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# Corporate Governance

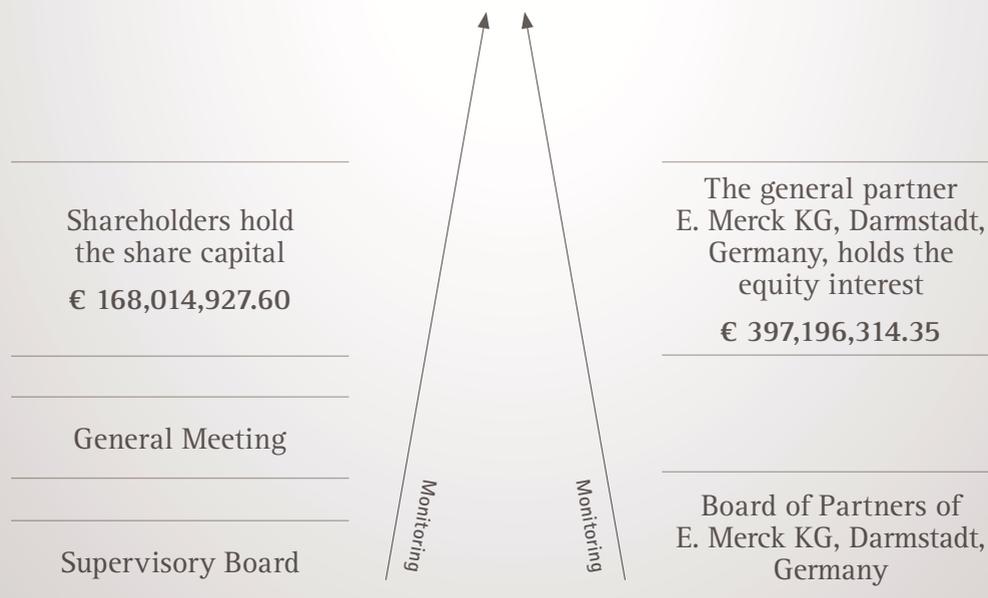
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# Capital structure and corporate bodies of Merck KGaA, Darmstadt, Germany

Merck KGaA, Darmstadt, Germany  
 Total capital  
 € 565,211,241.95

Executive Board  
 of Merck KGaA, Darmstadt, Germany

General partners  
 with no equity interest



→ see "Merck KGaA, Darmstadt, Germany" (p. 151)

## 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 toward the conditions found in a German stock corporation ("Aktiengesellschaft" or "AG") and does not take into consideration the special characteristics of a corporation with general partners ("Kommanditgesellschaft auf Aktien" or "KGaA") such as Merck KGaA, Darmstadt, Germany. Given the structural differences between an AG and a KGaA, several recommendations of the German Corporate Governance Code are to be applied to a KGaA only in a modified form. Major differences between the two legal forms exist in terms of liability and management. While, in the case of an AG, only the AG is liable as a legal entity, the general partners of a KGaA also have unlimited personal liability for the company's obligations (section 278 (1) of the German Stock Corporation Act – "AktG"). At Merck KGaA, Darmstadt, Germany, this pertains to both E. Merck KG, Darmstadt, Germany, – which pursuant to Art. 8 (5) of the Articles of Association is excluded from management and representation – as well as to the managing general partners, who together make up the Executive Board of Merck KGaA, Darmstadt, Germany. The members of the Executive Board of Merck KGaA, Darmstadt, Germany, are therefore subject to unlimited personal liability. Unlike an AG, their executive authority is not conferred by the Supervisory Board, but rather by their status as general partners.

Consequently, in addition to other responsibilities typical of the supervisory board of an AG (see description of the procedures of the Supervisory Board on page 165), the supervisory board of a KGaA does not have the authority to appoint the management board, draw up management board contracts, or specify compensation of the management board. This legal form also involves special features with regard to the General Meeting. For example, in a KGaA, 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).

Merck KGaA, Darmstadt, Germany, applies the Code analogously where these regulations are compatible with the legal form of a KGaA. In order to enable shareholders to compare the situation at other companies more easily, to a broad extent we base corporate governance on the conduct recommendations made by the Government Commission of the German Corporate Governance Code 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 9, 2013, i.e. during the period of validity of the version of the Code dated May 15, 2012, with two exceptions, and in the period between the last Statement of Compliance and April 26, 2013 with one further exception. The recommendations of the Code have been complied with since the change in the Code announced on June 10, 2013 with two exceptions. In the future, the recommendations of the Code will again be adhered to with two exceptions. Further details can be found on page 153.

For a clearer understanding, the following gives a general explanation of application of German company law at the Group with additional references to the General Meeting and shareholder rights.

#### **Merck KGaA, Darmstadt, Germany**

See diagram on page 150

The general partner E. Merck KG, Darmstadt, Germany, holds around 70% of the total capital of Merck KGaA, Darmstadt, Germany (equity interest); the shareholders hold the remainder, which is divided into shares (share capital). E. Merck KG, Darmstadt, Germany, is excluded from the management of business activities. The

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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, Darmstadt, Germany, has a strong interest in the businesses of Merck KGaA, Darmstadt, Germany, operating efficiently in compliance with procedures, and exercises its influence accordingly. The participation of Merck KGaA, Darmstadt, Germany, in the profit/loss of E. Merck KG, Darmstadt, Germany, in accordance with Articles 26 et seq. of the Articles of Association further harmonizes the interests of the shareholders and of E. Merck KG, Darmstadt, Germany. E. Merck KG, Darmstadt, Germany, appoints and dismisses the Executive Board. In addition, E. Merck KG, Darmstadt, Germany, 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, Darmstadt, Germany. Based on the provisions of the German Stock Corporation Act, the Articles of Association of Merck KGaA, Darmstadt, Germany, and the rules of procedure of the various committees, Merck KGaA, Darmstadt, Germany 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, Darmstadt, Germany**

The eighteenth General Meeting of Merck KGaA, Darmstadt, Germany, was held on April 26, 2013 in Frankfurt am Main, Germany. At 67.54%, the proportion of share capital represented at the meeting was stable, exceeding the proportion of 63.5% in 2012.

