

Mid-Term Financial Targets & Capital Allocation

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Agenda

- 1. Introduction**
2. Savings
3. Financial Targets
4. Capital Allocation & Others

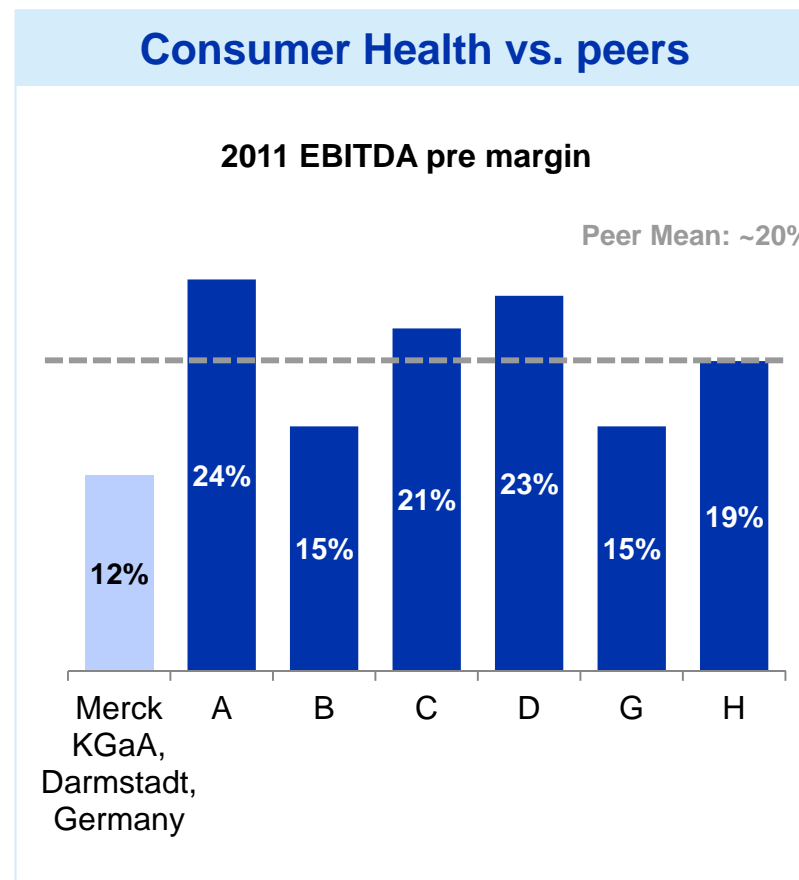
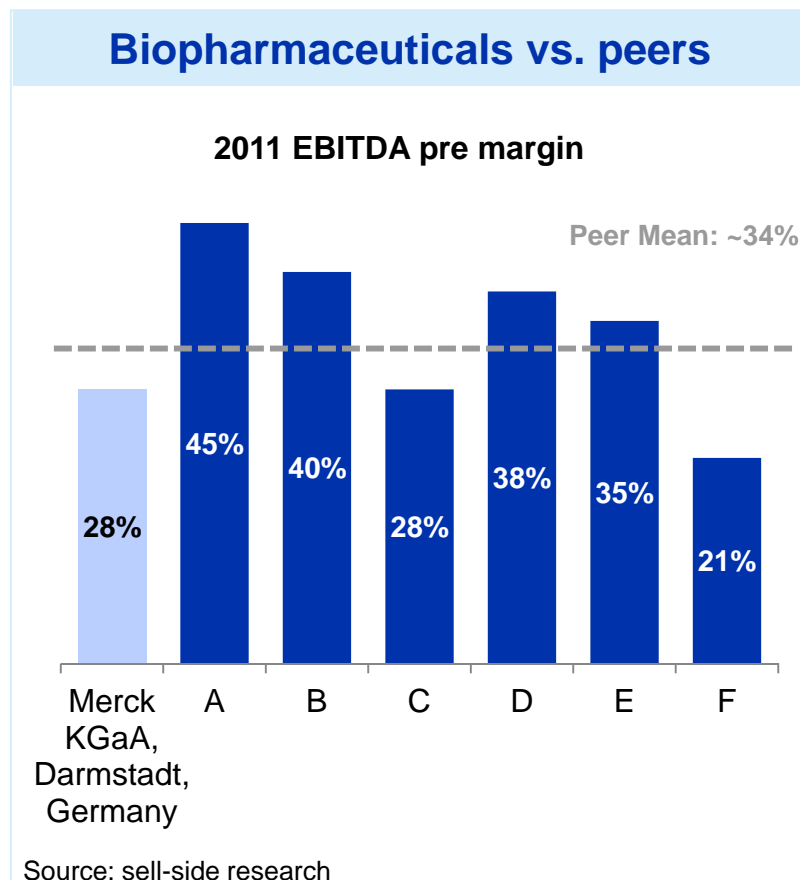
The Group

We are introducing new divisional peers



Pharma

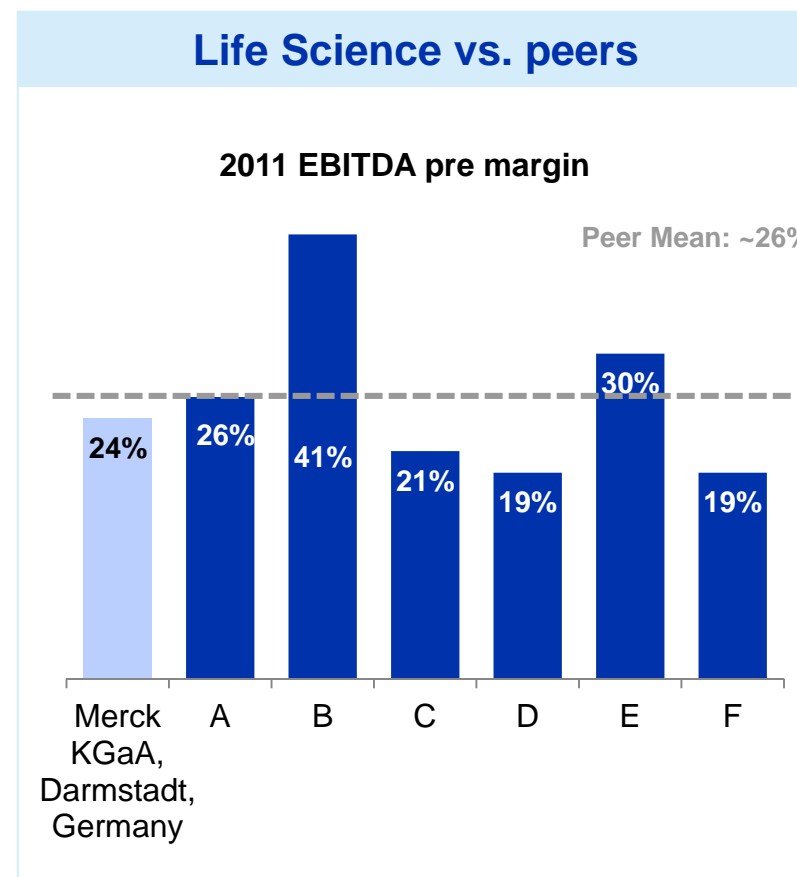
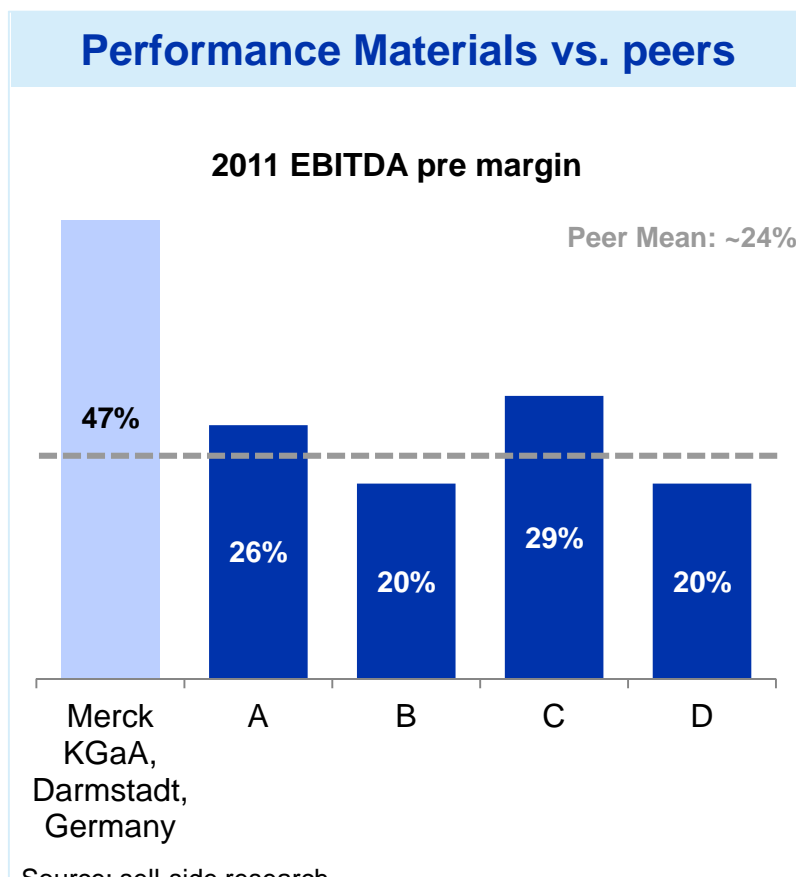
Where do we stand in pharma?



