Annual General Meeting 2018
Speech by Stefan Oschmann
EXECUTIVE BOARD CHAIRMAN AND CEO
Dear Shareholders,
Ladies and Gentlemen,

Welcome to the Annual General Meeting of Merck KGaA. I am very pleased to see you here today in the Jahrhunderthalle.

I also warmly welcome all shareholders who are watching online.

I would particularly like to welcome the many Merck employees who accepted the free share gift on the occasion of our anniversary. It is nice to count you among our shareholders!

350 YEARS OF MERCK

This is a special year for Merck. We are celebrating our 350th anniversary. Our roots date back to the year 1668. At that time, in the late seventeenth century, famine, disease and violence were constant threats to the people living in Central Europe. We have no exact data on the lives of people during that time. But we do know that life expectancy was short. Estimates put it at around 30. Child and maternal mortality was very high. Infectious diseases like the plague claimed many human lives.

In 1668, the Thirty Years’ War had ended just 20 years before. In Darmstadt, Landgrave Ludwig VI was endeavoring to restore business life. In this setting, Friedrich Jacob Merck acquired the second town pharmacy, which would later become the Angel Pharmacy. This was the historic core of our company. It is still owned by the Merck family today.

Humanity has made tremendous progress in the 350 years since that time. Many diseases that invariably meant a death sentence in the late 17th century are well treatable today, or have even been eradicated. On a global average, a child born today has a life expectancy of over 71 years. Child and maternal mortality is lower than ever before.

Although these are abstract dimensions, they relate to billions of people who lead far better lives. This is human progress, enabled by science and technology. We at Merck are proud of the contribution we have been making to this progress for centuries.

Today we are a vibrant science and technology company. Merck has three strong business sectors. Healthcare is our pharmaceutical business. In our Life Science business, we develop and commercialize products and solutions for laboratories, as well as for biotech and pharmaceutical companies. Performance Materials is our business with specialty chemicals and high-tech materials. We...
are present on all continents. Our employees in 66 countries are working on breakthrough solutions and technologies.

Ladies and Gentlemen,
I would now like to discuss our business performance in 2017. Afterwards, I will explain to you how we progressed in our three business sectors. I will conclude my remarks with an outlook for fiscal 2018 and beyond.

BUSINESS RESULTS AND SHARE PERFORMANCE
Let’s start with 2017. It was a good year for Merck. We met all the financial targets that we had set for ourselves. This is not something to be taken for granted since our market environment was very challenging. In China, new competitors made headway in the market for liquid crystal materials. That presents us with major challenges. In addition, the euro appreciated against the U.S. dollar and other major currencies. That adversely affected our earnings.

You can see the key figures on the charts. I would like to refer in more detail to two of them.

Our Group sales rose in 2017 despite significant headwinds to € 15.3 billion. Merck thus continued to grow. EBITDA pre refers to earnings before interest, taxes, depreciation and amortization, impairment losses, reversals of impairment losses, as well as adjustments. It is the key financial indicator to steer our operating business. In 2017, we generated EBITDA pre of € 4.4 billion. Consequently, we met our forecast for the full year, despite the factors I just mentioned. And despite significant expenses in our pharmaceutical business for research and development as well as for the market launches of our new medicines.

We made significant progress in 2017 in lowering our acquisition-related debt. At the end of 2017, it amounted to € 10.1 billion. This year we will also further decrease our net financial debt. The following continues to apply for the current year: We will not make any acquisitions exceeding € 500 million as long as the debt level expressed as the ratio of net financial debt to EBITDA pre is greater than two. As you can see, we are planning to achieve a debt level of below two this year.

Dear Shareholders,
In 2017, we achieved all our objectives. By “we” I mean the nearly 53,000 people who work for Merck. Thanks to their curiosity, their energy and their engagement, we even grew further in a difficult environment. This is a fantastic achievement. For this I would like to cordially thank our employees on behalf of the entire Executive Board.

Unfortunately, the good development of our business is not reflected by our share price. In the second half of the year, Merck shares came under significant pressure. This was mainly due to the difficult situation in the Liquid Crystals business. The bottom line is a share price decline of nearly 10% compared with the previous year. We are not satisfied with this. We are working hard to reverse this development. More about that later.

