Executive Board requires the approval of E. Merck KG for transactions that are beyond the scope of the Group's ordinary business activities. For such transactions to be approved, approval must first be obtained from the Board of Partners of E. Merck KG. The Board of Partners convenes as and when necessary; however, it meets at least four times a year. The members of the Executive Board of Merck KGaA are invited to all meetings of the Board of Partners, unless the Board of Partners resolves otherwise in individual cases. The members of the Board of Partners may convene a joint meeting with the Supervisory Board of Merck KGaA if so agreed by the chairmen of the two boards.

The Board of Partners may confer the responsibility for individual duties to committees. Currently the Board of Partners has three committees in place: the Personnel Committee, the Finance Committee, and the Research and Development Committee.

Personnel Committee

The Personnel Committee has four members: Frank Stangenberg-Haverkamp (Chairman), Jon Baumhauer, Rolf Krebs, and Theo Siegert.

The Personnel Committee meets at least twice a year. Further meetings are convened as and when necessary. Meetings of the Personnel Committee are attended by the Chairman of the Executive Board of Merck KGaA unless the Committee decides otherwise.

The Personnel Committee is responsible for, among other things, the following decisions concerning members and former members of the Executive Board: contents of and entry into employment contracts and pension contracts, granting of loans and advance payments, changes to the compensation structure and adaptation of compensation, approval for taking on honorary offices, board positions and other sideline activities, as well as division of responsibilities within the Executive Board of Merck KGaA. The Personnel Committee passes its resolutions by a simple majority – in matters concerning the Chairman of the Executive Board unanimity is required. The Chairman of the Committee regularly informs the Board of Partners of its activities.

Finance Committee

The Finance Committee has four members: Theo Siegert (Chairman), Johannes Baillou, Wolfgang Büchele, and Frank Stangenberg-Haverkamp.

The Finance Committee holds at least four meetings a year, at least one of which is a joint meeting with the auditor of Merck KGaA. Further meetings are convened as and when necessary. Meetings of the Finance Committee are attended by the Chief Financial Officer of Merck KGaA. Other members of the Executive Board of Merck KGaA may attend the meetings upon request by the Committee. These meetings regularly include the Chairman of the Executive Board. The Finance Committee is responsible for, among other things, analyzing and discussing the annual financial statements and the respective report of the auditor of the annual financial statements and management report as well as the half-year financial report

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(including the report of the auditors for the audit review of the abridged financial statements and interim management report contained in the half-year report) and the quarterly reports. Furthermore, the Finance Committee recommends to the Chairman of the Supervisory Board annual audit focuses for the auditors. It also recommends an auditor for the annual financial statements and management report as well as auditors for the audit review of the abridged financial statements and interim management report contained in the half-year financial report for the Supervisory Board's corresponding suggestion to the General Meeting. In addition, the Finance Committee is concerned with the financial position, results of operations and liquidity of Merck, as well as accounting, internal auditing, risk management and compliance issues. Upon request of the Board of Partners, the Finance Committee examines capital spending projects that must be approved by the Board of Partners and provides recommendations pertaining thereto.

Research and Development Committee

The Research and Development Committee has three members: Rolf Krebs (Chairman), Hans-Jürgen Leuchs and Frank Stangenberg-Haverkamp.

The Research and Development Committee is convened as and when necessary, but holds meetings at least twice a year. Meetings of the Research and Development Committee are attended by members of the Executive Board of Merck KGaA upon request of the Committee. These meetings regularly include the Chairman of the Executive Board as well as the members of the Executive Board responsible for the Pharmaceuticals and Chemicals divisions. The Chairman of the Research and Development Committee is responsible, among other things, for analyzing and discussing the research activities of Pharmaceutical and Chemicals. The Pharmaceuticals and Chemicals divisions present the status of their respective research to the Research and Development Committee in special meetings. The Committee deals thoroughly with the pharmaceutical research progress report and with developments of new medicines in Phases II and III of clinical research. The Chairman of the Committee reports to the Board of Partners on the insights gained from the meetings held.

Report of the Supervisory Board

The Supervisory Board again properly executed its duties in 2012 in accordance with the law as well as the company's Articles of Association and rules of procedure. In particular, the Supervisory Board monitored the work of the Executive Board diligently and regularly.

