

Merck KGaA, Darmstadt, Germany – FY 2013 roadshow presentation

Another year of strong delivery

Investor Relations

Merck KGaA
Darmstadt · Germany

March 2014



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Agenda

Business overview

Transforming the company

Strategy update

Financial review

Guidance

A balanced portfolio of four divisions

Merck KGaA, Darmstadt, Germany

Biopharmaceuticals



Leading in certain specialty pharma markets

- Life cycle management
- Biologics
- Emerging markets

Consumer Health



Present in OTC niche markets

- Vitamins
- Supplements
- Strong presence in Latin America and Europe

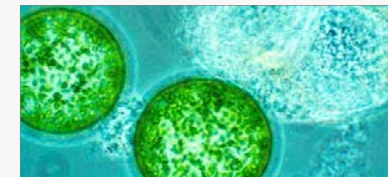
Performance Materials



No. 1 in display materials

- Customer intimacy
- Innovation power
- Cost and technology leadership

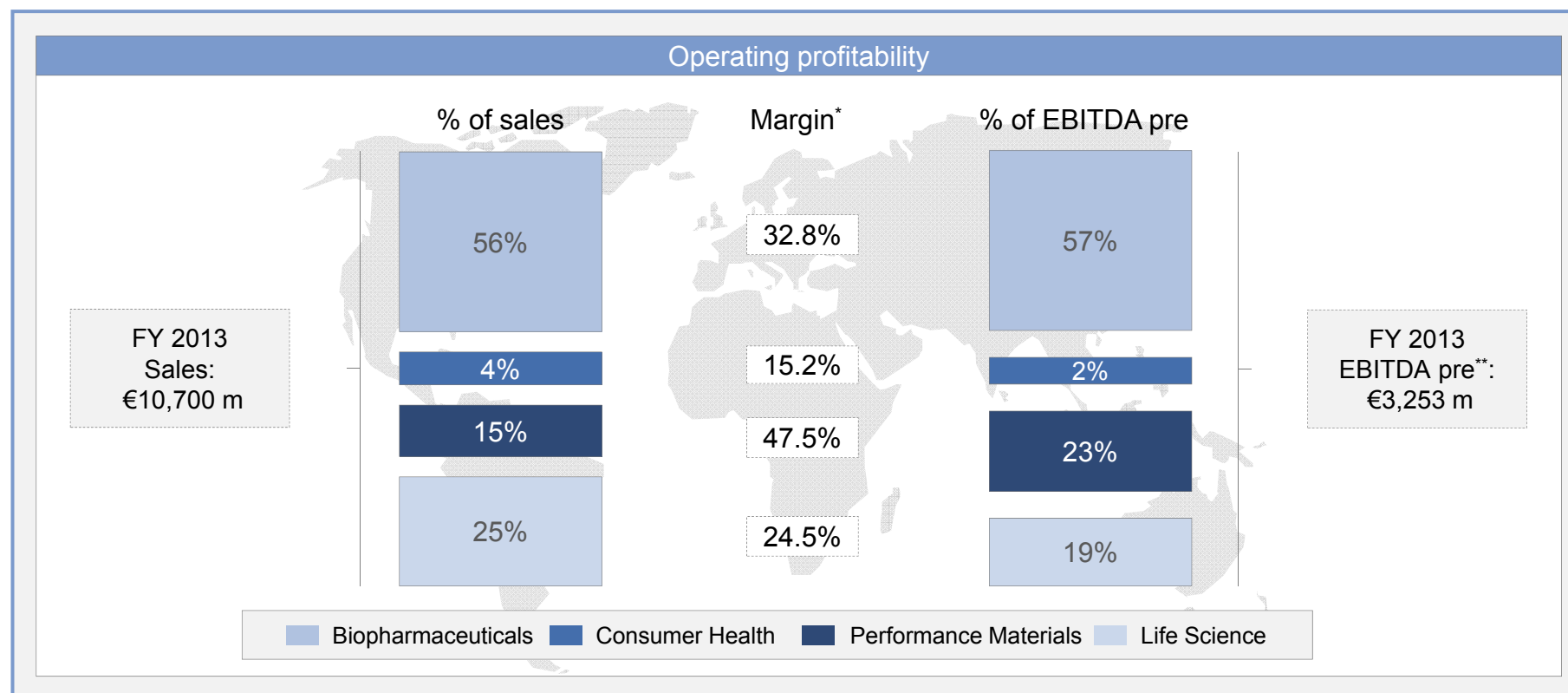
Life Science



Top 3 in life science tools

- Global presence
- Innovation
- End-to-end solutions for pharma industry

Strong businesses with attractive margins

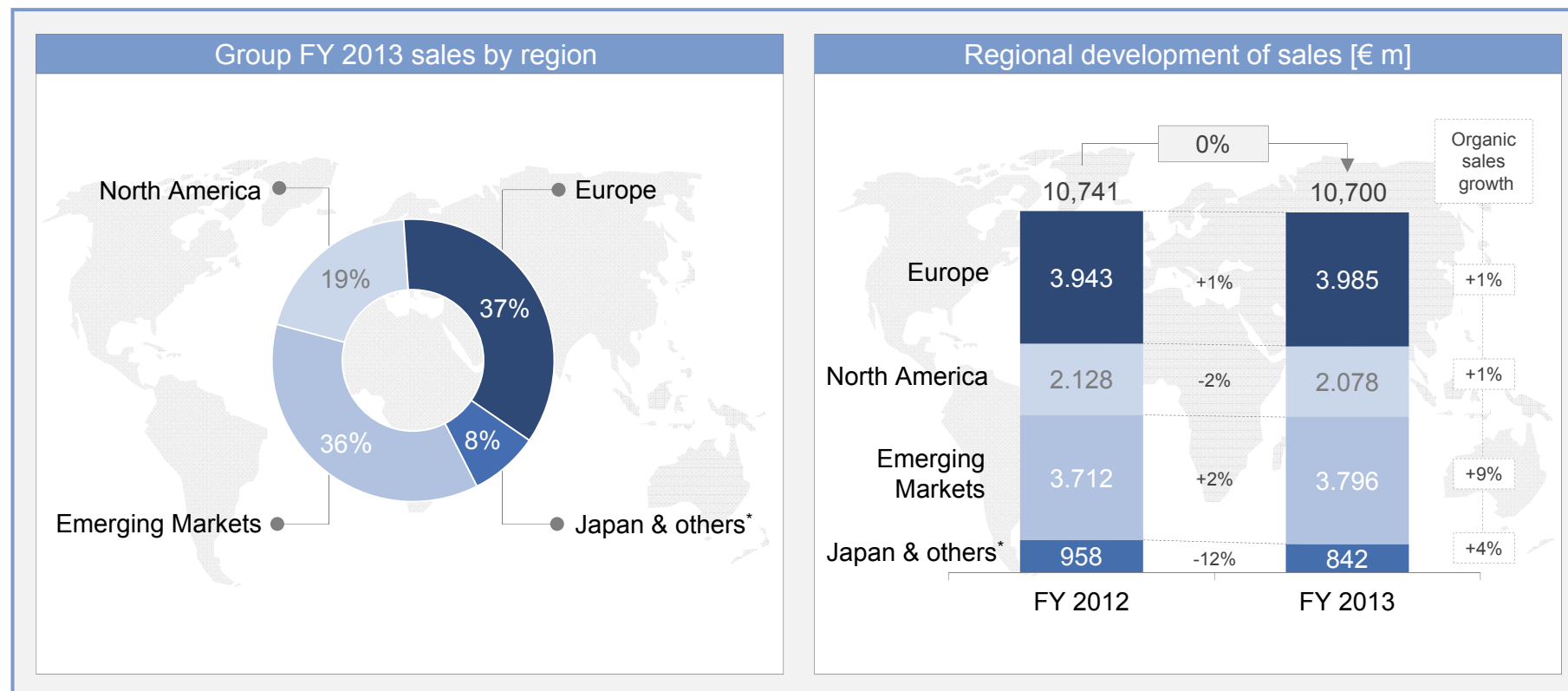


*EBITDA pre margin in % of sales

**Including Corporate/Others (-€196.6 m)

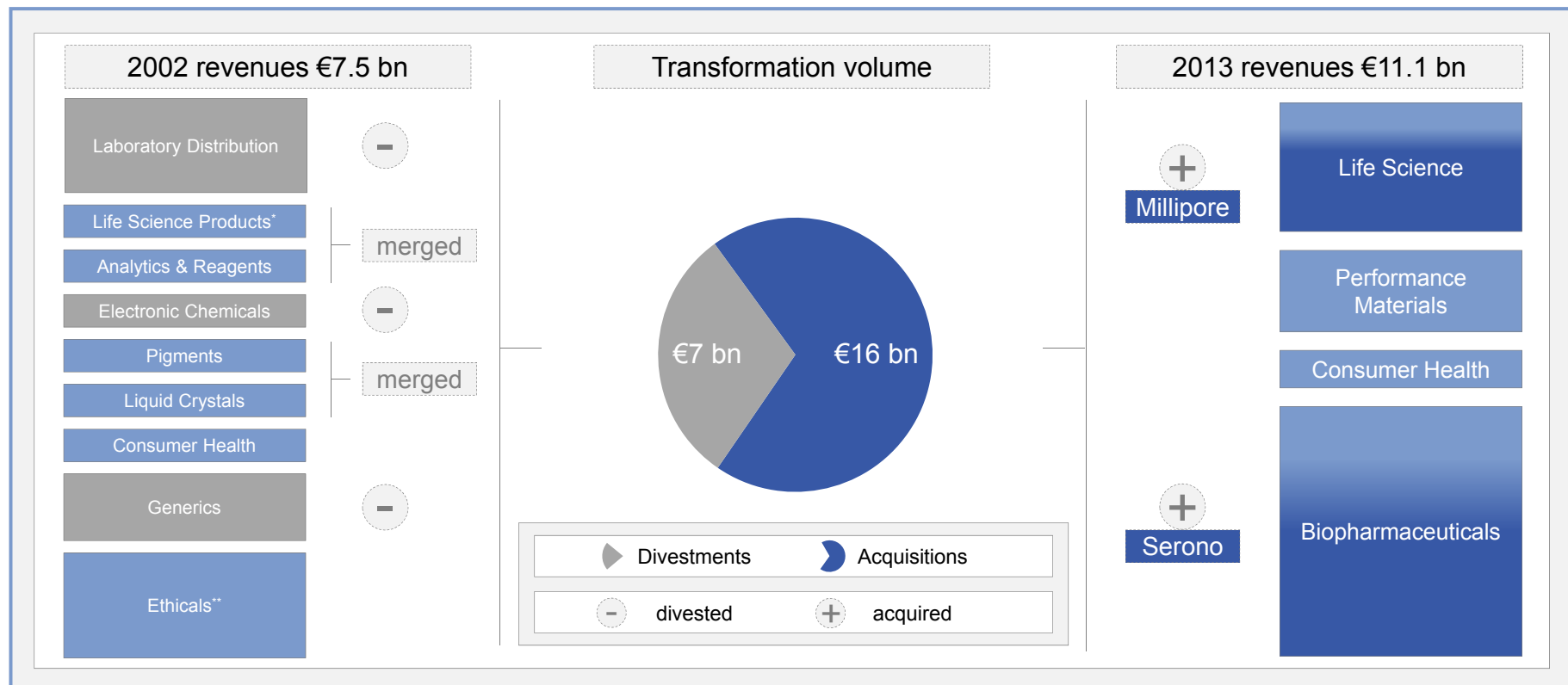
Emerging Markets drive organic growth, strong FX headwinds weigh on sales

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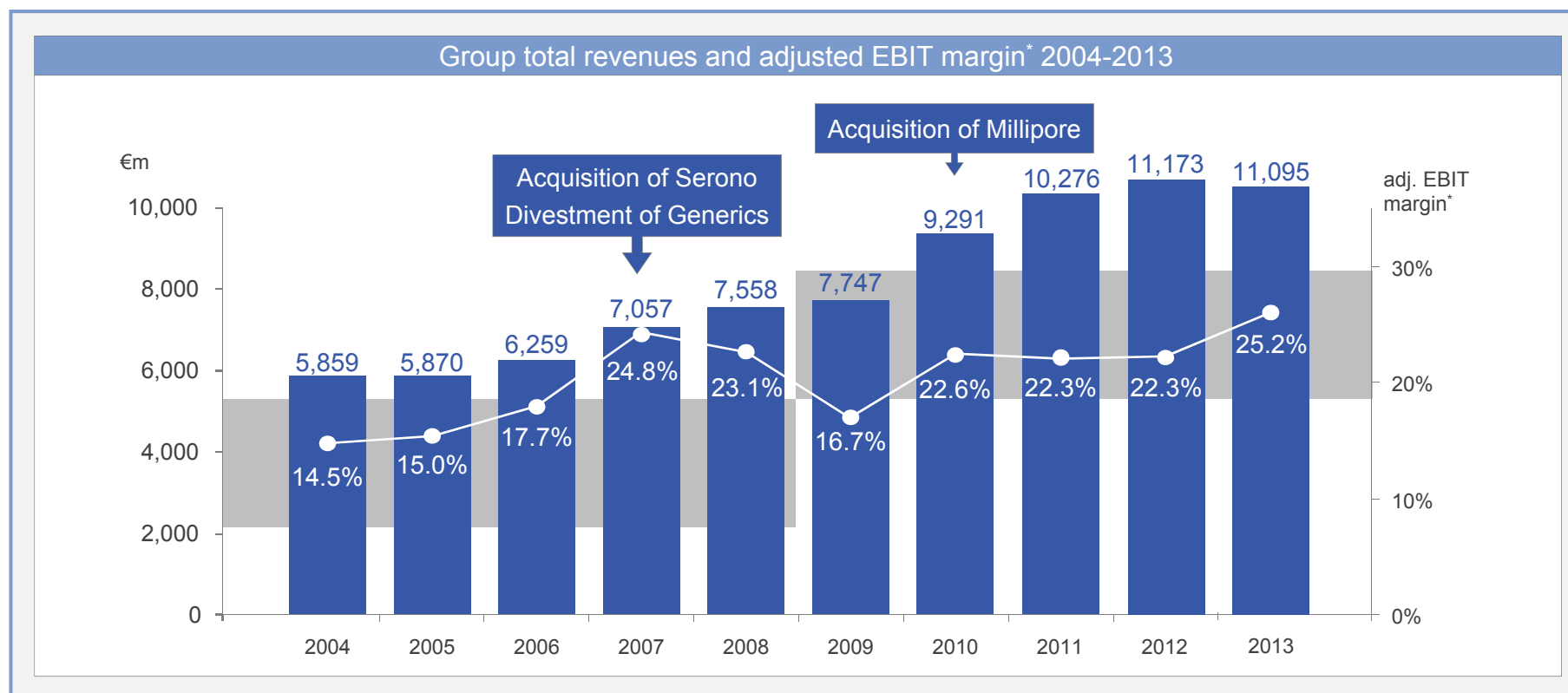
*Australia/Oceania, Africa

We have added scale while strengthening the attractiveness of assets in our portfolio



*Except "Crop Bioscience", which was divested
**Except "Theramex", which was divested

Our stronger portfolio has enabled us to fundamentally improve our profitability



*adjusted EBIT** divided by total revenues

**adjusted EBIT is EBIT less costs related to acquisitions (amortization and impairments of intangible assets, and integration costs) and less exceptionals

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Portfolio evolution improved our profitability structure, but further potential remains

Assessment of long-term financial performance relative to peers				
	Sales growth	Gross margin	SG&A	R&D productivity
Biopharmaceuticals	●	●	●	●
Consumer Health	●	●	●	●
Performance Materials	●	●	●	●
Life Science	●	●	●	●

