

New Structure of Merck KGaA, Darmstadt, Germany

Better alignment of German business activities with the global business sectors

Merck KGaA
Darmstadt, Germany

Short information to Agenda Item 9

Merck KGaA, Darmstadt, Germany (in the following referred to as KGaA) is not only our global headquarters, but also a site where all three business sectors – Healthcare, Life Science and Performance Materials – and all supporting Group Functions, such as Human Resources, Procurement and Group Tax, are located. Darmstadt is a strong site with promising future prospects.

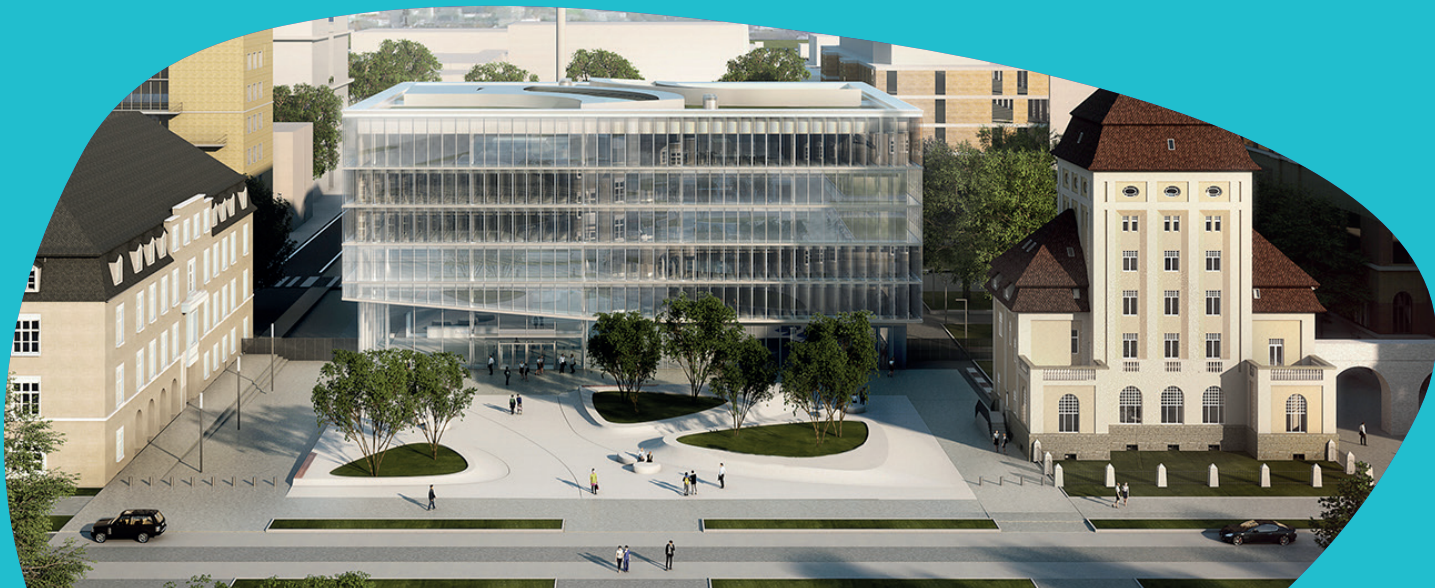
“Darmstadt is a strong site with strong prospects. Our Group headquarters are and will remain in Darmstadt. We manufacture here, we conduct research here and we employ more than 11,000 people in Darmstadt.”