Cooperation with the Executive Board

The cooperation with the Executive Board was characterized by intensive, trustworthy exchange. During fiscal 2012, the Executive Board provided the Supervisory Board with regular written and verbal reports on the business development of Merck KGaA and the Merck Group. In particular, the Supervisory Board was informed about the market and sales situation of the company against the background of the macro-economic development, the financial position of the company and its subsidiaries along with their earnings development, as well as corporate planning. Within the scope of quarterly reporting, the sales and operating results were presented for the Merck Group as a whole, and broken down by division. Aside from the Supervisory Board meetings, the Chairman of the Supervisory Board also maintained and continues to maintain a regular exchange of information with the Chairman of the Executive Board.

Key topics of the Supervisory Board meetings

Five Supervisory Board meetings were held in fiscal 2012. At these meetings, the Supervisory Board discussed the reports of the Executive Board in detail and discussed company developments and strategic issues together with the Executive Board.

At the meeting held on February 24, 2012, the Supervisory Board dealt mainly with the annual financial statements and consolidated financial statements for 2011 as well as the corresponding management reports. The Executive Board reported on business developments in 2011 and the key information contained in the 2011 annual financial statements. In addition, the auditor reported on the examination of the financial statements. The Supervisory Board approved the proposals to be made to the Annual General Meeting and adopted the statement on corporate governance including the Statement of Compliance with the German Corporate Governance Code in a joint report of the Executive Board and Supervisory Board. Lastly, the risk report, planning and the "Fit for 2018" program were topics of this meeting.

The meeting held on May 3, 2012 focused on current business developments in the first quarter of 2012. In addition, the Supervisory Board closely examined the internal auditing system. Furthermore, the head of Group Internal Auditing submitted her report on the audits conducted in 2011 and the results thereof. She also provided an outlook on the areas of focus of Group Internal Auditing in 2012. The meeting also focused on reporting as well as a discussion on the work of the Research and Development Committee of the Board of Partners of E. Merck KG. Moreover, the Compliance Report for 2011 was explained and discussed. Lastly, a discussion with the Executive Board on the status of the "Fit for 2018" program took place.

On May 15, 2012, an extraordinary Supervisory Board meeting was held at which the contents and presentations of Capital Market Day, which was also held on May 15, 2012, were discussed. The meeting focused on medium-term financial targets and the planned cost efficiencies.

At its meeting on July 24, 2012, the Supervisory Board discussed not only business developments in the first half of 2012 but also the report of KPMG on the audit review of the abridged financial statements and the interim management report of the Group as of June 30, 2012. The company's risk management was a further topic of focus. For this purpose, the company risk manager presented his annual report to the Supervisory Board. Apart from the individual risks that had been identified as well as the approach to handling them, he presented the current risk assessment criteria. No risks that threaten the continued existence of the company were identified. The Executive Board then gave a report on the current status of the "Fit for 2018" program, which was followed by a discussion.

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At the fifth Supervisory Board meeting on November 1, 2012, the Supervisory Board dealt with the report of the Executive Board on the third quarter of 2012. Here, the Executive Board also reported on the progress of the "Fit for 2018" program. In addition, the head of Group Legal & Compliance presented the compliance report for 2012. In addition, the report of Group Internal Auditing on the first half of 2012 was discussed.

Annual financial statements

The annual financial statements of Merck KGaA, the consolidated financial statements of the Merck Group, and the management reports for Merck KGaA and the Merck Group, including the accounts, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. The auditors issued an unqualified audit opinion on the annual financial statements and management report for Merck KGaA in accordance with German Auditing Standards. For the consolidated financial statements prepared in accordance with International Financial Reporting Standards, the auditors issued the auditor's report, reproduced in the Annual Report of the Merck Group. In addition, the auditors audited the calculation of Merck KGaA's participation in the profits of E. Merck KG in accordance with Article 27 (2) of the Articles of Association. The annual financial statements of Merck KGaA, the consolidated financial statements of the Merck Group, the management reports for Merck KGaA and the Merck Group, and the proposal by the Executive Board for the appropriation of the net retained profit were presented and distributed to the Supervisory Board, together with the auditor's reports.

In accordance with Article 14 (2) of the Articles of Association, the Supervisory Board also examined the annual financial statements of Merck KGaA and the management report for Merck KGaA, the proposal for the appropriation of the net retained profit and the auditor's report presented in accordance with Article 27 (2) of the Articles of Association. It also examined the consolidated financial statements of the Merck Group as well as the management report for the Merck Group, and took note of the auditor's report of KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin.