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. Changes to the Articles of Association likewise require the adoption of a resolution by the General Meeting.

The shareholders of Merck KGaA, Darmstadt, Germany, 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. The proxy is in attendance throughout the duration of the General Meeting. 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 Group.

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### Statement of Compliance

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

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

Since the last statement of compliance on March 6, 2013, the Group has complied with the recommendations of the Government Commission of the German Corporate Governance Code in the version dated May 15, 2012 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 German Corporate Governance 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 forego the many years of experience of Supervisory Board members.

Contrary to section 5.3.1 of the German Corporate Governance Code, the Supervisory Board has not established an audit committee. However, an audit committee does exist in the form of the Finance Committee of the Board of Partners of E. Merck KG, Darmstadt, Germany, which to a large extent exercises the duties described in section 5.3.2 of the Code. Due to the relatively limited authority of the supervisory board of a KGaA in comparison with that of an AG, this therefore satisfies the requirements of the German Corporate Governance Code.

Since the announcement of the amendment of 5.4.6 (2) of the German Corporate Governance Code on June 15, 2012, up until April 26, 2013 the compensation of the Supervisory Board of the company did not correspond to the current recommendations to the extent that, apart from reimbursement for expenses and fixed compensation, performance-related compensation was granted based on the dividend of the current fiscal year. With the version of the German Corporate Governance Code dated May 15, 2012, the recommendation was introduced that performance-related compensation should be oriented toward the sustainable development of the company. The 2013 Annual General Meeting passed a resolution on a new compensation system that, since April 27, 2013, has stipulated exclusively fixed compensation in line with the recommendations of the German Corporate Governance Code in force since June 15, 2012.

During the period from June 10, 2013 until the issuance of this Statement of Compliance, the recommendations of the Government Commission of the German Corporate Governance Code in the version dated May 13, 2013 and announced by the German Federal Ministry of Justice on June 10, 2013 in the official section of the German Federal Gazette were complied with apart from the aforementioned exceptions to 5.4.1 sentence 2 and 5.3.1.

In view of future compliance with the current recommendations of the Government Commission of the German Corporate Governance Code, the Executive Board and the Supervisory Board declare the following: With the exception of the aforementioned deviations from section 5.4.1 sentence 2 (age limit) and section 5.3.1 (audit committee), the company will comply with the recommendations of the Code in the version dated May 13, 2013."

Darmstadt, February 28, 2014

For the Executive Board

For the Supervisory Board

s. Karl-Ludwig Kley

s. Rolf Krebs

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## Compensation report

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

### **Compensation of members of the Executive Board of Merck KGaA, Darmstadt, Germany**

Contrary to management board members of German stock corporations, the members of the Executive Board of Merck KGaA, Darmstadt, Germany, are not employed officers of the company. Rather, they are personally liable general partners of both Merck KGaA, Darmstadt, Germany, and the general partner E. Merck KG, Darmstadt, Germany, and in this capacity they receive profit-based compensation from E. Merck KG, Darmstadt, Germany. Given this context, the stipulations of the German Corporate Governance Code concerning the compensation of management board members of publicly listed German stock corporations as well as the individual disclosure thereof do not apply to the Executive Board members of Merck KGaA, Darmstadt, Germany. Nevertheless, Merck KGaA, Darmstadt, Germany, has decided to disclose the individual compensation of each Executive Board member in the following report.

Contrary to publicly listed German stock corporations, at Merck KGaA, Darmstadt, Germany, it is not the Supervisory Board, but the Board of Partners of E. Merck KG, Darmstadt, Germany, that decides on the amount and composition of compensation. E. Merck KG, Darmstadt, Germany, 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, Darmstadt, Germany. The compensation system defined by the Personnel Committee for Executive Board members takes into account various aspects relevant to compensation, including the responsibilities and duties of the individual Executive Board members and their status as personally liable partners, their individual performance, the economic situation, performance and prospects of the company, normal compensation levels (by way of peer comparison) and the rewards structure otherwise in place in the company. The relationship between Executive Board compensation and the compensation of top management and the workforce as a whole is also taken into account, also in a multi-year assessment. 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, Darmstadt, Germany, in fiscal 2013 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 157 provides an overview of the amount of the fixed compensation paid in 2012 and 2013.

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#### **Variable compensation**

Variable compensation is based on the three-year rolling average of profit after tax of the Group formed by E. Merck KG, Darmstadt, Germany. The Board of Partners of E. Merck KG, Darmstadt, Germany, decides at its own discretion on consideration of exceptional factors that amount to more than 10% of the Group profit. The members of the Executive Board receive individually fixed per mille rates based on the net income of the Group formed by E. Merck KG, Darmstadt, Germany.

Additionally, in exceptional cases the Personnel Committee of E. Merck KG, Darmstadt, Germany, 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).

#### **Additional variable compensation (Long-Term Incentive Plan of Merck KGaA, Darmstadt, Germany)**

In 2012, a long-term variable compensation component known as the Long-Term Incentive Plan of Merck KGaA, Darmstadt, Germany, 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 company shares.

Subject to the resolution of the Personnel Committee each year, under the company's Long-Term Incentive Plan the members of the Executive Board could be eligible to receive a certain number of virtual shares – Share Units of Merck KGaA, Darmstadt, Germany, (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 company 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 company shares equivalent to 10% of their respective fixed annual compensation, taking into account the equity interest held in E. Merck KG, Darmstadt, Germany, 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 company 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 company 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 members of the Executive Board invest 50% of the payment amount in company shares. 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.

