

Q1 2014 Roadshow Presentation

Merck KGaA, Darmstadt, Germany –
Sound operations yield organic growth

Investor Relations

Merck KGaA
Darmstadt · Germany

July 2014



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Agenda

Business overview

Transforming the company

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

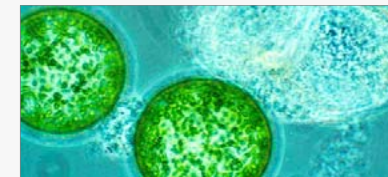
Performance Materials



No. 1 in display materials

- Customer intimacy
- Innovation power
- Cost and technology leadership

Life Science

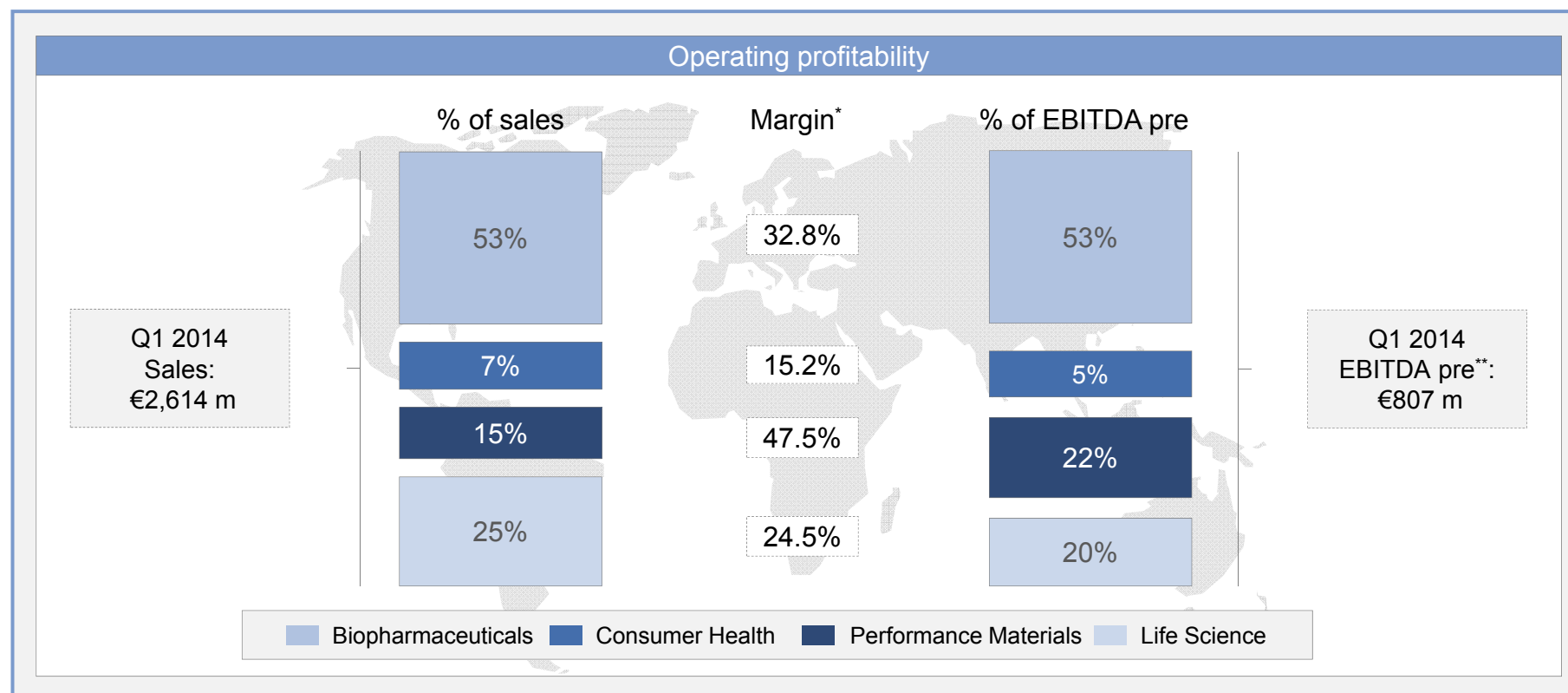


Top 3 in life science tools

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

Strong businesses with attractive margins

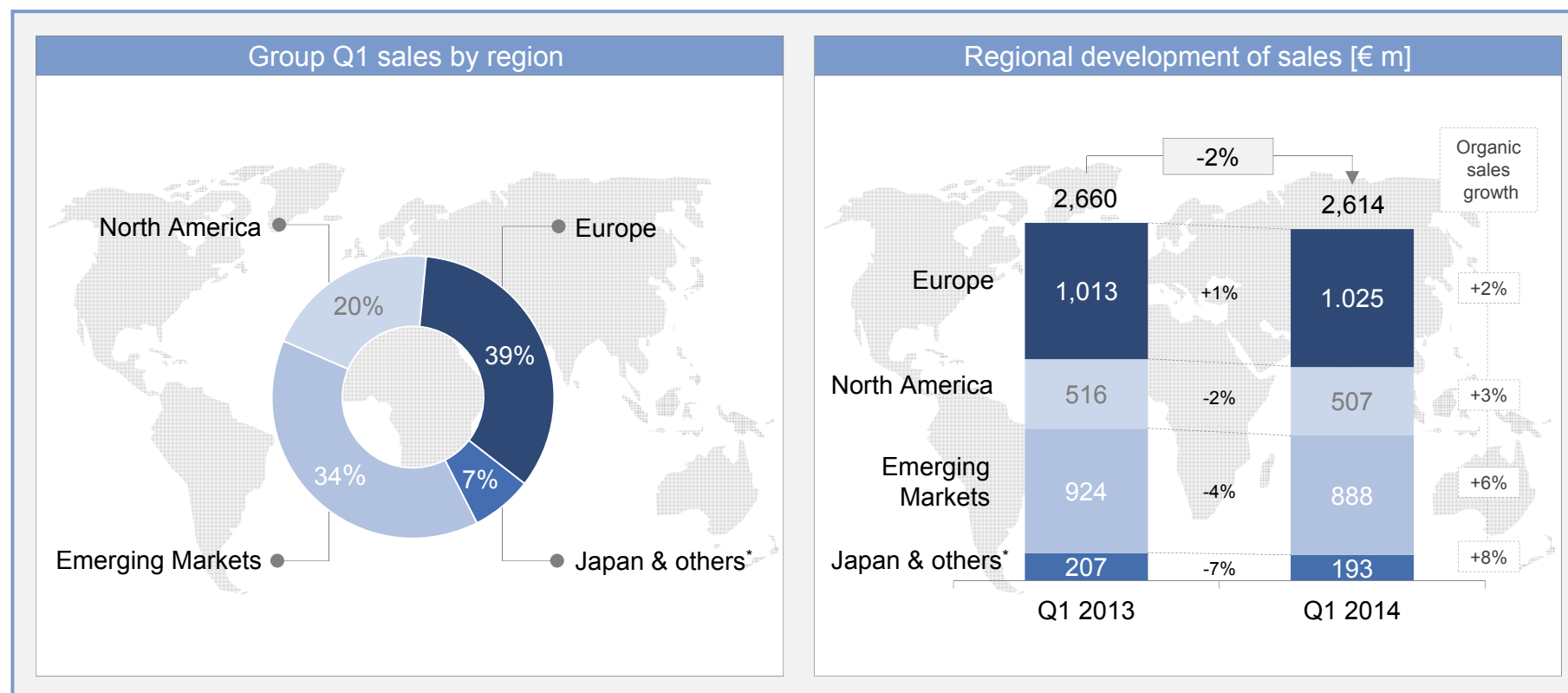
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*EBITDA pre margin in % of sales

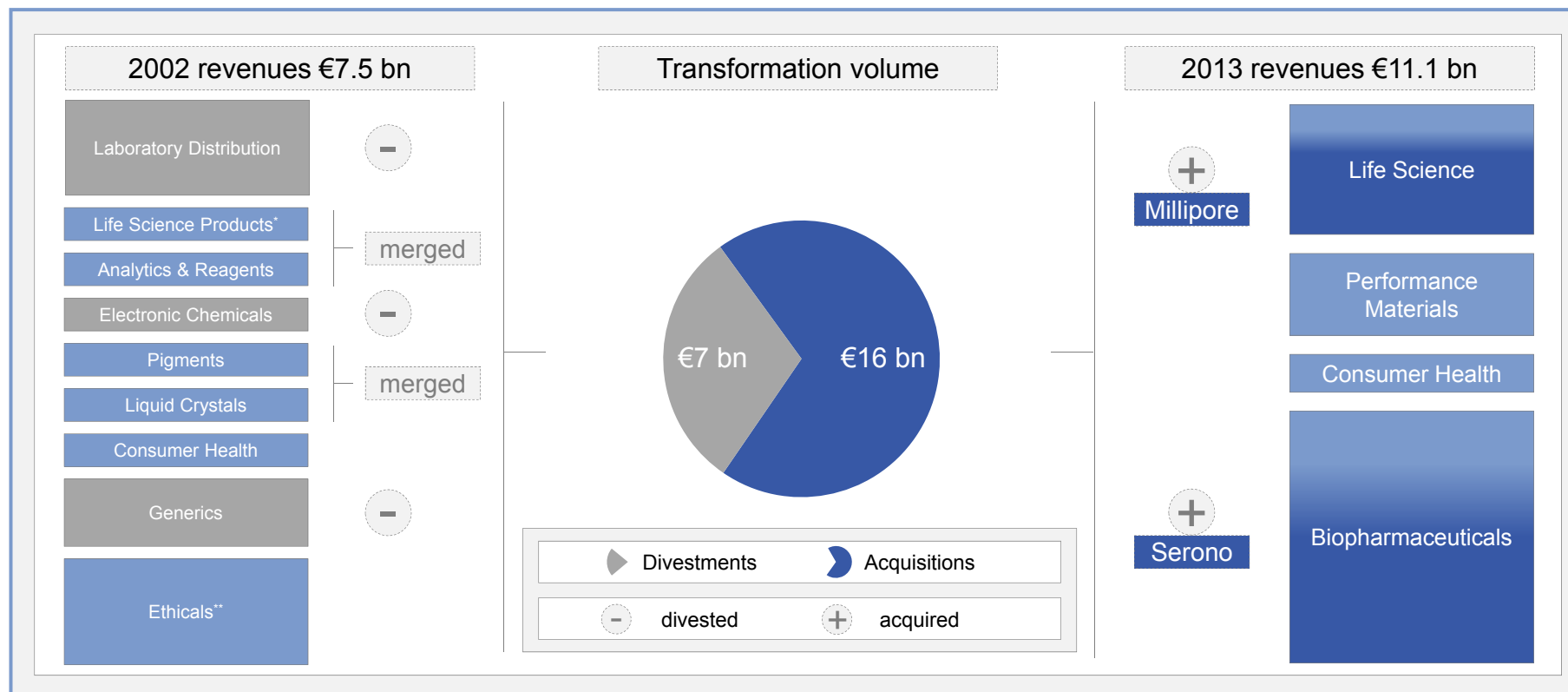
**Including Corporate/Others (-€28.3 m)

