

Merck KGaA  
Darmstadt, Germany

# Compensation system

of the Executive Board



# The compensation system of the Executive Board of Merck KGaA, Darmstadt, Germany, pursuant to section 87a (1) of the German Stock Corporation Act

## The compensation system from January 2026

The previous compensation system of our Executive Board has been comprehensively revised and adapted. This was essential due to the changed economic framework conditions, current market development and an increased focus on our sustainability strategy. Furthermore, the expectations of our investors and shareholders were of considerable importance in the adjustment and revision.

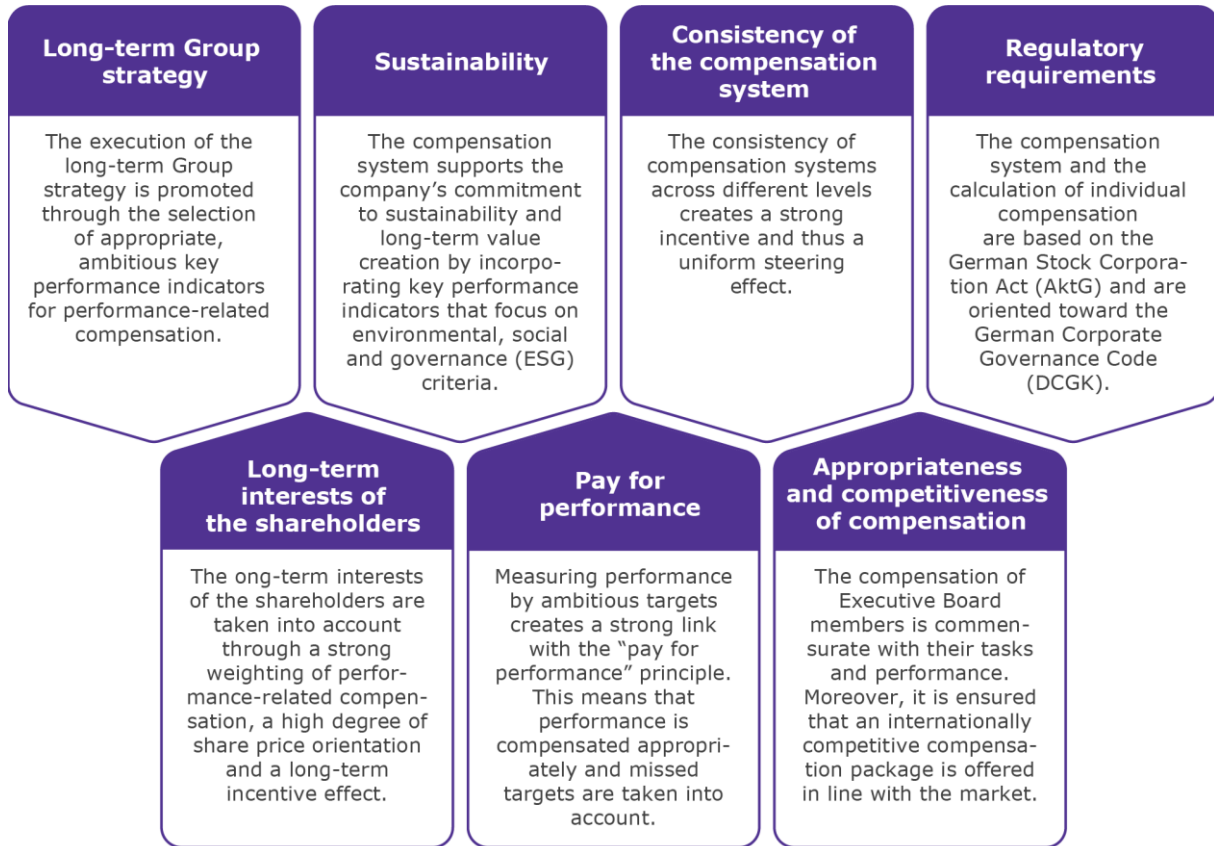
The new compensation system (compensation system 2026) focuses even more on aligning the long-term Group strategy with performance-related compensation. The “pay for performance” principle is instrumental in guiding the realignment. As a result, the long-term interests of shareholders are considered while providing greater consistency also with the compensation structure of the rest of the organization.

The compensation system 2026 has been agreed by the responsible Personnel Committee and, in accordance with section 120a section 11 of the German Stock Corporation Act (AktG) and will be submitted to the Annual General Meeting for approval on April 25, 2025. It will enter into force for current and new members of the Executive Board on January 1, 2026.

## Basic principles of the compensation system

As the world’s oldest pharmaceutical and chemical company, we attach great importance to responsible corporate governance and entrepreneurship. This and also the special nature of our corporate structure are reflected in the design of the compensation system of the members of the Executive Board. Unlike executive board members at publicly listed German stock corporations (*Aktiengesellschaften*), the members of the Executive Board at our company are not employed members of a corporate board. Rather, they are personally liable general partners of both Merck KGaA, Darmstadt, Germany and the general partner E. Merck KG, Darmstadt, Germany. This special position is reflected in a strongly entrepreneurial-oriented compensation. Instead of a short-term target-oriented bonus, the compensation system provides for a profit sharing in the profit of E. Merck KG, Darmstadt, Germany, so that the members of the Executive Board participate directly in the success or in a failure of the company.

With respect to the specific structure of compensation, the determination of individual compensation, the selection of the key performance indicators, and the definition of payment and allocation, the following principles are followed:



The sustainability principle has been explicitly included into the compensation system 2026. Directly linking the sustainability strategy with the Executive Board's compensation, strengthens the long-term interests of shareholders and of the company, by incentivizing responsible decisions that go beyond short-term profits. At the same time, this ensures that the company assumes social and environmental responsibility to contribute to sustainable value creation.

## Overview of the main changes

When adapting the compensation system, we revised the variable compensation and other compensation components to reflect current market developments and changed investor expectations. In doing so, care was taken to ensure that the structure of the system continues to promote the long-term success of the company while considering the interests of shareholders.