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In fiscal 2013, 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 company shares (60 trading days preceding January 1, 2013) of € 100.11: Karl-Ludwig Kley € 1.5 million (14,984 MSUs), Kai Beckmann € 1.0 million (9,990 MSUs), Stefan Oschmann € 1.0 million (9,990 MSUs), Bernd Reckmann € 1.0 million (9,990 MSUs), and Matthias Zachert € 1.0 million (9,990 MSUs). For fiscal 2014, 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, 2014 to December 31, 2016. 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, and Bernd Reckmann € 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. Overall, the value of other additional benefits totaled € 120 thousand in 2013 (2012: € 122 thousand). Of this amount, in 2013 € 28 thousand was attributable to Karl-Ludwig Kley (2012: € 28 thousand); € 23 thousand to Kai Beckmann (2012: € 23 thousand); € 19 thousand to Stefan Oschmann (2012: € 21 thousand); € 26 thousand to Bernd Reckmann (2012: € 26 thousand); and € 24 thousand to Matthias Zachert (2012: € 24 thousand).

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### Total compensation

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

		Performance-independent components		Performance-related components			Total	Share-based compensation expensed in the period <sup>4</sup>
		Fixed compensation	Additional benefits	with a long-term incentive effect				
				Variable compensation <sup>1</sup>	Long-Term Incentive Plan			
					Number of MSUs <sup>2</sup> (units)	Fair value <sup>3</sup> (€ thousand)		
		(€ thousand)	(€ thousand)	(€ thousand)	(units)	(€ thousand)	(€ thousand)	(€ thousand)
<b>Current members</b>								
Karl-Ludwig Kley	2013	1,100	28	4,334	14,984	1,849	7,311	2,185
	2012	1,100	28	2,795	21,562	1,626	5,549	857
Kai Beckmann	2013	800	23	2,895	9,990	1,233	4,951	1,457
	2012	800	23	1,746	14,375	1,084	3,653	571
Stefan Oschmann	2013	1,000	19	3,534	9,990	1,233	5,786	1,457
	2012	1,000	21	2,295	14,375	1,084	4,400	571
Bernd Reckmann	2013	1,000	26	3,534	9,990	1,233	5,793	1,457
	2012	1,000	26	2,295	14,375	1,084	4,405	571
Matthias Zachert	2013	1,000	24	3,284	9,990	1,233 <sup>5</sup>	5,541	1,457
	2012	1,000	24	2,045	14,375	1,084 <sup>5</sup>	4,153	571
Total	2013	4,900	120	17,581	54,944	6,780	29,382	8,012
	2012	4,900	122	11,176	79,062	5,962	22,160	3,141

<sup>1</sup> The one-time payments for 2013 granted to Karl-Ludwig Kley, Kai Beckmann, Stefan Oschmann, Bernd Reckmann and Matthias Zachert are included in the variable compensation components for 2013.

<sup>2</sup> Number of the potential MSUs subject to target achievement. For details on the calculation thereof, see page 156. The actual number of MSUs to be granted after the expiration of the three-year performance cycle may deviate from this.

<sup>3</sup> 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 shares of Merck KGaA, Darmstadt, Germany, and the DAX<sup>®</sup> 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.

<sup>4</sup> In accordance with IFRS the expense recorded for 2013 includes the values for the 2012 and 2013 LTIP tranches.

<sup>5</sup> The Personnel Committee of E. Merck KG, Darmstadt, Germany, decided on February 6, 2014 that Matthias Zachert will only receive payments under the LTIP for the 2012 tranche. The (9,990) MSUs granted in 2013 will not lead to a payment.

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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	45
Stefan Oschmann	500	45
Bernd Reckmann	500	60
Matthias Zachert	400	44

The percentage entitlement increases up until retirement by two 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 2013.

The following amounts were added to pension provisions in 2013:

€ thousand	Additions to pension provisions		Amount of pension provi- sions as of Dec. 31, 2013
	2013	2012	
Karl-Ludwig Kley	803	2,023	8,093
Kai Beckmann	-47	653	2,431
Stefan Oschmann	483	156	1,137
Bernd Reckmann	-15	1,446	5,740
Matthias Zachert	280	195	628 <sup>1</sup>
<b>Total</b>	<b>1,504</b>	<b>4,473</b>	<b>18,029</b>

<sup>1</sup> Due to Matthias Zachert's departure, he will no longer have any entitlement to pension payments.

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, it is planned to offer the members of the Executive Board 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, Darmstadt, Germany, 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, Darmstadt, Germany. 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 € 7,494 thousand in 2013 (2012: € 10,478 thousand). Pension provisions totaling € 103,615 thousand exist for pension entitlements of this group of persons (2012: € 108,473 thousand).

#### **Compensation of the Supervisory Board members of Merck KGaA, Darmstadt, Germany**

The compensation of the Supervisory Board members is defined by Article 20 of the Articles of Association of Merck KGaA, Darmstadt, Germany. On April 26, 2013 the Annual General Meeting proposed a new compensation system in order to align it with the changes in the German Corporate Governance Code announced on June 15, 2012.

The rules that still applied until April 26, 2013 provided for the following: Apart from reimbursement of their expenses, the members of the Supervisory Board received fixed and variable compensation.

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

The members of the Supervisory Board also received € 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 received one and a half times this amount.

Supervisory Board members who had only been in office for part of the fiscal year received 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 rules applicable since April 27, 2013 stipulate that only fixed compensation be paid. The members of the Supervisory Board will now receive annual fixed compensation of € 47,000. The Chairman receives double and the Vice Chairman receives one and a half times this amount. In addition, the members receive additional compensation of € 750 per meeting.

Supervisory Board compensation for fiscal 2013 for the period from January 1, 2013 to April 26, 2013 was determined by the compensation rules applicable until April 26, 2013. For the period from April 27, 2013 to December 31, 2013, it is determined by the compensation rules applicable since April 27, 2013, whereupon the amounts stipulated in both provisions shall be respectively pro-rated in proportion to the amount of time. As of fiscal 2014, Supervisory Board compensation will be determined solely by the compensation rules applicable since April 27, 2013.