Organic growth across all regions



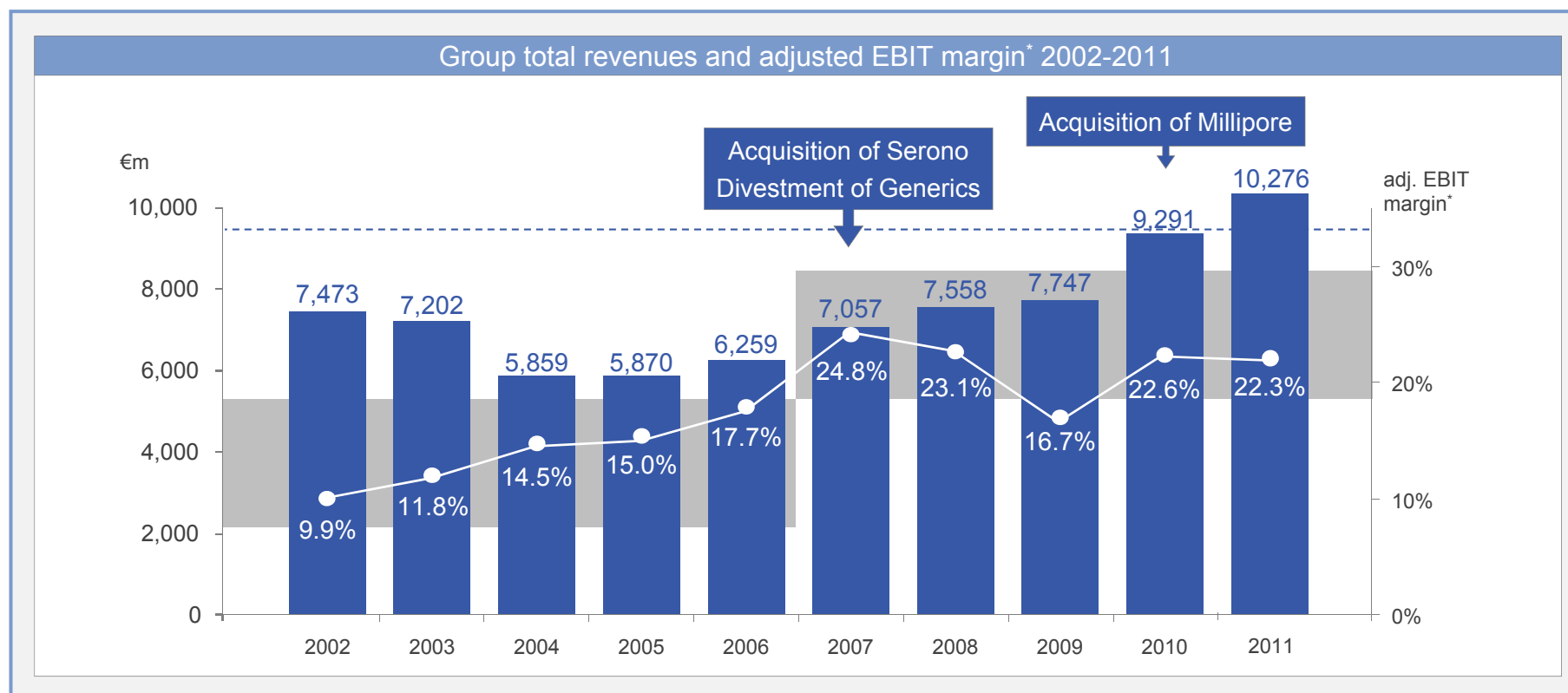
*Australia/Oceania, Africa
Totals may not add up due to rounding

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

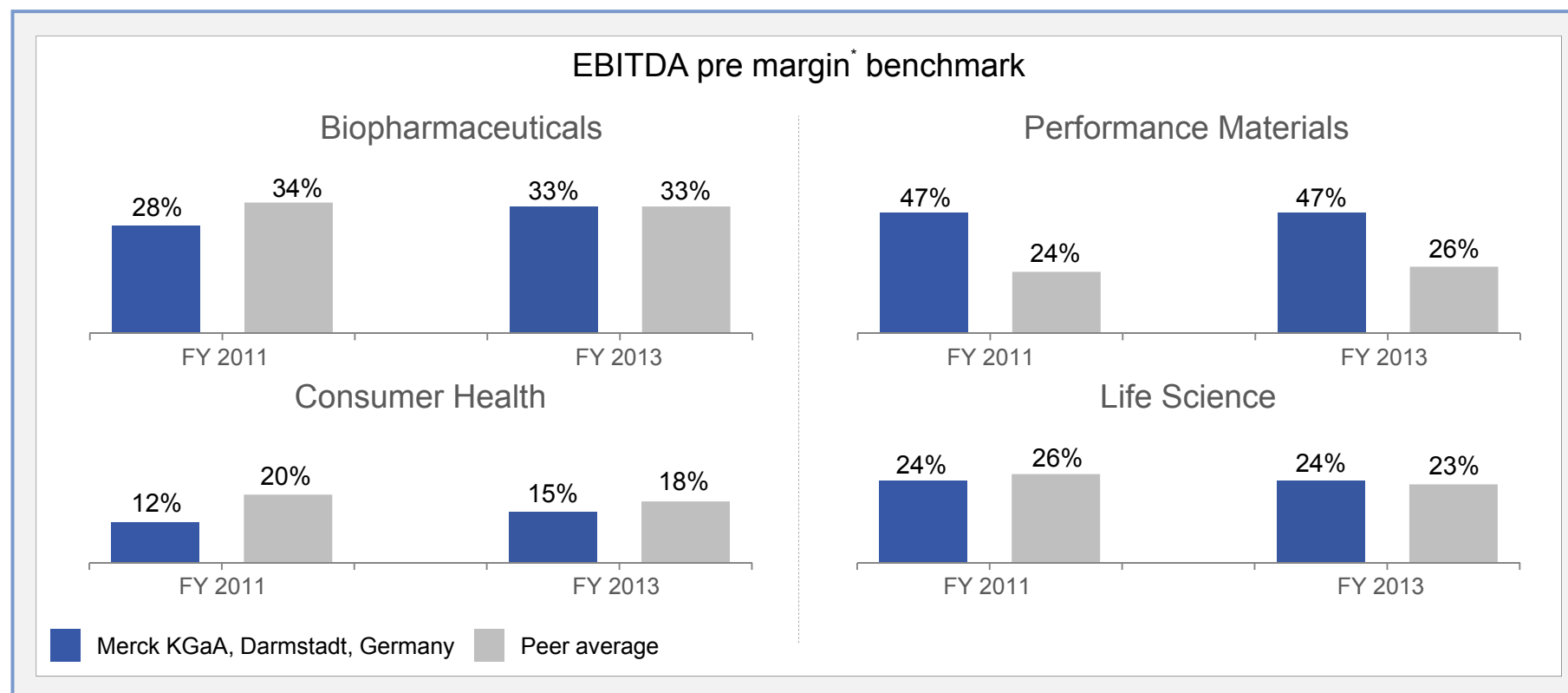
Biopharmaceuticals:	€275 m	€25 m
Consumer Health:	€20 m	€5 m
Performance Materials:	€20 m	€0 m
Life Science:	€10 m	€30 m
Total:	€325 m	€60 m