● above peers
● in-line with peers
● below peers

Savings acceleration in second half of 2013; majority of program now completed

Previous savings 2013

Biopharmaceuticals:	€250 m
Consumer Health:	€15 m
Performance Materials:	€10 m
Life Science:	€5 m
Total:	€280 m

Acceleration

New disclosure 2013

Biopharmaceuticals:	€275 m
Consumer Health:	€20 m
Performance Materials:	€20 m
Life Science:	€10 m
Total:	€325 m

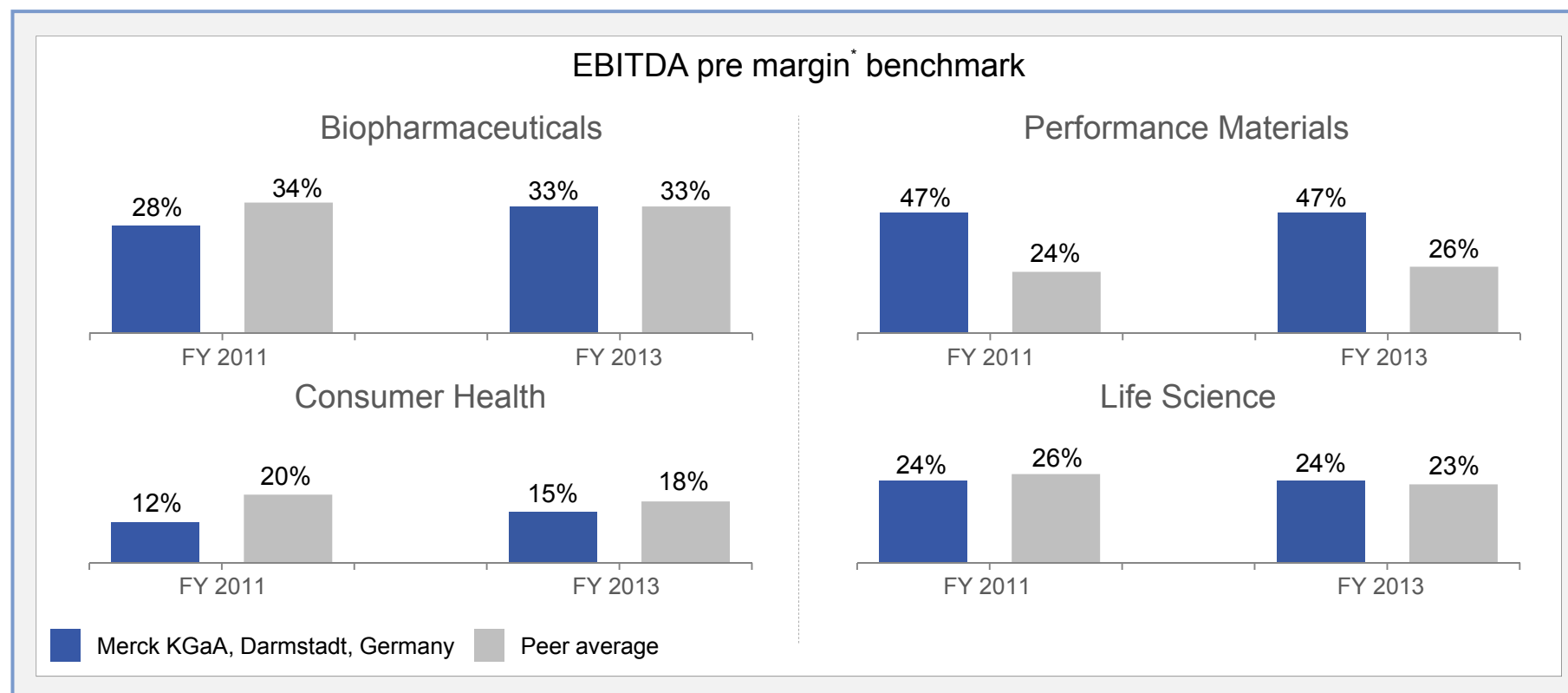
Remaining 2014-2017*

€25 m
€5 m
€0 m
€30 m
€60 m

Swift implementation of efficiency measures: €325 m of €385 m completed

*Remaining savings expected to lead to costs of ~€100 m

Divisional benchmarks



Source: Company reports (LTM if FY data not yet available) and sell-side research; *on sales

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2013: Highlights

Delivered on promises



Targets announced in 2012 achieved

Restructuring taken forward



Faster implementation of savings

Further improved the resource allocation



Move from mature to emerging markets

Strengthened organic growth platform



- Biopharmaceuticals - Start of biosimilars initiative
- Consumer Health - Focus on strategic brands
- Performance Materials – Ongoing LC* improvements
- Life Science - Process Solutions growth

Inorganic growth reinitiated

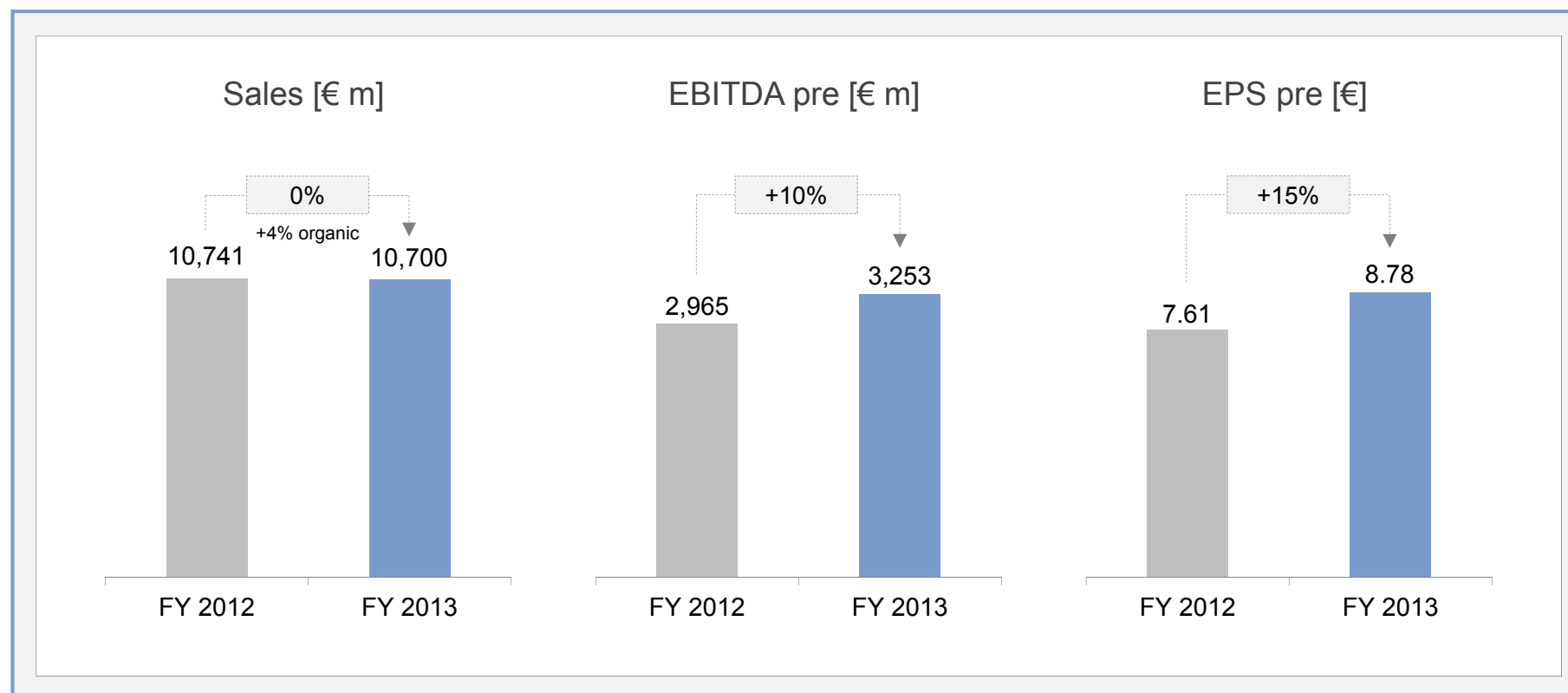


Proposed acquisition of AZ

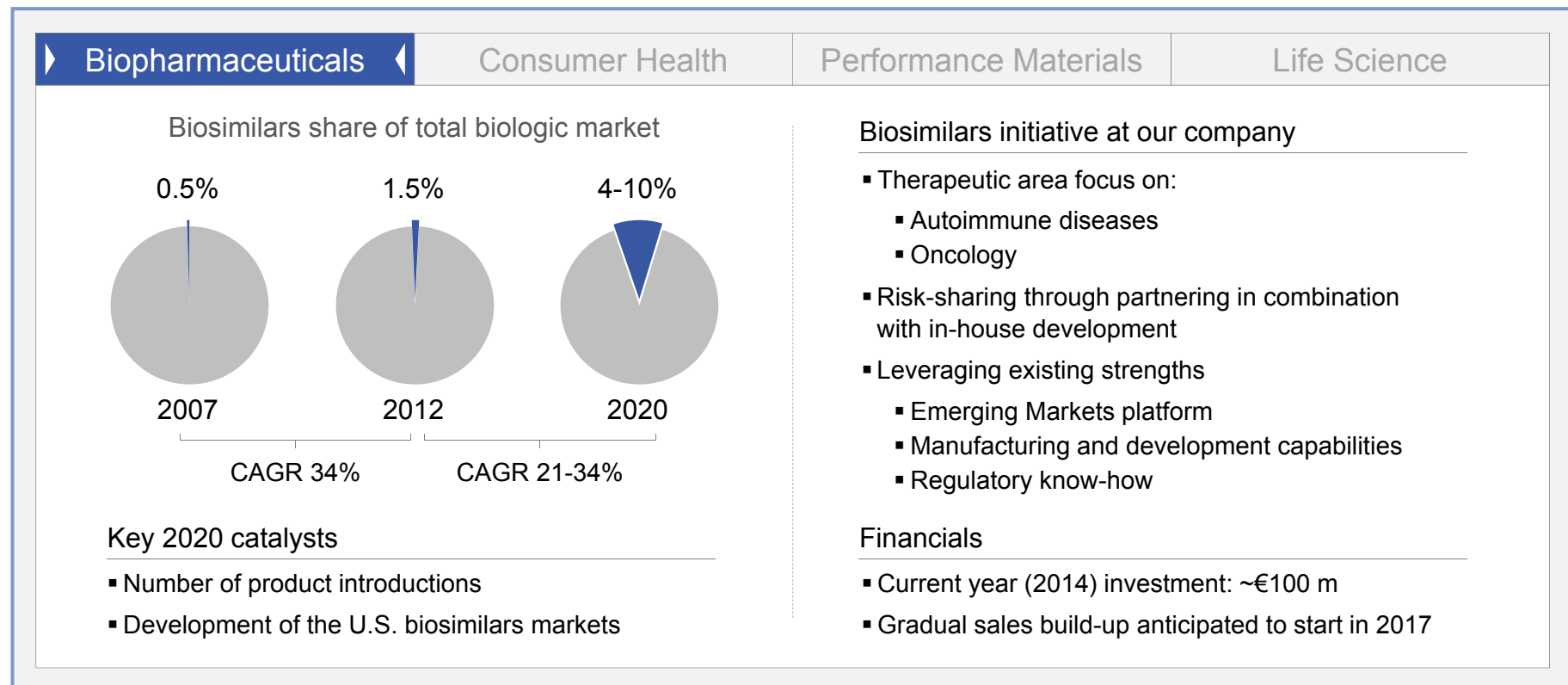
*Liquid Crystals

FY 2013: Another year of strong delivery

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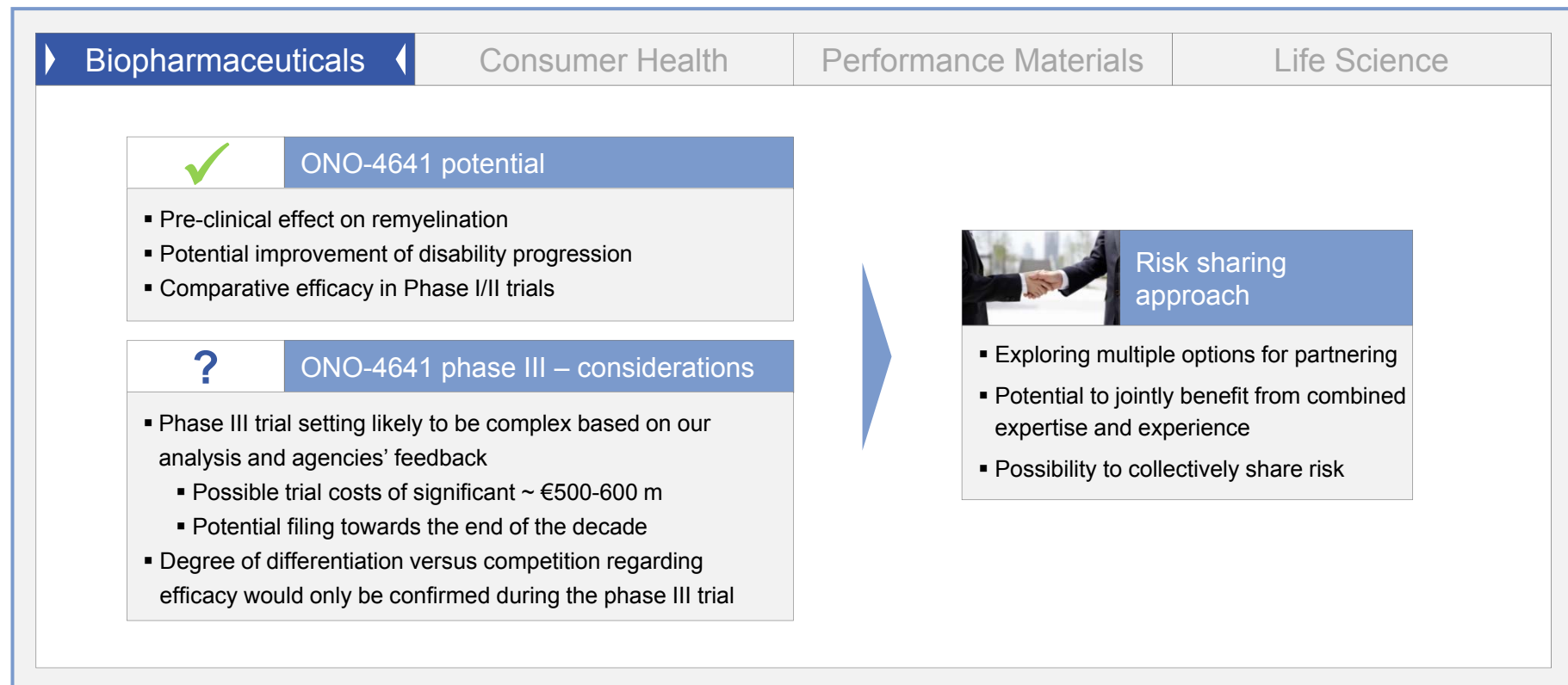
Biosimilars initiative