The new compensation system 2026 further strengthens the “pay for performance” principle. In particular, the performance period for the profit sharing has been reduced from three years to one year. As a result, the current development of the company is directly linked to the compensation of the Executive Board in a fiscal year. In addition, a much more ambitious structuring of the individual sharing rates also results in compensation with an even closer connection to performance. The minimum threshold for the profit after tax of E. Merck KG, Darmstadt, Germany for a profit sharing payment will be doubled from € 0.75 billion to € 1.5 billion. The individual profit sharing rates will also be recalibrated in order to give the profit sharing a more powerful incentive effect, strongly oriented towards performance. This takes account of current corporate planning and at the same raises the level of ambition. The possibility to provide a special compensation payment based on the exceptional performance of a specific Executive Board member, which had been possible under the previous compensation system, will no longer be available. In addition, the market-standard malus and clawback regulations already applicable to the Long-Term Incentive Plan (LTIP) will be extended to the profit sharing.

The share of the LTIP attributable to total compensation will be increased to further strengthen the focus on the long-term development of the company. At the same time, the share of the profit sharing will be reduced. However, the defined maximum compensation as per section 87a para 1 of the German Stock Corporation Act (Aktiengesetz) will not be increased.

Within the scope of the LTIP, the internal key indicators have been reviewed to ensure they are up to date with the aim of maintaining the focus on strategically relevant financial targets. The key indicators used were confirmed as the most appropriate measures. However, the weighting of the previous key performance indicators has been partially adjusted in favor of the inclusion of sustainability targets.

Our external key indicator in the LTIP, the relative share price development compared to the DAX® Performance Index, was also reviewed for its relevance. We have chosen to maintain this relative key indicator because measuring against the external market is considered an important performance indicator. However, the selection of the peer group is challenging due to our diversified business model. There is no index that optimally represents our three business sectors, Life Science, Healthcare and Electronics. Both an individual peer group and the combination of different sector indices result in an increased complexity in the compensation system at the expense of comprehensibility, without offering greater relevance and comparability for our business model. Ultimately, the DAX® Performance Index forms a suitable and ambitious peer group of globally operating companies from various industries that set consistently high standards in long-term performance. To keep pace with the DAX®, outstanding results must be achieved continuously, regardless of industry-specific or macroeconomic fluctuations. Accordingly, comparing our share price with the DAX® Performance Index is an ambitious goal.

Another central aspect of the compensation system 2026 is the independent embedding of the topic of sustainability in the compensation of Executive Board members. Therefore, the strategically derived sustainability goals will be implemented alongside the financial KPIs as independent and additive key indicators in the LTIP rather than as a sustainability factor (as before). Accordingly, sustainability goals and financial performance criteria will now be of equal importance, giving sustainability goals a greater influence on the compensation. This will align the variable compensation of the Executive Board even more closely to the long-term corporate and sustainability strategy.

In addition, the compensation system 2026 further considers the latest developments in the market while at the same time reducing the complexity of the compensation system. The obligation to invest part of the profit sharing in shares will be replaced by a Share Ownership Guideline (SOG) that is customary in the market and easy to understand. The individual investment requirement will now be established as a certain percentage of base salary. This change will make the SOG less complex and easier to understand. In addition, the adapted SOG is now consistent with the SOG for our company's top management. This ensures that the same principles are applied within the company, strengthening also cohesion within the organization.

To provide an appropriate and competitive compensation package, the current defined contribution pension plan will be replaced by a pension substitute for new members of the Executive Board. This takes current market developments into account, makes the system more attractive internationally and reduces both complexity and liability risks for the company.

The key changes and the objective of the adjustments are summarized in the following.

Objective	Explanation of changes
<b>Strengthening the "pay for performance" principle by adapting the profit sharing</b>	<ul style="list-style-type: none"> <li>• Reduction of the performance period of the profit sharing from three years to one year to establish a direct link between the company development and the compensation for the corresponding fiscal year</li> <li>• Strengthening the incentive effect and performance orientation by doubling the threshold values and adjusting the individual profit sharing rates</li> <li>• Revision of the criteria for assessing individual performance to better reflect the evaluation of individual roles</li> <li>• The explicit extension of the malus and clawback provisions to the profit sharing provides better protection for the interests of the company and shareholders</li> <li>• Elimination of the possibility of special compensation payments</li> </ul>
<b>Strengthening the long-term focus through changes to the Long-Term Incentive Plan (LTIP) and the compensation structure</b>	<ul style="list-style-type: none"> <li>• Increased focus on long-term and future-oriented variable compensation by reducing the share of profit sharing and increasing the target amount of the LTIP while maintaining the defined maximum compensation</li> <li>• Review of the relevant KPIs selected in the LTIP to ensure alignment with long-term corporate governance and strategy</li> </ul>
<b>Focus on sustainability</b>	<ul style="list-style-type: none"> <li>• Introduction of sustainability principles into the compensation system</li> <li>• Focusing and strengthening of the company's sustainability strategy by switching from the sustainability factor to an independent additive key indicator in the LTIP</li> </ul>
<b>Simplification of the compensation system and consideration of market developments</b>	<ul style="list-style-type: none"> <li>• The introduction of pension substitutes minimizes risks related to provisions and subsidiary liabilities and at the same time increases the attractiveness of the compensation system, especially for international members of the Executive Board</li> <li>• The revised SOG (in which the amount of the shareholding obligation corresponds to a fixed percentage of the fixed salary) further reduces the complexity of the compensation system, improves the consistency of the internal compensation, and aligns it with best market practices</li> </ul>

The following graphic compares the compensation system 2026 with the previous compensation system. The main changes are highlighted in **bold**:

Fixed compensation components	
Previous compensation system	Compensation system 2026
<p><b>Base salary</b> Fixed performance-independent amount paid in 12 equal monthly installments</p> <p><b>Additional benefits</b></p> <ul style="list-style-type: none"> <li>• Contributions to insurance policies</li> <li>• Personal security expenses</li> <li>• Company car with option for private use</li> <li>• Compensation payments for newly appointed Executive Board members to cover the loss of agreed variable compensation at previous employers</li> </ul> <p><b>Pensions</b> Defined contribution pension commitment as a direct commitment</p>	<p><b>Base salary</b> Fixed performance-independent amount paid in 12 equal monthly installments</p> <p><b>Additional benefits</b></p> <ul style="list-style-type: none"> <li>• Contributions to insurance policies</li> <li>• Personal security expenses</li> <li>• Company car with option for private use</li> <li>• Compensation payments for newly appointed Executive Board members to cover the loss of agreed variable compensation at previous employers</li> </ul> <p><b>Pensions</b> <b>Pension substitute for new members of the Executive Board</b></p>
Variable compensation components	
Previous compensation system	Compensation system 2026
<p><b>Profit sharing</b></p> <ul style="list-style-type: none"> <li>• Key performance indicator: Three-year average of the profit after tax of the E. Merck Group</li> <li>• Minimum threshold: Profit after tax of € 0.75 billion</li> <li>• Consideration of individual performance and individual contribution to achieving the sustainability goals via the adjustment factor in a range from 0.8 to 1.2 based on the defined criteria set.</li> <li>• Individual absolute capped amount</li> </ul>	<p><b>Profit sharing</b></p> <ul style="list-style-type: none"> <li>• Key performance indicator: Profit after tax of the E. Merck Group <b>for the respective financial year</b></li> <li>• <b>Minimum threshold: Profit after tax of € 1.5 billion</b></li> <li>• Consideration of individual performance and individual contribution to achieving the sustainability goals via the adjustment factor in a range from 0.8 to 1.2 based on the defined criteria set.</li> <li>• Individual absolute capped amount</li> </ul>
<p><b>Long-term incentive</b></p> <ul style="list-style-type: none"> <li>• Key performance indicators: Share price performance relative to the DAX®(50%), EBITDA pre margin (25%), organic sales growth (25%); a sustainability factor (0.8 to 1.2) has been included since 2022</li> <li>• Performance share plan based on virtual shares (share units)</li> <li>• Four-year performance period with three-year target achievement cycle and subsequent one-year holding period</li> <li>• Absolute capped amount totaling 250% of the individual grant</li> </ul>	<p><b>Long-term incentive</b></p> <ul style="list-style-type: none"> <li>• Key performance indicators: Share price performance relative to the DAX®(<b>30%</b>), organic sales growth (25%), EBITDA pre margin (25%), sustainability goals (<b>20%</b>)</li> <li>• Performance share plan based on virtual shares (share units)</li> <li>• Four-year performance cycle with three-year achievement period and subsequent one-year holding period</li> <li>• Absolute capped amount totaling 250% of the individual grant</li> </ul>
Other contractual components	
Previous compensation system	Compensation system 2026
<p><b>Maximum compensation as per section 87a AktG</b></p> <ul style="list-style-type: none"> <li>• Chair of the Executive Board: € 11,500,000</li> <li>• Ordinary member of the Executive Board: € 9,500,000</li> </ul> <p><b>Share ownership guidelines</b></p> <ul style="list-style-type: none"> <li>• Mandatory personal investment amounting to one third of the net payment of the profit sharing in shares of Merck KGaA, Darmstadt, Germany</li> <li>• Four-year holding period</li> </ul> <p><b>Malus and clawback</b></p> <ul style="list-style-type: none"> <li>• Customary compliance malus as well as compliance and performance clawback for the Long-Term Incentive</li> <li>• Malus criteria in the context of profit sharing</li> </ul>	<p><b>Maximum compensation as per section 87a AktG</b></p> <ul style="list-style-type: none"> <li>• Chair of the Executive Board: € 11,500,000</li> <li>• Ordinary member of the Executive Board: € 9,500,000</li> </ul> <p><b>Share ownership guidelines</b></p> <ul style="list-style-type: none"> <li>• Mandatory personal investment amounting to <b>200% (Chair of the Executive Board) or 100% (ordinary member of the Executive Board) of the base salary</b> in shares of Merck KGaA, Darmstadt, Germany</li> <li>• Holding period for the <b>duration of the Executive Board membership</b></li> </ul> <p><b>Malus and clawback</b></p> <ul style="list-style-type: none"> <li>• Customary compliance malus as well as compliance and performance clawback for <b>profit sharing and</b> long-Term Incentive</li> </ul>

## Compensation structure and maximum compensation

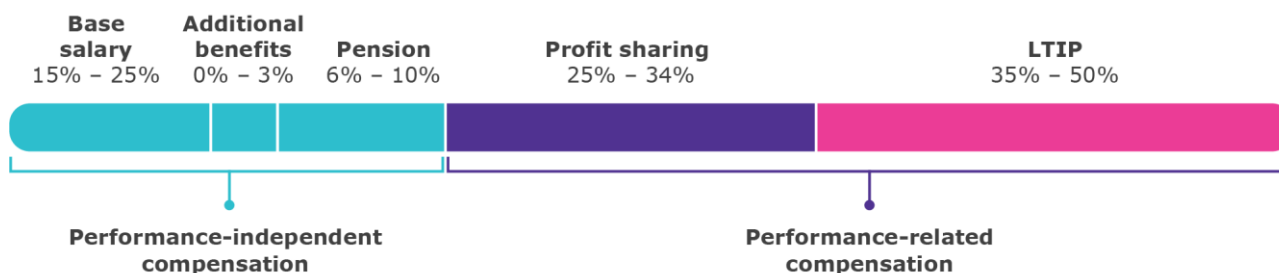
### Compensation structure

The compensation structure, i.e. the relative shares of the individual fixed and variable compensation components in the total compensation of Executive Board members, is based on two central principles of the compensation system: pay for performance and a focus on the long-term Group strategy.