Remaining 2014-2017*

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

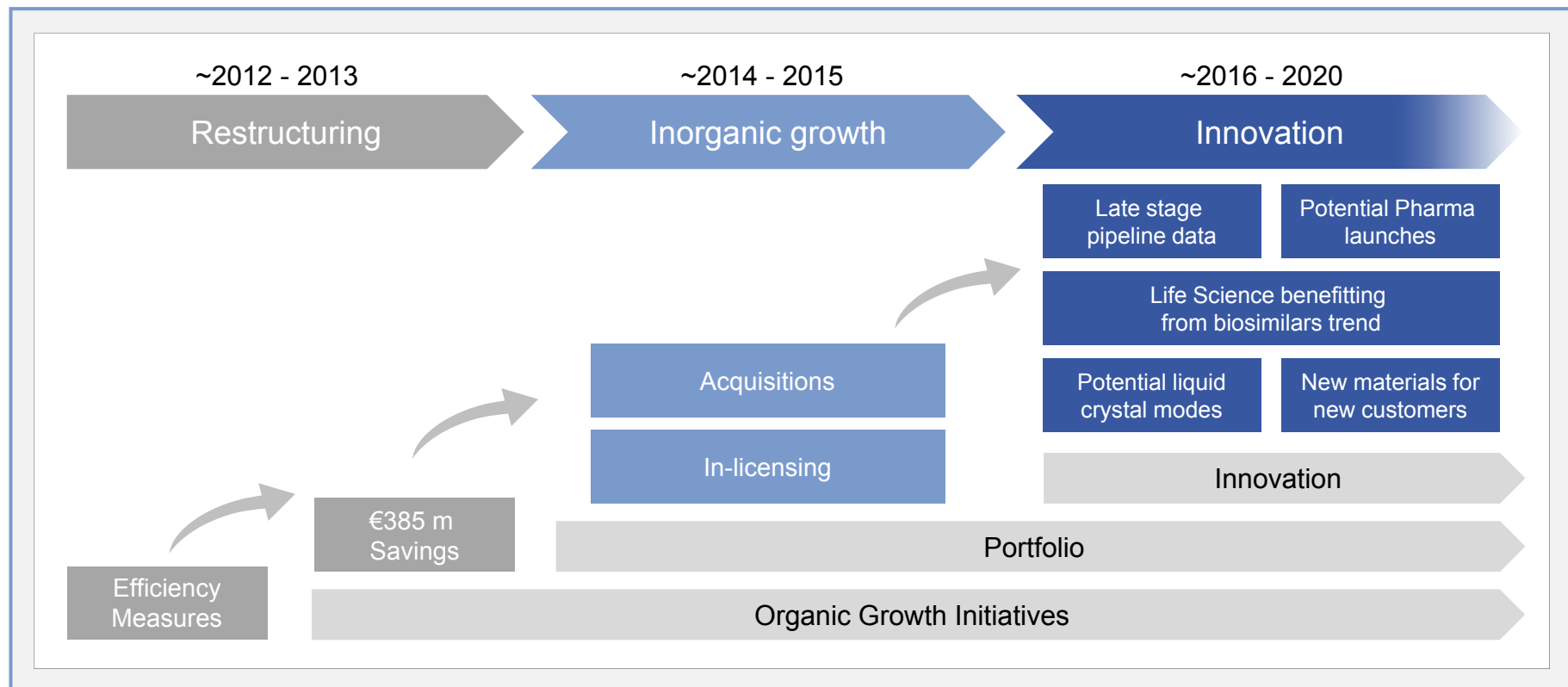
*Remaining savings expected to lead to costs of ~€100 m

Divisional benchmarks



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

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



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Q1 2014: Stable financials amid royalty income reduction and currency headwinds

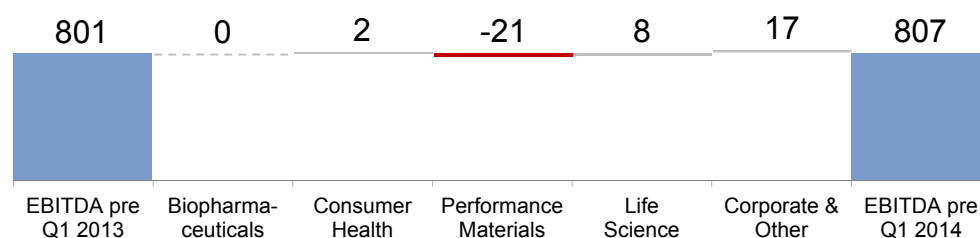
[€ m]	Q1 2014	Q1 2013	Δ	Q1 2014
Sales	2,614	2,660	-2%	<ul style="list-style-type: none"> ▪ Sales decline as organic improvement is outweighed by negative currency effects ▪ EBITDA pre and EPS pre improve on solid organic performance despite loss of royalty income ▪ 2013 operating cash flow reflects one-time tax refund and restructuring measures ▪ Strong cash-generating nature of businesses yields first net cash position since June 2010 ▪ Continued tight management of working capital; slight increase due to sound organic business
EBITDA pre	807	801	1%	
<i>Margin (% of sales)</i>	<i>30.9%</i>	<i>30.1%</i>		
EPS pre [€]	2.31	2.11	9%	
Operating cash flow	409	516	-21%	
[€ m]	March 31, 2014	Dec 31, 2013	Δ	
Net financial position*	7	-307	n.m.	
Working capital	2,224	2,132	4%	
Employees	38,273	38,154	0%	
Net cash position established				

* (+) = net cash, (-) = net debt

All divisions post organic growth while currency headwinds continue

Q1 YoY sales	Organic	Currency	Portfolio	Total
Biopharmaceuticals	4%	-5%	0%	-1%
Consumer Health	6%	-6%	0%	-1%
Performance Materials	1%	-6%	0%	-5%
Life Science	4%	-6%	0%	-2%
The Group	4%	-5%	0%	-2%

Q1 YoY EBITDA pre contributors [€ m]



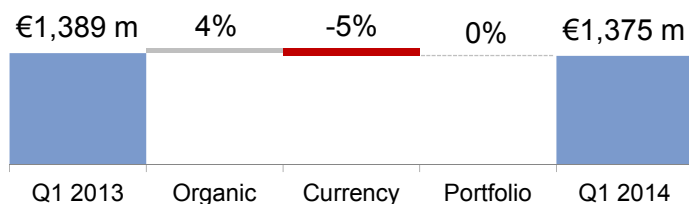
- Biopharmaceuticals and Life Science remain strongest absolute contributors to organic sales growth
- Currency headwinds mainly driven by the U.S. dollar and the Japanese yen
- Life Science's EBITDA pre contribution linked to solid organic performance, while Performance Materials faces strong comparables
- Corporate & Other includes higher hedging gains this year versus last year

Totals may not add up due to rounding

Biopharmaceuticals: Solid performance supported by key franchises despite royalty income reduction

[€ m]	Q1 2014	Q1 2013*
Sales	1,375	1,389
Marketing and selling	-280	-295
Admin	-52	-50
R&D	-298	-322
EBIT	236	170
EBITDA	428	408
EBITDA pre	438	438
<i>Margin (% of sales)</i>	<i>31.9%</i>	<i>31.5%</i>

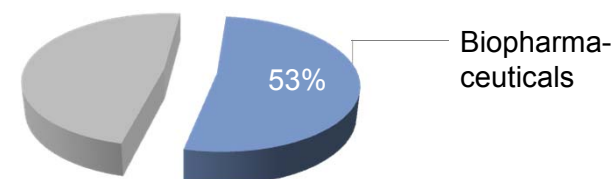
Sales bridge



Comments

- Organic growth more than offset by adverse currency effects leading to slight reduction in sales
- Rebif grows – in the U.S. pricing and wholesaler restocking overcompensate volume declines due to competition
- Erbitux with moderate performance as strong growth in Japan and support from Emerging Markets is mitigated by soft Europe
- Strong organic growth of fertility business across all regions
- Marketing and selling benefits from efficiency initiatives
- Q1 2013 R&D included higher clinical development & one-time costs
- Stable profitability amid FX headwinds and reduction in royalties

Q1 2014 share of group sales

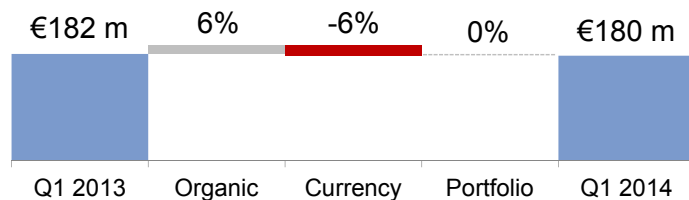


* Restated for product reclassification of Neurobion and Floratil from Biopharmaceuticals to Consumer Health

Consumer Health: Neurobion and Femibion drive quarterly performance

[€ m]	Q1 2014	Q1 2013*
Sales	180	182
Marketing and selling	-68	-69
Admin	-6	-6
R&D	-5	-6
EBIT	37	37
EBITDA	39	39
EBITDA pre	41	39
<i>Margin (% of sales)</i>	<i>22.9%</i>	<i>21.6%</i>

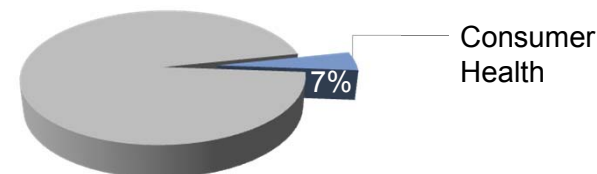
Sales bridge



Comments

- Stable sales as solid organic growth driven by Emerging Markets is offset by FX headwinds
- Latin America grows organically due to performance of new strategic brands Neurobion and Floratil
- Europe moderate as growth of Femibion is partially countered by soft demand for cough and cold products due to milder winter
- Marketing and selling stable, while shift in promotional spending towards strategic brands continues
- Increase in profitability supported by solid organic growth as well as continued cost discipline

Q1 2014 share of group sales

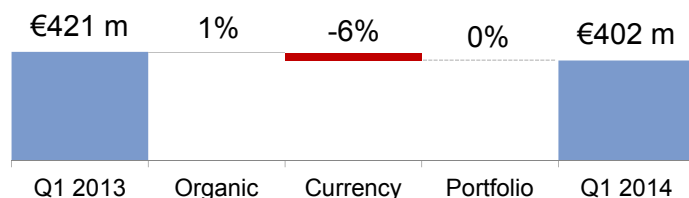


*Restated for product reclassification of Neurobion and Floratil from Biopharmaceuticals to Consumer Health

Performance Materials: Solid performance amid high comparables and strong currency headwinds

[€ m]	Q1 2014	Q1 2013
Sales	402	421
Marketing and selling	-33	-35
Admin	-8	-7
R&D	-37	-36
EBIT	152	173
EBITDA	179	203
EBITDA pre	186	207
<i>Margin (% of sales)</i>	<i>46.3%</i>	<i>49.2%</i>