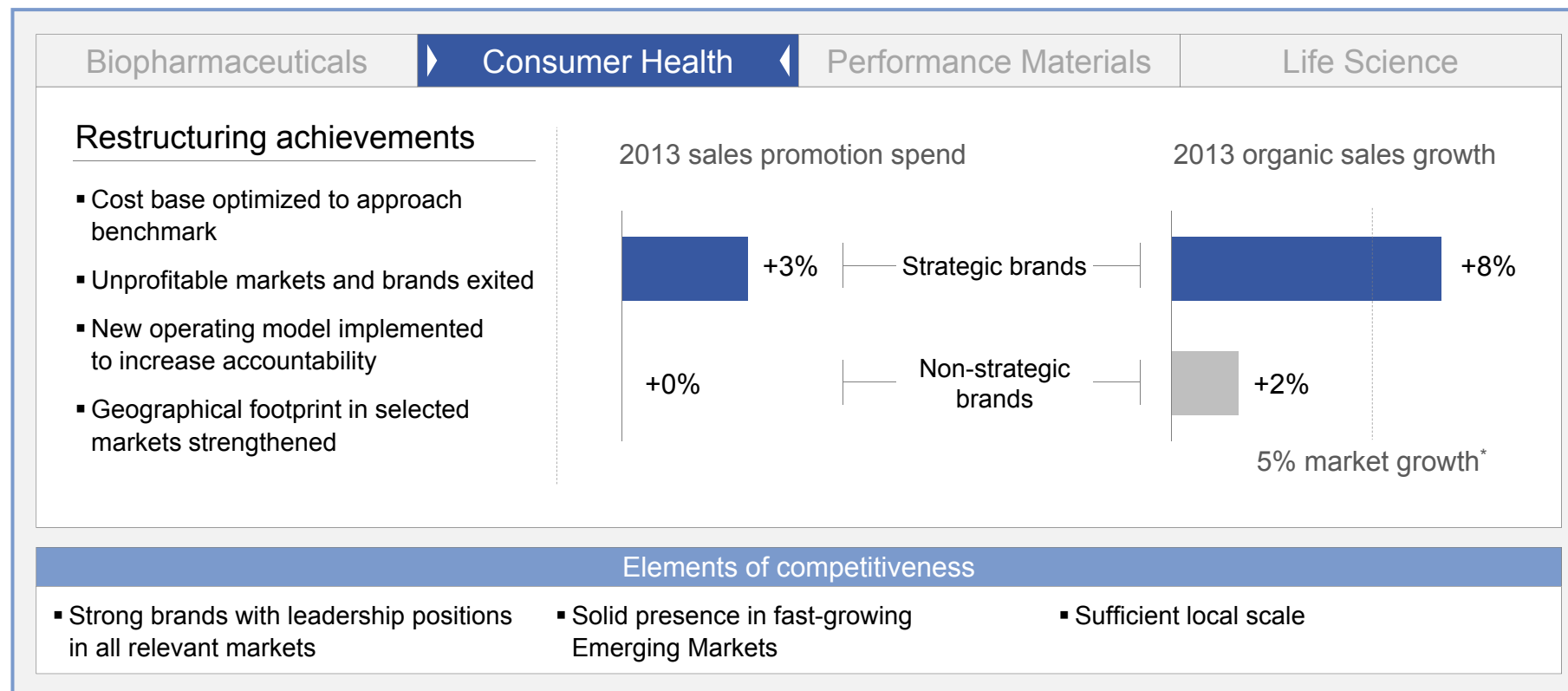
Source: IMS Health, February 2014

ONO-4641: Ongoing evaluation of partnering options

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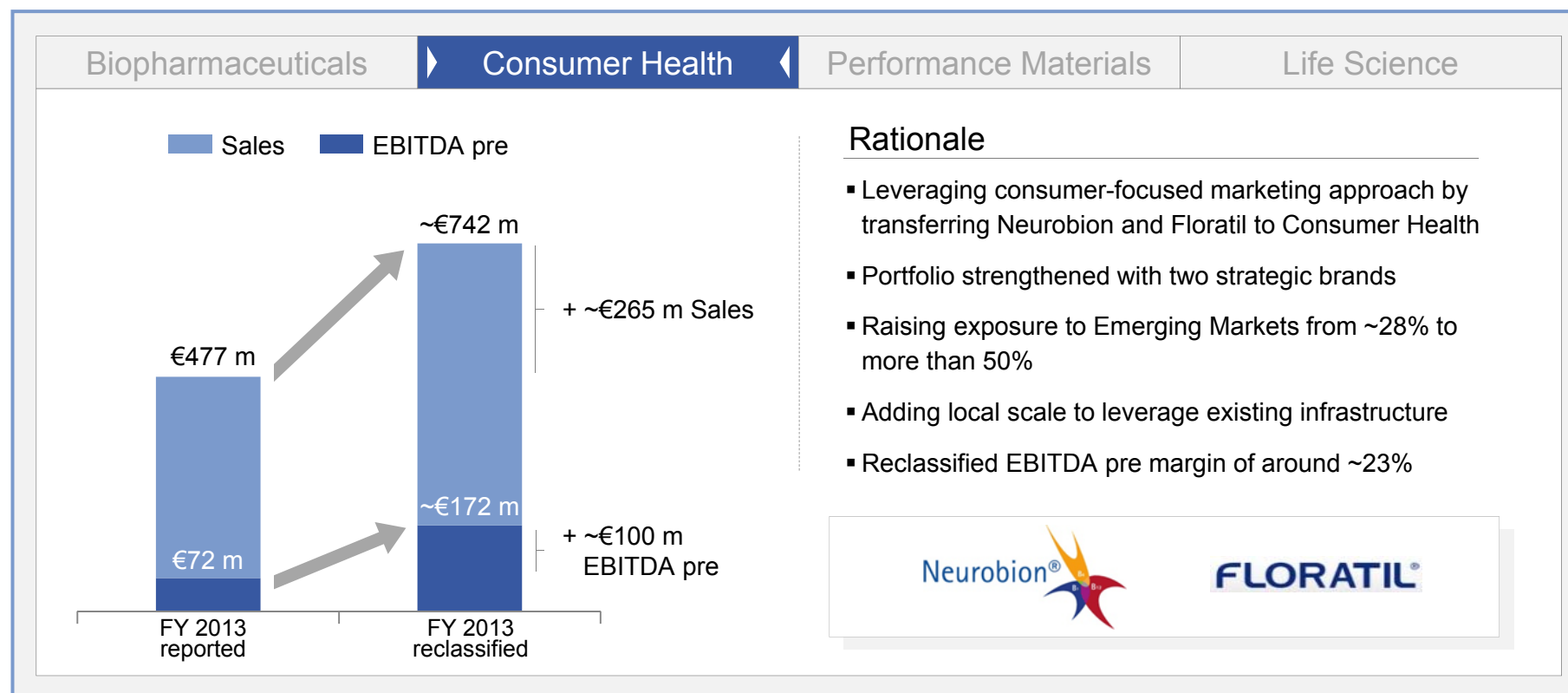


Business platform now realigned to leverage strategic brands

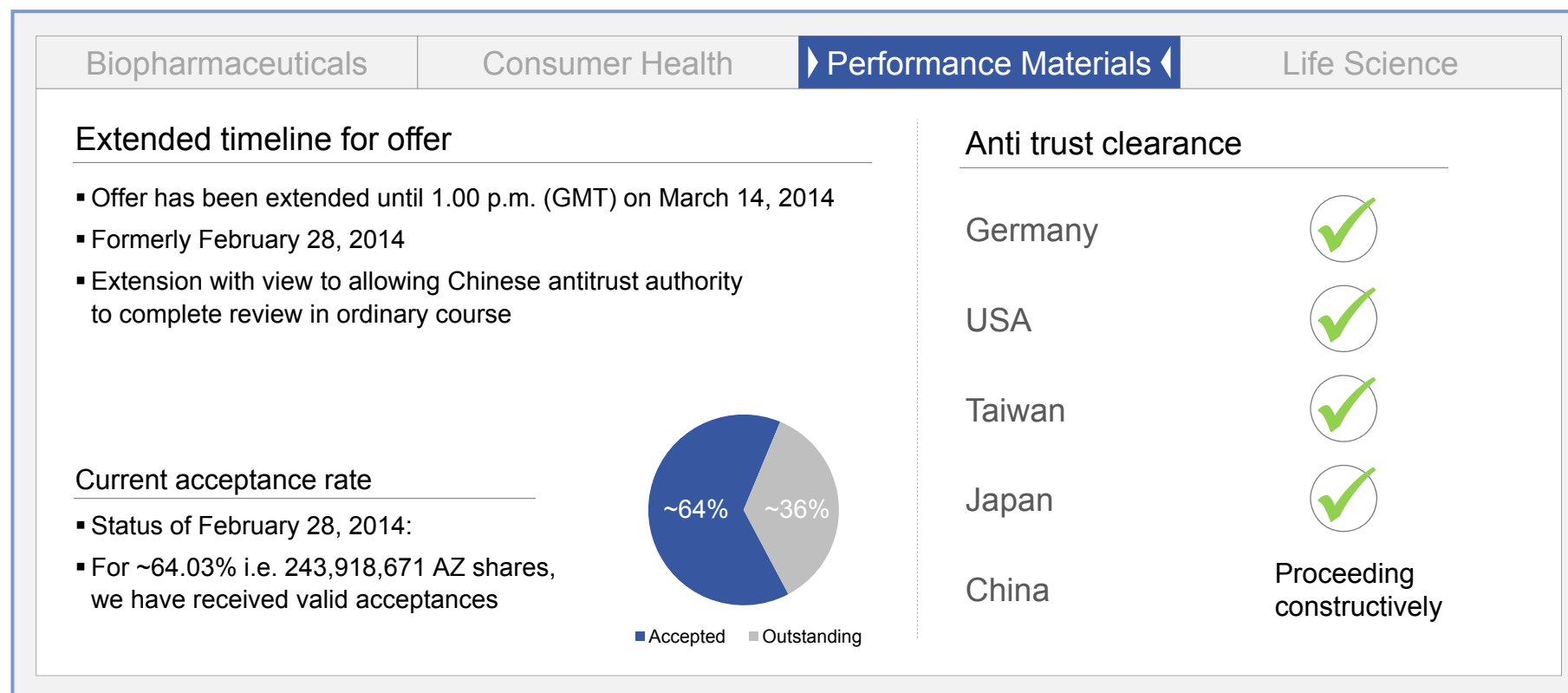


*Source: Nicholas Hall Benchmarking

Neurobion and Floratil to be transferred from Biopharmaceuticals to Consumer Health



Update on AZ acquisition



2013 Update: Life Science driven by Process Solutions

Biopharmaceuticals

Consumer Health

Performance Materials

Life Science

Process Solutions

- The industry leader and trusted partner to drug manufacturing
- A platform with global reach in all markets
- Providing service solutions for improved small-scale biological manufacturing with single-use products
- Increased market share in customer base producing biosimilars

Serving industry trends



Higher protein yields



Need for improved
formulation & drug
delivery

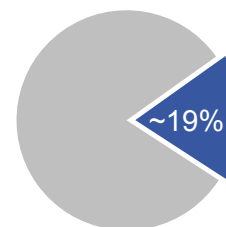


Entry of biosimilars

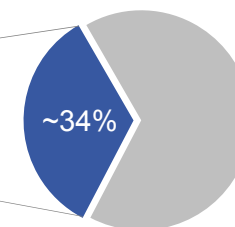


Flexible
manufacturing

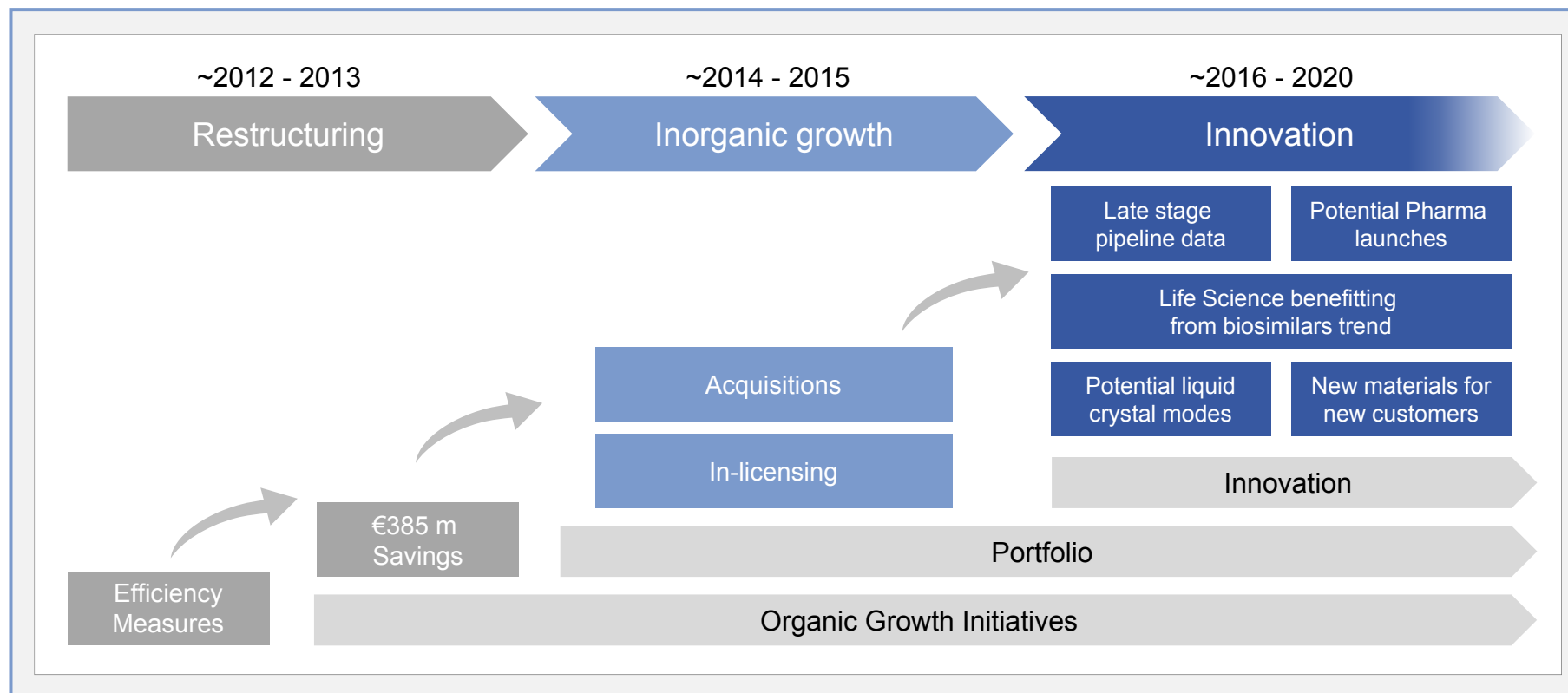
Emerging Markets
share of sales



Emerging Markets share
of organic growth



As restructuring nears completion, we increase focus on inorganic growth and innovation



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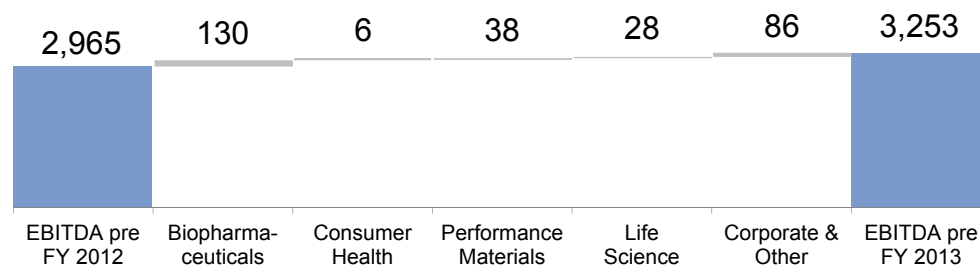
FY 2013: Targets achieved and transformation ongoing