We would like you to participate in the business results of 2017. Therefore, we propose to you an increase in the dividend to € 1.25 per share. This would be the eighth consecutive increase in the dividend. For us, this is an important sign of continuity. Many of you have been loyal to our company for quite some time. We greatly appreciate this.

HEALTHCARE
Let’s now move on to the business sectors.

For our Healthcare business, 2017 was a special year. We received the first regulatory approvals for two new medicines. At last year’s Annual General Meeting I already reported to you that the U.S. Food and Drug Administration had approved our active ingredient avelumab under the trade name Bavencio for the treatment of a rare form of skin cancer. In the meantime, we have received further regulatory approvals, for example in the European Union and also in the United States for the treatment of urothelial cancer.

For Merck, this was a true breakthrough. Today we are operating successfully with our partner Pfizer in the field of immuno-oncology. This refers to cancer treatments aimed at activating the body’s own immune system to fight disease. Worldwide, only few companies have launched immuno-oncology medicines. We are one of them. This is a major success. I am very proud of our team. They have been working very hard since 2011 to achieve this position. At the same time, we know that discovery activities in new immuno-oncology indications will always also involve setbacks. Our competitors have had to learn this. And recently we experienced this as well. A clinical study on the use of
avelumab in the treatment of a certain form of lung cancer unfortunately did not achieve the results that we had hoped for. Nevertheless, and that makes our situation different now, we can use important findings for future studies. We believe in the potential of avelumab as a single therapy and also in combination with other active ingredients. That is why we are conducting research in this area. We owe this to patients, who in most cases have very high hopes for immuno-oncology treatment. Currently, seven research projects for our active ingredient avelumab are in late-stage phases of clinical development. This is a good starting basis for our further efforts.

Apart from Bavencio, our Biopharma business celebrated a second major success in 2017. On August 25, we received European approval for Mavenclad, our medicine for the treatment of relapsing multiple sclerosis in patients with high disease activity.

This is a wonderful comeback story. It became possible because we learned from the mistakes made the first time we applied for regulatory approval at the beginning of this decade. We took another intensive look at the data. We spoke with many patients and scientists. They encouraged us to make a second attempt. Several weeks ago, we decided to also submit Mavenclad for regulatory approval in the United States this year.

Overall, we are very satisfied with the business performance of Healthcare. Sales in 2017 grew organically by 4.7%. This increase was driven in particular by the General Medicine & Endocrinology franchise. Among other things, this includes our medicines to treat cardiovascular diseases and diabetes. Organic sales of our top-selling products Rebif and Erbitux declined by 5.5% and 1.3%, respectively, in a hotly contested competitive environment.

In the strategy for our Healthcare business, we stated a clear objective: We want to become a global specialty innovator. This means we are investing in our research projects because we have an array of interesting active ingredient candidates. For instance, sprifermin to treat osteoarthritis of the knee. Or evobrutinib, an active ingredient that we are currently investigating in clinical trials for the treatment of rheumatoid arthritis, relapsing multiple sclerosis and systemic lupus erythematosus, a rare autoimmune disease. Just recently we announced positive initial results for one of these studies in relapsing multiple sclerosis. They underscore the potential of this active ingredient.

As you can see, we are making progress with our research projects. At the same time, we are aligning our business portfolio with our strategy. At the end of August we sold our Biosimilars business to Fresenius. Biosimilars are copies of biologically produced medicines. And as you know, last week we announced that we intend to sell Consumer Health, which is the name of our business with over-the-counter pharmaceuticals, to Procter & Gamble. I am convinced that we
have found a good home for Consumer Health. We plan to complete the trans-
action by the end of the fourth quarter. This is an important step in our strategy
of focusing our pharmaceutical business on innovative specialty products.