The discussion of the relevant agenda item at the Supervisory Board's meeting on March 6, 2013 to approve the financial statements was also attended by the auditors who sign the audit opinion on the annual financial statements of Merck KGaA and the consolidated financial statements of the Merck Group, and who reported on their audit. The Supervisory Board took note of and approved the results of the audit. On completion of its examination, the Supervisory Board raised no objections and thus approves the annual financial statements and management report for Merck KGaA, the consolidated financial statements of the Merck Group and the management report for the Merck Group prepared by the Executive Board, as well as the report presented by the auditors in accordance with Article 27 (2) of the Articles of Association. Following its own examination of the situation, the Supervisory Board gave its consent to the proposal for the appropriation of the net retained profit.

Corporate governance and Statement of Compliance

Corporate governance is a topic of high importance to the Supervisory Board. In its own estimation, the Supervisory Board has an adequate number of independent members. There were no conflicts of interest, as defined by the German Corporate Governance Code, involving Supervisory Board members during 2012. After addressing corporate governance topics in detail, the Executive Board and Supervisory Board resolved to adopt the updated Statement of Compliance on February 20, 2013 (Executive Board) and on March 6, 2013 (Supervisory Board) and jointly issued it on March 6, 2013 in accordance with section 161 AktG. The statement is permanently available on the website of Merck KGaA (www.merckgroup.com → Investors → Corporate Governance). More information on corporate governance at Merck KGaA, including the

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compensation of the Executive Board and Supervisory Board, is given in the Statement of Compliance on pages 101 et seq. of the Annual Report.

Committees

The Supervisory Board of Merck KGaA currently has no committees on account of the special features that apply to the Supervisory Board of a corporation with general partners (KGaA) under German company law and because a corresponding need for this has not emerged to date. Therefore, no report is given on the work of committees.

Personnel matters

No member of the Supervisory Board participated in less than half of the Supervisory Board meetings in fiscal 2012. The following changes in the composition of the Supervisory Board took place in 2012: Effective April 30, 2012, Mr. Osman Ulusoy retired from the Supervisory Board. Mr. Jürgen Glaser was appointed by the court as a new member of the Supervisory Board as of May 1, 2012. Mr. Frieder Kaufmann retired from the Supervisory Board on May 10, 2012. Effective May 11, 2012, Mr. Berthold Wagner, previously replacement member for Mr. Frieder Kaufmann, became a member of the Supervisory Board and retired from the Supervisory Board as of December 31, 2012. Mr. Jens Frank was appointed by the court as a new member of the Supervisory Board effective January 31, 2013. There were no new elections, new appointments to bodies or formations of new bodies beyond those described in the foregoing.

Darmstadt, March 6, 2013

The Supervisory Board of Merck KGaA



Rolf Krebs
Chairman

Objectives of the Supervisory Board with respect to its composition

Initial situation

According to section 5.4.1 (2) and (3) of the German Corporate Governance Code, the Supervisory Board shall specify concrete objectives regarding its composition which, while considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, the number of independent Supervisory Board members, an age limit to be specified for the members of the Supervisory Board, and diversity.

General notes on the composition of the Supervisory Board

The Supervisory Board of Merck KGaA currently consists of 16 members, eight of whom represent the shareholders and a further eight who represent the employees. The eight employee representative members are elected by employee delegates pursuant to the provisions of the German Co-determination Act (Mitbestimmungsgesetz "MitbestG"). These consist of six company employees, including a senior executive, as well as two union representatives. The Supervisory Board has no statutory proposal right with respect to electing the delegates or employee representatives. Owing to a delegation right of E. Merck Beteiligungen KG, two of the eight shareholder representatives are specified. The Supervisory Board likewise has no statutory proposal right with respect to exercising this delegation right. The remaining six shareholder representatives are elected by the General Meeting. In accordance with section 124 (3) sentence 1 AktG, the Supervisory Board shall propose to the General Meeting Supervisory Board members for election. These proposals require a majority of the votes of the shareholder representative members of the Supervisory Board. The next scheduled election to the Supervisory Board shall take place at the upcoming 2013 General Meeting. The General Meeting is not required to follow the election proposals. The appointment objectives that the Supervisory Board sets forth below therefore do not represent requirements to be met by those eligible to elect or to delegate members. Instead, they are intended to express the objectives pursued by the Supervisory Board in office with regard to its advisory and monitoring functions.