The base salary makes up around 15% to 25% of target total compensation, while the share of additional benefits is normally between 0% and 3% and the share of pension provisions is approximately 6% to 10%. As no grant value is defined for the profit sharing, an approximated value is derived from the expected payout amounts according to the company's planning. Based on this, the profit sharing accounts for around 25% to 34% of target total compensation, while the grant value from the LTIP makes up around 35% to 50% of total target compensation. Here, the "pay for performance" principle is considered through the high proportion of performance-related variable compensation components (profit sharing and LTIP) compared to the performance-independent fixed components (base salary, additional benefits and pension).

To ensure that compensation is aligned with the long-term Group strategy, the share of the LTIP outweighs that of the profit sharing within the variable compensation.

The amount of the additional benefits is subject to annual fluctuations. The compensation structure of a specific fiscal year for individual members or all members of the Executive Board can thus differ from the target compensation structure envisaged by the Personnel Committee.



### Maximum compensation

In accordance with section 87a para1 sentence 2 no. 1 of the German Stock Corporation Act (AktG), a maximum compensation figure is specified for members of the Executive Board by the Personnel Committee. This limits the compensation granted for a single fiscal year, i.e. the sum of all performance-independent and performance-related compensation components granted in a fiscal year, regardless of their disbursement date. The maximum compensation for a fiscal year is € 11,500,000 for the Chair of the Executive Board and € 9,500,000 for Ordinary Members of the Executive Board.

In addition to the maximum compensation, there is a separate payout cap for the performance-related compensation components. A quantitative limit for the profit sharing has been defined for all members of the Executive Board. The payout from the LTIP cannot exceed 2.5 times the individual grant value, even in cases of exceptional performance.

## The compensation system in detail

### Performance-independent compensation

The performance-independent compensation of the Executive Board is made up of base salary, additional benefits, and pensions.

#### Base salary

The base salary received by the members of the Executive Board comprises fixed and performance-independent amounts that are paid in 12 equal monthly installments.

#### Additional benefits

The members of the Executive Board receive performance-independent additional benefits. These consist mainly of contributions to insurance policies, expenses for security services and a company car, which may be used privately. If a new Executive Board member is appointed, the Personnel Committee can grant a one-time payment to compensate for any losses of compensation already granted by the previous employer. In this context, the Personnel Committee checks whether the prerequisites for the payment are proven and documented. As part of this assessment, the Personnel Committee can also decide to pay out the amount in multiple installments. In addition, there may be further additional benefits on a temporary basis in connection with a new appointment to the Executive Board (e.g. compensation of relocation costs).

#### Pension

New members of the Executive Board will receive an annual pension substitute. This will be paid out at the end of each year during the active membership in the Executive Board. The purpose of the pension substitute is to finance an individual's private pension in old age. As such, there are no longer any risks to the company due to provisions or with respect to a subsidiary liability from a company pension scheme.

If a member of the Executive Board is based or lives abroad, the option may be granted to pay part or all of the pension substitute into a pension scheme that applies to employees of the company in the country concerned.

The defined contribution plans that existed before January 1, 2026, will be retained as direct pension commitments. Within the scope of these defined contribution pension plans, a fixed amount is deposited into a pension account every year and a minimum interest is paid on this at the applicable maximum interest rate for the life insurance industry in accordance with section 2 (1) of the German Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV). Once the Executive Board members reach the contractually agreed retirement age, the amount in the pension account is disbursed either in ten annual installments or as a one-time payment. The balance in the benefit account is disbursed as a one-time payment, possibly topped up by additional contributions (a maximum of ten contributions, up to the age of 60) in the event of permanent inability to work or in the event of death to surviving dependents.

Members of the Executive Board who joined prior to January 1, 2026, have a one-off option to also switch to the pension substitute with effect for future periods of service. In this case, the pension account achieved so far remains in place, but no further pension contributions are made. If the pension scheme had not yet existed for more than three years on January 1, 2026, a compensation can be agreed with the member of the Executive Board for the commitment covering the prior period of service as an actuarially calculated one-time payment.



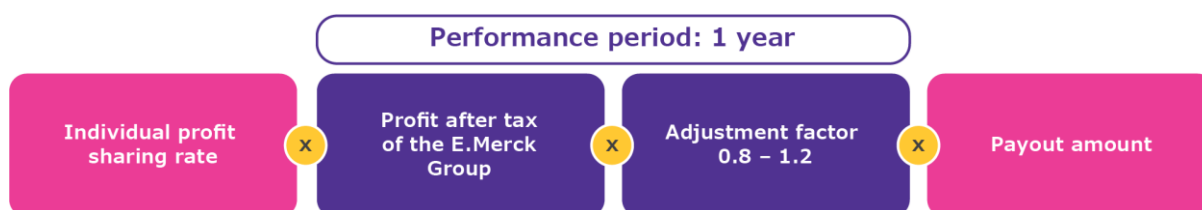
## Performance-related compensation

Performance-related compensation comprises profit sharing as well as the Long-Term Incentive Plan (LTIP). While the profit sharing relates to a fiscal year, the LTIP has a term of four years.

In accordance with the requirements of the German Stock Corporation Act (AktG) and of the German Corporate Governance Code (DCGK), most of the performance-related compensation is long-term oriented. As such, the share of the LTIP is greater than that of the profit sharing and performance-related compensation is in total predominantly share-based. This places the focus on long-term and sustainable corporate development without losing sight of short-term objectives.

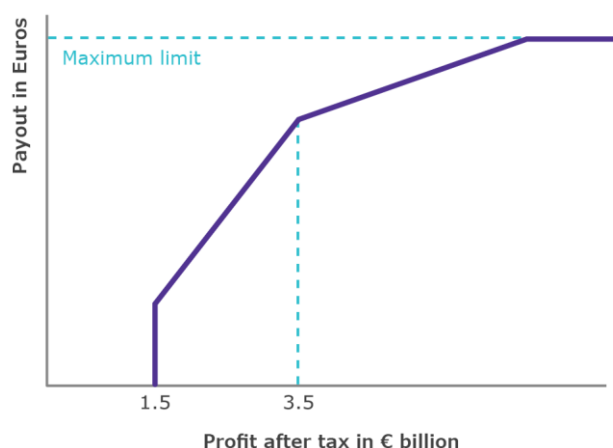
### Profit sharing

The profit sharing is a performance-related compensation component covering one year that allows the members of the Executive Board to participate directly in the company's success. It is predominantly calculated based on the profit after tax of the E. Merck Group, Darmstadt, Germany. In addition, the individual performance of the Executive Board members can be taken into account via an adjustment factor.