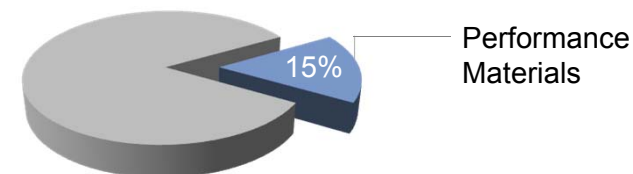
Sales bridge



Comments

- Sales lower as slight organic growth is more than offset by FX
- LC* organically flat, facing tough comparables due to last year's strong demand and subsidy program for consumers in China
- LC* flagship technologies benefitting from ongoing demand
- Pigments supported organically due to coating industry demand for Xirallic products and strong performance of cosmetic actives
- R&D increases slightly on investments in future technologies
- EBITDA pre down facing a strong base and FX headwinds

Q1 2014 share of group sales

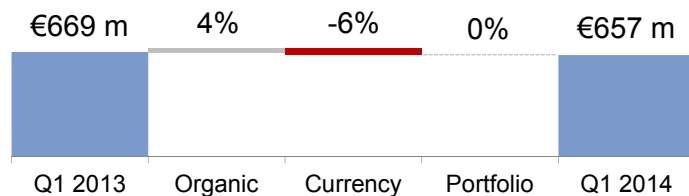


Life Science: Growth in Process Solutions improves profitability

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[€ m]	Q1 2014	Q1 2013
Sales	657	669
Marketing and selling	-169	-169
Admin	-29	-27
R&D	-38	-41
EBIT	87	72
EBITDA	164	151
EBITDA pre	170	162
<i>Margin (% of sales)</i>	<i>25.8%</i>	<i>24.2%</i>

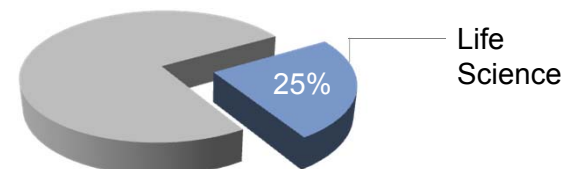
Sales bridge



Comments

- Sales decrease slightly as organic growth is more than offset by FX mainly driven by the Japanese yen and the U.S. dollar
- Process Solutions growth driven by biopharma demand mainly stemming from Emerging Markets and Europe
- U.S. budget sequestration continues to weigh on Bioscience
- Demand for water purification solutions in Emerging Markets drive solid organic growth in Lab Solutions
- Profitability increases due to solid demand and ongoing cost discipline

Q1 2014 share of group sales



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Full year 2014 guidance




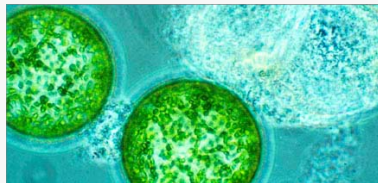
Group guidance for 2014, including AZ*

▶	Sales:	~ €10.9 – 11.1 bn	◀
▶	EBITDA pre:	~ €3.3 – 3.4 bn	◀
▶	EPS pre:	~ €9.00 – 9.50	◀



*The AZ Electronic Materials acquisition was closed on May 2, 2014 and will be consolidated as of this date

Guidance details

Biopharmaceuticals	Consumer Health	Performance Materials	Life Science
			
Sales	Sales	Sales	Sales
Organically stable	Moderate organic growth	Slight organic growth	Moderate organic growth
EBITDA pre	EBITDA pre	EBITDA pre*	EBITDA pre
~ €1.75 – 1.85 bn	~ €170 – 180 m	~ €830 – 880 m	~ €640 – 670 m
Group 2014 guidance*: ~ €3.3 to €3.4 billion EBITDA pre			

* Including AZ Electronic Materials from May to December 2014

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Appendix

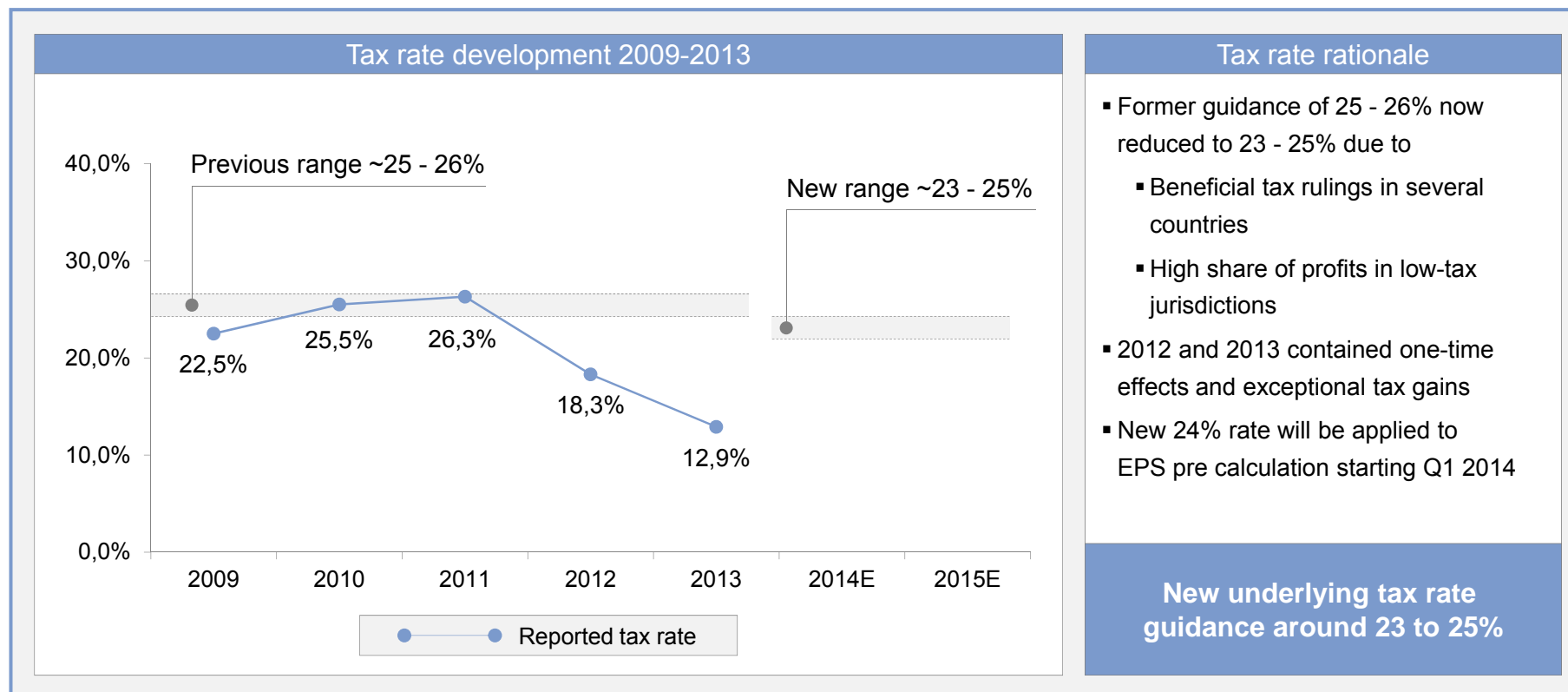
Additional financial guidance

Further financial details

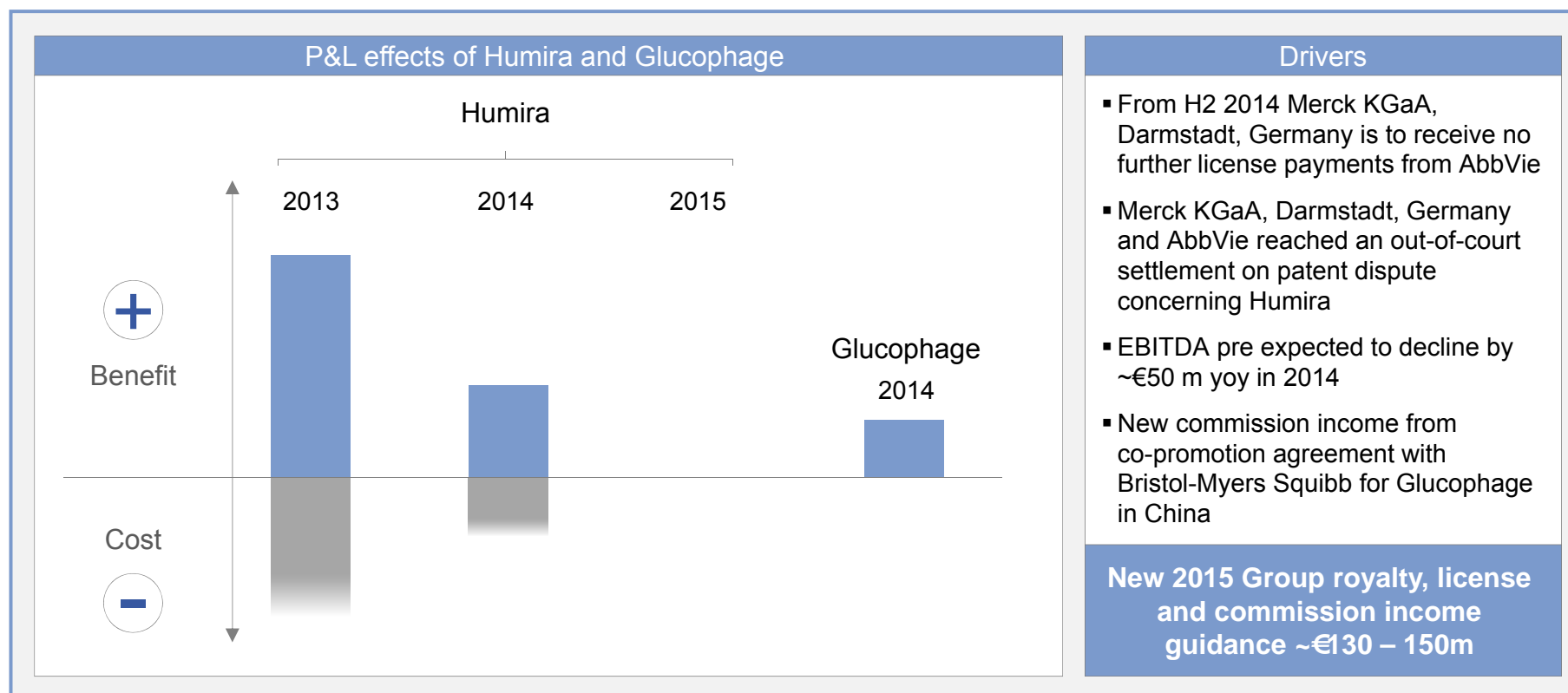
Group royalty, license and commission income in 2015	~€130 – 150 m
Corporate EBITDA pre	~€ -170 – 200 m
Underlying tax rate	~23% to 25%
Capex on PPE and software	~€500 m
Hedging / USD assumption	2014 & 2015 hedge rate ~30% at EUR/USD ~1.30 to 1.35