LIFE SCIENCE
Let’s move on to Life Science now. This is our business with products and solu-
tions for laboratories, biotech companies and pharmaceutical manufacturers.
We help them to do their work better, faster and safer. Our portfolio encom-
passes more than 300,000 products. Life Science is an attractive business. It
offers recurring sales. We have a loyal customer base. And we are the leading
e-commerce distributor in this market.
Our sales in this business increased organically by 5.3% in 2017. All business
units contributed to this growth. Particularly noteworthy was organic sales
growth of 8% in the business with products for large- and small-molecule drug
manufacture.
We have strengthened our Life Science business with smaller targeted acqui-
sitions. In Burlington, Massachusetts, we opened our new Life Science Center,
thus further strengthening our presence in the Greater Boston area, the main
biotech hub. We now offer a highly attractive working environment there. This
is important when competing for talented employees and experts.
In 2017, we also received important patents for a genome-editing technology.
And just a few days ago we received the corresponding patent in China. But
what does the term genome editing actually mean? Genome editing is the tar-
geted modification of the genome of living cells. Our technology is the CRISPR
method. This is a particularly efficient type of genome editing. CRISPR is often
referred to as the gene scissors technique. That is a very suitable image, as the
technique can be used to cut out and replace certain, for example, damaged
parts of the genome. Consequently, researchers can gain a better understand-
ing of how individual genes function and how they interact within the cell. This
is important for analyzing, for instance, the causes of diseases.
Genome editing offers great opportunities. Yet it also involves great respon-
sibility. Therefore, we have defined clear guidelines for our research and for our
business. In addition, we regularly discuss this topic in our international ethics
committee.
Our colleagues in the exhibition in front of the auditorium will be pleased to
provide you with more information on genome editing.

PERFORMANCE MATERIALS
I will now discuss Performance Materials. This is our business with specialty
chemicals and high-tech materials. For many years, it significantly contributed
to the success of Merck. With a 40% margin, it was our most profitable business
again in 2017.
The Liquid Crystals business is an important pillar of Performance Materials. As
already mentioned, 2017 was a difficult year for this business. We lost market
shares, particularly in China. By contrast, the other business units performed
better. We recorded sales growth, in some cases significant, with materials for
semiconductor production, pigments and OLED materials.
Nevertheless, sales by Performance Materials decreased organically by 1.7%
only. We are not satisfied with this. So we are taking action.
In September, Kai Beckmann took over the leadership of Performance Materi-
als. He and his team have a clear mandate. They are to lead the business sector
into a successful future. They are currently analyzing the business intensively.
And they have already implemented initial changes.
At the beginning of the month, we combined our activities into three new busi-
ness units. These business units no longer orient towards products as in the
past. Customer needs are what count. In the future, we will offer them more
than materials, namely end-to-end solutions. In this way we are helping them,
for example, to optimize their processes and products.
The change in structure is just the beginning. Kai Beckmann and his team are
working on a new strategy for Performance Materials. We want this business
sector to return to a growth course. For us it is clear that specialty chemicals
and high-tech materials are and will remain attractive business fields. With our
technologies and solutions, we can still achieve a great deal in the digital world
of the future.
OUTLOOK

Ladies and Gentlemen,

In 2017, we set the course in important ways to ensure a good future for Merck. This is also evidenced by a number: around € 2.1 billion, which we invested in research and development.

Our history of 350 years has taught us that the most important history is the one we are writing today. I would now like to discuss the outlook for the current fiscal year.

One thing is already clear today: In business terms, 2018 is going to be a demanding year. A number of political developments are causing us concern. I would address two topics here. Firstly, Brexit. At the end of March 2019, the United Kingdom will leave the European Union. We deeply regret this move. For Merck, the United Kingdom is an important location. We have around 1,500 employees in 15 subsidiaries. We will maintain close ties to the country even after its exit from the European Union. But like other companies as well, Brexit presents us with tremendous challenges. This applies to important areas such as regulation, the deployment of international experts, and our supply chain. It is now crucial that the negotiators on both sides achieve viable and practicable solutions. We must not risk bottlenecks in the supply of medicines. We should keep customs tariffs, border controls and other trade barriers to an absolute minimum. It should also be possible to transfer employees freely between the EU and the United Kingdom. We should also not jeopardize the many research collaborations with partners in the United Kingdom.

What applies for Brexit applies very generally as well. We are currently experiencing a reinvigoration of protectionism. Tariffs and other trade barriers are being used as means of exerting political pressure. This is extremely dangerous. After all, open markets and fair trade conditions are important foundations of prosperity and growth – and that applies worldwide. I would therefore once again like to emphasize something I already said to you last year: The call for tariffs might elicit applause in the short term. In the long term, everyone will lose. Trade wars have no winners.

Ladies and Gentleman,

What developments are we expecting for our businesses?

We will publish a concrete forecast for 2018 together with the results of the first quarter on May 15. Today I would therefore like to give you a qualitative outlook.

First of all, we know that the influences that weighed on our business and our earnings last year will continue.