[€ m]	FY 2013	FY 2012	Δ	FY 2013 dynamics
Sales	10,700	10,741	0%	<ul style="list-style-type: none"> ▪ Sales stable as organic growth is being overshadowed by FX ▪ Strong EBITDA pre increase of €288 m reflects positive contribution of all divisions ▪ Operating cash flow strength continued, prior year contained positive one-time effect from working capital ▪ Strong cash-generating nature of business drives net financial debt reduction of ~€1.6 bn
EBITDA pre	3,253	2,965	10%	
<i>Margin (% of sales)</i>	<i>30.4%</i>	<i>27.6%</i>		
EPS pre [€]	8.78	7.61	15%	
Operating cash flow	2,226	2,472	-10%	
[€ m]	Dec 31, 2013	Dec 31, 2012	Δ	
Net financial debt	307	1,926	-84%	
Working capital	2,132	2,360	-10%	
Employees	38,154	38,847	-2%	
Over ~€1.6 bn net financial debt reduction in one year				

Biopharmaceuticals and Life Science are largest absolute contributors to organic growth

FY yoy sales	Organic	Currency	Portfolio	Total
Biopharmaceuticals	4%	-5%	0%	-1%
Consumer Health	6%	-5%	0%	1%
Performance Materials	3%	-5%	0%	-2%
Life Science	6%	-5%	1%	1%
The Group	4%	-5%	0%	0%

FY yoy EBITDA pre contributors [€ m]

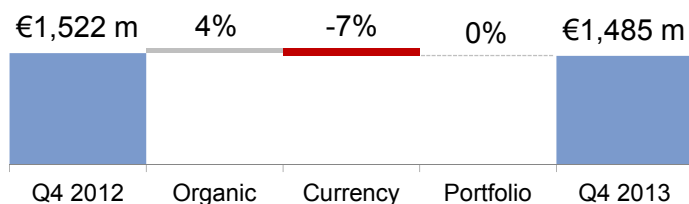


- Biopharmaceuticals and Life Science strongest absolute contributors to organic sales growth
- FX headwinds in all divisions, mainly Japanese yen and the U.S. dollar
- Accelerated savings, solid organic performance and better yields fuel Biopharmaceuticals
- Corporate & Other contains hedging gains stemming from our conservative hedging approach

Biopharmaceuticals: Solid operational performance despite FX headwinds and royalty income decrease

[€ m]	Q4 2013	Q4 2012
Sales	1,485	1,522
Marketing and selling	-324	-341
Admin	-57	-51
R&D	-265	-271
EBIT	141	220
EBITDA	480	446
EBITDA pre	500	506
<i>Margin (% of sales)</i>	33.7%	33.3%

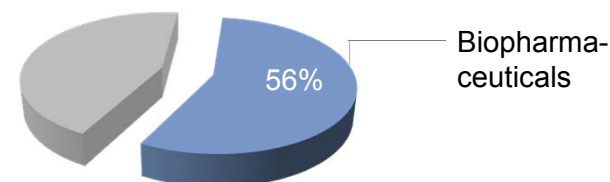
Sales bridge



Comments

- Organic sales growth is more than offset by currency effects, leading to slight sales decline
- Ongoing good performance in Emerging Markets (CMC & GM*) and Japan (Erbix) key driver of organic growth
- Rebif stable in Q4 despite competitive pressure; 7% price increase posted end of December 2013
- Erbitux growing 8% organically supported by good trial data; label change preparations ongoing
- EBIT includes €127 m asset impairment for Humira settlement
- Despite lower royalties and FX headwinds margin improves as marketing and selling and R&D costs are well managed

Q4 2013 share of group sales

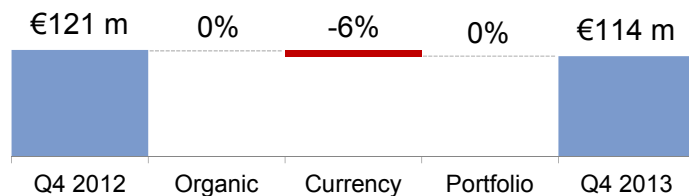


*CMC & GM = Cardiometabolic Care and General Medicine

Consumer Health: Strong FX headwinds and softer cough & cold season weigh on business performance

[€ m]	Q4 2013	Q4 2012
Sales	114	121
Marketing and selling	-54	-59
Admin	-5	-5
R&D	-5	-6
EBIT	11	-17
EBITDA	13	-3
EBITDA pre	15	20
<i>Margin (% of sales)</i>	<i>12.8%</i>	<i>16.1%</i>

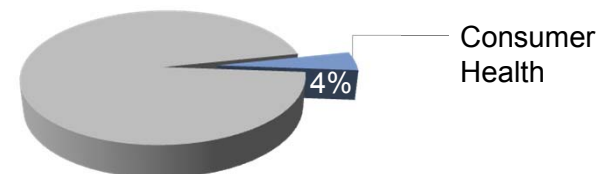
Sales bridge



Comments

- Q4 sales down yoy and sequentially after strong Q3, burdened by significant FX headwinds and flat organic performance
- Weak cough and cold season due to mild winter
- Healthy organic growth in Europe, especially Germany, Belgium and Poland
- Continued momentum of strategic brands like Femibion, but modest performance of Seven Seas products
- Despite a more moderate Q4 performance Consumer Health has shown a very solid yearly profitability upgrade

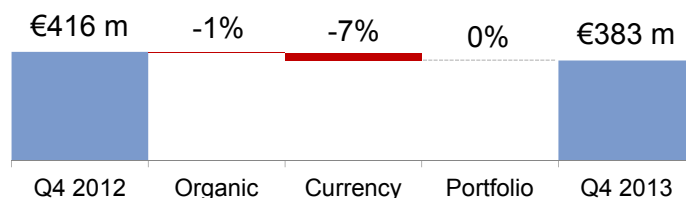
Q4 2013 share of group sales



Performance Materials: Reasonable performance amid strong FX headwinds and moderate destocking

[€ m]	Q4 2013	Q4 2012
Sales	383	416
Marketing and selling	-33	-36
Admin	-6	-7
R&D	-36	-35
EBIT	134	133
EBITDA	155	170
EBITDA pre	167	188
<i>Margin (% of sales)</i>	<i>43.5%</i>	<i>45.3%</i>

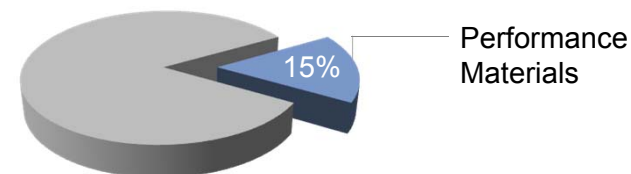
Sales bridge



Comments

- Sales decrease due to currency headwinds and further supply chain destocking in Liquid Crystals
- Customer intimacy and continuous innovation in PS-VA and IPS improve mix and expand market share
- Strongest yoy operational improvement in Pigments driven by restructuring and Xirallic performance
- Completion of savings program: €20 m realized by 2013; one year ahead of plan
- EBITDA pre softer amid FX headwinds and destocking

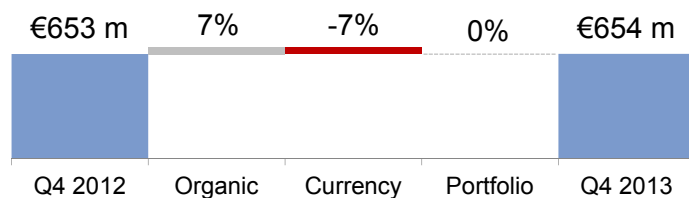
Q4 2013 share of group sales



Life Science: A strong finish of the year

[€ m]	Q4 2013	Q4 2012
Sales	654	653
Marketing and selling	-169	-174
Admin	-25	-23
R&D	-38	-44
EBIT	51	31
EBITDA	145	112
EBITDA pre	168	143
<i>Margin (% of sales)</i>	<i>25.7%</i>	<i>22.0%</i>

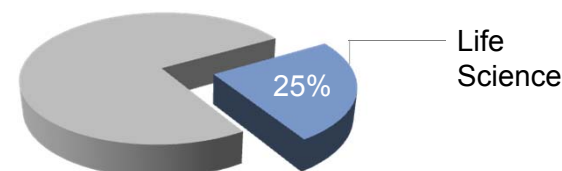
Sales bridge



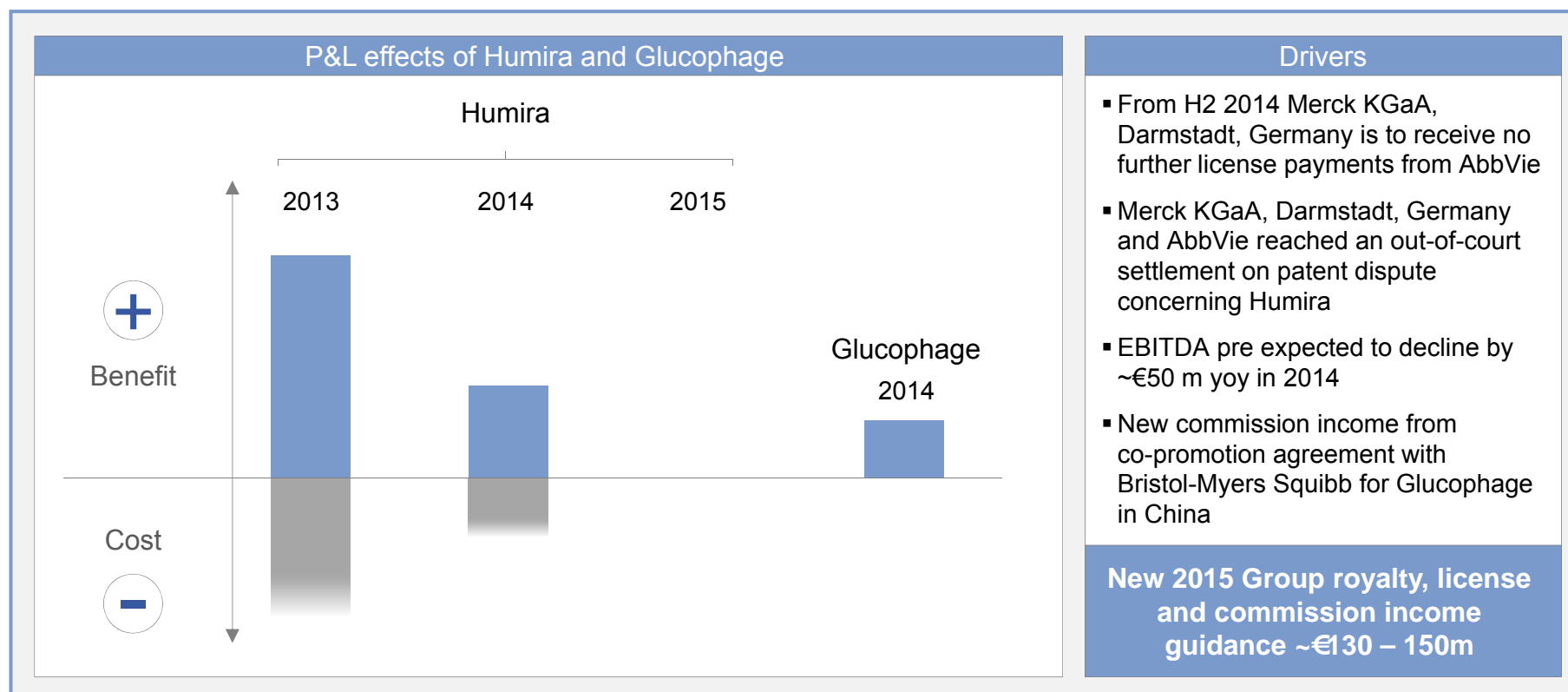
Comments

- Stable sales as strong organic growth is offset by strong FX effects
- All regions except North America (U.S. sequestration) contribute to organic growth
- Some Q1 pre-buying can not be excluded
- Process and Lab Solutions with ongoing good performance due to biopharma demand as well as price and volume uptakes
- Challenging currency effects are being mitigated by stringent cost control in nearly all functional cost categories
- EBITDA and margin increase on robust profitable growth

Q4 2013 share of group sales

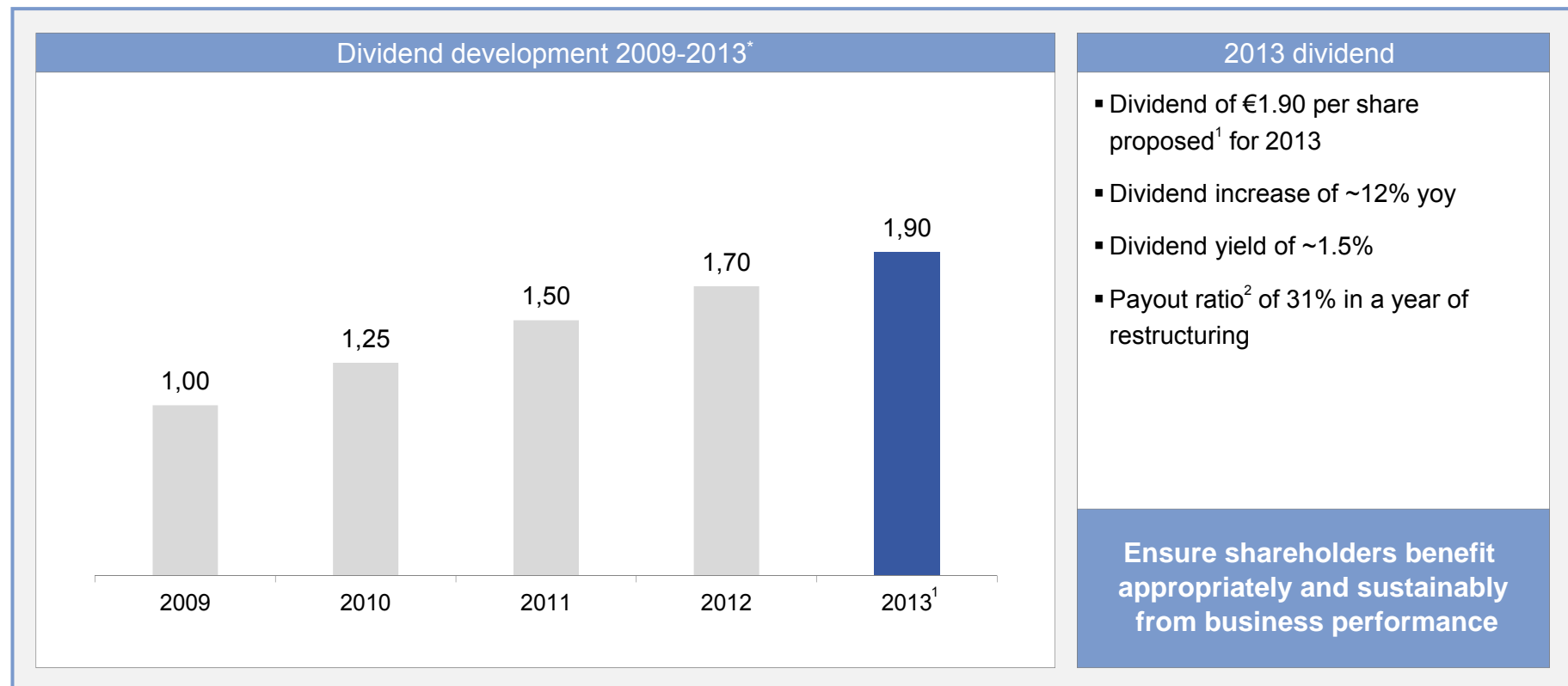


Settlement on patent dispute with AbbVie, while BMS co-promotion will yield first results



Illustration

Continuous increase of dividend



¹Proposal; final decision subject to AGM approval; ²On adjusted net income (reported net income plus one-time items, i.e. transformation costs)

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Qualitative guidance for 2014