Objectives of the Supervisory Board with respect to its composition

In accordance with section 5.4.1 (2) of the German Corporate Governance Code, the Supervisory Board has specified the following objectives with respect to its composition and reports on the status of their implementation below. As recommended in the latest version of the German Corporate Governance Code dated May 15, 2012, an objective regarding the number of independent Supervisory Board members has been added.

Expertise and diversity

Professional qualifications and personal expertise are the two most important prerequisites for appointments to seats on the Supervisory Board. When proposing Supervisory Board candidates for election or delegation, the Supervisory Board will always give top priority to these prerequisites, which are essential for fulfilling its legal duties.

Overall, the Supervisory Board's policy is to optimally meet its monitoring and advisory duties by having a diversity of members. Diversity includes, in particular, internationality as well as different experience backgrounds and career paths. The proportion of women on the Supervisory Board is also considered to be an aspect of diversity. When preparing proposals for election or delegation, due consideration shall be given in individual cases to the extent to which different, yet complementary professional profiles, career and life experiences as well as appropriate representation of both genders can benefit the work of the Supervisory Board. Additionally, the Supervisory Board shall support the Executive Board in its efforts to increase diversity within the company.

→ Objectives of the
Supervisory Board with
respect to its composition

In-depth knowledge of the fields relevant to the company

The Supervisory Board shall have at least four members with in-depth knowledge and experience of fields that are important to the company, including at least one expert in pharmaceuticals and one in chemicals.

Merck is currently meeting this objective for the composition of the Supervisory Board. At present, the Supervisory Board has more than four members who have in-depth knowledge and experience of the pharmaceutical and chemical industries. More than four Supervisory Board members also have executive experience in companies that operate specifically in the pharmaceutical and/or chemical sectors.

Management experience

The Supervisory Board shall have at least three members who have experience in managing or supervising a medium- or large-sized company.

The Supervisory Board has more than three members who have the corresponding experience. This includes both Supervisory Board members who were or still are management board members or directors in such companies, as well as Supervisory Board members who have gained experience in supervisory bodies of German and/or foreign companies of this size.

Family company

The Supervisory Board shall have at least one member who has experience in managing medium- or large-sized family-owned companies.

The Supervisory Board currently has multiple members who have the appropriate management experience in family-owned companies of this size.

Internationality

The Supervisory Board shall have at least three members with business experience in the main sales markets of Merck KGaA. Currently, the main sales markets of Merck KGaA are Europe, North and Latin America, and Asia-Pacific.

The present composition of the Supervisory Board satisfies this objective. More than three Supervisory Board members have entrepreneurial experience in Europe, covering a wide range of countries. More than three Supervisory Board members have experience in management positions in companies that operate globally. Two of these members worked in the United States, one in the United Kingdom, and one was responsible for the Asian region.

Women on the Supervisory Board

Four women are currently members of the Supervisory Board of Merck KGaA. This corresponds to 25% of the Supervisory Board. When nominating candidates for election to the Supervisory Board or making proposals for delegation, the Supervisory Board shall examine whether the percentage of women can be increased by suitable candidates.

The Supervisory Board currently consists of 25% women, which it considers a satisfactory percentage. This is based on both the percentage of women in management positions at Merck, as well as the fact that the supervisory boards of other companies have a comparable percentage of women.

→ Objectives of the
Supervisory Board with
respect to its composition

Number of independent members/no material conflicts of interest

The Supervisory Board is to have an adequate number of independent members. Assuming that the status of being an employee representative per se does not justify doubts of the independence criteria within the meaning of section 5.4.2 of the German Corporate Governance Code, normally all employee representatives should be independent within the meaning of the Code. In any case, at least four of the shareholder representatives on the Supervisory Board should be independent. According to the Articles of Association of Merck KGaA, six members representing the shareholders are to be elected by the General Meeting and two members are to be delegated. Taking this into account, the Supervisory Board considers four shareholder representatives to be an appropriate number of independent members. In the Supervisory Board's estimation, the objectives concerning independent members are currently met. In particular, the Supervisory Board does not believe that membership of the Board of Partners of E. Merck KG conflicts with independence. The Board of Partners exists complementary to the competencies and the activities of the Supervisory Board. It is not to be expected that this will lead to material and not merely temporary conflicts of interest. It should also be taken into account that due to its substantial capital investment and unlimited personal liability, E. Merck KG has a strong interest in the businesses of Merck KGaA operating efficiently and in compliance with procedures, counteracting from the outset conflicts of interest between E. Merck KG and Merck KGaA and thus also corresponding conflicts of interest between the members of the respective corporate bodies.