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



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



Illustration

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



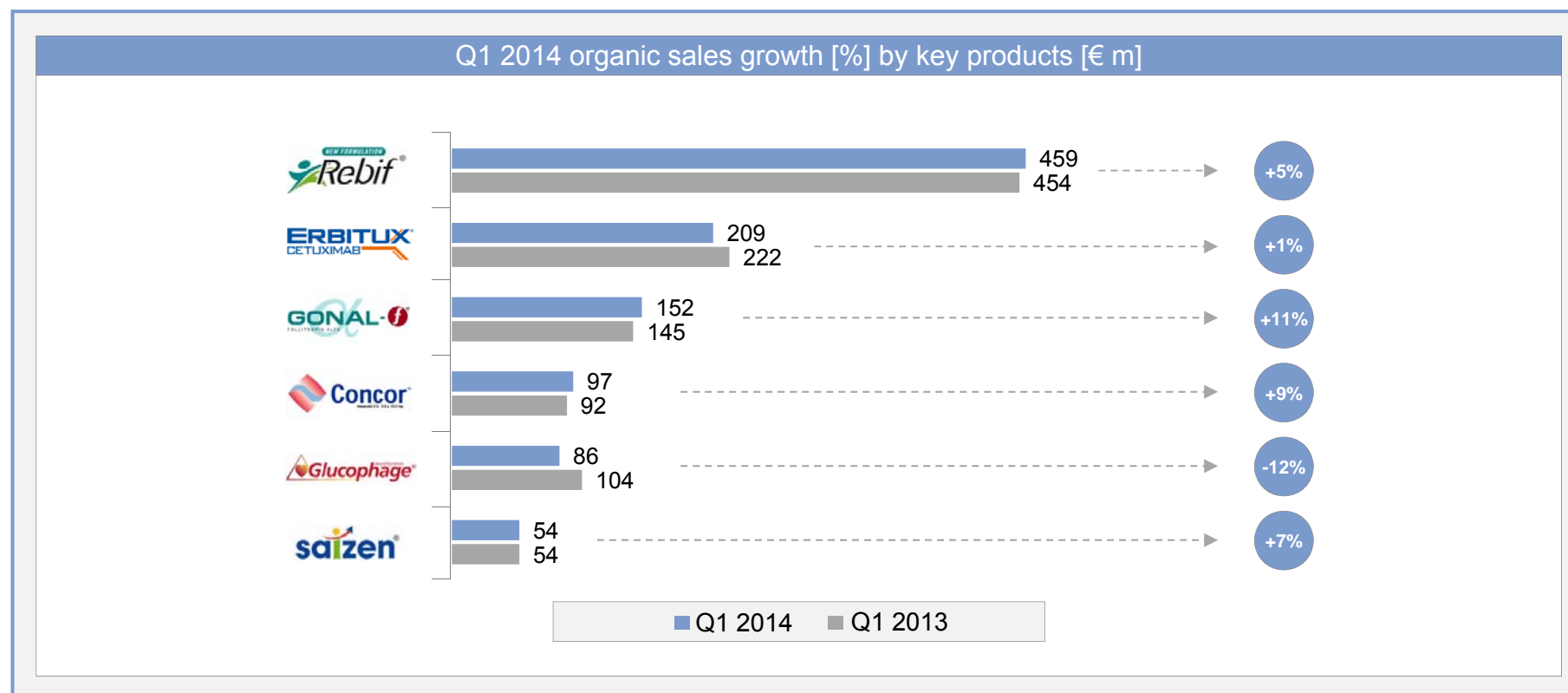
Solid business performance, lower financial and restructuring expenses contribute to EPS increase

[€ m]	Q1 2014	Q1 2013	Δ	Reported results
EBIT	468	399	17%	<ul style="list-style-type: none"> ▪ EBIT increases on lower one-time costs and organic growth offsetting lower royalties and FX headwinds ▪ Financial result improves on continued deleveraging and CTA* funding ▪ 2013 tax rate contained favorable regional profit split ▪ Net income increases in line with higher EBIT
Financial result	-35	-59	-41%	
Profit before tax	434	341	27%	
Income tax	-106	-72	48%	
<i>Tax rate (%)</i>	<i>24.5%</i>	<i>21%</i>		
Net income	325	266	22%	
EPS (€)	1.50	1.22	23%	

* Contractual Trust Arrangement

Biopharmaceuticals organic growth by product

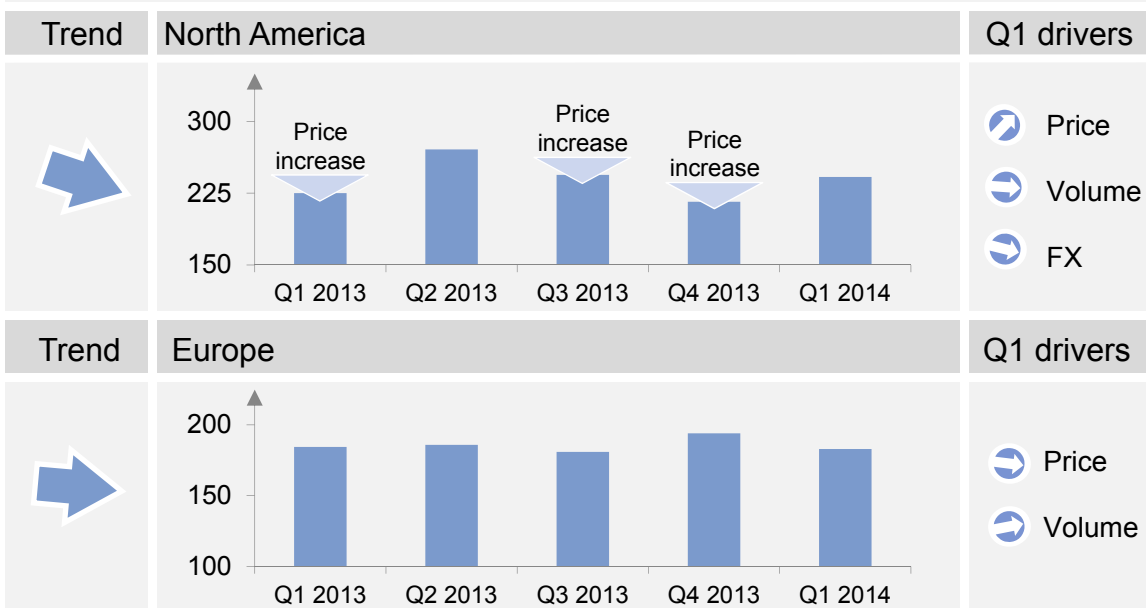
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Rebif – defending market leadership in Europe; competitive pressure in the U.S.



- Regional sales evolution [€ m]

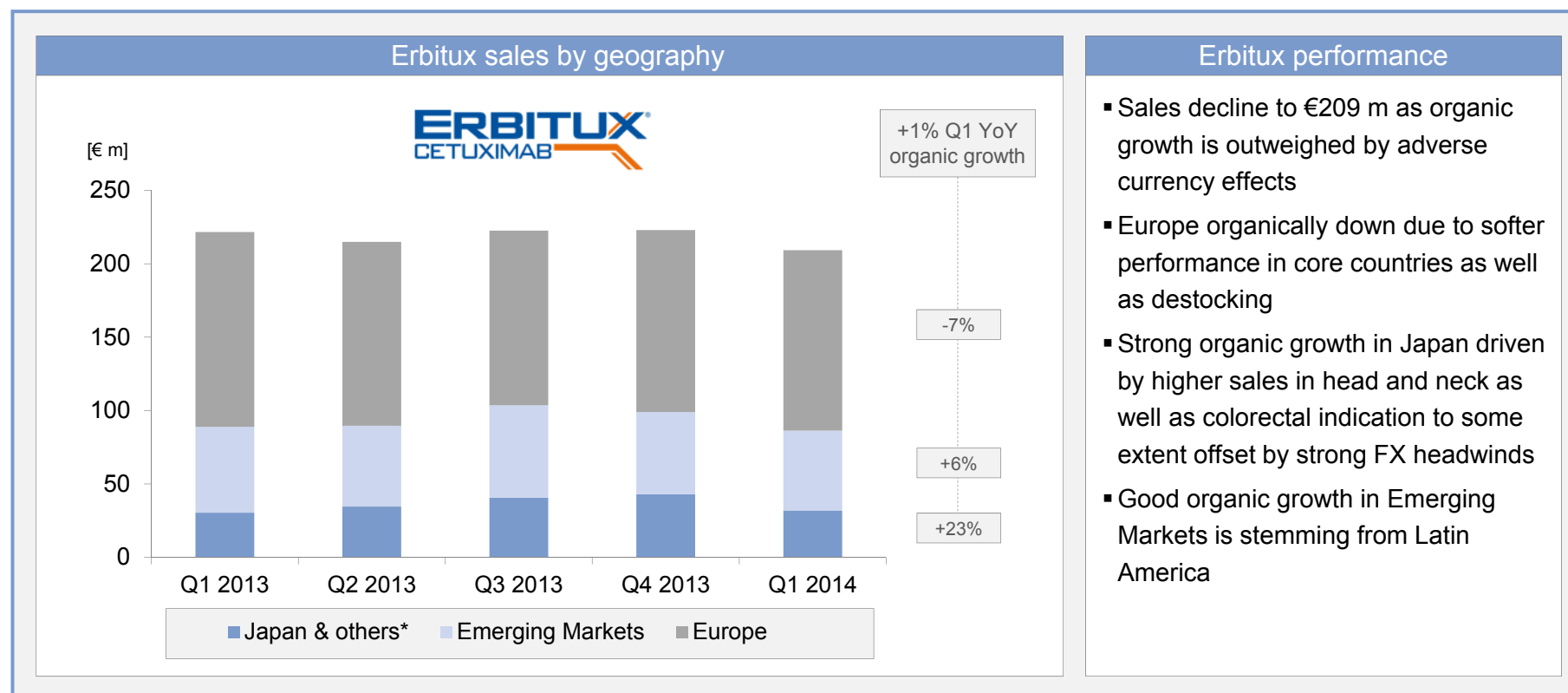


Rebif performance

- Sales increase slightly to €459 m as organic growth is partially offset by FX
- Organic growth in U.S. as pricing measures and wholesaler restocking overcompensate for volume declines driven by competition from orals
- Sales in Europe remain stable as Rebif continues to defend market leadership position