The basis for calculating the profit sharing is the applicable per mille rate of the profit after tax of the E. Merck Group, Darmstadt, Germany<sup>1</sup>. The members of the Executive Board receive an individual per mill rate from it. Using profit after tax as the key performance indicator, which is also the basis for dividend payments, ensures very close alignment with shareholders' interests.

Profit after tax of at least € 1.5 billion must be generated for a profit sharing payment to be made. This minimum threshold reflects the "pay for performance" principle of the compensation system. Where profit is generated in excess of this threshold, the individual profit sharing rates are staggered. The individual profit sharing rates are regularly reviewed and can be adjusted at the start of a fiscal year taking the corporate development into consideration. The maximum profit sharing payment is capped individually. The profit sharing payment curve for fiscal 2026 is illustrated on the right.



<sup>1</sup> The profit after tax is adjusted to consider finance costs, the equity interests of the general partners of E. Merck KG, Darmstadt, Germany, reported as liabilities as per IAS 32.18 (b) in conjunction with IAS 32.16A (c), and the deferred tax effects to which they are subject (profit after tax).

The Personnel Committee can determine certain cases in which the assessment basis can be adjusted, either with respect to individual elements or in relation to individual transactions (e.g. income from disposals of investments or immaterial assets, tax effects) to achieve an allocation aligned with the applicable period and the actual performance. Should the Personnel Committee make use of this possibility, the adjustment, and the reasons for it will be explained in the Compensation Report for the respective fiscal year.

Since the performance of the Executive Board members is not always fully reflected solely in the development of profit after tax, the Personnel Committee can consider the individual performance of the Executive Board members by means of an adjustment factor. The adjustment factor ranges from 0.8 to 1.2 (i.e. +/-20%) and is multiplied with the profit sharing amount. The adjustment factor is 1.0 by default. When deciding on the application and amount of the adjustment factor for the individual member of the Executive Board, the Personnel Committee may be guided by the following pre-defined criteria:

- Performance in relevant key performance indicators for the area of responsibility
- Degree of success in the implementation of particularly important projects with a significant contribution to business development and/or sustainability for the area of responsibility
- Achievement of material sustainability targets that were not considered in long-term variable compensation
- Services related to M&A activities
- Performance in the sustainable strategic, technical, product-related or structural development or reorganization of the company

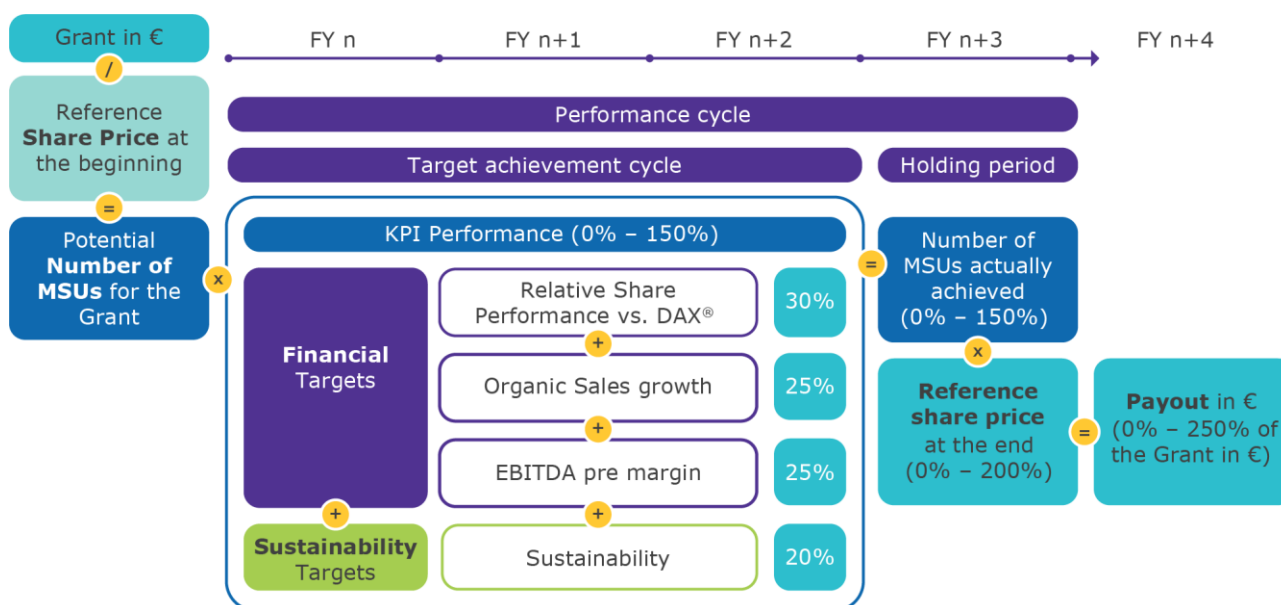
The factor and the considered criteria are disclosed in the compensation report for the respective fiscal year.

In addition, the Personnel Committee can also use the adjustment factor in the event of exceptional cases. This complies with the recommendation G.11 of the German Corporate Governance Code to be able to take extraordinary developments into account. If the adjustment factor is used in this context, the corresponding reasons are also published and explained in the compensation report for the corresponding financial year.

Profit sharing is paid out after the consolidated financial statements of E. Merck KG, Darmstadt, Germany have been prepared for the respective fiscal year.