Group guidance for 2014



Slight organic sales growth



EBITDA pre on existing platform stable






2014 moving parts

- Avonex and Enbrel patent expiry
- Biosimilars initiative
- Humira settlement
- Rebif competition



Divisional guidance

Biopharmaceuticals	Consumer Health	Performance Materials	Life Science
 <ul style="list-style-type: none"> ▪ Sales organically stable ▪ EBITDA pre slightly lower ▪ Rebif: Continuous competitive pressure; volume decline ▪ Erbitux: Moderate org. growth ▪ Emerging Markets growth 	 <ul style="list-style-type: none"> ▪ Moderate organic sales growth ▪ Moderate EBITDA pre increase 	 <ul style="list-style-type: none"> ▪ Slight organic sales growth ▪ EBITDA pre at best stable ▪ Slight growth in Pigments 	 <ul style="list-style-type: none"> ▪ Moderate organic sales growth ▪ Slight increase of EBITDA pre
<p>The Group 2014: EBITDA pre stable Slight organic sales growth</p>			

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Appendix

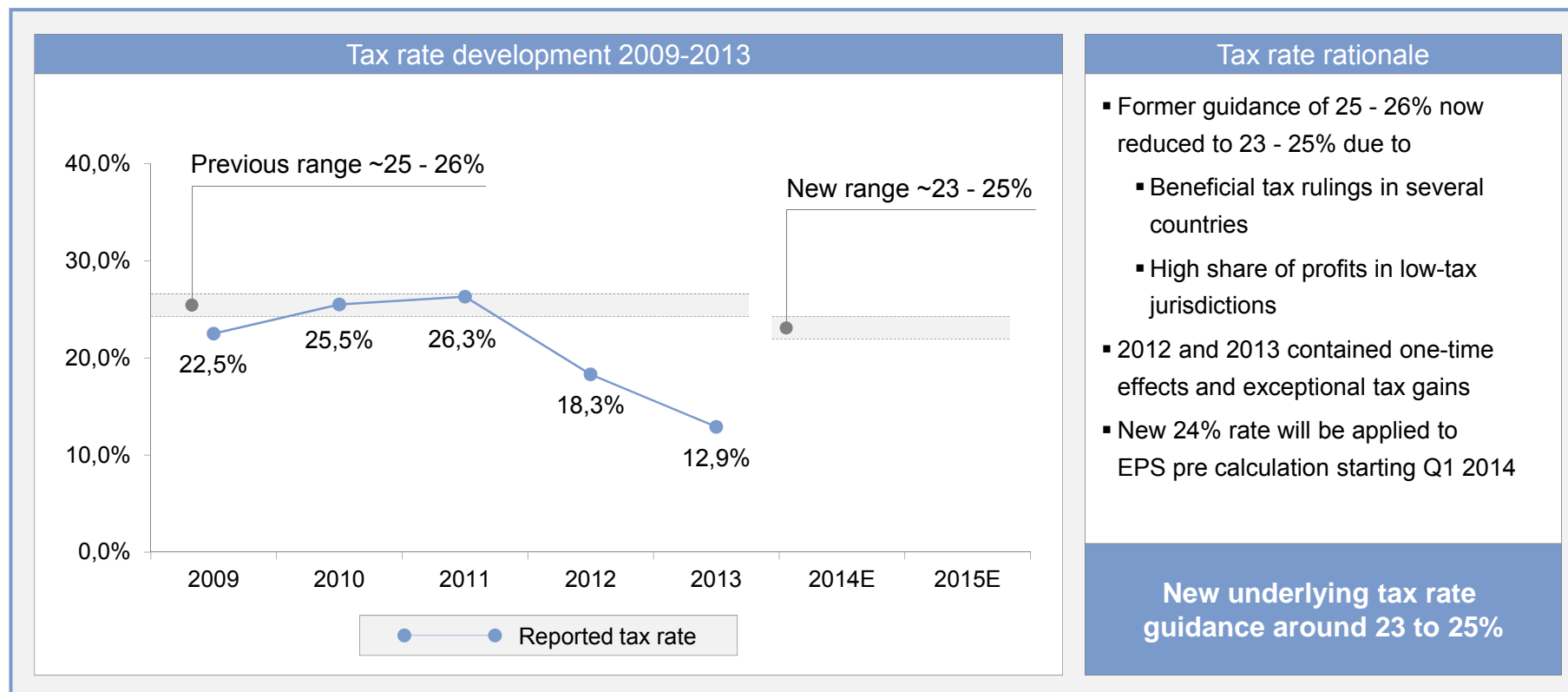
Additional financial guidance

Further financial details

Group royalty, license and commission income in 2015	~€130-150 m
Corporate EBITDA pre	~€-200 m
Underlying tax rate	~23% to 25%
Capex on PPE and Software	~€500 m
Hedging / USD assumption	2014 & 2015 hedge rate ~30% at EUR/USD ~1.30 to 1.35



Favorable tax rulings in several countries result in decrease in underlying tax rate



Group 2014 industry outlook

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Biopharmaceuticals

- ▶ Growth will be driven by emerging markets, especially China and Brazil
- ▶ Mature markets will continue to be affected from austerity measures

Consumer Health

- ▶ Industry growth of ~5% in Consumer Health end markets
- ▶ Emerging markets grow mid to high-single digit, European growth lower

Performance Materials

- ▶ LC display market growth fueled by trend to larger displays
- ▶ World automotive market forecasted to grow low-single digit

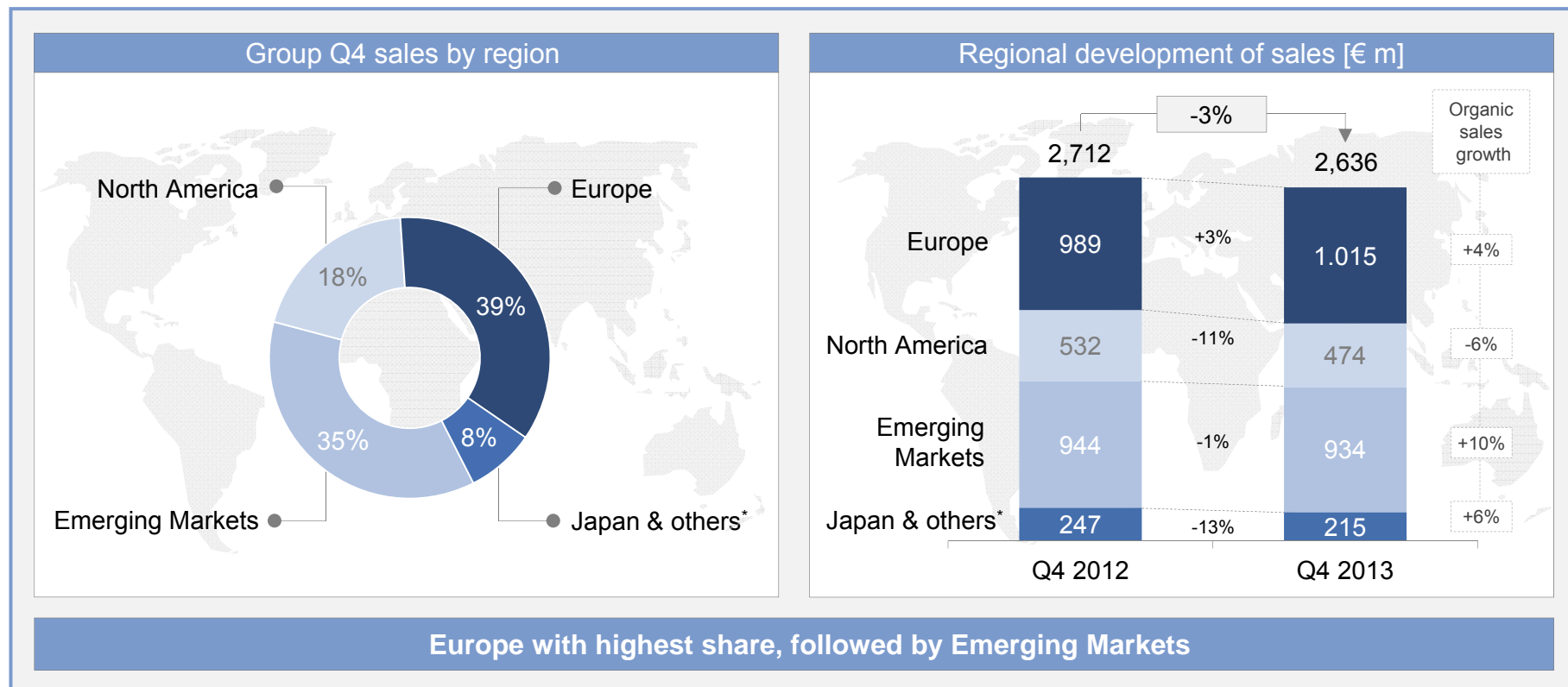
Life Science

- ▶ Biotech R&D investments increase, benefiting Process Solutions
- ▶ Lab supply market grows 1-2%; austerity measures affect Bioscience



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Slight softening in sales as solid organic growth driven by EM and Japan is more than offset by FX



*Australia/Oceania, Africa; EM = Emerging Markets

Q4 2013: Solid performance burdened by strong currency effects

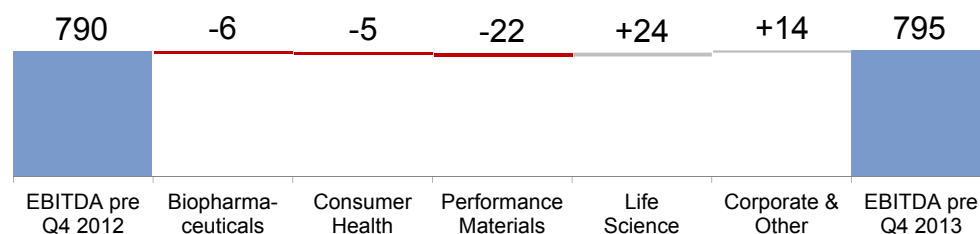
[€ m]	Q4 2013	Q4 2012	Δ	Q4 2013
Sales	2,636	2,712	-3%	<ul style="list-style-type: none"> ▪ Sales decline as organic improvement is more than offset by negative currency effects ▪ Adjusted EBITDA and EPS improve slightly on solid organic performance and tight cost management despite loss of royalty income
EBITDA pre	795	790	1%	
<i>Margin (% of sales)</i>	<i>30.2%</i>	<i>29.1%</i>		
EPS pre [€]	2.12	2.05	3%	
Operating cash flow	440	398	11%	<ul style="list-style-type: none"> ▪ Solid operating cash flow contains €200 m CTA* funding ▪ Cash-generating nature of business portfolio drives net debt reduction ▪ Improvement of working capital due to ongoing tight management
[€ m]	Dec 31, 2013	Dec 31, 2012	Δ	
Net financial debt	307	1,926	-84%	
Working capital	2,132	2,360	-10%	
Employees	38,154	38,847	-2%	
Solid year end performance				

* Contractual Trust Arrangement

Life Science and hedging are key elements of slight profitability improvement

Q4 yoy sales	Organic	Currency	Portfolio	Total
Biopharmaceuticals	4%	-7%	0%	-2%
Consumer Health	0%	-6%	0%	-6%
Performance Materials	-1%	-7%	0%	-8%
Life Science	7%	-7%	0%	0%
The Group	4%	-7%	0%	-3%

Q4 yoy EBITDA pre contributors [€ m]



- Biopharmaceuticals and Life Science as only contributors to absolute organic growth
- Adverse currency effects continue to visibly impact top line
- Life Science's volumes and pricing, main driver of EBITDA pre improvement
- Corporate & Other contains FX hedging gains

Loss of royalty income and higher one-time items weigh on reported earnings

[€ m]	Q4 2013	Q4 2012	Δ	Reported results
EBIT	264	312	-15%	<ul style="list-style-type: none"> ▪ EBIT burdened by lower royalty income as well as FX headwinds ▪ Income tax gain due to one-off change in applicable tax rates and high share of profits in lower tax jurisdictions ▪ EPS improves slightly as EBIT reduction is overcompensated by income tax effect
Financial result	-63	-61	4%	
Profit before tax	201	251	-20%	
Income tax	80	25	>100%	
<i>Tax ratio (%)</i>	<i>-40%</i>	<i>-10%</i>		
Net income	281	272	3%	
EPS (€)	1.29	1.25	3%	

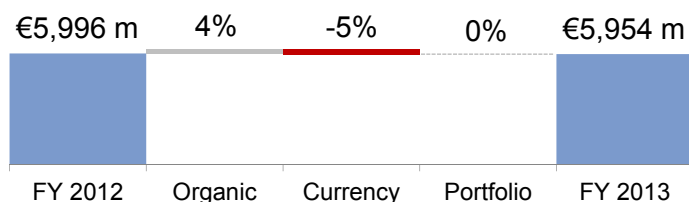
Strong reported figures reflect a year of structural improvements

[€ m]	FY 2013	FY 2012	Δ	Reported results
EBIT	1,611	964	67%	<ul style="list-style-type: none"> ▪ EBIT increases due to strong 2013 performance, prior year burdened by one-time items ▪ Ongoing deleveraging process improves financial result ▪ Tax rate includes exceptional 2013 tax gain from beneficial tax rulings ▪ Strong operational and financial performance drives record EPS
Financial result	-222	-255	-13%	
Profit before tax	1,389	709	96%	
Income tax	-180	-130	38%	
<i>Tax rate (%)</i>	<i>13%</i>	<i>18%</i>		
Net income	1,202	567	>100%	
EPS (€)	5.53	2.61	>100%	

Biopharmaceuticals: Good organic growth and accelerated cost savings implementation fuel profitability

[€ m]	FY 2013	FY 2012
Sales	5,954	5,996
Marketing and selling	-1,289	-1,371
Admin	-211	-217
R&D	-1,183	-1,187
EBIT	893	548
EBITDA	1,886	1,480
EBITDA pre	1,955	1,825
<i>Margin (% of sales)</i>	<i>32.8%</i>	<i>30.4%</i>

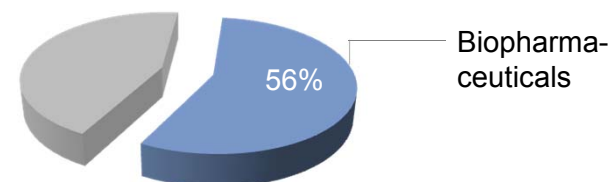
Sales bridge



Comments

- Sales virtually stable as ongoing good organic momentum in Emerging Markets is being offset by adverse currency effects
- Rebif price increases in U.S. key elements of organic growth - being partly offset by softening volumes
- Erbitux growth driven by Emerging Markets, strong impetus from head and neck launch in Japan and supportive trial results
- Visible cost containment in marketing & selling and administration
- R&D contains investments in life cycle management as well as early oncology projects
- Profitability increases on savings and yield variances