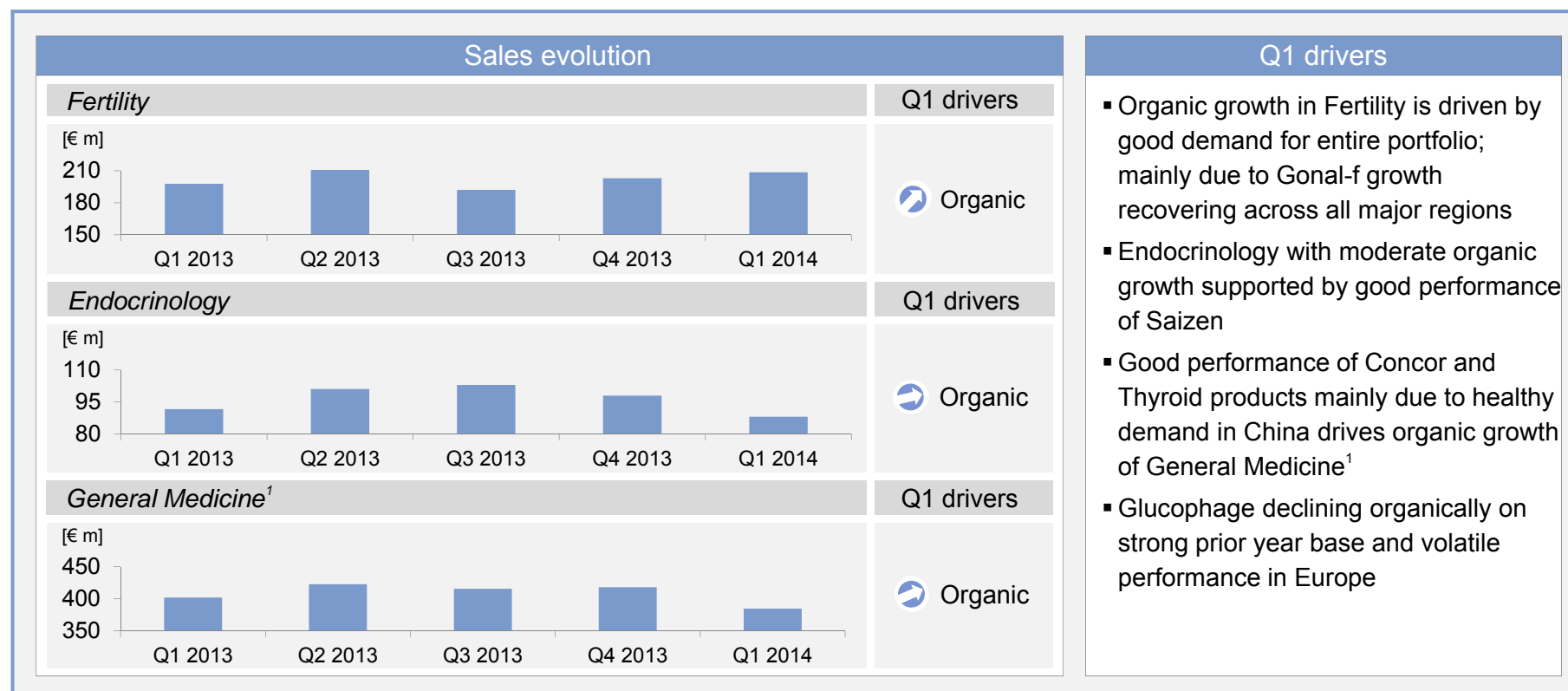
Erbitux – Japan continues to drive organic growth

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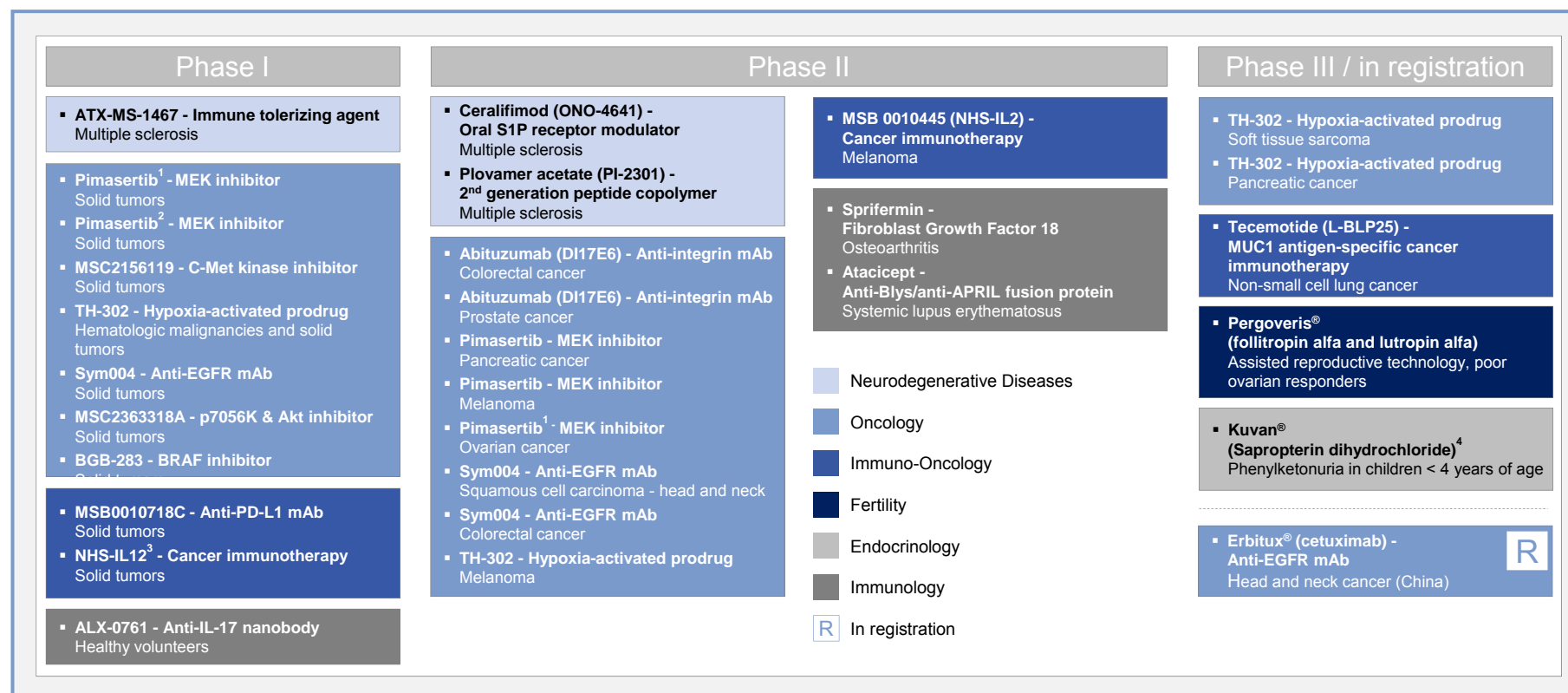
*Australia/Oceania, Africa

Strong growth in Fertility while Endocrinology and General Medicine grow more moderately



¹includes "Cardiometabolic Care & General Medicine and Others"

Biopharmaceuticals pipeline



Pipeline as of April 30, 2014; ¹ Novel combination with PI3K/mTOR inhibitor (SAR245409) from Sanofi, conducted under the responsibility of Merck KGaA, Darmstadt, Germany

² Novel combination with hDM2 inhibitor (SAR405838) from Sanofi, conducted under the responsibility of Sanofi; ³ Sponsored by the National Cancer Institute (USA);

⁴ Post-approval request by the European Medicines Agency

Balance sheet: Deleveraging continues

[€ m]	March 31, 2014	Dec 31, 2013		March 31, 2014	Dec 31, 2013
Current assets	7,739	7,385	Net equity	11,243	11,069
Cash and cash equivalents	2,495	981	Current liabilities	5,113	3,899
Marketable securities and financial assets	1,241	2,411	Current financial liabilities	1,812	440
Trade accounts receivable	2,044	2,021	Trade accounts payable	1,331	1,364
Inventories	1,512	1,474	Other current liabilities	1,093	1,135
Other current assets	352	361	Income tax liabilities	452	465
Income tax receivables	89	110	Current provisions	425	495
Assets held for sale	5	27	Non-current liabilities	4,653	5,851
Non-current assets	13,270	13,434	Non-current financial liabilities	1,917	3,257
Intangible assets	9,688	9,867	Other non-current liabilities	9	6
Property, plant and equipment	2,612	2,647	Non-current provisions	1,019	1,011
Non-current financial assets	80	78	Prov. for pensions / other	1,084	911
Other non-current assets	92	106	Deferred tax liabilities	623	666
Deferred tax assets	798	736	Total liabilities and equity	21,009	20,819
Total assets	21,009	20,819			