We have considerable room for improvement

Chemicals

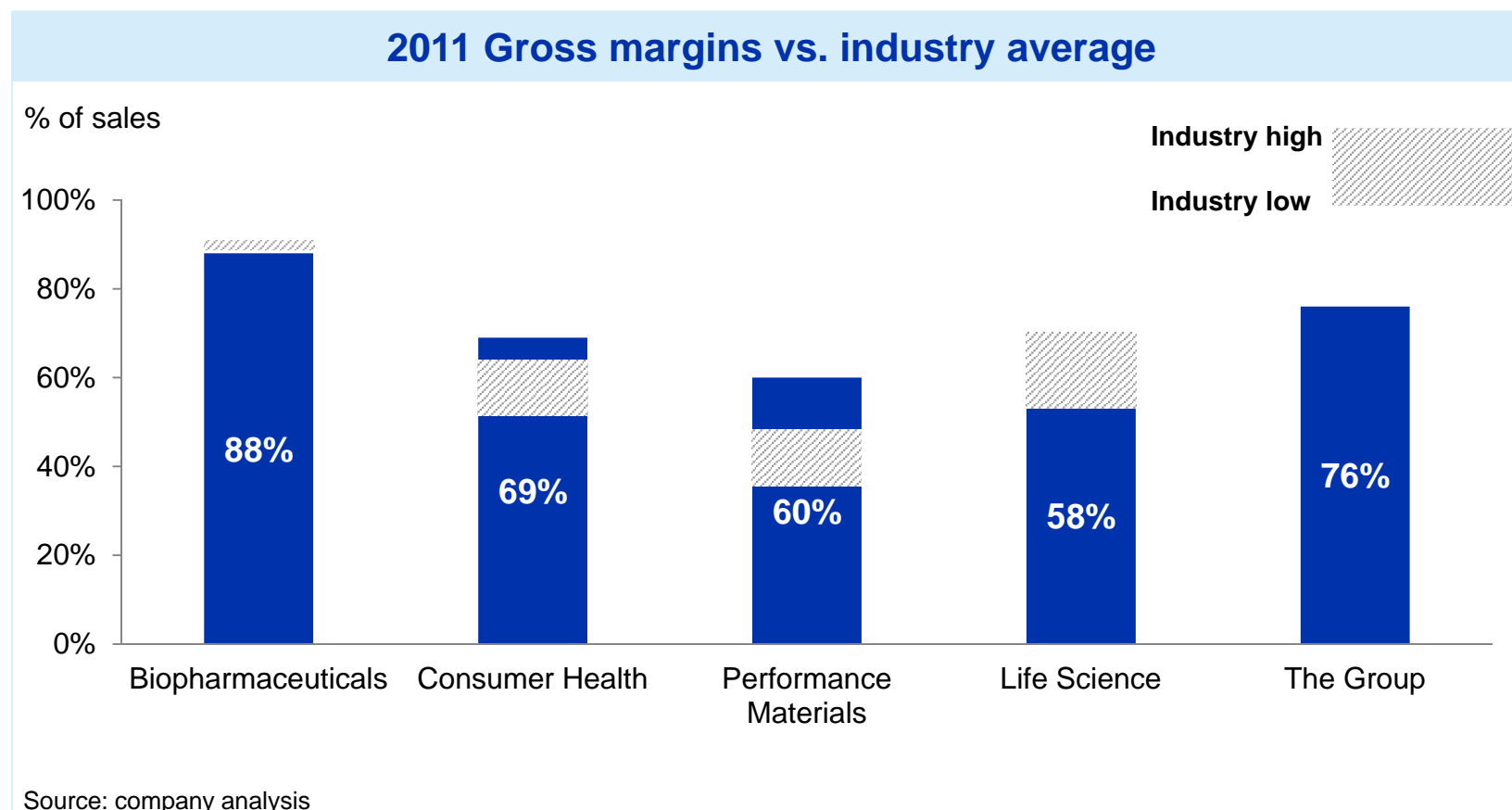
Where do we stand in chemicals?



Overall, we are on track

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Strong and healthy business with attractive gross margins compared to the industry