- The situation in the liquid crystals market remains challenging, above all in China.
- We are investing heavily in the development of new medicines and the launch of new products.
- We also continue to experience headwinds in the foreign exchange markets. The weakness of the U.S. dollar as well as the development of various currencies in emerging markets is making things difficult for us.

Against this background, we forecast moderate organic sales growth for this year. However, negative foreign exchange effects could counter this growth, especially in the first half of the year. In 2018, we expect a slight percentage decline in EBITDA pre on a currency-adjusted basis. In addition, negative foreign exchange effects are expected to lead to a further decline in EBITDA pre by 4% to 6%.

Ladies and Gentlemen,

For us at Merck, 2018 is a demanding year. We are investing in our future. These efforts will pay off. As of 2019, we should then generate increases again in all key figures: sales, EBITDA pre and EBITDA pre margin because we then expect significant earnings from our new medicines. Our aim is for Life Science to continue to grow faster than the market. All this should more than compensate for the trough that we expect in Performance Materials in 2019.
GROWTH MARKETS AND NEW TECHNOLOGIES

Merck is well-positioned with respect to important topics of the future. We are developing innovative medicines. We are shaping the future of scientific research and biotechnology. And we are producing the high-tech materials for a digital world. This is a good basis for future growth. We want to and will build on this. With a strong presence in key growth markets and entirely new technologies.

For Merck, China is by far the most promising growth market. We have had a presence here for 85 years. From a business perspective, the country is more important today than ever before. The government is pushing ahead with the transformation into an innovation-driven economy. Many future technologies are already emerging to a very large extent in China. In addition, the government is expanding the healthcare system. And we should not forget that China now has a middle class with nearly 300 million consumers. The country is one of the world’s most dynamic markets. Trends are increasingly being set here. This is creating very exciting prospects. Across all business sectors, we are working to understand the needs of our Chinese customers and patients. Here it is very important to us to be recognized as a partner that supports the economic policy direction of the government.

I visit the country often. The advances being made by Chinese companies are impressive. This also applies to the vibrant start-up scene in Beijing, Shanghai, Guangzhou, and Shenzhen. We want to be a part of this ecosystem. That is why we are setting up innovation hubs in the country. These will be locations at which we want to push forward innovation projects with Chinese startups and technology companies.

We are making targeted investments in China. In July, we inaugurated our new application laboratory for pigments and functional materials in Shanghai. Here we offer our customers tailor-made services for our products. And we are working together with them on new applications. In September we opened our new Biodevelopment Center, also located in Shanghai. It supports local pharmaceutical companies in the development of their production processes or in the registration of new medicines.

In October, we delivered the first medicines from our new pharmaceutical production plant in Nantong. Close to this plant, we are currently building a further production facility for our Life Science business.
As you can see, we are strengthening our presence in growth markets. And we want to develop breakthrough technologies extending well beyond our existing portfolio. That is what our Innovation Center is all about. It is located at the heart of our global headquarters in Darmstadt. We will officially inaugurate it in a few days.

The Innovation Center is not an office building. It is our hub for new ideas and business models. It is set up for interdisciplinary, time-limited project work. The Center embodies an approach and a culture that we want to instill throughout Merck: open, creative and collaborative. It is to show that scientific curiosity is at home in this company. The focus here is on technologies of the future. Innovation is not an end in itself. We want to build new businesses. To this end, we are proceeding very systematically. We are concentrating on fields that are of strategic interest to us and look economically attractive. We are pushing ahead with projects in these innovation fields. We have called our first innovation field “Biosensing and Interfaces”. What is it all about? Simply stated, this is about new sensors that connect biological systems such as the human body with digital technologies. It makes it conceivable to record biological processes in real time and interpret the data intelligently. This could create new treatment approaches for physicians and patients. Hardly any other company is better positioned than Merck. Our employees have tremendous medical expertise. They truly understand biology. And they have excellent knowledge of materials science and specialty chemicals. I am certain that with these multifaceted competencies, we will achieve a great deal in the coming years.

### ALWAYS CURIOUS

Ladies and Gentlemen,

The theme of our anniversary celebration is “Always curious - Imagine the next 350 years.”

We are setting our sights on the future. We at Merck are united by one objective: We want to achieve progress for patients, customers and society as a whole. And thus also for you, our shareholders. This unleashes our passion for discovery. This is what drives us. This is what we work for. Every day. I promise you: We will remain curious.