## Long-Term Incentive Plan (LTIP)

The LTIP is designed as a virtual performance share plan and is based on a future-oriented four-year performance cycle comprising a three-year target achievement cycle followed by a one-year holding period. As part of the LTIP, the members of the Executive Board are eligible to receive a certain number of virtual shares of Merck KGaA, Darmstadt, Germany – Share Units (MSUs). This establishes a direct link to the performance of the share price and links the interests of the Executive Board to those of the shareholders.



The number of MSUs is calculated as follows: an individual grant value in euros is contractually stipulated for each member of the Executive Board. This grant value is divided by the relevant share price at the beginning of the performance cycle, resulting in the number of MSUs provisionally granted.

The number of MSUs actually allocated to the members of the Executive Board at the end of the target achievement cycle may range between 0% and 150% of the MSUs provisionally granted and depends on the development of the key performance indicators described below over the three-year target achievement cycle.

After the final MSUs have been determined depending on the target achievement of the relevant key performance indicators, a one-year holding period follows. Thus, the LTIP is linked with the absolute performance of the share price over the full four-year performance cycle. The additional one-year holding period achieves an even longer-term incentive in terms of the sustainable increase in the value of our shares and according to G.10 of the DCGK.

The Personnel Committee may determine certain cases in which the assessment basis of the financial and sustainability-related performance indicators is adjusted in individual elements or in relation to individual business transactions (e.g. income from the sale of shareholdings or immaterial assets, tax effects) to achieve an accrual-based and performance-based allocation. If this option is used by the Personnel Committee, the adjustment made will be explained and justified in the compensation report.

In the year following the end of the performance cycle, the payout is made to the members of the Executive Board based on the final number of MSUs multiplied by the share price at the end of the performance cycle. The maximum increase in the share price is limited to 200% of the share price at the beginning of the performance cycle, thus limiting participation in external effects that contribute to share price increases.

Apart from setting a limit on the final number of MSUs and on the applicable share price increase, the overall LTIP payment is limited to 250% of the individual grant value. If targets are clearly missed, it is also possible that payment is entirely omitted.

## Key performance indicators

The LTIP is a key steering element to implement our long-term strategy. It is based on strategically derived key indicators that firmly link our objective of achieving long-term profitable growth in the compensation system of the Executive Board. This creates an incentive for both the achievement of strategic objectives and the long-term development prospects of our company while taking the requirements of our shareholders into account. The ambitious objective of each performance criterion clearly relates to the “pay-for-performance” principle.

The relevant key indicators are:

- Relative share price performance compared to the DAX® Performance Index with a weighting of 30%
- Organic sales growth of the Merck Group, Darmstadt, Germany with a weighting of 25%
- EBITDA pre-margin with a weighting of 25%
- Sustainability goals with a weighting of 20%

The Personnel Committee reserves the right to define a different weighting for new tranches if this better reflects the corporate strategy.

## Relative share price development

By comparing the performance of our share price with the performance of the DAX® Performance Index (Total Return), the long-term relative capital market performance of the company is considered and the ambitious goal of achieving a corresponding share price performance without taking into account dividends paid by the company. The DAX® was chosen as a peer group because it represents a suitable and ambitious peer group of globally operating companies in various industries with strong long-term performance. Given our diversified business model in Life Science, Healthcare and Electronics, we were unable to identify any other index that better reflects our business model or offers greater relevance and comparability. Individually compiled comparison groups were discounted in favor of transparency and traceability.

Target achievement can vary between 0% and 150% and is calculated by comparing the performance of the share price with the development of the DAX® Performance Index. Thus, the development of our share price without dividends is compared with the total return of the DAX, which corresponds to the share price including fictitious reinvested dividends. If the development of our share price matches that of the DAX® Performance Index, the target achievement is 100%. If the development of the share price is 20 percentage points below that of the DAX®, the target achievement is 0%. If the development of the share price is 50 percentage points or more above that of the DAX®, the target achievement is 150%. Between these points, target achievement is determined through linear interpolation.

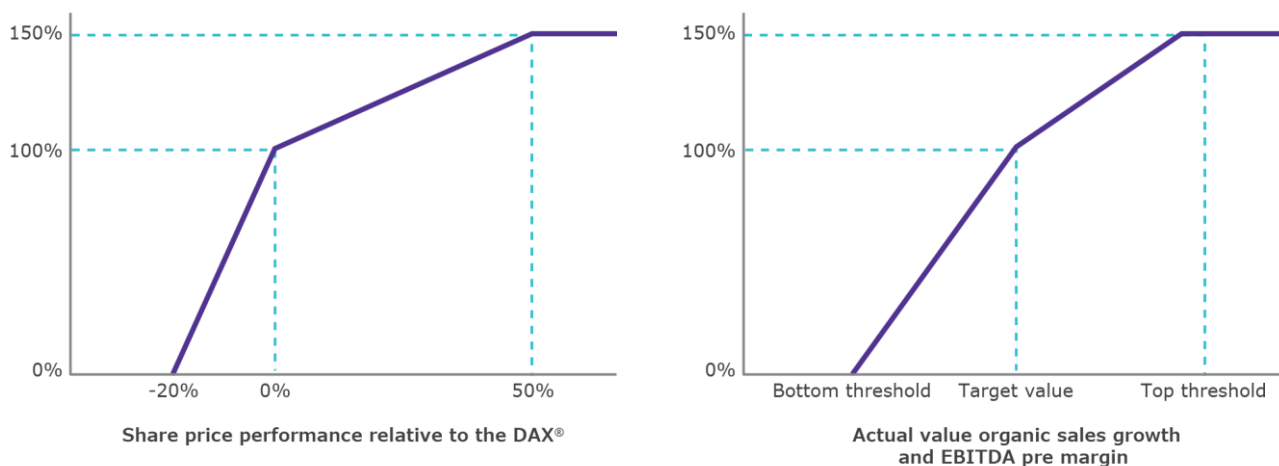
## Organic sales growth and EBITDA pre margin

The selected internal financial performance indicators are a central component of the company's internal management system. Organic sales growth focuses on long-term growth in the company's business areas.