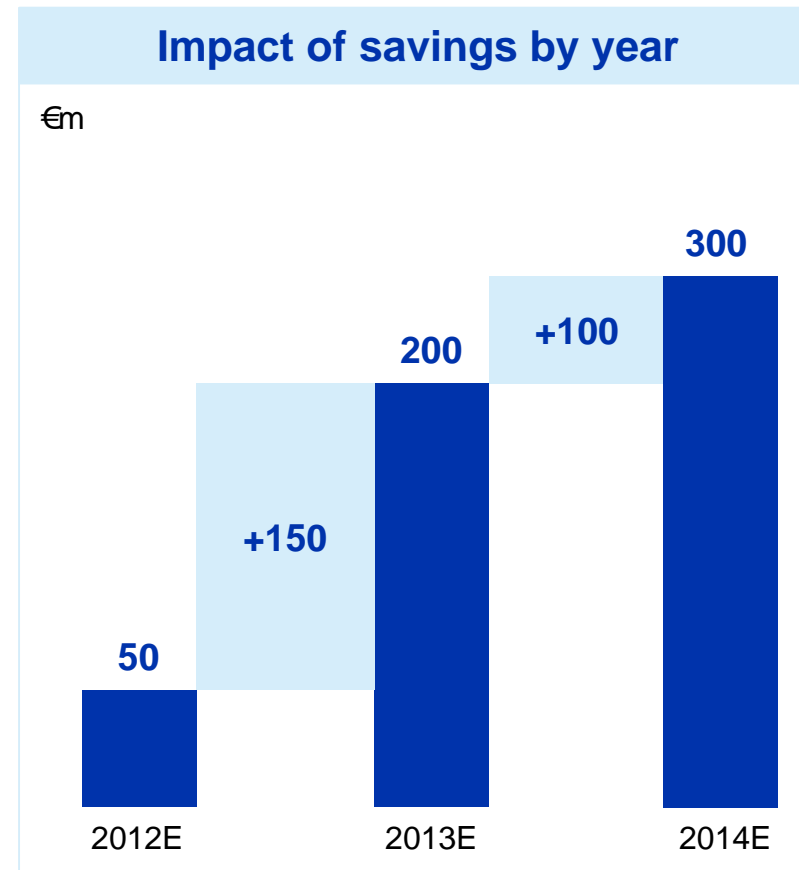
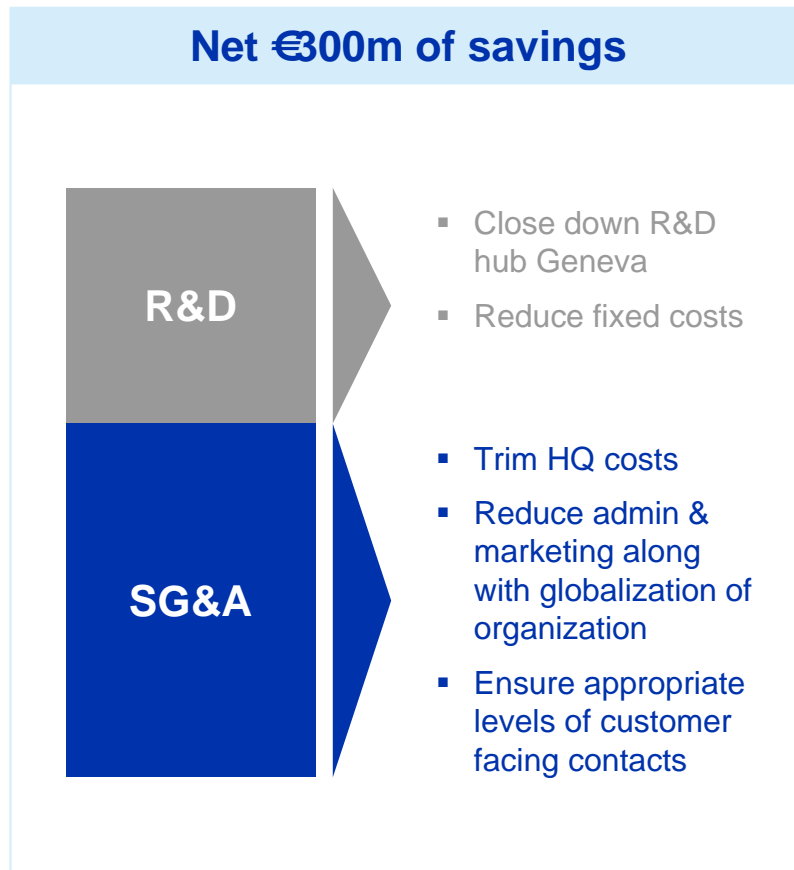
Strong gross profits reflect attractiveness of products and brands

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Biopharmaceuticals Restructuring

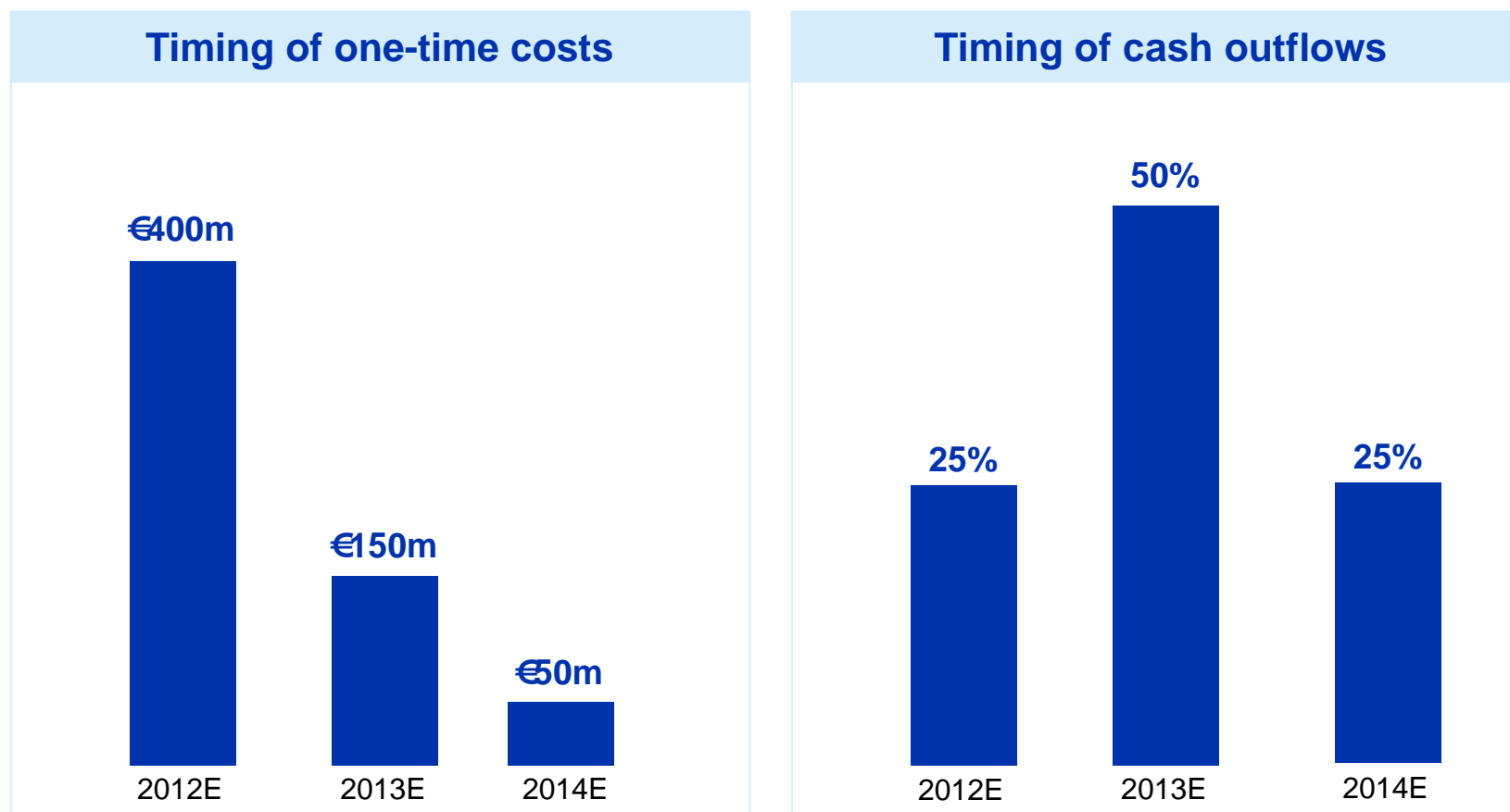
Savings will predominantly ramp up in 2013 and 2014