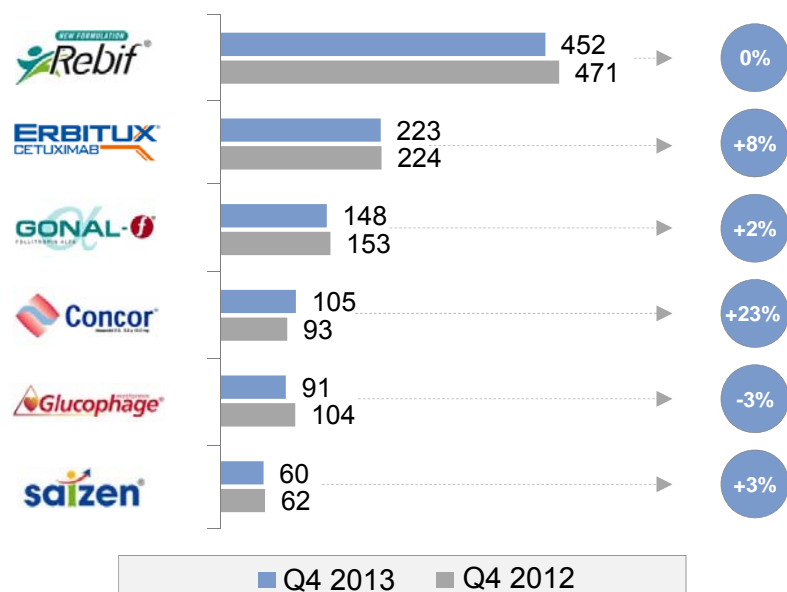
FY 2013 share of group sales



Biopharmaceuticals organic growth by product

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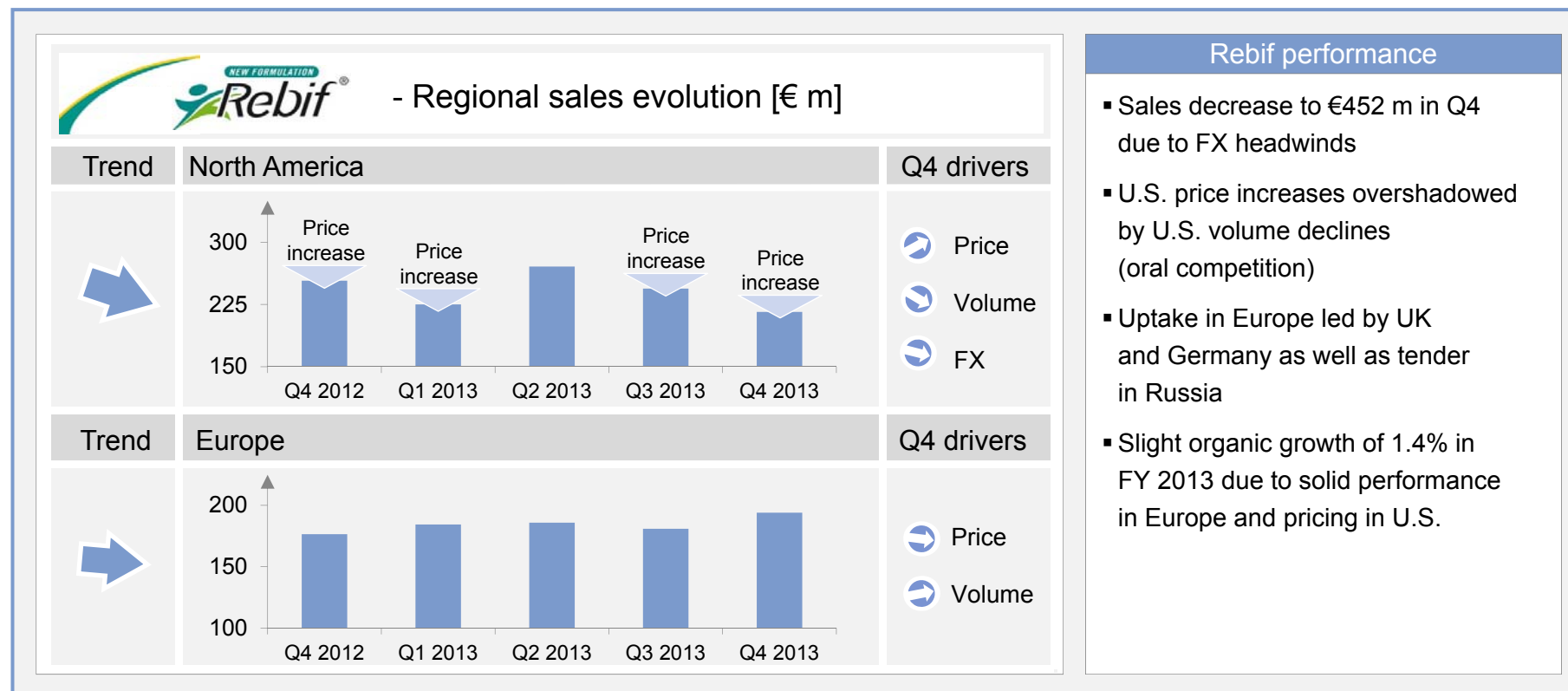
Q4 2013 organic sales growth [%] by key products [€ m]



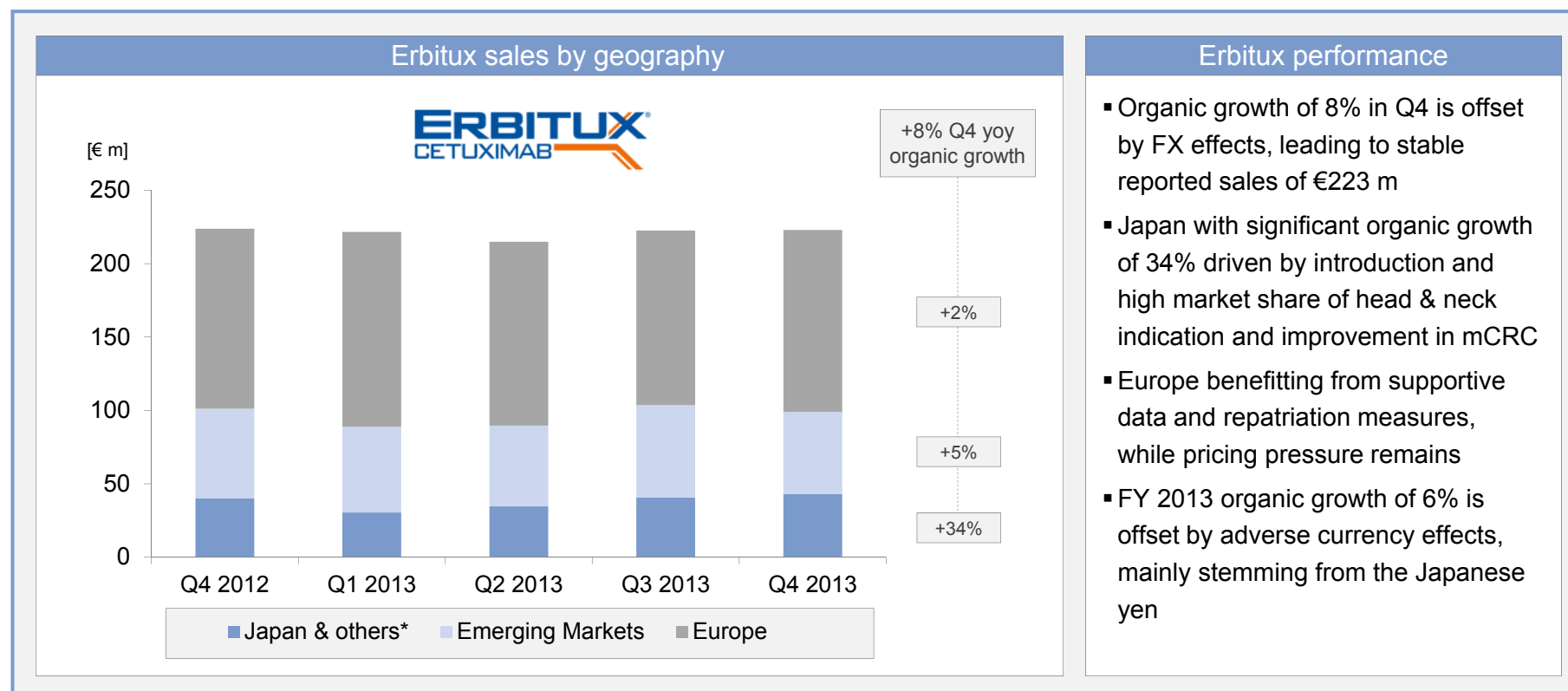
FY 2013 organic sales growth [%] by key products [€ m]



Rebif – a year of stable performance driven by organic growth in H1 and sales erosion in H2

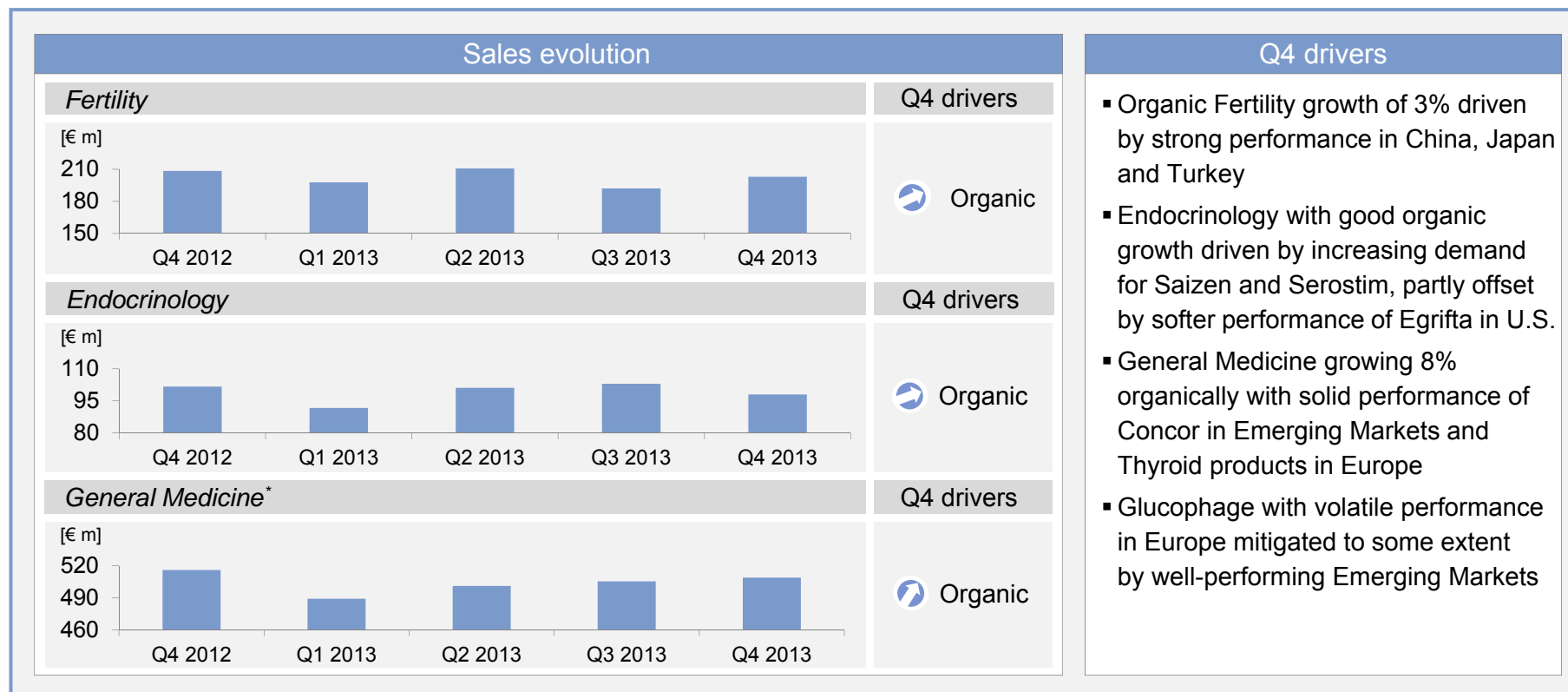


Erbitux – ongoing strong performance in Japan and Emerging Markets supported by good data for EU



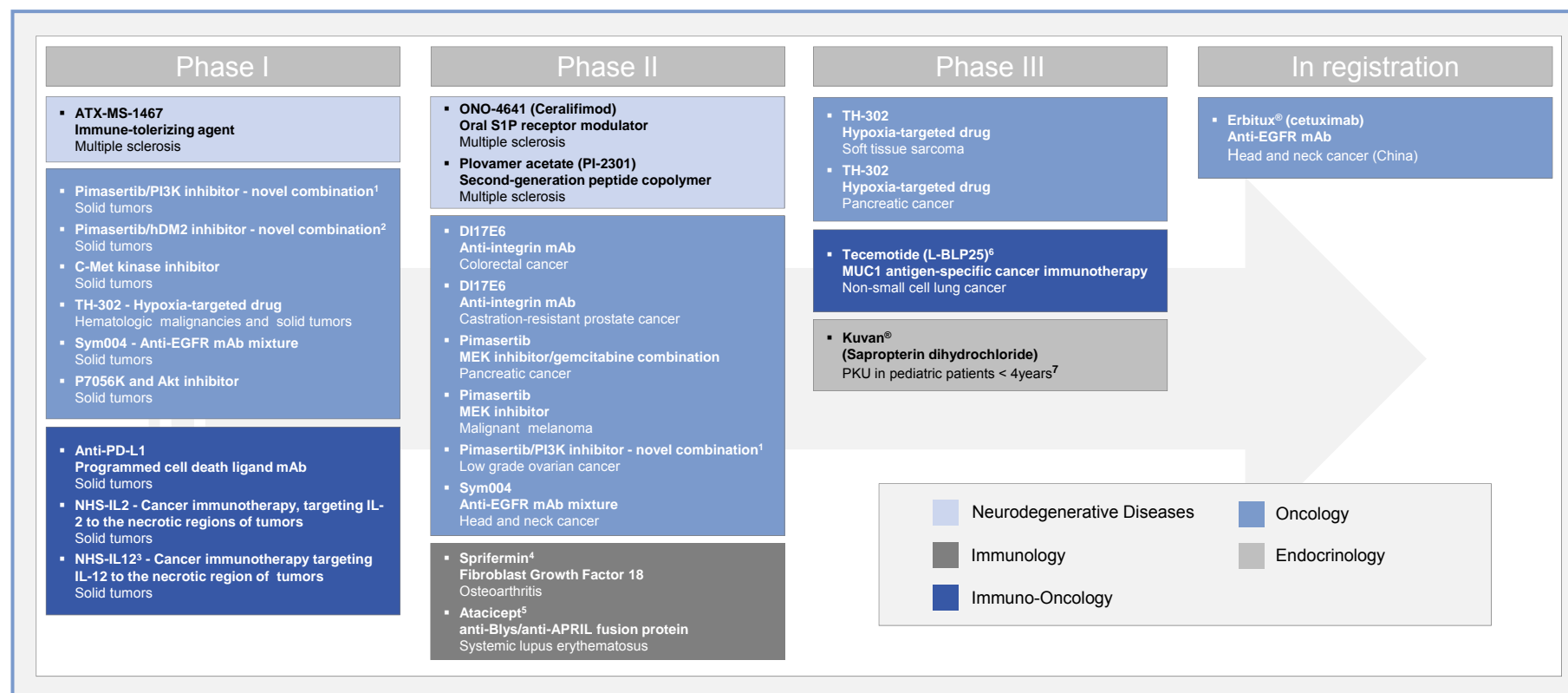
*Australia/Oceania, Africa

General Medicine with ongoing good momentum, while Fertility and Endocrinology show slight growth



*includes "Cardiometabolic Care & General Medicine and Others"

Biopharmaceuticals pipeline



Pipeline as of December 31, 2013; ¹Combined with PI3K/mTOR inhibitor of Sanofi (SAR245409), conducted under the responsibility of Merck KGaA, Darmstadt, Germany
²Combined with hDM2-inhibitor (SAR405838) from Sanofi, conducted under the responsibility of Sanofi; ³Sponsored by the National Cancer Institute (NCI), USA;
⁴FORWARD study; ⁵ADDRESS II study in preparation; ⁶START2 study in preparation. INSPIRE study ongoing; ⁷Phase IIIb post-approval request by EMA