- Cash and cash equivalents increase in preparation for AZ acquisition
- Reclassification of 2015 bond (€1,350 m) from non-current to current liabilities

Totals may not add up due to rounding

Underlying cash flow strength

[€ m]	Q1 2014	Q1 2013	Δ	Cash flow drivers
Profit after tax	327	269	58	<ul style="list-style-type: none"> ▪ Higher profit after tax due to solid business performance and lower one-time items
D&A	302	354	-53	<ul style="list-style-type: none"> ▪ D&A lower as last year included restructuring related impairment and amortization for Avonex intangible
Changes in provisions	-47	23	-70	<ul style="list-style-type: none"> ▪ Changes in provisions lower as prior year included higher restructuring, LTIP² and litigation provisions
Changes in other assets / liabilities	-74	72	-146	<ul style="list-style-type: none"> ▪ Changes in other assets and liabilities contains tax refunds last year
Other operating activities	5	-8	13	<ul style="list-style-type: none"> ▪ Underlying operating cash flow solid
Operating cash flow before changes in WC	513	711	-198	<ul style="list-style-type: none"> ▪ Investing cash flow reflects disposal of financial assets in preparation for acquisition of AZ Electronic Materials
Changes in working capital	-105	-195	-90	
Operating cash flow	409	516	-107	
Investing cash flow	1,100	-324	1,424	
thereof Capex ¹	-57	-37	-20	
Financing cash flow	7	-107	114	

¹Only PPE without intangibles; ²Long Term Incentive Plan
Totals may not add up due to rounding

External growth criteria

Strategic criteria

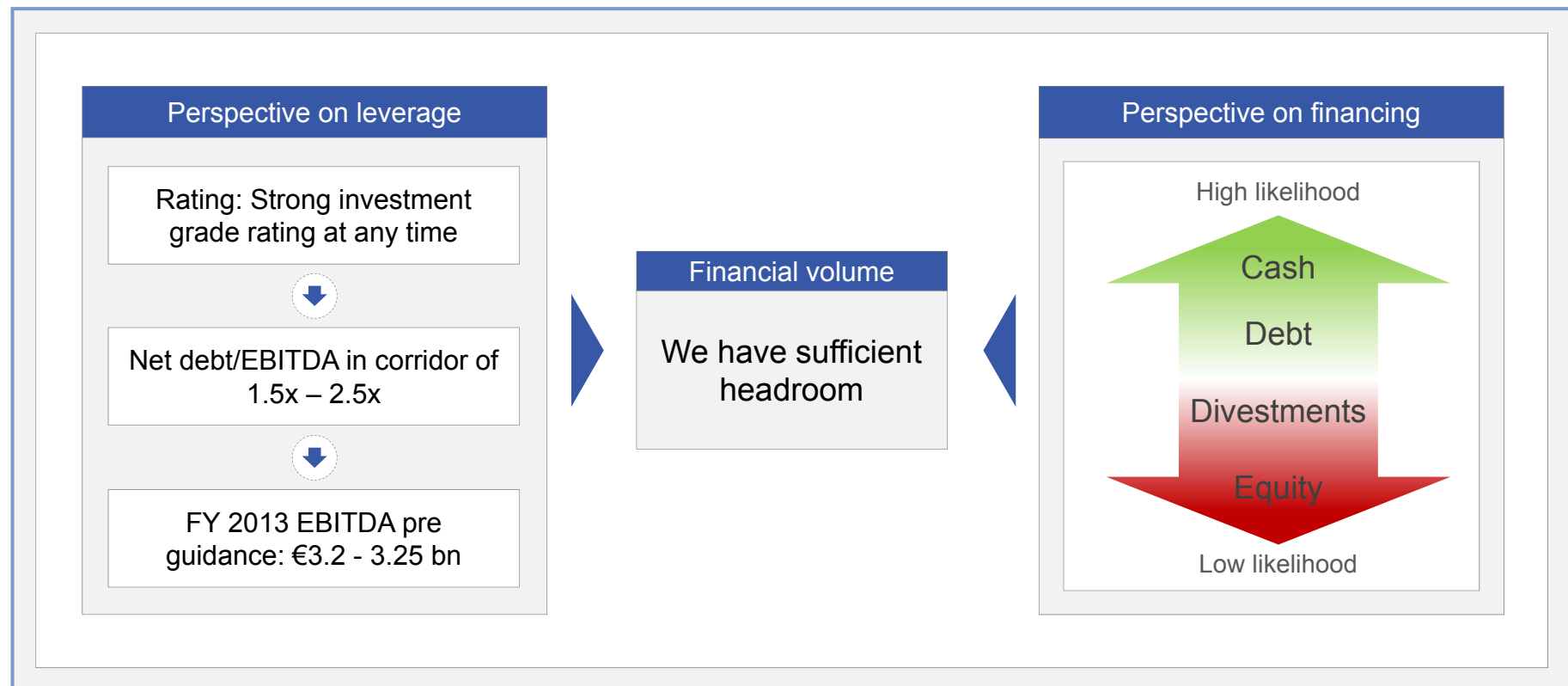
- ▶ Portfolio fit: Innovations for specialty markets
- ▶ Complementary to business model: Customer intimacy and leading positions
- ▶ Cultural fit

Financial criteria

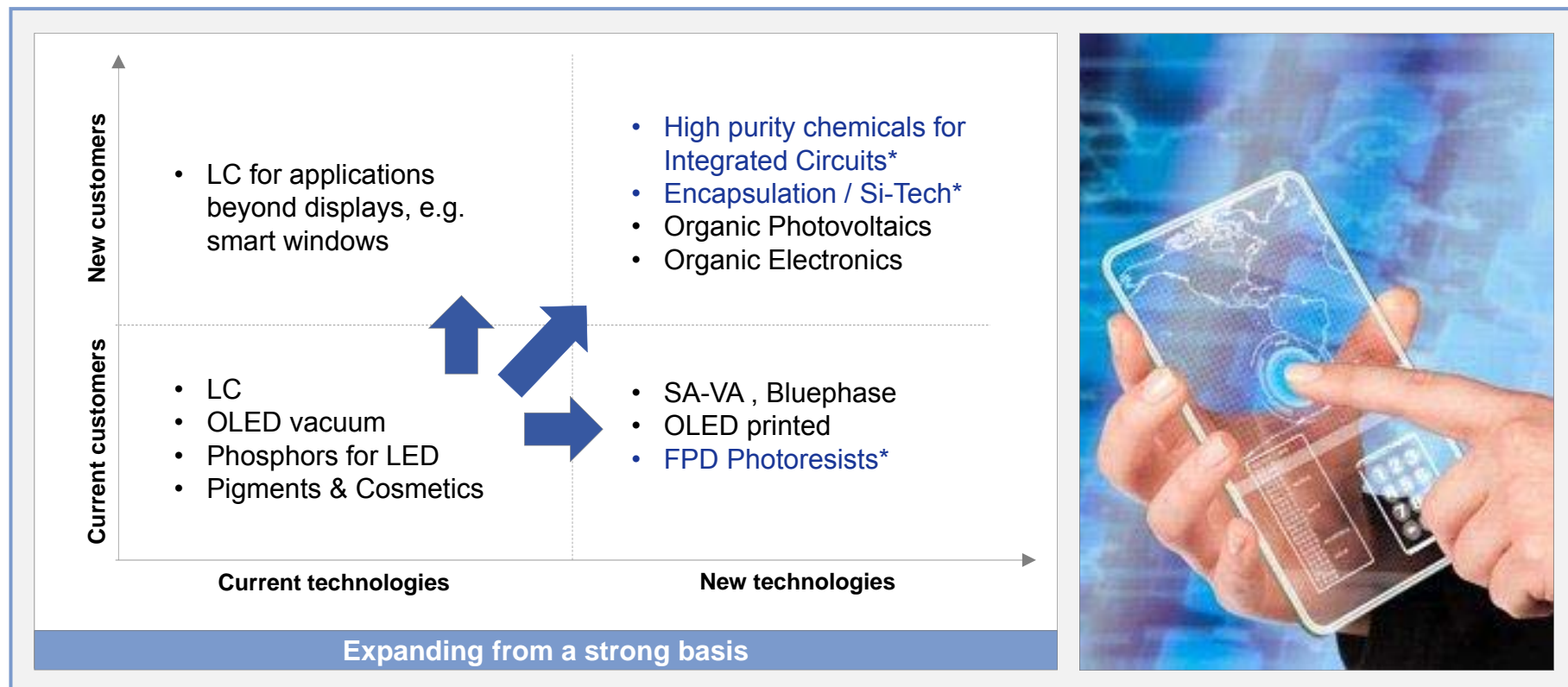
- ▶ EPS accretive in one to three years for commercial asset acquisitions
- ▶ Strong investment grade rating maintained
- ▶ Adherence to conservative financial policy



Financial M&A framework



Performance Materials – tapping into adjacent markets and technologies



*New technologies for Merck KGaA, Darmstadt, Germany added by AZ

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	<ul style="list-style-type: none"> No. 1 or 2 in ~80% of sales; high share of patent protection Chemicals only ~3% of procurement costs 	US\$ m ²	2011	2012	LTM H1 2013
Chemical products	<ul style="list-style-type: none"> For displays: e.g. photoresists For ICs: dielectrics, colloidal silica 	Revenue	792	794	774
EBITDA margins	<ul style="list-style-type: none"> IC Materials ~40%¹ Optronics ~30%¹ 	% yoy at constant FX	+10%	+2%	n.a.
R&D spend	<ul style="list-style-type: none"> Above-average 7% of sales¹ New products drive and support margins 	EBITDA	261	262	248
		% of sales	33%	33%	32%
		D&A	110	112	106
		% of sales	14%	14%	14%
		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