The individual values are presented in the following table:

#### Compensation of the Supervisory Board members of Merck KGaA, Darmstadt, Germany

in €	Fixed compensation			Variable compensation		Compensation for meeting attendance		Total compensation		
	2013		2012	2013	2012	2013	2012	2013	2012	
	As of April 27, 2013	Until April 26, 2013	Total	Until April 26, 2013		As of April 27, 2013				
Rolf Krebs <sup>1</sup> (Chairman)	64,126.03	4,449.32	68,575.35	14,000.00	23,450.43	65,318.00	3,000.00	-	95,025.78	79,318.00
Heiner Wilhelm (Vice Chairman)	48,094.52	3,336.99	51,431.51	10,500.00	17,587.82	48,988.00	3,000.00	-	72,019.33	59,488.00
Crocifissa Attardo	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	3,000.00	-	49,012.89	39,659.00
Mechthild Auge	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	3,000.00	-	49,012.89	39,659.00
Johannes Baillou <sup>2</sup>	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	3,000.00	-	49,012.89	39,659.00
Frank Binder <sup>3</sup>	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	3,000.00	-	49,012.89	39,659.00
Wolfgang Büchele <sup>2</sup>	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	3,000.00	-	49,012.89	39,659.00
Michael Fletterich	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	3,000.00	-	49,012.89	39,659.00
Edeltraud Glänzer	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	3,000.00	-	49,012.89	39,659.00
Jürgen Glaser	32,063.01	2,224.66	34,287.67	4,686.00	11,725.22	21,862.00	3,000.00	-	49,012.89	26,548.00
Jens Frank <sup>5</sup>	32,063.01	1,649.32	33,712.33	-	8,692.83	-	2,250.00	-	44,655.16	-
Michaela Freifrau von Glenck <sup>4</sup>	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	3,000.00	-	49,012.89	39,659.00
Hans-Jürgen Leuchs <sup>2</sup>	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	3,000.00	-	49,012.89	39,659.00
Albrecht Merck <sup>3</sup>	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	3,000.00	-	49,012.89	39,659.00
Karl-Heinz Scheider	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	2,250.00	-	48,262.89	39,659.00
Theo Siegert <sup>1</sup>	32,063.01	2,224.66	34,287.67	7,000.00	11,725.22	32,659.00	2,250.00	-	48,262.89	39,659.00
<b>Total</b>	<b>561,102.69</b>	<b>38,356.21</b>	<b>599,458.90</b>	<b>113,186.00</b>	<b>202,158.94</b>	<b>528,076.00</b>	<b>45,750.00</b>	<b>-</b>	<b>847,367.84</b>	<b>641,262.00<sup>6</sup></b>

<sup>1</sup> As members of corporate bodies of E Merck KG, Darmstadt, Germany, these Supervisory Board members each received an additional payment of € 150,000 for performing this function in 2013 (2012: € 150,000).

<sup>2</sup> As members of corporate bodies of E Merck KG, Darmstadt, Germany, these Supervisory Board members each received an additional payment of € 140,000 for performing this function in 2013 (2012: € 140,000).

<sup>3</sup> As members of corporate bodies of E Merck KG, Darmstadt, Germany, these Supervisory Board members each received an additional payment of € 120,000 for performing this function in 2013 (2012: € 120,000).

<sup>4</sup> As members of corporate bodies of E Merck KG, Darmstadt, Germany, these Supervisory Board members each received an additional payment of € 80,000 for performing this function in 2013 (2012: € 80,000).

<sup>5</sup> Member of the Supervisory Board since January 31, 2013

<sup>6</sup> Supervisory Board members who left the Supervisory Board in 2012 are not listed in the table. Therefore, the total compensation shown here for fiscal 2012 deviates from the actual amount of total compensation paid and reported in the Annual Report for 2012, which was € 694,031.

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

As of December 31, 2013, the members of the Executive Board and of the Supervisory Board either directly or indirectly held 13,692 shares of Merck KGaA, Darmstadt, Germany. Their total ownership represents less than 1% of the issued shares of Merck KGaA, Darmstadt, Germany. Transactions executed by members of the Executive Board and of the Supervisory Board are disclosed on the Group's website at [www.emdgroup.com/investors](http://www.emdgroup.com/investors) → Corporate Governance → Directors' Dealings.

### Information on Corporate Governance Practices

#### **Reporting**

It is the objective of Merck KGaA, Darmstadt, Germany, 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, the Group 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. The company'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, Darmstadt, Germany, website ([www.emdgroup.com](http://www.emdgroup.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 share price of Merck KGaA, Darmstadt, Germany.

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, Darmstadt, Germany, 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.

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 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.

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#### Accounting and audits of financial statements

Merck KGaA, Darmstadt, Germany, 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 2013. The auditor responsible for auditing the consolidated financial statements changes regularly in accordance with the statutory requirements. Manfred Jenal is currently leading the audit engagement. 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.

The company has created the Code of Conduct as a set of rules and regulations intended to help our 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.

To the Group, 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 ethical 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 subsidiaries. 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. The company 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 subsidiaries, which ensure that

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compliance measures are implemented in the countries. By reorganizing the Compliance function, as of 2013 Compliance tasks in the regions are largely performed by full-time Compliance Officers. As a result, a higher level of compliance expertise is based locally and the increasing tasks, above all in the pharmaceutical sector, are taken into account. At the same time, the management structure was streamlined and the reporting lines for the countries were consolidated regionally. Regular regional and global compliance meetings are held to promote the exchange of information within the compliance organization. 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.

Within the scope of this program, a high degree of importance is attached to regular compliance seminars of the Compliance Training Plan of Merck KGaA, Darmstadt, Germany, 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. Since the company set up a central SpeakUp line, employees have been able to 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, the company 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 abroad and to the Group functions. Group Compliance regularly reviews and assesses the implementation status of the Compliance program at the subsidiaries abroad. In cooperation with Group Internal Auditing, the Compliance Office regularly reviews the implementation of Group-wide compliance measures at the subsidiaries 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 Report on Risks and Opportunities on page 120 et seq.