Biopharmaceuticals pipeline newsflow

Merck KGaA
Darmstadt · Germany

Project	Indication	Current phase	Timing	Event
Pergoveris™	Poor ovarian responder patients	NA	Q1 2014	Start of Phase III study
C-Met inhibitor	Non Small Cell Lung Cancer	Phase II	Q1 2014	Start of Phase II study
C-Met inhibitor	Hepatocellular carcinoma	Phase II	Q1 2014	Start of Phase II study
Sym004	Metastatic colorectal carcinoma	Phase II	H1 2014	Start of Phase II study

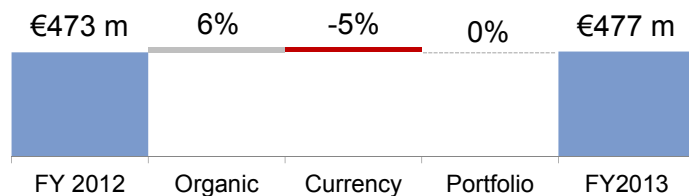


*formerly ONO-4641; **formerly L-BLP25/Stimuvax

Consumer Health: Healthy organic growth and execution of efficiency measures drive profitability

[€ m]	FY 2013	FY 2012
Sales	477	473
Marketing and selling	-213	-218
Admin	-18	-20
R&D	-17	-19
EBIT	62	8
EBITDA	71	30
EBITDA pre	72	67
<i>Margin (% of sales)</i>	<i>15.2%</i>	<i>14.1%</i>

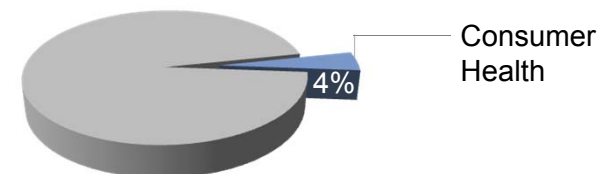
Sales bridge



Comments

- Higher sales on strong organic increase mitigated by adverse currency effects and weak cough and cold season in Q4
- Solid organic growth in Emerging Markets and Europe as key elements of top-line increase
- Strong performance of core products like Bion 3, Femibion and Nasivin, mainly stemming from Europe and Emerging Markets
- Prior-year EBIT affected by one-time items related to site closure in Hull/UK
- Improved profitability driven by focus on strategic products, cost containment and exit from unprofitable markets lacking scale

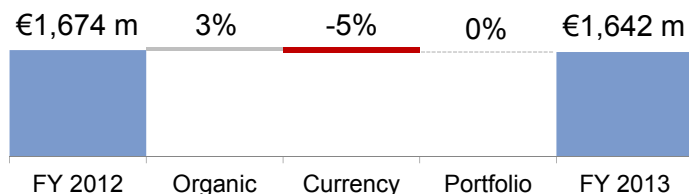
FY 2013 share of group sales



Performance Materials: Pigments restructuring and liquid crystals leadership increase profitability

[€ m]	FY 2013	FY 2012
Sales	1,642	1,674
Marketing and selling	-141	-143
Admin	-28	-31
R&D	-143	-137
EBIT	653	610
EBITDA	766	735
EBITDA pre	780	742
<i>Margin (% of sales)</i>	<i>47.5%</i>	<i>44.3%</i>

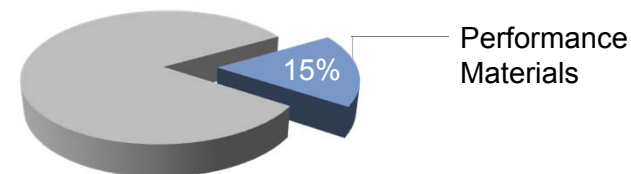
Sales bridge



Comments

- Sales decline slightly as organic growth is more than offset by currency headwinds
- Global display trends drive demand for large UHD* TVs and tablets resulting in shift towards PS-VA and IPS technologies
- Pigments supporting business with strong Xirallic volumes in Europe as well as implementation of efficiency measures
- Early ~€20 m savings implementation, changes in product mix as well as good capacity utilization drive margin improvement

FY 2013 share of group sales

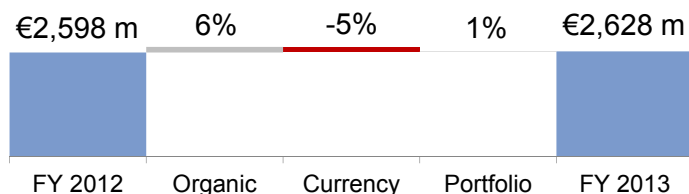


*UHD = Ultra High Definition

Life Science: Resilient business delivers margin expansion amid FX headwinds and U.S. sequestration

[€ m]	FY 2013	FY 2012
Sales	2,628	2,598
Marketing and selling	-683	-676
Admin	-99	-101
R&D	-160	-166
EBIT	262	252
EBITDA	590	561
EBITDA pre	643	614
<i>Margin (% of sales)</i>	<i>24.5%</i>	<i>23.6%</i>

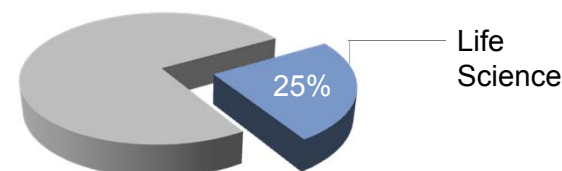
Sales bridge



Comments

- Price and volume increases are mitigated by FX mainly due to the devaluation of the Japanese yen
- Ongoing healthy demand from biopharmaceutical industry, especially for single-use products, drive Process Solutions growth
- Mid-single-digit Lab Solutions organic growth led by Biomonitoring and strong Lab Water, mainly stemming from Emerging Markets
- Bioscience organically flat; impact of U.S. healthcare budget constraints overshadows good performance in EM* and Europe
- Increase in EBITDA pre on higher volumes and prices despite higher costs in marketing & selling as field force is enlarged

FY 2013 share of group sales



*Emerging Markets

Balance sheet: A strong foundation

[€ m]	Dec 31, 2013	Dec 31, 2012		Dec 31, 2013	Dec 31, 2012
Current assets	7,385	6,626	Net equity	11,069	10,415
Cash and cash equivalents	981	730	Current liabilities	3,899	4,562
Marketable securities and financial assets	2,411	1,798	Current financial liabilities	440	1,091
Trade accounts receivable	2,021	2,115	Trade accounts payable	1,364	1,288
Inventories	1,474	1,534	Other current liabilities	1,135	1,096
Other current assets	361	272	Income tax liabilities	465	401
Income tax receivables	110	179	Current provisions	495	684
Assets held for sale	27	0	Non-current liabilities	5,851	6,667
Non-current assets	13,434	15,017	Non-current financial liabilities	3,257	3,362
Intangible assets	9,867	10,945	Other non-current liabilities	6	9
Property, plant and equipment	2,647	2,954	Non-current provisions	1,011	892
Non-current financial assets	78	97	Prov. for pensions / other	911	1,212
Other non-current assets	106	75	Deferred tax liabilities	666	1,192
Deferred tax assets	736	947	Total liabilities and equity	20,819	21,643
Total assets	20,819	21,643			

- Significant net debt reduction despite €200 m CTA* funding in Q4
- Improvement of financial profile led to rating upgrades: S&P to “A” and Moody’s to “A3” both with stable outlook

* Contractual Trust Arrangement

Solid operating cash flow in Q4 2013

[€ m]	Q4 2013	Q4 2012	Δ	Cash flow drivers
Profit after tax	281	276	5	<ul style="list-style-type: none"> ▪ Stable profit after tax
D&A	462	359	103	<ul style="list-style-type: none"> ▪ Amortization up due to impairment for Humira settlement of €127 m
Changes in provisions	-238	-172	-66	<ul style="list-style-type: none"> ▪ Changes in provision higher due to release of restructuring provisions
Changes in other assets / liabilities	-205	-167	-38	<ul style="list-style-type: none"> ▪ Other operating activities contain loss on disposals due to capacity streamlining
Other operating activities	44	2	42	<ul style="list-style-type: none"> ▪ Operating cash flow on solid year-end level despite restructuring cash-outs and CTA funding
Operating cash flow before changes in WC	344	298	46	<ul style="list-style-type: none"> ▪ Investing cash flow down due to lower investments in short-term securities
Changes in working capital	97	101	-4	<ul style="list-style-type: none"> ▪ Prior year financing cash flow contains €500 m bond repayment
Operating cash flow	440	398	42	
Investing cash flow	-263	-573	310	
thereof Capex ¹	-172	-148	-24	
Financing cash flow	-106	-576	470	

¹Only PPE without intangibles; ²Contractual Trust Arrangement

Underlying cash flow strength

[€ m]	FY 2013	FY 2012	Δ	Cash flow drivers
Profit after tax	1,209	579	630	<ul style="list-style-type: none"> ▪ Higher profit after tax due to good operational business performance; prior year burdened by restructuring ▪ Changes in provisions contain cash-outs for restructuring and CTA² funding of €200 m ▪ Other assets and liabilities decrease due to lower tax payments ▪ Operating cash flow strength continued ▪ Investing cash flow contains cash-in from Geneva HQ sale (€251 m) ▪ Financing cash flow increases due to lower bond repayments
D&A	1,458	1,397	61	
Changes in provisions	-203	379	-582	
Changes in other assets / liabilities	-260	-384	124	
Other operating activities	-3	-24	21	
Operating cash flow before changes in WC	2,201	1,947	254	
Changes in working capital	25	526	-501	
Operating cash flow	2,226	2,472	-246	
Investing cash flow	-875	-1,158	283	
thereof Capex ¹	-407	-329	-78	
Financing cash flow	-1,073	-1,519	446	

¹Only PPE without intangibles; ²Contractual Trust Arrangement

External growth criteria

Strategic criteria

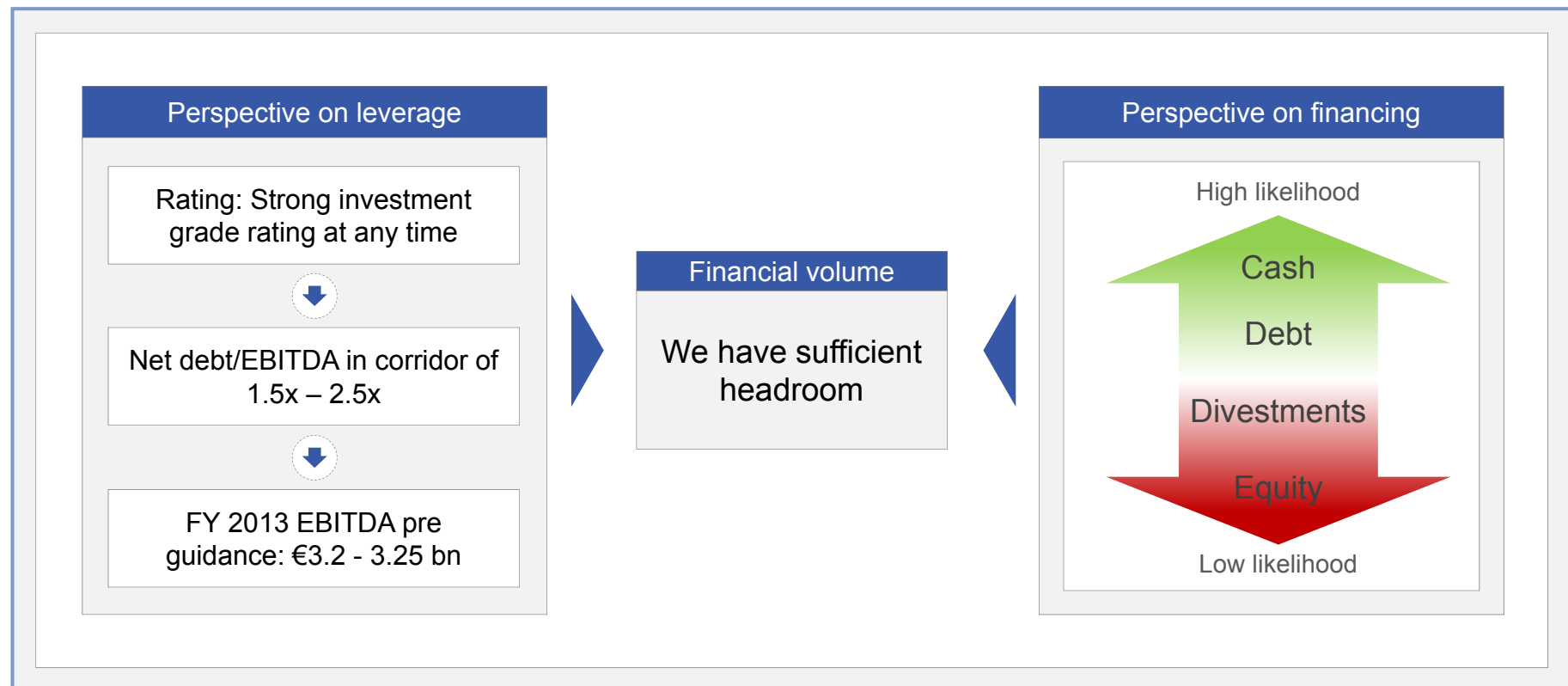
- ▶ Portfolio fit: Innovations for specialty markets
- ▶ Complementary to business model: Customer intimacy and leading positions
- ▶ Cultural fit

Financial criteria

- ▶ EPS accretive in one to three years for commercial asset acquisitions
- ▶ Strong investment grade rating maintained
- ▶ Adherence to conservative financial policy



Financial M&A framework



Acquisition of AZ Electronic Materials – an excellent fit for our company

Strategic rationale of the AZ Electronic Materials acquisition

Strengthening portfolio

- Adds a premium specialty chemicals business to our existing business of high-margin liquid crystals (LC)
- Expands presence in Asian growth markets

Building on core competencies

- AZ Electronic Materials (AZ) complements our existing activities in displays
- Adds attractive high-purity electronics chemicals with similar business model (customer proximity / high innovation content)














Meeting core acquisition criteria

- Adds a strong position in specialty growth markets
- Focus on innovation and R&D
- Immediately accretive to EPS pre¹



¹EPS pre = EPS pre one-time items and amortization from purchase price allocation (PPA)

Liquid Crystals and AZ – two leading premium solution providers joining forces

	Liquid Crystals 	AZ Electronic Materials 	
Strong position in specialty segments			
Superior profitability and cash conversion			
Megatrends drive growth			
Tailor-made solutions with high innovation content			
Chemicals for electronics and display industry			
AZ Electronic Materials and Liquid Crystals – a strong strategic fit			

AZ Electronic Materials – attractive business characteristics

Key strengths		Overview of financial data ¹			
Segment position	▪ No. 1 or 2 in ~80% of sales; high share of patent protection	US\$ m ²	2011	2012	LTM H1 2013
	▪ Chemicals only ~3% of procurement costs	Revenue	792	794	774
Chemical products	▪ For displays: e.g. photoresists	% yoy at constant FX	+10%	+2%	n.a.
	▪ For ICs: dielectrics, colloidal silica	EBITDA	261	262	248
EBITDA margins	▪ IC Materials ~40% ¹	% of sales	33%	33%	32%
	▪ Optronics ~30% ¹	D&A	110	112	106
R&D spend	▪ Above-average 7% of sales ¹	% of sales	14%	14%	14%
	▪ New products drive and support margins	Employees (period end)	1,060	1,092	n.a.
		Net financial debt (period end)	343	289	301
		No. of shares (basic, m)	380.9	380.9	380.9

¹Source: Company reports

²Reporting currency is US\$

Transaction details

Offer price

- GBp 403.5 per share in cash or equity value
~GBP 1.6 bn (€1.9 bn)¹
- Premium 41% over 3-month volume-weighted average price (VWAP);
33% over 6-month VWAP²