SG&A biggest lever for improvement

Biopharmaceuticals Restructuring

We will incur ~€600m in restructuring costs



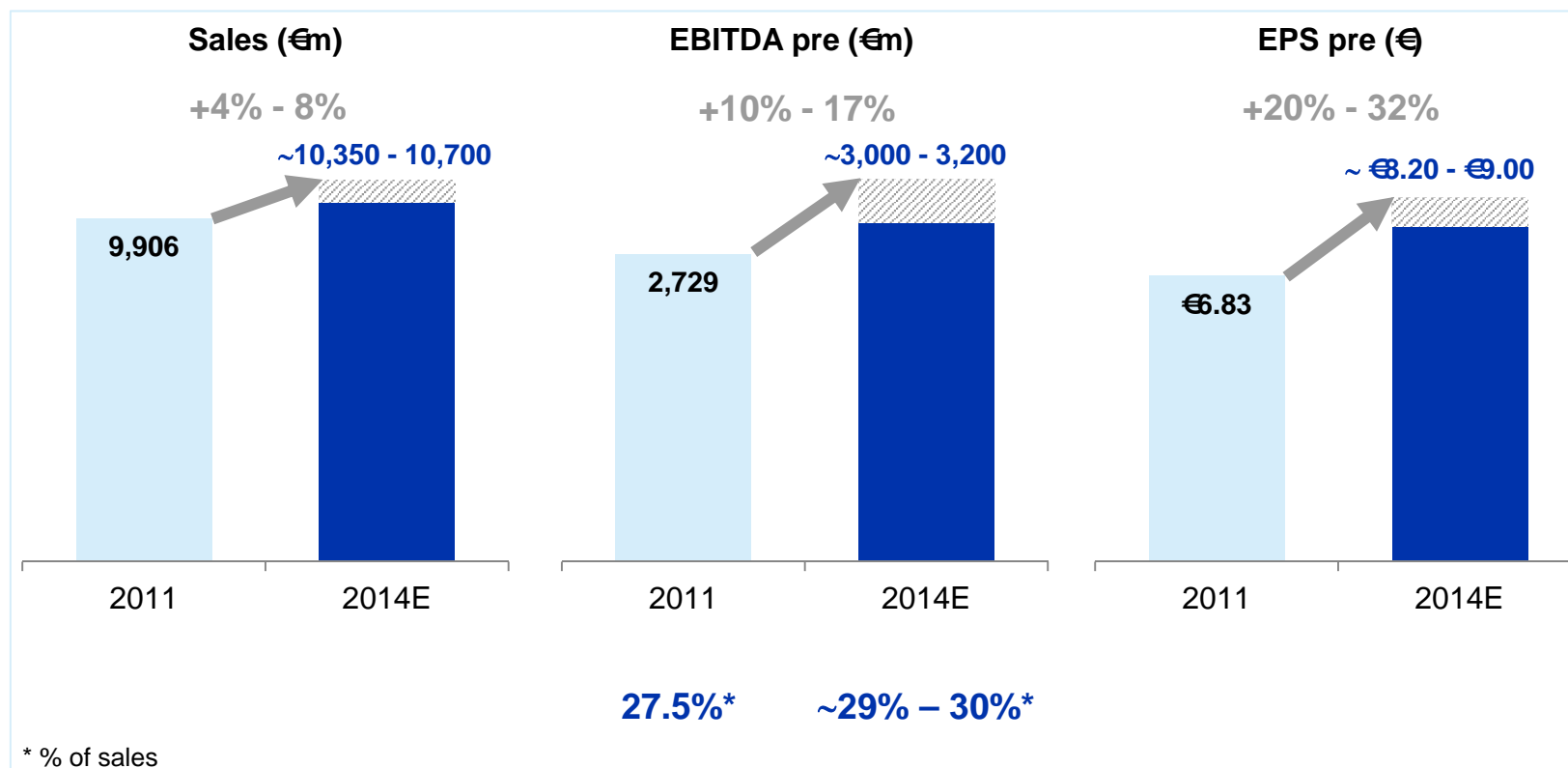
Majority of one-time costs are cash-related expenses

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The Group

We strive for realistic Group targets

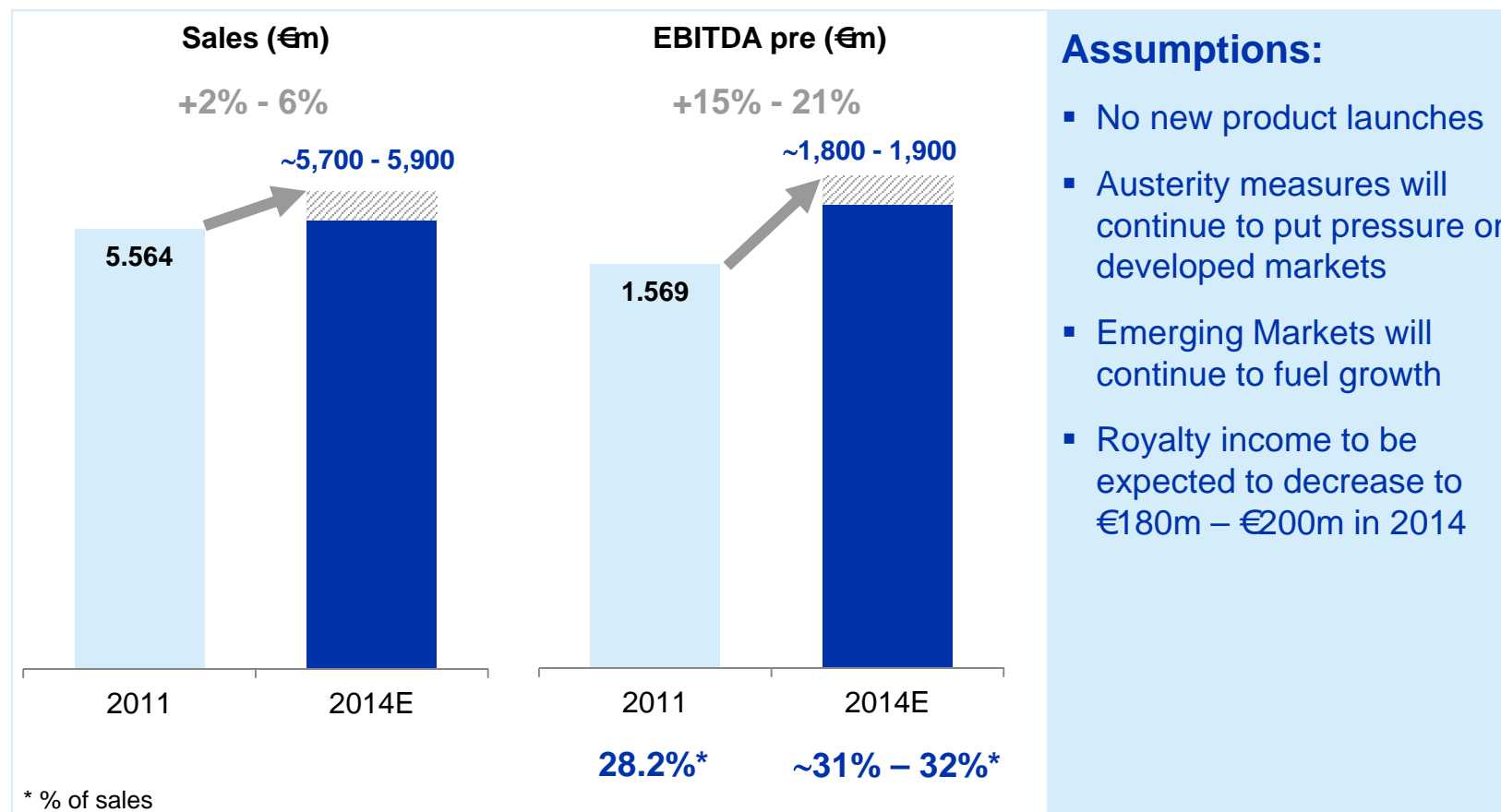


Assumptions:

- Unchanged economic environment
- FX: EUR/USD = 1.35; EUR/CHF = 1.20

Pharma

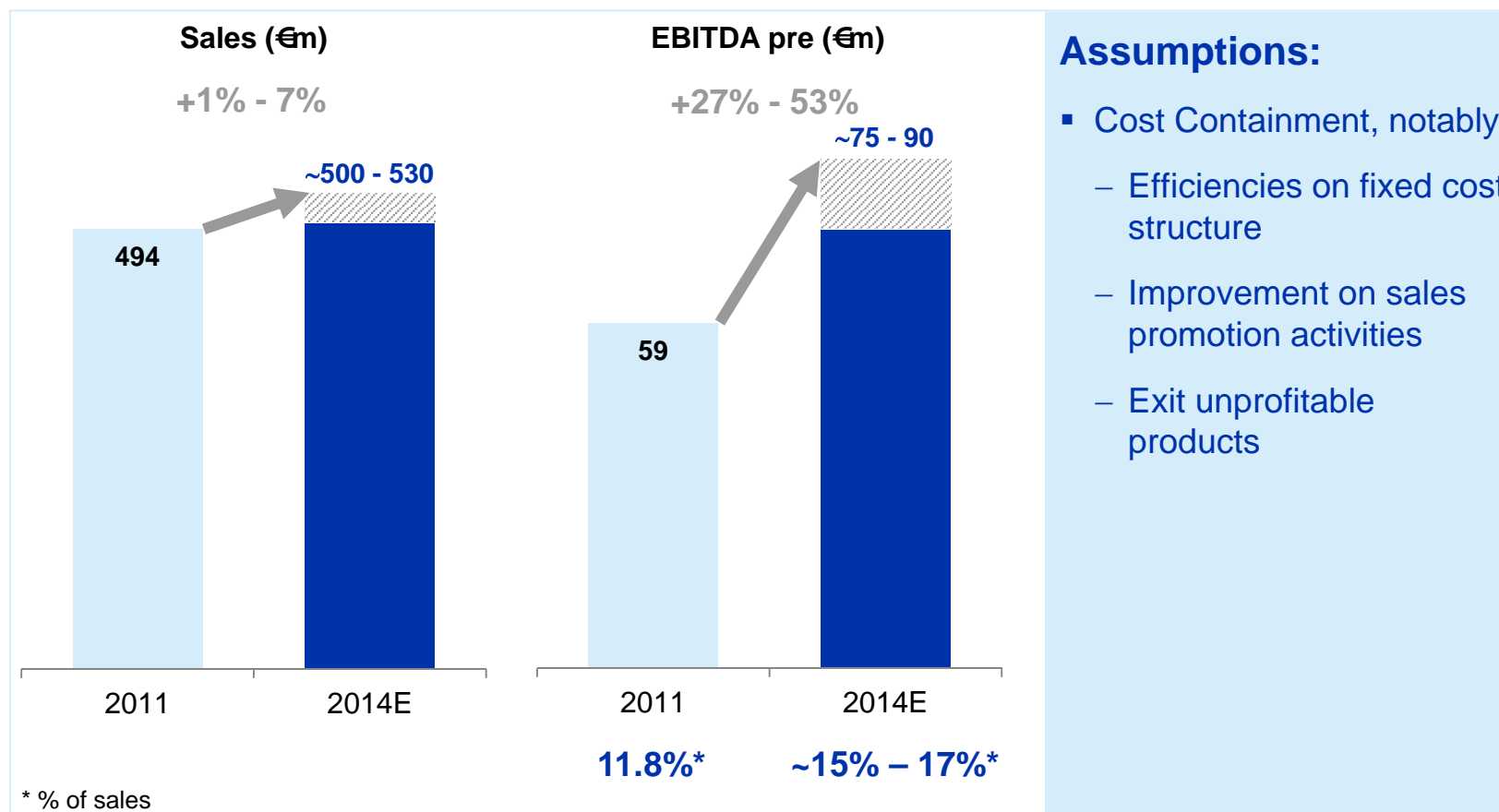
Biopharmaceuticals mid-term financial targets



Cost savings will fundamentally improve profitability

Pharma

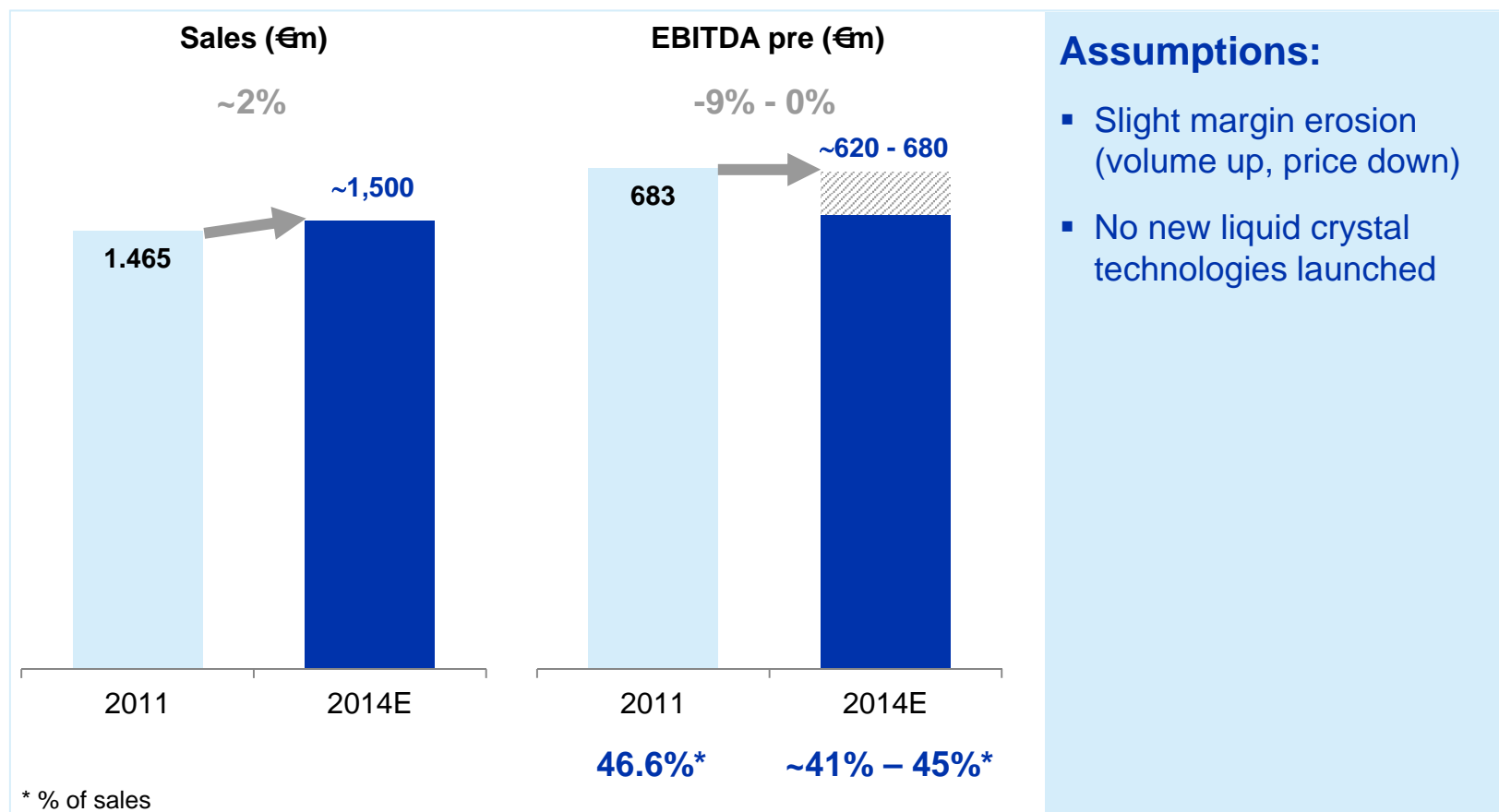
Consumer Health mid-term financial targets