#### **Avoidance of conflicts of interest**

Within the framework of their work, all Executive Board and Supervisory Board members of Merck KGaA, Darmstadt, Germany, 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, Darmstadt, Germany. The Chairman of the Executive Board, Karl-Ludwig Kley, and the Chief Financial Officer, Matthias Zachert<sup>1</sup>, are both members of the Executive Board of E. Merck KG, Darmstadt, Germany. 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 KGaA, Darmstadt, Germany, require the approval of the Supervisory Board. In fiscal 2013, there were neither conflicts of interest nor consultancy agreements or other service or work contracts with Merck KGaA, Darmstadt, Germany, involving Supervisory Board members.

#### **Adherence to environmental and safety standards**

At the company, 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. The company signed this expanded version of Responsible Care for the entire Group in February 2007. We report our ecological, economic and social performance transparently in accordance with the internationally recognized principles of the Global Reporting Initiative (GRI), taking into account the requirements of the German Sustainability Code and the principles of the UN Global Compact.

One of our major climate protection objectives is to achieve a 20% reduction in our greenhouse gas emissions by 2020 measured against the 2006 baseline.

Many guidelines specify how the sites and employees of the 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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<sup>1</sup> Mr. Zachert will leave the Executive Board of E. Merck KG, Darmstadt, Germany, as of March 31, 2014.

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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, Darmstadt, Germany

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
<b>Karl-Ludwig Kley</b> Darmstadt, Chairman	(a) – Bertelsmann SE Et Co. KGaA, Gütersloh – Bertelsmann Management SE, Gütersloh – BMW AG, Munich (Vice Chairman) – Deutsche Lufthansa AG, Cologne (since May 7, 2013) – 1. FC Köln GmbH Et Co KGaA, Cologne (Chairman) (until June 30, 2013)
<b>Kai Beckmann</b> Darmstadt, Head of Group Human Resources	no board positions
<b>Stefan Oschmann</b> Munich, Responsible for the Biopharmaceuticals and Consumer Health divisions	no board positions
<b>Bernd Reckmann</b> Seeheim-Jugenheim, Responsible for the Performance Materials and Life Science Tools divisions	no board positions
<b>Matthias Zachert<sup>1</sup></b> Bonn, Chief Financial Officer	no board positions

<sup>1</sup> Matthias Zachert will leave the Executive Board of Merck KGaA, Darmstadt, Germany, as of March 31, 2014.

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, Darmstadt, Germany, in accordance 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, Darmstadt, Germany, and of the Group as well as for approving the quarterly and half-year financial statements of the 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 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 aforementioned 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
<b>Rolf Krebs</b> Mainz, Physician, Chairman	(a) – Ganymed Pharmaceuticals AG, Mainz (Chairman) – Merz GmbH & Co. KGaA, Frankfurt – Merz Pharmaceuticals GmbH, Frankfurt (b) – E. Merck KG, Darmstadt, Germany
<b>Heiner Wilhelm</b> Reinheim, Chairman of the Works Council of the Darmstadt site of Merck KGaA, Darmstadt, Germany, Vice Chairman (until April 30, 2013); as of May 1, 2013, Senior Manager Industrial Relations; Vice Chairman	no board positions
<b>Crocifissa Attardo</b> Darmstadt, Full-time member of the Works Council of Merck KGaA, Darmstadt, Germany, Darmstadt/Gernsheim	(b) – BKK of Merck KGaA, Darmstadt, Germany
<b>Mechthild Auge</b> Wehrheim, Full-time member of the Works Council of Merck KGaA, Darmstadt, Germany, Darmstadt/Gernsheim	no board positions
<b>Johannes Baillou</b> Vienna, Austria, Managing Partner of Bondi Immobilien-Consulting GmbH, Vienna	(b) – E. Merck KG, Darmstadt, Germany, Darmstadt <sup>1</sup> (Vice Chairman)
<b>Frank Binder</b> Monaco, Chief Executive Officer of Lloyd Yachts SAM, Monaco	(a) – Landbell AG für Rückhol-Systeme, Mainz (Chairman) (b) – E. Merck KG, Darmstadt, Germany, Darmstadt <sup>1</sup>
<b>Wolfgang Büchele</b> Römerberg, Chief Executive Officer of Kemira Oyj, Finland	(b) – E. Merck KG, Darmstadt, Germany, Darmstadt <sup>1</sup>
<b>Michael Fletterich</b> Gernsheim, Chairman of the Works Council of Merck KGaA, Darmstadt, Germany, Darmstadt/ Gernsheim	no board positions
<b>Jens Frank</b> (since January 31, 2013) Rossdorf, Full-time member of the Works Council of Merck KGaA, Darmstadt, Germany, Darmstadt/Gernsheim	no board positions
<b>Edeltraud Glänzer</b> Hannover, Vice Chairman of the Managing Board of Industriegewerkschaft Bergbau, Chemie, Energie (IG BCE)	(a) – B. Braun Melsungen AG, Melsungen – Solvay Deutschland GmbH, Hannover (Vice Chairman)
<b>Jürgen Glaser</b> Bingen, Regional Director of the IG BCE Darmstadt	(b) – BKK of Merck KGaA, Darmstadt, Germany
<b>Michaela Freifrau von Glenck</b> <sup>2</sup> Zurich, Teacher	no board positions
<b>Hans-Jürgen Leuchs</b> Ingelheim, Graduate chemist	(b) – E. Merck KG, Darmstadt, Germany, Darmstadt <sup>1</sup> – Zeton B.V., Enschede, Netherlands – Zeton International Inc., Burlington ONT, Canada