Transaction multiples³

	2012	LTM H1 2013
EV/Sales	3.6x	3.7x
EV/EBITDA	10.9x	11.5x
EV/EBITDA pro-forma cum synergies ⁴	9.6x	10.1x

Transaction size and financing

- Enterprise value (EV) ~€2.1 bn incl. net debt⁵ ~€238 m
- 100% cash-financed
- Offer is recommended by AZ's Board of Directors

Timing

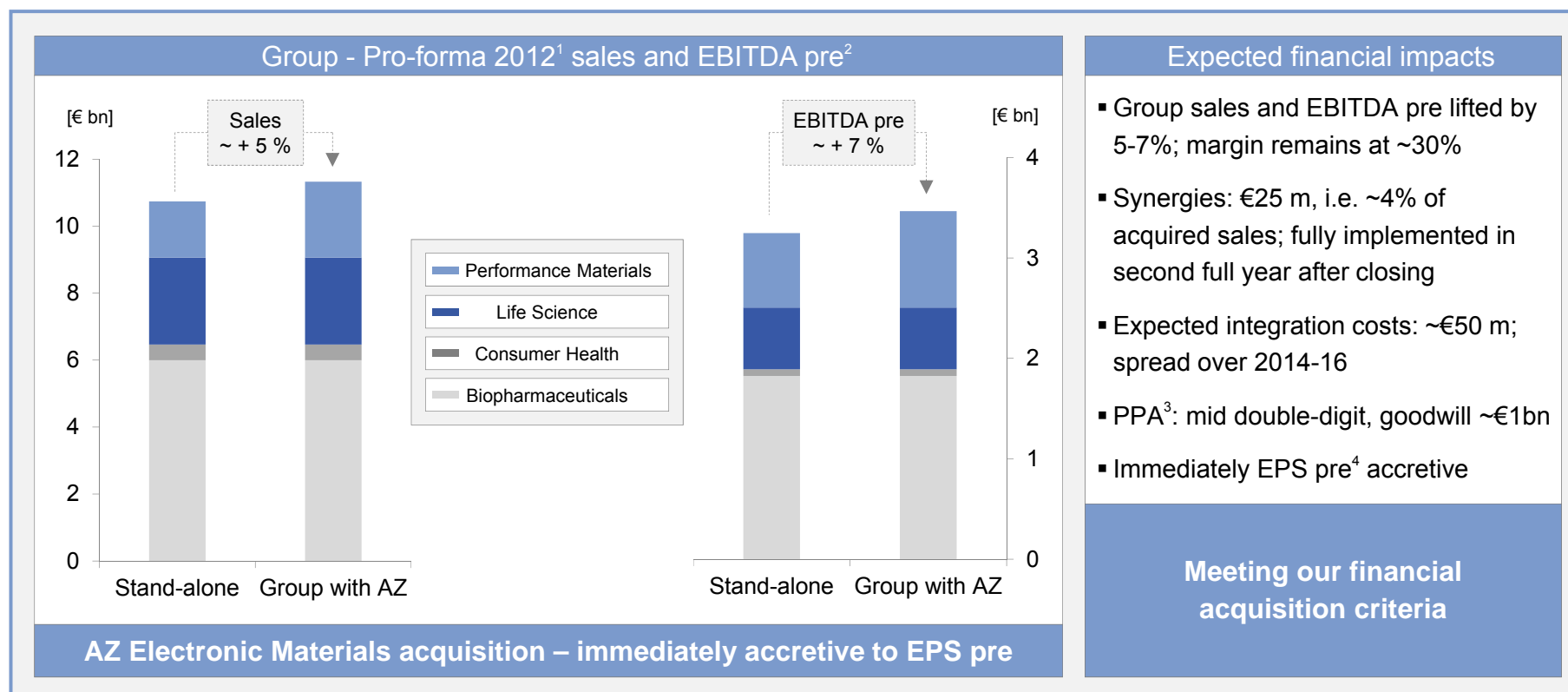
- UK Takeover Code applies
- Expected publication of offer document: December 2013
- Expected closing of the transaction: H1 2014

Conditions

- Merger control approvals
- Minimum acceptance level: 95%

¹Based on fully diluted shares; ²As of December 4, 2013; ³Based on company reports and adjusted for option proceeds; ⁴"Pro-forma" calculation for 2012 assumes 100% of expected synergies: transaction EV € 2.1 bn / (AZ's 2012 EBITDA US\$262 m + 100% pro-forma synergies €25 m) = 9.6x (FX conversion as of December 4, 2013: EUR/USD 1.36); more details on next page; ⁵Including pensions

AZ Electronic Materials acquisition – immediately financially accretive



¹Pro-forma calculation based on published sales for FY 2012 for Merck KGaA, Darmstadt, Germany and AZ

²Pro-forma calculation including 100% of expected synergies; excluding Corporate/Others

³Incremental annual amortization from purchase price allocation in € m

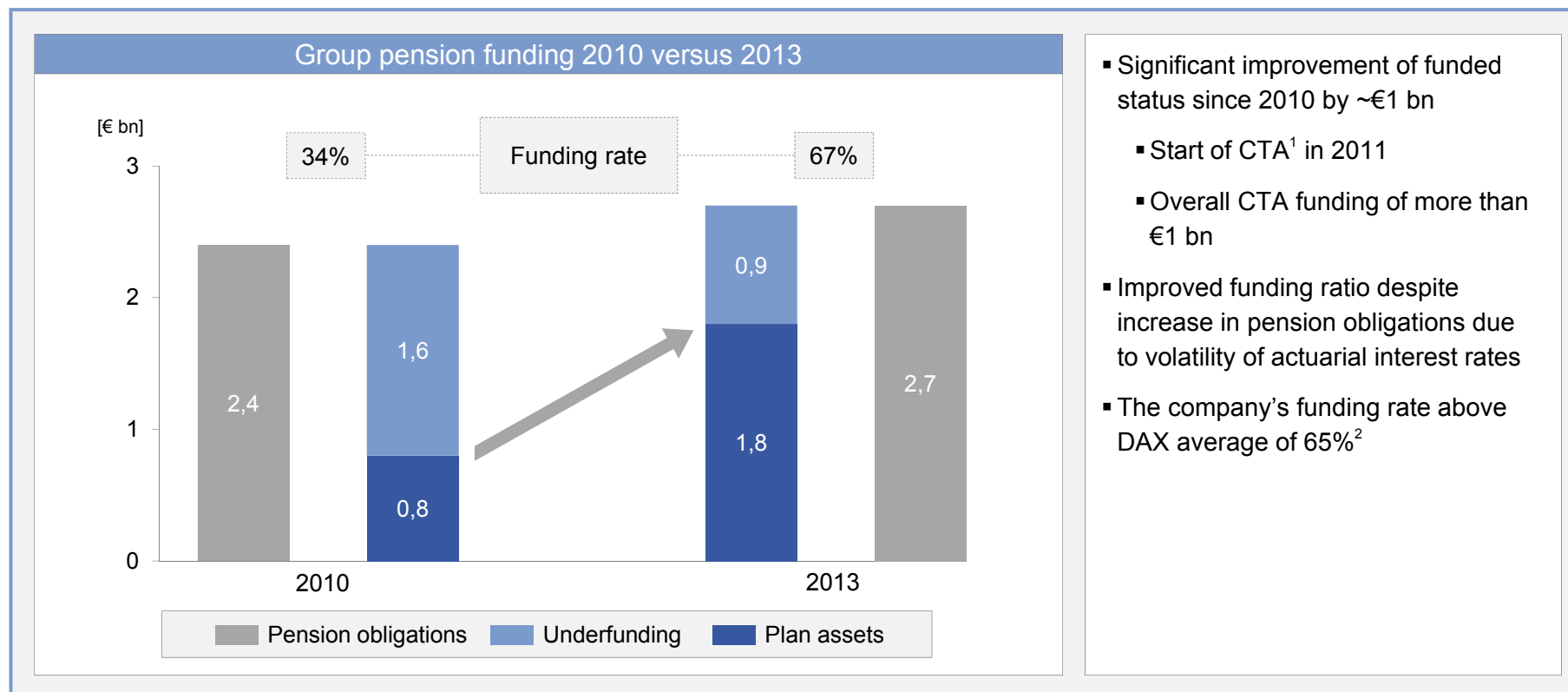
⁴EPS pre = EPS pre one-time items and amortization from PPA

AZ Electronic Materials acquisition is a strong strategic fit

Leverage business model	▶ Like our Liquid Crystals business, AZ has an attractive business model based on innovation, high customer proximity, solid market share and superior profitability
Enhance leadership	▶ Broadening our product offering to the display industry and diversifying into high value-added specialty chemicals for integrated circuits
Expand growth profile	▶ Accessing additional source for future growth in adjacent electronics chemicals applications
Further strengthen customer interaction	▶ Together with AZ's knowledge, the LC unit will be in an even better position to develop future innovative solutions for its customers



Rigorous pension funding of last three years brings the group up to market standards



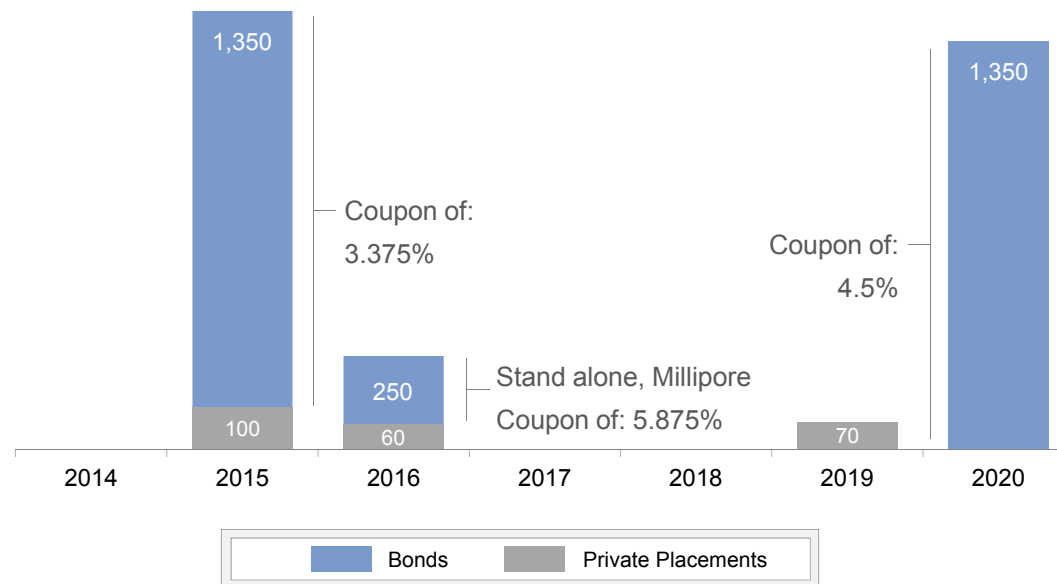
¹Contractual Trust Arrangement; ²Source: Towers/Watson

Comfortable liquidity situation through broad mixture of financing sources

Financial profile

- A ratings: Moody's A3 (stable outlook) and S&P A (stable outlook)
- Cash and marketable securities of ~€3.3 bn
- Completely undrawn syndicated loan facility of €2 bn, due in 2018
- Updated Debt Issuance Program with frame of €15 bn, of which ~€3 bn are utilized
- Commercial Paper Program of €2 bn, only used for funding peaks

Bond Maturity Profile as of 31 October 2013 [€ m]



Changes in FX rates impact top and bottom lines

Sensitivities* of top 3 foreign currencies – The Group, unhedged			Currency management
U.S. \$	Deviation 0.01 U.S. dollar increase versus euro	Impact Group Sales: decrease by ~€15 m Group EBITDA: decrease by ~€7 m	<ul style="list-style-type: none"> Exposure from booked revenues and invoices, receivables and liabilities, are hedged 100% Exposure from planned revenues hedged up to three years on a rolling basis Instruments are forward contracts affecting EBITDA pre of Corporate / Other and options affecting financial result
CH ₣	Deviation 0.01 Swiss franc increase versus euro	Impact Group Sales: negligible Group EBITDA: increase by ~€4 m	
JPN ¥	Deviation 1 Japanese yen increase versus euro	Impact Group Sales: decrease by ~€4 m Group EBITDA: decrease by ~€2 m	

*approximate numbers

Corporate Responsibility has always been an integral part of our corporate culture



We continue to improve our culture of Corporate Responsibility

Targets on responsibility measure for products and people



Product safety

Goal

Establish a global hazard and risk communication system

Status

Implementation of REACH, GHS/CLP and GPS ongoing



Diversity

Goal

Increase % of women in management to at least 25-30%

Status

- 2010 = 22%
- 2011 = 23%
- 2012 = 24%



Supply chain management

Goal

Sustainability in the supply chain

Status

Responsible Sourcing Principles - program ongoing



Occupational health and safety

Goal

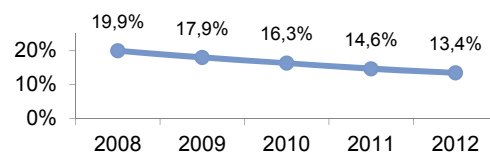
Reduce work accidents in entire Group; LTIR = 2.5

Status

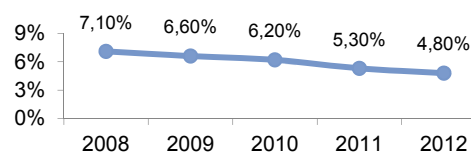
- “BeSafe!” program 2011
- 2011 LTIR = 2.0
 - 2012 LTIR = 2.3

Environmental metrics

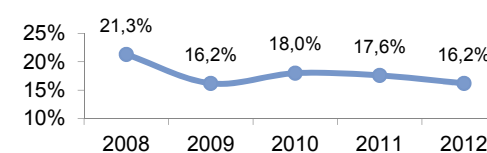
Energy consumption [GWh] / Sales [€m]



CO₂ [metric kilotons] / Sales [€m]



Water consumption [million m³] / Sales [€m]



Acronyms: REACH = Registration, Evaluation, Authorization and Restriction of Chemicals; GHS/CLP = Globally Harmonized System/Classification, Labeling and Packaging; GPS = Global Product Strategy; LTIR = Long Term Injury Rate

One-time items in Q4 2013

One-time items on EBIT				
[€ m]	Q4 2013		Q4 2012	
	One-time items	thereof D&A	One-time items	thereof D&A
Biopharmaceuticals	164	144	65	5
Consumer Health	1	0	34	11
Performance Materials	7	-4	19	0
Life Science	40	17	33	1
Corporate & Other	14	0	15	0
Total	226	157	136	17

One-time items in FY 2013

One-time items on EBIT				
[€ m]	FY 2013		FY 2012	
	One-time items	thereof D&A	One-time items	thereof D&A
Biopharmaceuticals	258	189	391	46
Consumer Health	1	0	48	11
Performance Materials	10	-4	8	0
Life Science	70	17	54	1
Corporate & Other	47	0	162	0
Total	387	203	664	59

Financial Calendar

Merck KGaA
Darmstadt · Germany

Date	Event
May 9, 2014	Annual General Meeting
May 15, 2014	Q1 2014 Earnings Release
August 7, 2014	Q2 2014 Earnings Release
November 13, 2014	Q3 2014 Earnings Release



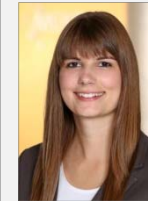
Investor Relations contact details



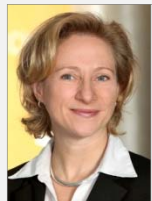
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