Marketing & selling savings drive profitability improvement

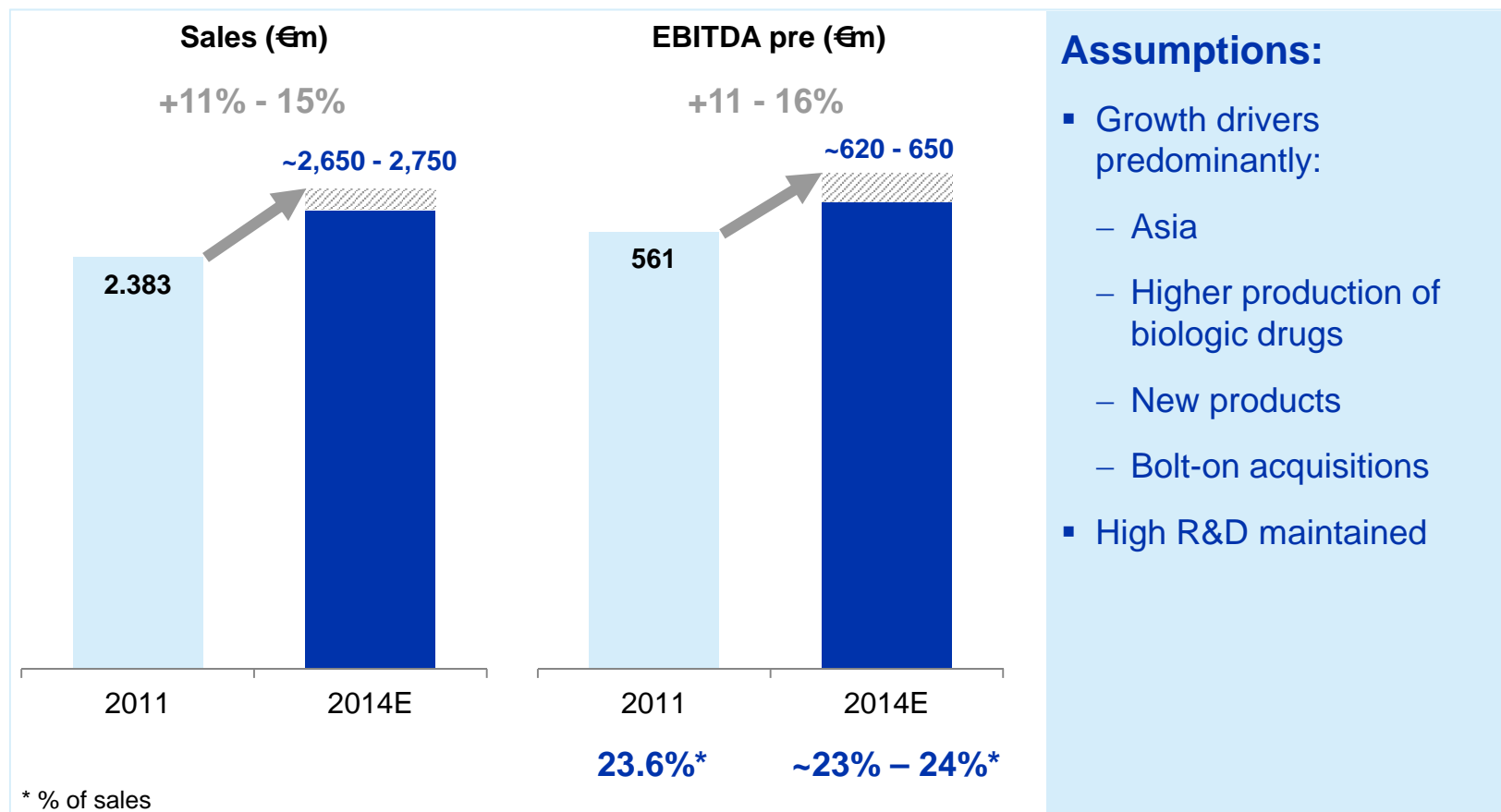
Chemicals

Performance Materials mid-term financial targets



▶ Performance Materials remains an attractive business

Life Science mid-term financial targets



Solid growth business

The Group

The first step of the transformation program will be to close the operational gap with peers



Strong catch up in Biopharmaceuticals and Consumer Health with average industry profitability



Solid (above industry) performance in Performance Materials



Life Science will continue to deliver stable top-line and operating results with a moderate risk profile

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Ensure effective cash allocation 2012/2013

Deleveraging

- 03/2012: €500m bond (interest rate = 2.125%)
- 12/2012: €500m bond (interest rate = 3.75%)
- 09/2013: €750m bond (interest rate = 4.875%)