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<i>Member</i>	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
<b>Albrecht Merck<sup>2</sup></b> Schriesheim, Commercial Director of the Castel Peter Winery, Bad Dürkheim	(b) – E. Merck KG, Darmstadt, Germany, Darmstadt <sup>1</sup>
<b>Karl-Heinz Scheider</b> Groß-Zimmern, Specialist Life Science Tools division Operations Strategy	no board positions
<b>Theo Siegert</b> Düsseldorf, Managing Partner of de Haen Carstanjen Et Söhne, Düsseldorf	(a) – E.ON SE, Düsseldorf – Henkel AG Et Co KGaA, Düsseldorf (b) – E. Merck KG, Darmstadt, Germany, Darmstadt <sup>1</sup> – DKSH Holding Ltd., Zurich, Switzerland

<sup>1</sup>Internal board position

<sup>2</sup>Members appointed by E. Merck KG, Darmstadt, Germany, according to Article 6 (5) of the Articles of Association

Tasks of the Supervisory  
Board of Merck KGaA,  
Darmstadt, Germany

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 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, Darmstadt, Germany. Nor does the Supervisory Board have the authority to issue rules of procedure for the Executive Board or a catalogue of business transactions requiring approval. This authority likewise belongs to E. Merck KG, Darmstadt, Germany, (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 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, Darmstadt, Germany, 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 discusses 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.

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The members of the Board of Partners of E. Merck KG, Darmstadt, Germany, 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. The Supervisory Board has formed a Nomination Committee comprising three shareholder representatives. Its members are Johannes Baillou, Rolf Krebs and Theo Siegert. The Nomination Committee is responsible for proposing to the Supervisory Board suitable candidates for its proposal to the Annual General Meeting. Apart from legal requirements and the recommendations of the German Corporate Governance Code, the "Objectives of the Supervisory Board with respect to its composition" are to be taken into consideration as well. Owing to the aforementioned limited authority, and since a corresponding need has not yet arisen, the Supervisory Board currently has no further committees.

The German Stock Corporation Act 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, Darmstadt, Germany.

#### Board of Partners of E. Merck KG, Darmstadt, Germany

Some of the responsibilities that lie with the supervisory board of a German stock corporation are fulfilled at the company by E. Merck KG, Darmstadt, Germany. This applies primarily to the Board of Partners of E. Merck KG, Darmstadt, Germany. 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. During fiscal 2013 and up until January 26, 2014, the Board of Partners was composed as follows:

<i>Member</i>	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
<b>Frank Stangenberg-Haverkamp</b> Darmstadt, Vice Chairman of the Executive Board and General Partner of E. Merck KG, Darmstadt, Germany, Chairman	(a) – Fortas AG, Rösrath (Chairman) – M.A.X. Automation AG, Düsseldorf (until November 5, 2013) (b) – Oras Invest Ltd, Helsinki/Finland (Member of the Board of Directors) – Travel Asset Group Ltd., London, United Kingdom (Chairman)
<b>Johannes Baillou</b> Vienna, Austria, Managing Partner of Bondi Immobilien-Consulting GmbH, Vienna	(a) – Merck KGaA, Darmstadt, Germany
<b>Jon Baumhauer</b> Munich, Chairman of the Executive Board and General Partner of E. Merck KG, Darmstadt, Germany	no board positions
<b>Frank Binder</b> Monaco, Managing Director of Lloyd Yachts SAM, Monaco	(a) – Merck KGaA, Darmstadt, Germany – Landbell AG für Rückhol-Systeme, Mainz (Chairman)
<b>Wolfgang Büchele</b> Römerberg, Chief Executive Officer of Kemira Oyj, Finland	(a) – Merck KGaA, Darmstadt, Germany
<b>Rolf Krebs</b> Mainz, Physician	(a) – Merck KGaA, Darmstadt, Germany – Ganymed Pharmaceuticals AG, Mainz (Chairman) – Merz GmbH & Co. KGaA, Frankfurt – Merz Pharmaceuticals GmbH, Frankfurt

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<i>Member</i>	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
<b>Hans-Jürgen Leuchs</b> Ingelheim, Graduate chemist	(a) – Merck KGaA, Darmstadt, Germany (b) – Zeton B.V., Enschede, Netherlands – Zeton International Inc., Burlington ONT, Canada
<b>Albrecht Merck</b> Schriesheim, Commercial Director of the Castel Peter Winery, Bad Dürkheim	(a) – Merck KGaA, Darmstadt, Germany
<b>Theo Siegert</b> Düsseldorf, Managing Partner of de Haen Carstanjen & Söhne, Düsseldorf	(a) – Merck KGaA, Darmstadt, Germany – E.ON SE, Düsseldorf – Henkel AG & Co KGaA, Düsseldorf (b) – DKSH Holding Ltd., Zurich, Switzerland

On January 26, 2014 a new election of the Board of Partners was held. The Board of Partners now consists of the following members:

<i>Member</i>	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
<b>Johannes Baillou</b> Vienna, Austria, Vice Chairman of the Executive Board and General Partner of E. Merck KG, Darmstadt, Germany, Chairman	(a) – Merck KGaA, Darmstadt, Germany
<b>Frank Stangenberg-Haverkamp</b> Darmstadt, Chairman of the Executive Board and General Partner of E. Merck KG, Darmstadt, Germany	(a) – Fortas AG, Rösrath (Chairman) – M.A.X. Automation AG, Düsseldorf (until November 5, 2013) (b) – Oras Invest Ltd, Helsinki/Finland (Member of the Board of Directors) – Travel Asset Group Ltd., London, United Kingdom (Chairman)
<b>Wolfgang Büchele</b> Römerberg, Chief Executive Officer of Kemira Oyj, Finland	(a) – Merck KGaA, Darmstadt, Germany
<b>Siegfried Karjetta</b> Darmstadt, Physician	no board positions
<b>Albrecht Merck</b> Schriesheim, Commercial Director of the Castel Peter Winery, Bad Dürkheim	(a) – Merck KGaA, Darmstadt, Germany
<b>Helga Rübsamen-Schaeff</b> Langenburg, Managing Director of AiCuris GmbH & Co. KG, Wuppertal	no board positions
<b>Gregor Schulz</b> Umkirch, Chairman of the Board of Biotest AG, Dreieich	(b) – E. Merck KG, Darmstadt, Germany – Biotest US Corporation, Boca Raton/USA (President) – Biotest Pharmaceuticals Corporation, Boca Raton/USA – Biotest (UK) Ltd., Solihull/UK – Biotest Seralc NV, Evere/Belgium
<b>Theo Siegert</b> Düsseldorf, Managing Partner of de Haen Carstanjen & Söhne, Düsseldorf	(a) – Merck KGaA, Darmstadt, Germany – E.ON SE, Düsseldorf – Henkel AG & Co KGaA, Düsseldorf (b) – DKSH Holding Ltd., Zurich, Switzerland
<b>Tobias Thelen</b> Munich, Managing Partner at Altman Analytik GmbH & Co. KG, Munich	no board positions