Using the EBITDA pre margin as an additional internal key indicator prevents distortions caused by exceptional factors and directly reflects the performance of the Executive Board members. Moreover, the EBITDA pre margin is less susceptible to short-term fluctuations and permits an assessment of the company's long-term profitability and stability. This promotes a sustainable corporate strategy and is geared towards long-term value creation.

At the end of the performance cycle, target achievement in the key performance indicators of organic sales growth and EBITDA pre margin are measured by comparing the actual values with the target and threshold values specified by the Personnel Committee at the beginning of the performance cycle. The target achievement may range between 0% and 150% at the end of the target achievement cycle. If the actual value corresponds to the defined target value at the end of the performance cycle, the target achievement is 100%. If the actual value is below or at the specified bottom threshold, the target achievement is 0%. If the top threshold is reached or exceeded, the target achievement is 150%. Between these points, target achievement is determined through linear interpolation.

The target and threshold values specified for the KPIs and the respective target achievement resulting from them are disclosed in the Compensation Report after the performance cycle has ended. The target and threshold values are not published ex ante as this would make it possible to draw market-related and competitively relevant conclusions about the strategic objectives.



## Sustainability goals

Alongside the financial targets, sustainability targets are taken into consideration to also embed our commitment firmly to the environment, climate change mitigation and social responsibility in the compensation of the Executive Board.

Sustainability is a central component of our corporate strategy. To this end, we are realizing and will continue to realize numerous initiatives and projects in this area and measure our progress. In our current sustainability strategy, we are pursuing the three overarching sustainability goals described below:

- **Dedicated to human progress:** In 2030, we will achieve human progress for more than one billion people through sustainable science and technology.
- **Partnering for sustainable business impact:** By 2030, we will fully integrate sustainability into all our value chains.
- **Reducing our ecological footprint:** By 2040, we will achieve climate neutrality and reduce our resource consumption.

Derived from the current sustainability strategy, one or more of the sustainability goals will be linked to the LTIP by means of corresponding sustainability indicators with a weighting of 20%. As such, sustainability goals are of equal value to financial KPIs, thus aligning the Executive Board's variable compensation even more closely to the long-term corporate and sustainability strategy.

The Personnel Committee passes a resolution on the respective sustainability goals every year, defining specific and measurable key indicators and parameters for sustainability before the beginning of every LTIP tranche. In addition, it specifies target- and threshold values for the selected sustainability key indicators and their weighting, on which target achievement is calculated after the performance cycle has ended. The following criteria are important for the selection of sustainability key indicators and parameters:

- Relevance and influence of the sustainability key indicators on the overarching sustainability goals of the sustainability strategy
- Relevance and effectiveness of the sustainability goals within the scope of the materiality analysis
- Ability of the Executive Board to influence the sustainability key indicators internally and externally
- Good measurability and operationalization
- Sustainable impact to support long-term solutions and not incentivize short-term actions

The selected sustainability indicators are published ex ante in the respective compensation report at the beginning of each LTIP tranche. Target achievement can vary between 0% and 150% for each target. The final achievement of the goal of the sustainability key figures and the resulting payout amounts to the members of the Executive Board are published in the compensation report for the respective financial year after the end of the performance period.

## Other contractual provisions

### Share Ownership Guideline

The Share Ownership Guideline (SOG) for the Executive Board, aims to strengthen the orientation toward the capital market and further harmonize the interests of the Executive Board with those of the shareholders. This also increases the entrepreneurial responsibility of the Executive Board members alongside their status as general partners. According to the SOG, the members of the Executive Board are obliged to invest 200% (Chair of the Executive Board) or 100% (ordinary Executive Board members) of their gross base salary (SOG target) in shares within a four-year buildup period and to hold these shares for the duration of their Executive Board membership. Shares and shares in E. Merck KG, Darmstadt, Germany already held by the member of the Executive Board will be counted towards the achievement of the SOG target.

### Malus and clawback provisions

Their status as personally liable general partners of Merck KGaA, Darmstadt, Germany and E. Merck KG, Darmstadt, Germany, places a special emphasis on the entrepreneurial responsibility of the Executive Board members. To take even greater account of this fact in their compensation, malus and clawback provisions have been implemented as part of the performance-related compensation components (profit sharing and LTIP). These enable the Personnel Committee to partially reduce or completely remove performance-related compensation components that have not yet been paid out (malus) or to claw back paid performance-related compensation components in part or in whole (clawback). The option becomes relevant in the event of a violation of laws and regulations, in the event of disregard of internal guidelines or in the event of a violation of due diligence obligations within the meaning of Section 93 of the German Stock Corporation Act ("compliance malus" or "compliance clawback").

If it transpires after payout of the variable compensation, that the calculation basis was incorrect and would have resulted in a lower amount if the calculation basis had been correct, the corresponding difference can be reclaimed ("performance clawback").

### Terms of the employment contracts

Contracts with the members of the Executive Board are concluded for a maximum of five years. Where an employment contract begins or ends during the year, the fixed compensation, profit sharing and LTIP are paid or granted on a pro rata basis.

### Obligations upon termination of Executive Board membership

The contracts of the Executive Board members do not provide for ordinary termination. The right to extraordinary termination for good cause in accordance with section 626 of the German Civil Code (BGB) is available to both the company and the respective Executive Board member without observing a notice period.

In the event of an early termination of the employment relationship at the instigation of the company, without there being a specific reason justifying termination, a severance payment is limited to a maximum of two times the annual total compensation, but no more than the compensation for the remaining term of the employment relationship (severance pay cap).

If the early termination occurs before the end of the four-year performance period of an ongoing LTIP tranche, entitlements resulting from the plan may be retained and disbursed under specified circumstances. Such circumstances include, for example, no further extension of the contract, the occurrence of occupational disability or the decision of the Personnel Committee at its equitable discretion. Otherwise, the corresponding LTIP entitlement shall expire.