Restructuring

- One-time costs 2012-2014: ~€600m

External Growth

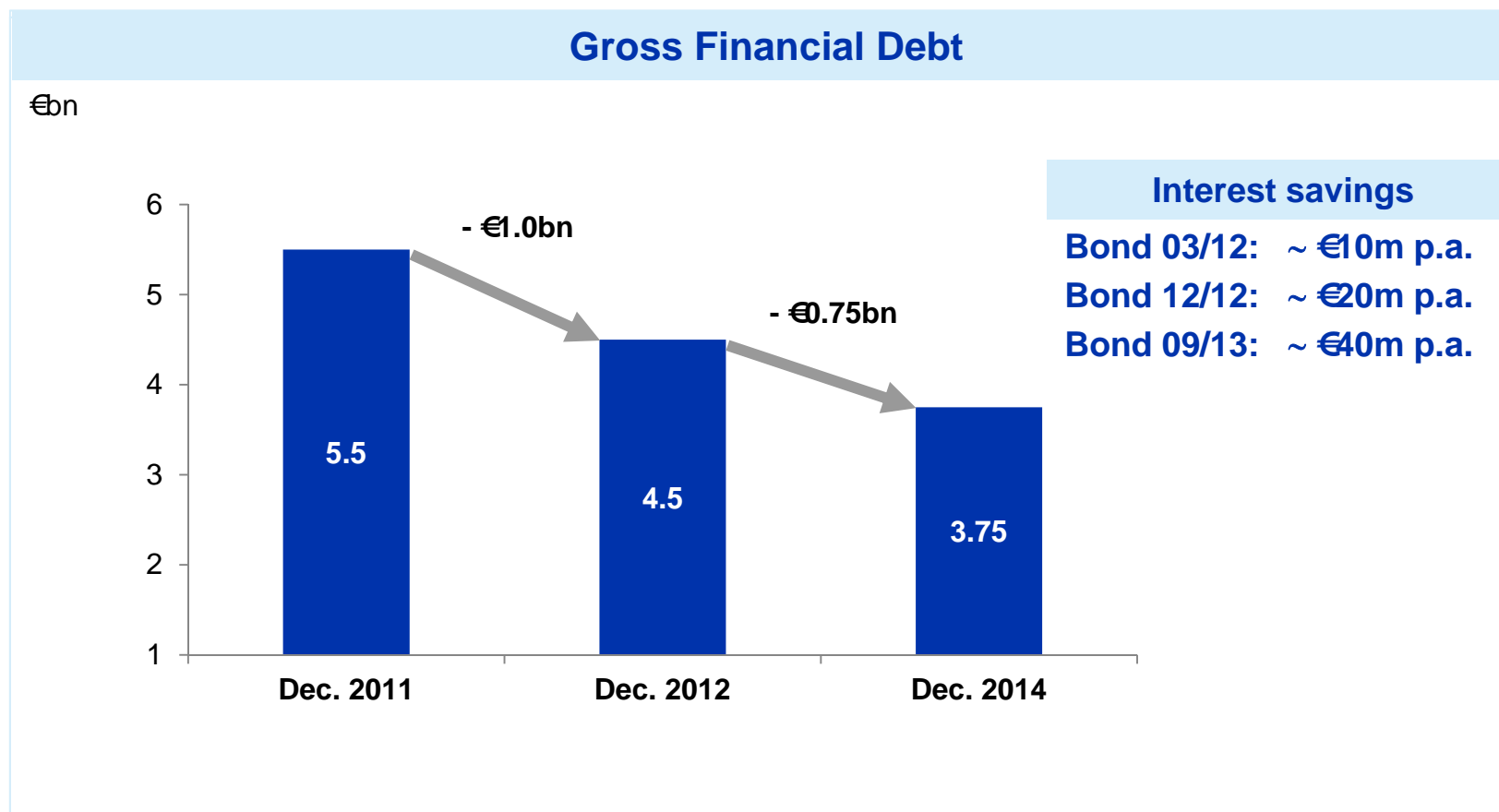
- Bolt-on acquisitions 2012/2013
- In-licensing deals in pharma
- No large, transformational transactions

Dividend

- Stable dividend payment: 35-40% payout ratio (on adjusted net income, i.e. before one-time costs)

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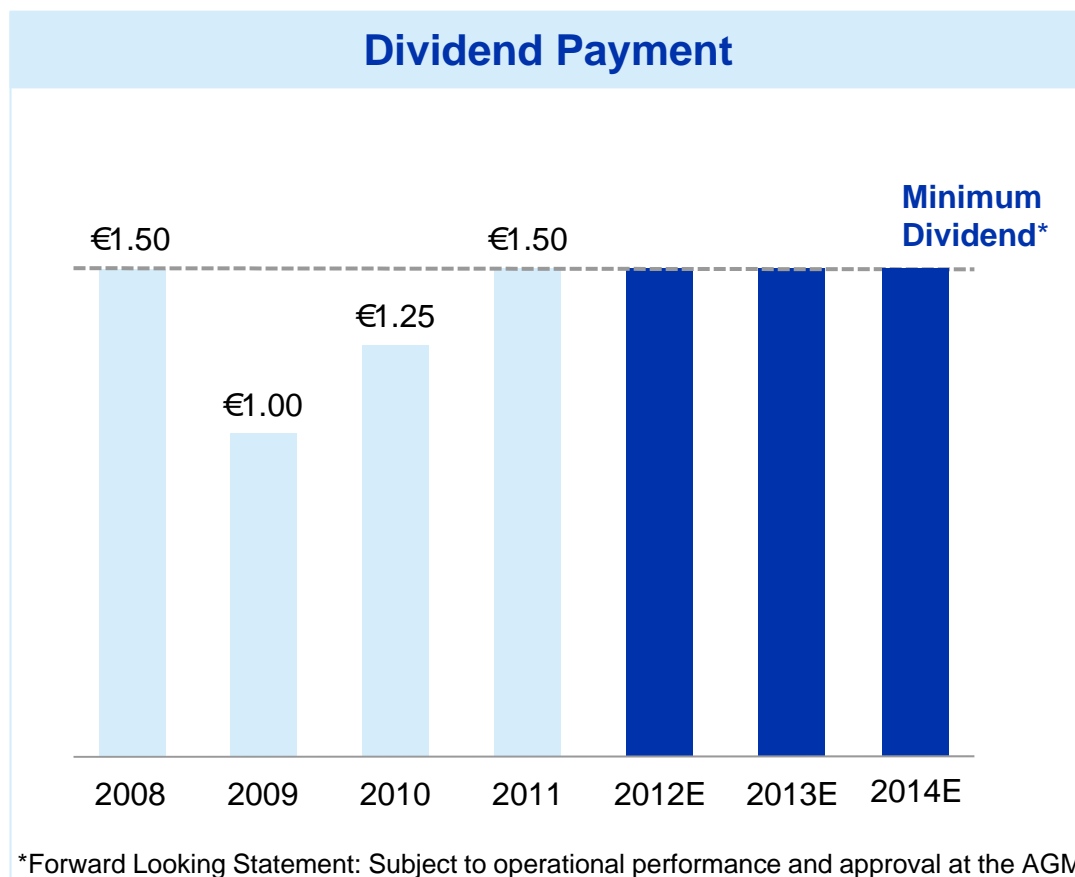
Strengthened balance sheet through deleveraging



We will continue to reduce our gross and net debt

The Group

Reliable dividend policy



Dividend Policy:

- **2012 - 2014:** Target payout ratio: 35-40% of net income adjusted for one-time items (i.e. transformation costs)
- Stable dividend will be assured over next three years despite one-time costs