Moreover, no one shall be proposed for election to the Supervisory Board who simultaneously serves on a body of or advises a major competitor of the company, or owing to another function, e.g. advisor to major contract partners of the company, could potentially become involved in a conflict of interest. No Supervisory Board member serves on a body of or advises a major competitor, or provides consultancy services thereto. No Supervisory Board member performs a function that could lead to a lasting conflict of interest.

No age limit

An age limit for Supervisory Board members is not specified since age is not a criterion for qualifications and expertise. Moreover, we do not wish to forgo the many years of experience of Supervisory Board members.

The achievement of the aforementioned objectives shall be pursued initially until 2015, taking into account applicable law within the scope of elections and reelections, delegations as well as court appointments of replacement members if these become necessary. All Supervisory Board members will correspondingly influence those eligible to elect or delegate. Taking into consideration the aforementioned criteria and in accordance with its duties under German stock corporation law, the Supervisory Board proposes to the General Meeting the candidates it believes to be best suited in each case and will continue to do so in the future.

Every year, the Supervisory Board will provide information in the Annual Report on the status of implementing its objectives.



**Declaration of the Executive Board and the Supervisory Board
of Merck KGaA
on the recommendations of the
“Government Commission German Corporate Governance Code”
pursuant to section 161 AktG**

Since the last statement of compliance on February 24, 2012, the Merck Group has complied with the recommendations of the Government Commission German Corporate Governance Code in the version dated May 26, 2010 and published in the official section of the German Federal Gazette during its period of validity with the following exception:

Contrary to section 5.4.1 sentence 2 of the Code, an age limit is not taken into account when proposing candidates for election to the Supervisory Board pursuant to the published objectives of the Supervisory Board. The age of Supervisory Board members is not a criterion for their qualifications and competence. Moreover, we do not wish to forgo the many years of experience of Supervisory Board members.

During the period from June 15, 2012 to the issuance of this Statement of Compliance, the recommendations of the Government Commission German Corporate Governance Code in the version dated May 15, 2012 and announced by the German Federal Ministry of Justice on June 15, 2012 in the official section of the German Federal Gazette were complied with apart from the aforementioned exception and the following deviations:

Since the announcement of the amendment to section 5.4.6 para 2 of the German Corporate Governance Code on June 15, 2012, the compensation of the Supervisory Board of the company, which up until that date complied with the Code, no longer corresponds to the current recommendations to the extent that the apart from reimbursement for expenses and fixed compensation, performance-related compensation is granted based on the dividend of the current fiscal year. Owing to the latest change to section 5.4.6 para 2 of the German Corporate Governance Code, the recommendation was introduced that performance-related compensation should be oriented toward the sustainable growth of the company. The aforementioned measurement basis for the current variable compensation paid to the company's Supervisory Board members does not meet these preconditions since it is only oriented toward the dividend of a year. A new compensation system that conforms to the new recommendations of the German Corporate Governance Code and only provides for fixed compensation will be proposed to the 2013 General Meeting.

The Government Commission German Corporate Governance Code amended the latest version of section 5.4.1 para 2 of the Code by adding the recommendation that the Supervisory Board shall also define the number of independent Supervisory Board members in the future. Subsequent to discussions of this matter and adoption by the Supervisory Board on March 6, 2013, this recommendation has been complied with since this date.

In view of future compliance with the current recommendations of the Government Commission German Corporate Governance Code, the Executive Board and the Supervisory Board declare the following: With the exception of the aforementioned deviation from section 5.4.1 sentence 2 (age limit) and subject to the approval of the General Meeting on the amendment of Supervisory Board compensation effective April 27, 2013, the company will comply with the recommendations of the Code in the version dated May 15, 2012.

Darmstadt, March 6, 2013

For the Executive Board

For the Supervisory Board

s. Karl-Ludwig Kley

s. Rolf Krebs