The contracts of the Executive Board members may provide for the continued payment of the base salary to surviving dependents for a limited period in the event of death.

No further obligations are provided for in the event of the termination of the contractual relationships of Executive Board members.

### Post-contractual non-competition clause

A post-contractual non-competition clause is agreed with the members of the Executive Board for a maximum period of two years. During the post-contractual non-compete, 50% of the average base salary received by the respective member of the Executive Board within the last twelve months prior to the termination, the profit sharing and the relevant LTIP allocation value in the last twelve months prior to the termination, shall be paid as compensation for non-competition. During the term of the post-contractual non-compete, other compensation as well as all payments by E. Merck KG, Darmstadt, Germany, for periods after the termination of the contract, and severance payments will be offset against the compensation for non-competition. The company may waive compliance with the non-competition clause with the effect that the obligation to pay the compensation for non-competition ceases to apply within six months after the declaration of the waiver.

## Process for determining, implementing and reviewing the compensation system and the level of Executive Board compensation

### Process for determining, implementing, and reviewing the compensation system

The German Corporate Governance Code (DCGK) generally applies to a German stock corporation ("*Aktiengesellschaft*" or "AG") and does not take into consideration the specifics of a corporation with general partners ("*Kommanditgesellschaft auf Aktien*" or "KGaA") such as Merck KGaA, Darmstadt, Germany. Given the structural differences, some regulations of the German Corporate Governance Code apply to a KGaA only in a modified way. Major differences between the two legal corporations relate to regulations concerning 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) AktG). Therefore, we apply the regulations of the DCGK analogously to our company if the regulations are applicable to our company.

In addition, at our company, unlike publicly listed German stock corporations, it is not the Supervisory Board but the Board of Partners of E. Merck KG, Darmstadt, Germany, that is responsible for the structure and review of the compensation system as well as for the amount and composition of the compensation of the members of the Executive Board. The Board of Partners has transferred this task to the Personnel Committee. In this respect, the Personnel Committee is primarily responsible for the following items regarding the Executive Board and the compensation:

- Development and regular review of the compensation system
- Structuring and auditing of performance-independent and performance-related compensation components
- Verification of the appropriateness of compensation
- Content of the service contracts for the members of the Executive Board
- Assumption of honorary offices, board positions and other additional activities

In designing the structure of the compensation system of Executive Board members – especially regarding the performance-related compensation components – the Personnel Committee also takes the compensation system for executives and managers into account in order to ensure the consistency of both compensation systems. Aligning the key performance indicators and steering criteria results to a coordinated steering effect within our company.

If required, the Personnel Committee will change the compensation system and submit the new compensation system to the Annual General Meeting for approval.

If the compensation system is not approved by the Annual General Meeting, a reviewed compensation system will be submitted for approval no later than at the following Annual General Meeting.



## **Determination and appropriateness of the compensation**

The level of Executive Board compensation is determined by the Personnel Committee. The Committee ensures that the compensation is adequate to the responsibility and duties of each Executive Board member. The compensation must reflect the position as personally liable general partners and the individual performance of each Executive Board member. In addition, it must consider the economic situation as well as the performance and prospects of the company, and at the same time, it must not exceed compensation levels typical in the market without a specific reason.

The Personnel Committee regularly has the compensation of the Executive Board reviewed by an independent compensation consultancy. In particular, the appropriateness of the total compensation of each member of the Executive Board is reviewed and benchmarking is conducted. Furthermore, the compensation is oriented toward the external peers of our company. The peer group currently includes the companies in the DAX® and a selected group of international competitors, which are published in the compensation report.

Furthermore, according to the DCGK, the ratio between the Executive Board compensation and the compensation of top management as well as of the workforce is considered and reflected in a multi-year assessment. For this assessment, the top management levels under the Executive Board in Germany are used. The average compensation of an employee in full-time employment in Germany is considered in determining the compensation of the rest of the workforce.

## **Measures for preventing conflicts of interest**

All members of the Board of Partners and of the Supervisory Board of the company are obliged to exclusively represent the company's interests within the scope of their activities and shall neither pursue their own personal interests nor provide improper advantages to third parties.

Each member of the Board of Partners should disclose potential conflicts of interest in relation to the Board of Partners that could arise because of a consulting relationship, holding a board position or a personal customer relationship. Significant and not just temporary conflicts of interest shall lead to the termination of the board position.

In its report to the Annual General Meeting, the Supervisory Board discloses any conflicts of interest involving its members and how they have been handled. Consultancy agreements, as well as other service and work contracts of a Supervisory Board member, require the approval of the Supervisory Board.

## Temporary deviations from the compensation system

In line with recommendation G. 11 DCGK, the Personnel Committee has the option of taking extraordinary developments into account within variable compensation to an appropriate degree.

Furthermore, in accordance with section 87a paragraph 2 sentence 2 AktG, the Personnel Committee can temporarily deviate from individual components of the compensation system where this is necessary and in the interests of the long-term welfare of the company. In this context, general negative market developments may not be deemed as extraordinary developments (and no temporary deviation from the compensation system permitted). Even in the event of a deviation, the compensation must still be oriented toward the sustainable long-term development of our company and must be in line with the performance of the company and the Executive Board member.

A temporary deviation from the compensation system is only possible following a careful analysis of the extraordinary circumstances and the possible implications based on a corresponding resolution of the Personnel Committee.

However, a temporary deviation from the compensation system is possible with regards to the key performance indicators of the variable compensation components (profit sharing and LTIP), the specification of the target achievement of the variable compensation components, and the compensation structure. In addition, the Personnel Committee may temporarily grant supplementary compensation components or replace individual compensation components, if this is necessary to maintain an appropriate incentive level of the compensation. Furthermore, the buildup phase specified in the SOG may be suspended temporarily.

In the event of a temporary deviation from the compensation system, details of the deviations (including an explanation of the reasons for the deviations) and the specific components of the compensation system that are being deviated from, are provided in the Compensation Report for the respective fiscal year.