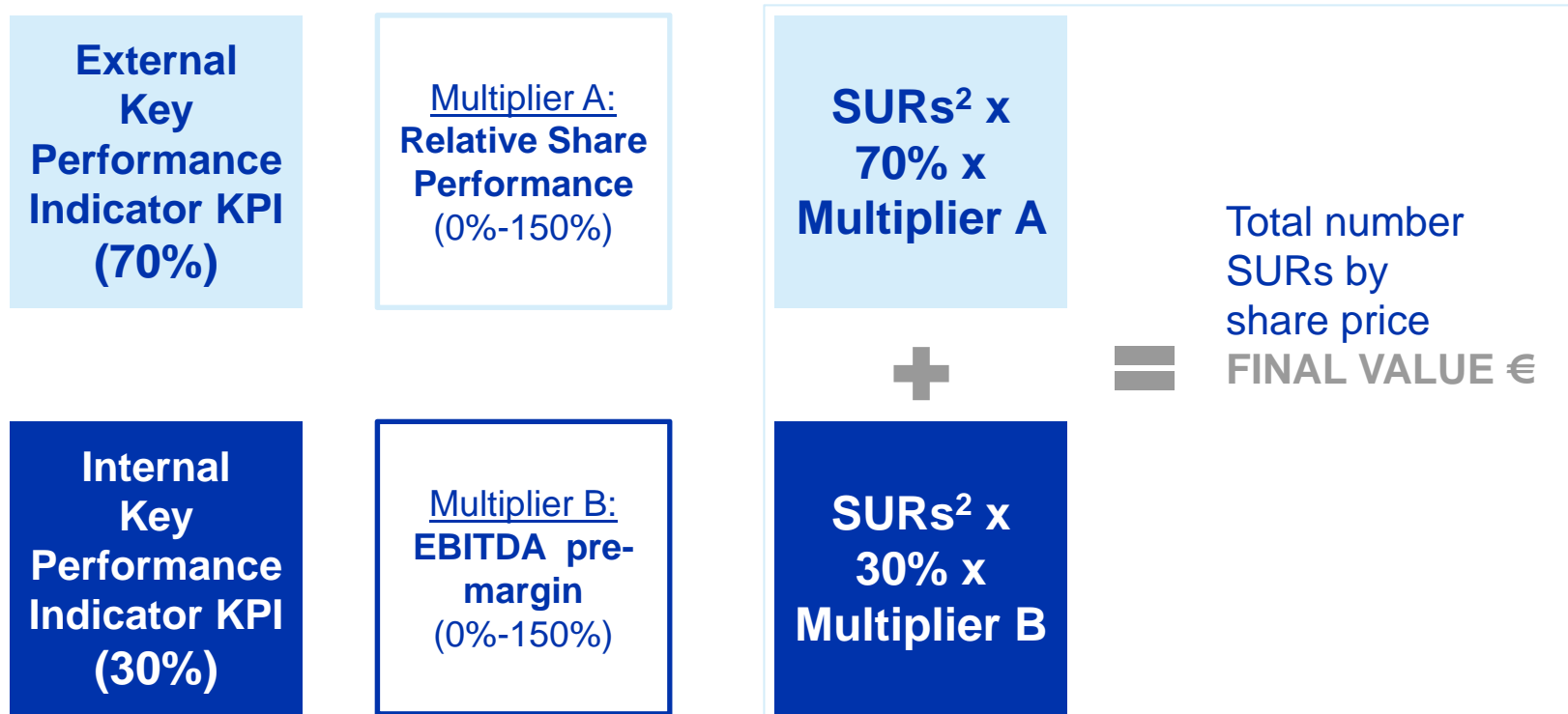
▶▶▶ Stable dividend payments ensure minimum return for shareholders

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New compensation system with LTIP¹ – focus on share price development ...

Prerequisite:

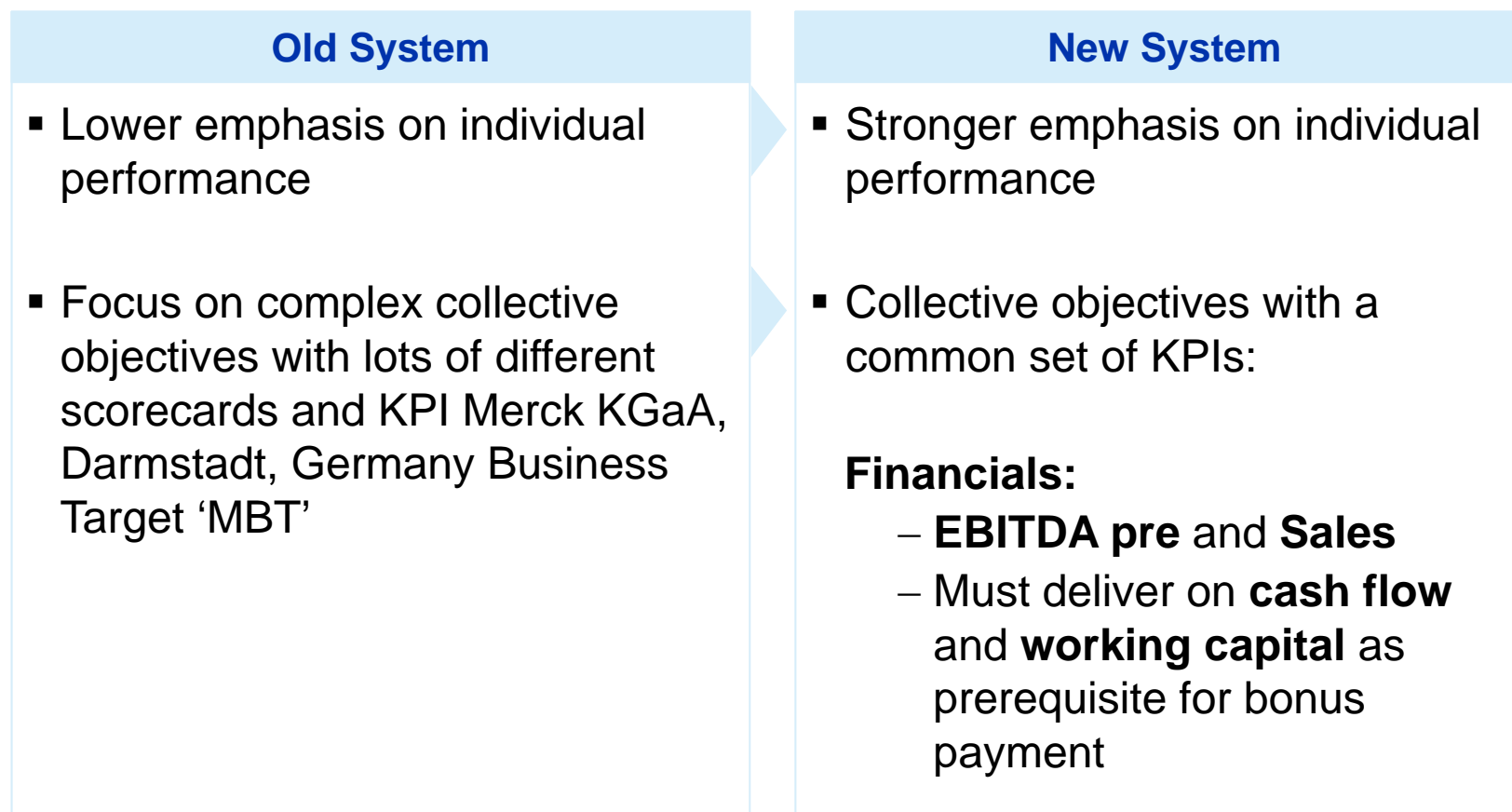
One-time co-investment in Group shares = 10% of gross annual base salary



¹ LTIP: Long-Term Incentive Plan

² SUR = Share Unit Rights of Merck KGaA, Darmstadt, Germany

....and bonus based on increased performance



The Group

Summary

1 The Group has identified areas to be improved and will implement a restructuring program

2 Shareholders will benefit from:

- Cost improvements
- Stable growth
- A stable dividend policy

3 We will embark on a continued transformation process over the next several years