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Tasks of the  
Board of Partners  
of E. Merck KG,  
Darmstadt, Germany

The Board of Partners supervises the Executive Board in its management of the company. It informs itself about the business matters of Merck KGaA, Darmstadt, Germany, 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, Darmstadt, Germany, the Executive Board requires the approval of E. Merck KG, Darmstadt, Germany, 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, Darmstadt, Germany. 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, Darmstadt, Germany, 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, Darmstadt, Germany, 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. During fiscal 2013 and up until January 26, 2014 these were: Frank Stangenberg-Haverkamp (Chairman), Jon Baumhauer, Rolf Krebs and Theo Siegert. As of January 26, 2014, the Personnel Committee comprises Frank Stangenberg-Haverkamp (Chairman), Johannes Baillou, Wolfgang Büchele 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, Darmstadt, Germany, 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, Darmstadt, Germany. 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. During fiscal 2013 and up until January 26, 2014, these were: Theo Siegert (Chairman), Johannes Baillou, Wolfgang Büchele and Frank Stangenberg-Haverkamp. As of January 26, 2014, the Finance Committee comprises Theo Siegert (Chairman), Johannes Baillou, Wolfgang Büchele and Tobias Thelen.

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, Darmstadt, Germany. Further meetings are convened as and when necessary. Meetings of the Finance Committee are attended by the Chief Financial Officer of Merck KGaA, Darmstadt, Germany. Other members of the Executive Board of Merck KGaA, Darmstadt, Germany, 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 (including the report of the auditors for the audit review of the

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Corporate Governance](#)

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 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 the company, as well as accounting, internal auditing, risk management and compliance issues. Upon request of the Board of Partners, the Finance Committee examines investment projects that must be approved by the Board of Partners and provides recommendations pertaining thereto.

#### **Research and Development Committee**

During fiscal 2013 and up until January 26, 2014, the Research and Development Committee had three members: Rolf Krebs (Chairman), Hans-Jürgen Leuchs and Frank Stangenberg-Haverkamp. Since January 26, 2014, the Research and Development Committee has consisted of four people, namely Johannes Baillou, Siegfried Karjetta, Helga Rübsamen-Schaeff, and Gregor Schulz.

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, Darmstadt, Germany, 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 Pharmaceuticals 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 2013 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 2013, the Executive Board provided the Supervisory Board with regular written and verbal reports on the business development of Merck KGaA, Darmstadt, Germany, and the Group. In particular, the Supervisory Board was informed about the market and sales situation of the company against the background of 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 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 2013. Four of the meetings were ordinary Supervisory Board meetings while the fifth one on December 3, 2013 was an extraordinary meeting. 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 March 6, 2013, the Executive Board first reported on business performance in the fourth quarter of 2012. Moreover, the status of the "Fit for 2018" program was dealt with, as was the report by the head of Group Internal Auditing on the activities of Internal Auditing in 2012. In addition, the Supervisory Board intensively addressed the annual financial statements and consolidated financial statements for 2012 and the corresponding management reports. The auditor explained the audit report. The Executive Board reported on the financial statements. Furthermore, the Supervisory Board resolved upon its objectives, the Statement of Compliance with the German Corporate Governance Code as well as the Statement on Corporate Governance, which simultaneously includes the joint report of the Executive Board and Supervisory Board. The Supervisory Board also approved the proposals to be made to the Annual General Meeting. Lastly, the Executive Board presented the plans for fiscal 2013.

The meeting held on May 7, 2013 focused on current business developments in the first quarter of 2013. The report of the Research and Development Committee of the Board of Partners of E. Merck KG, Darmstadt, Germany, was a further focus of the meeting. The Supervisory Board also dealt with the report of the Group compliance officer and the report of the Group data privacy officer.

At its meeting on July 31, 2013, the Supervisory Board focused intensively on the report of the Executive Board on business performance in the second quarter of 2013. In addition, KPMG explained the report on the first half of 2013. Risk management within the company was a further topic. The head of Risk Management presented the status report for the first half of 2013. No risks that threaten the continued existence of the company were identified.

At its fourth meeting on November 12, 2013, the Supervisory Board discussed the results of the efficiency review conducted in 2013. Furthermore, the Supervisory Board dealt with the report of the Executive Board on the third quarter of 2013. The 2013 status reports by the head of Internal Auditing and the Group compliance officer were additional topics of focus. The report of the Research and Development Committee Chemicals and the report on the Group Executive Conference were also discussed. In particular, the reports focused on the company's strategic direction.

→ [Report of the Supervisory Board](#)

#### Annual financial statements

The annual financial statements of Merck KGaA, Darmstadt, Germany, the consolidated financial statements of the Group, and the management reports for Merck KGaA, Darmstadt, Germany, and the 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, Darmstadt, Germany, 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 Group. In addition, the auditors audited the calculation of the participation of Merck KGaA, Darmstadt, Germany, in the profits of E. Merck KG, Darmstadt, Germany, in accordance with Art. 27 (2) of the Articles of Association. The annual financial statements of Merck KGaA, Darmstadt, Germany, the consolidated financial statements of the Group, the management reports for Merck KGaA, Darmstadt, Germany, and the 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 Art. 14 (2) of the Articles of Association, the Supervisory Board also examined the annual financial statements of Merck KGaA, Darmstadt, Germany, and the management report for Merck KGaA, Darmstadt, Germany, the proposal for the appropriation of 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 Group as well as the management report for the 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 February 28, 2014 to approve the financial statements was also attended by the auditors who sign the audit opinion on the annual financial statements of Merck KGaA, Darmstadt, Germany, and the consolidated financial statements of the Group. These auditors furthermore reported on their audit at this meeting.