Stefan Oschmann, Chairman of the Executive Board & CEO



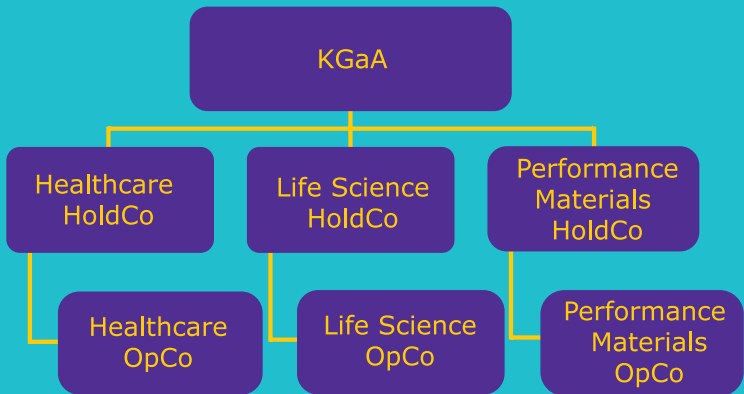
We are developing the company further

The business models and processes in our three global business sectors differ highly from one another owing to the diversity of products, markets and customers. This results in different requirements for IT systems with which business processes are captured, planned and steered (Enterprise Resource Planning - ERP systems). To meet these business-specific requirements even better in the future, we plan to introduce three sector-specific ERP systems.



To support and facilitate the introduction and subsequent operation of the sector-specific ERP systems, it is planned to hive down the operating business of KGaA into three separate subsidiaries. Through a further hive-down (i.e. a bulk transfer of assets and liabilities under the German Transformation Act), the respective shares in each of the new subsidiaries will be transferred to an intermediate holding company for each business. The transaction will align the German operating business of KGaA with the Group’s global principles for legal entity structuring. The new structure will help us to better integrate our operating activities in Germany into the global value chains of the business sectors. In addition, it bolsters our ability to respond fast and flexibly to new strategic options and to address changing market conditions. In this way, the international growth and innovation strategy of the Group is also firmly anchored in Germany.

Our new structure



To implement the new structure at the Darmstadt and Gernsheim sites, the following steps are planned:

- 1. Operational hive-down:** The operating businesses of KGaA within the Healthcare, Life Science and Performance Materials business sectors as well as their assets and liabilities will be transferred to three separate subsidiaries, so called operative companies (OpCos). A domination and profit and loss transfer agreement exists between KGaA and the respective OpCo to ensure the uniform management of the OpCos by KGaA.
- 2. Holding hive-down:** Directly after the operational hive-down takes effect, all of the shares held by KGaA in the respective OpCos are to be transferred by way of a further hive-down to holding companies. Consequently, the respective shares in the OpCos will be held by KGaA indirectly through an intermediate holding company.
- 3. Business lease:** The new structure is to be implemented successively and in parallel with the introduction of the respective ERP systems in the OpCos, which is scheduled for the period from 2019 to 2020. The business activities to be hived down to the OpCos will therefore temporarily be leased back by the respective OpCo to KGaA until the ERP systems have been introduced. For this purpose, each of the OpCos has entered into a business lease agreement with KGaA.

Resolution at the Annual General Meeting

The measures described for the hive-downs and the business leases are part of a holistic transaction concept and will be presented to the **Annual General Meeting of KGaA on April 27, 2018** for approval under agenda item 9 (“Approval of two hive-down and transfer agreements as well as three business lease agreements”). The legally relevant and **detailed information** can be found under the following **link: www.emdgroup.com/agm**

Shareholder rights and dividend

- The transaction is a purely **Group-internal measure**. Apart from the fact, that the hived-down operational business activities are managed within the OpCos in the future and that KGaA acts insofar as a management holding company, the measure has no impact on the rights of the shareholders. This is especially true for voting rights at the Annual General Meeting of KGaA , e.g. to approve the annual accounts, to appropriate the net retained profit, to elect the Supervisory Board, to pass resolutions on capital measures or changes to the Articles of Association. As a result of the domination and profit and loss transfer agreements between KGaA and the OpCos, the business transferred to the OpCo can continue to be managed directly by KGaA. The strategic management of the global business sectors Healthcare, Life Science and Performance Materials will remain with KGaA.
- **The new structure will not affect the dividend policy or the ability of KGaA** to pay a dividend. As in the past, the dividend will continue to be determined on the basis of Earnings Per Share pre exceptionals in the Group financial statements. Owing to the Group-internal nature of the measure, there will be no negative effects on the Group’s credit rating.