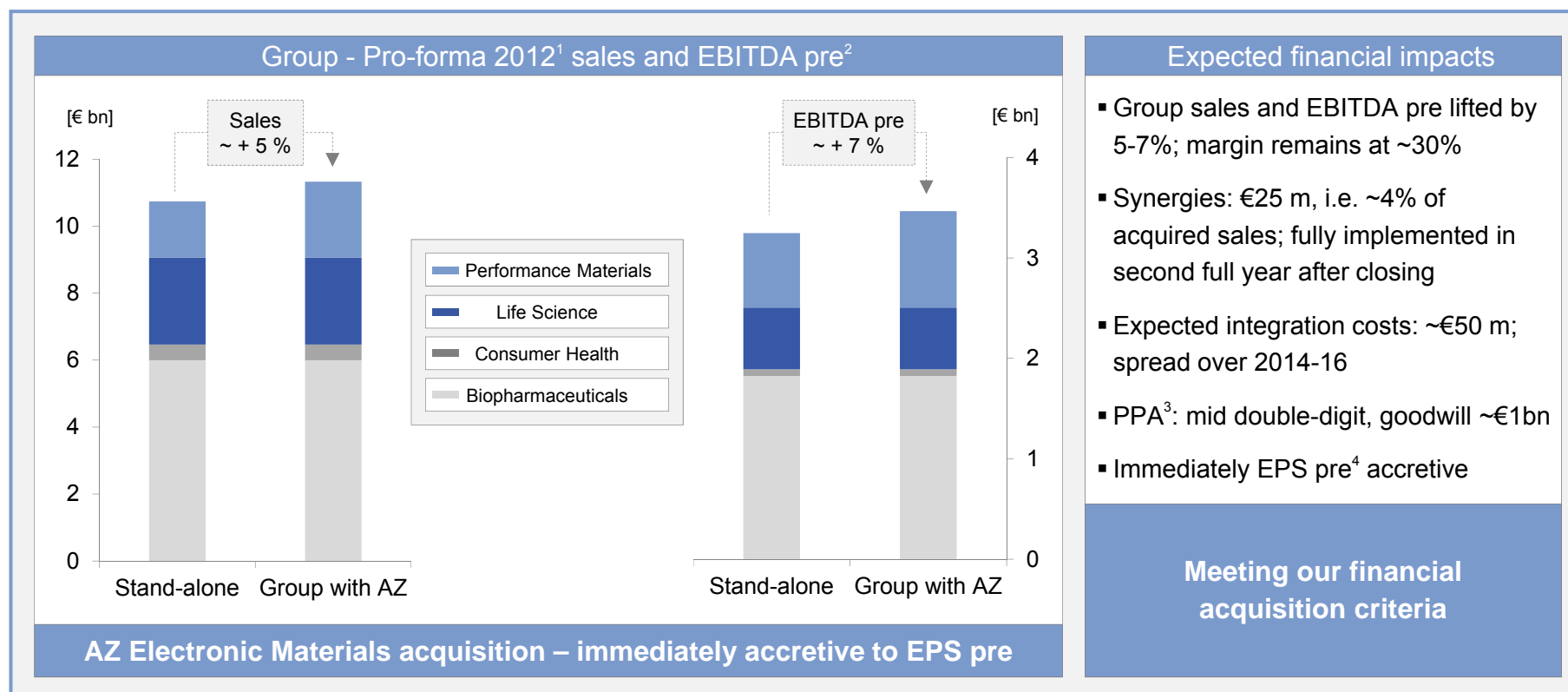
- UK Takeover Code applies
- Expected publication of offer document: December 2013
- Expected closing of the transaction: H1 2014

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

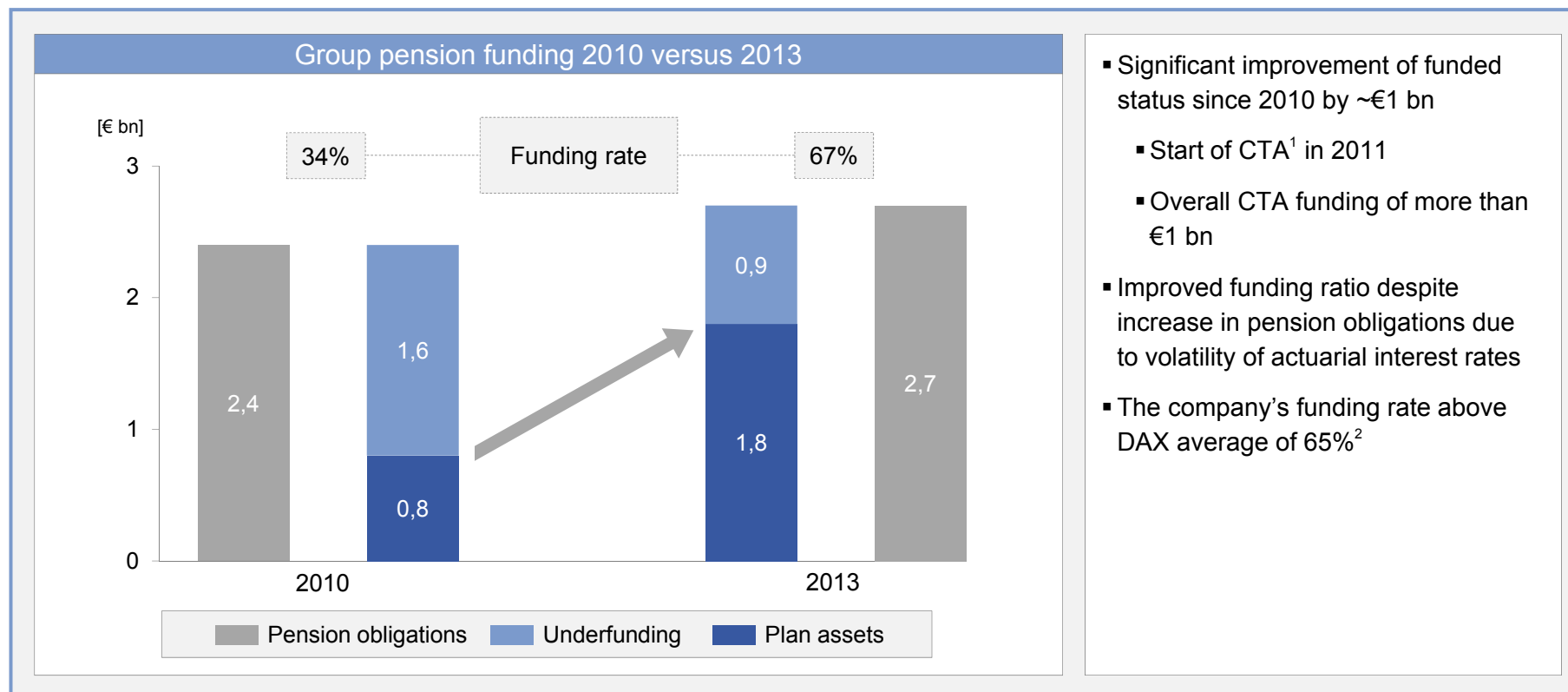
Accessing additional source for future growth in adjacent electronics chemicals applications

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



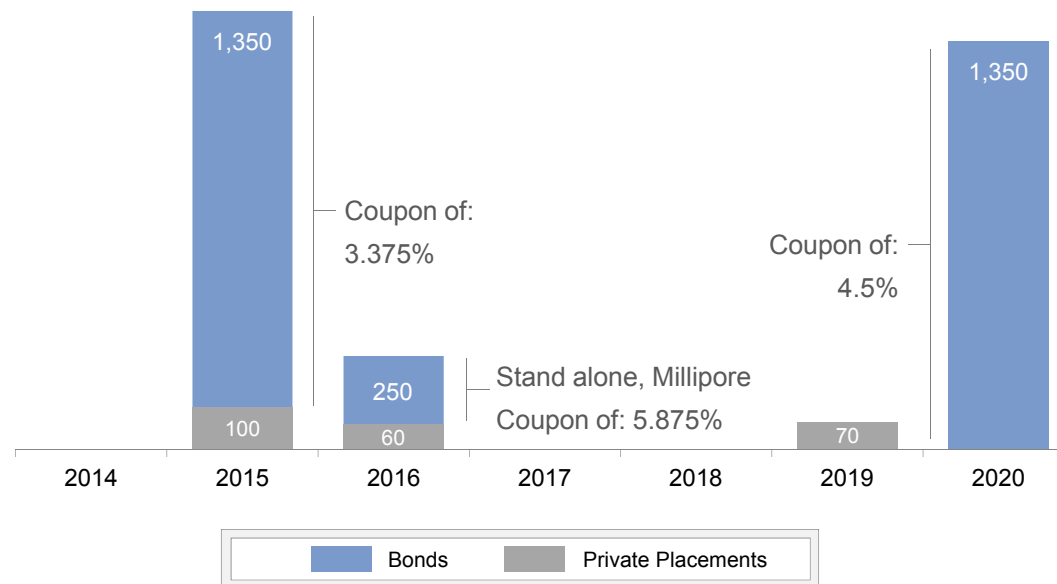
¹Contractual Trust Arrangement; ²Source: Towers/Watson

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 ~€3.7 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 March 2014 [€ m]



One-time items in Q1 2014

One-time items on EBIT				
[€ m]	Q1 2014		Q1 2013	
	One-time items	thereof D&A	One-time items	thereof D&A
Biopharmaceuticals	11	1	56	27
Consumer Health	2	0	0	0
Performance Materials	8	0	4	0
Life Science	6	0	10	0
Corporate & Other	11	0	3	0
Total	38	1	74	27

Financial calendar

Merck KGaA
Darmstadt · Germany

Date	Event
August 13, 2014	Q2 2014 Earnings release
November 13, 2014	Q3 2014 Earnings release
March 3, 2015	Q4 2014 Earnings release
April 17, 2015	Annual General Meeting 2015
May 19, 2015	Q1 2015 Earnings release



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