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 approved the annual financial statements and management report for Merck KGaA, Darmstadt, Germany, the consolidated financial statements of the Group and the management report for the 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 of the Executive Board for the appropriation of net retained profit.

#### Corporate governance and Statement of Compliance

Corporate governance is a topic of high priority for 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 2013. After addressing corporate governance topics in detail, the Executive Board and Supervisory Board resolved to adopt and issue the updated Statement of Compliance on February 17, 2014 (Executive Board) and on February 28, 2014 (Supervisory Board) and jointly issued it on February 28, 2014 in accordance with section 161 of the German Stock Corporation Act. The statement is permanently available on the website of Merck KGaA, Darmstadt, Germany ([www.emdgroup.com](http://www.emdgroup.com) → Investors → Corporate Governance). More information about corporate governance at Merck KGaA, Darmstadt, Germany, including the compensation of the Executive Board and Supervisory Board is given in the Statement of Compliance on pages 151 et seq. of the Annual Report.

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Supervisory Board](#)

### Committees

Apart from the Nomination Committee, the Supervisory Board of Merck KGaA, Darmstadt, Germany, currently has no further 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. The members of the Nomination Committee held meetings on November 8, 2013, and on February 6, 2014. In order to prepare for the election of the shareholder representative members of the Supervisory Board by the Annual General Meeting on May 9, 2014, they spoke with one another about the professional and personal qualifications of suitable candidates for the Supervisory Board. No report is given on the work of further committees.

### Personnel matters

With the exception of Theo Siegert, who was absent from the meeting on May 7, 2013, all the Supervisory Board members attended all the ordinary Supervisory Board meetings. With the exception of Jens Frank and Karl-Heinz Scheider, all Supervisory Board members also attended the extraordinary Supervisory Board meeting. The following changes in the composition of the Supervisory Board took place in 2013: Effective January 31, 2013, Mr. Jens Frank was appointed by the court as a new member of the Supervisory Board. On conclusion of the Annual General Meeting on April 26, 2013, the terms of office of the Supervisory Board members elected at the 2008 Annual General Meeting Johannes Baillou, Frank Binder, Rolf Krebs and Theo Siegert as well as the Supervisory Board members elected at the 2009 Annual General Meeting Wolfgang Büchele and Hans-Jürgen Leuchs expired. All of these Supervisory Board members were reelected by the 2013 Annual General Meeting to serve until the end of the next Annual General Meeting. There were no new appointments to bodies beyond those described in the foregoing.

Darmstadt, February 28, 2014

The Supervisory Board of Merck KGaA, Darmstadt, Germany



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, Darmstadt, Germany, 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, Darmstadt, Germany, 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 2014 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.

### 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.

The company 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, Darmstadt, Germany. Currently, the main sales markets of Merck KGaA, Darmstadt, Germany, 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, Darmstadt, Germany. 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 the company, 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, Darmstadt, Germany, 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, Darmstadt, Germany, 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, Darmstadt, Germany, has a strong interest in the businesses of Merck KGaA, Darmstadt, Germany, operating efficiently and in compliance with procedures, counteracting from the outset conflicts of interest between E. Merck KG, Darmstadt, Germany, and Merck KGaA, Darmstadt, Germany, 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, Darmstadt, Germany,  
on the recommendations of the  
“Government Commission German Corporate Governance Code”  
pursuant to section 161 AktG**

Since the last statement of compliance on March 6, 2013, the Merck KGaA, Darmstadt, Germany, has complied with the recommendations of the Government Commission of the German Corporate Governance Code in the version dated May 15, 2012 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 German Corporate Governance 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 forego the many years of experience of Supervisory Board members.

Contrary to section 5.3.1 of the German Corporate Governance Code, the Supervisory Board has not established an audit committee. However, an audit committee does exist in the form of the Finance Committee of the Board of Partners of E. Merck KG, which to a large extent exercises the duties described in section 5.3.2 of the Code. Due to the relatively limited authority of the supervisory board of a KGaA in comparison with that of an AG, this therefore satisfies the requirements of the German Corporate Governance Code.

Since the announcement of the amendment of 5.4.6 (2) of the German Corporate Governance Code on June 15, 2012, up until April 26, 2013 the compensation of the Supervisory Board of the company did not correspond to the current recommendations to the extent that, apart from reimbursement for expenses and fixed compensation, performance-related compensation was granted based on the dividend of the current fiscal year. With the version of the German Corporate Governance Code dated May 15, 2012, the recommendation was introduced that performance-related compensation should be oriented toward the sustainable development of the company. The 2013 Annual General Meeting passed a resolution on a new compensation system that, since April 27, 2013, has stipulated exclusively fixed compensation in line with the recommendations of the German Corporate Governance Code in force since June 15, 2012.

Code in the version dated May 13, 2013 and announced by the German Federal Ministry of Justice on June 10, 2013 in the official section of the German Federal Gazette were complied with apart from the aforementioned exceptions to 5.4.1 sentence 2 and 5.3.1.

In view of future compliance with the current recommendations of the Government Commission of the German Corporate Governance Code, the Executive Board and the Supervisory Board declare the following: With the exception of the aforementioned deviations from section 5.4.1 sentence 2 (age limit) and section 5.3.1 (audit committee), the company will comply with the recommendations of the Code in the version dated May 13, 2013.

Darmstadt, February 28, 2014

For the Executive Board

For the Supervisory Board

s. Karl-Ludwig Kley

s. Rolf Krebs