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Q2 2014 Financial Summary for Investors and Analysts

Merck KGaA, Darmstadt, Germany – Sound business performance supported by inorganic growth:

- **Organic sales growth and portfolio outweigh FX headwinds**
- **Double-digit growth in Emerging Markets, all divisions contribute**
- **AZ acquisition completed, integration to be concluded by end of 2014**
- **EBITDA pre margin improves to 30.3% (EBITDA pre at €846 m)**
- **Healthy balance sheet and solid cash generation**
- **Full-year guidance confirmed**

Overview Financials

Q2 2014 Overview

- Sales up on organic improvement and portfolio overcompensating for negative currency effects
- EBITDA pre and EPS pre up on organic performance and portfolio despite loss of royalty income
- Underlying operating cash flow remains on healthy level
- Jump in working capital reflects consolidation from AZ
- Increase in headcount includes ~1,150 employees from AZ

Q2 2014 Balance Sheet

- Balance sheet reflects AZ's assets and liabilities
- Reclassification of 2015 bond (€1,350 m) from non-current to current liabilities

Q2 2014 Cash flow Statement

- Lower profit after tax impacted by one-time inventory step-up from AZ
- Lower interest and tax payments drive changes in other assets and liabilities
- Changes in working capital reflect increase in receivables
- Investing cash flow contains disposal of financial assets and purchase of AZ
- Payment for AZ and repayment of its loans drive financing cash flow

Q2 2014 Business Overview

Biopharmaceuticals

- **Emerging Markets drive organic growth**
- Sales deviation yoy: organic +3.0%, FX -4.4%, portfolio 0.0%
- Solid organic sales growth is overshadowed by FX headwinds
- Rebif softer as past U.S. pricing is outweighed by competition from orals, increasingly also in Europe
- Erbitux performance driven by volume expansion in Emerging Markets (EM) and market share gains in Japan
- General Medicine* with largest contribution to EM performance
- R&D increase due to cost phasing as well as one-time costs
- Despite positive pricing effects, EBITDA pre margin declines on termination of Avonex and Enbrel royalty streams and FX

Consumer Health

- **Strategic brands fuel growth**
- Sales deviation yoy: organic +8.5%, FX -5.2%, portfolio 0.0%
- Slight increase in sales driven by strong organic growth offsetting continued currency headwinds
- Strategic brands show ongoing good development in Emerging Markets (Neurobion and Floratil in Brazil)
- Pregnancy supplements (Femibion) continue to contribute nicely in Europe due to good demand and new sales force initiatives
- Strong season for mosquito repellents following soft winter supports performance of local brands in Europe
- Improved profitability driven by positive pricing and favorable product mix as a result of focusing on strategic products

Performance Materials

- **First quarter of AZ contribution**
- Sales deviation yoy: organic +1.8%, FX -5.1%, portfolio 20.5%
- Sales increase as organic growth and portfolio effects from AZ more than offset currency headwinds
- Liquid Crystals with healthy demand for flagship technologies PS-VA and IPS yields sound organic growth on tough comparables
- AZ with slight organic growth mainly from Optronics
- Solid demand from coating industry for Xirallic products yields slight organic growth in Pigments
- Reported EBIT and EBITDA contain AZ inventory step-up

*Includes "Cardiometabolic Care & General Medicine and Others"

Life Science

- **Profitable growth in Process Solutions**
- Sales deviation yoy: organic +4.0%, FX -4.2%, portfolio -0.9%
- Organic growth offset by FX and portfolio
- Process Solutions continues to drive divisional performance due to strong biopharma demand in all regions
- Lab Solutions organically flat, as good demand for solvents and consumables in Emerging Markets is offset by softer Europe
- Bioscience slightly growing as demand for Amnis products and Q2 sales initiatives outweigh impact of U.S. budget sequestration
- Increase in EBITDA pre and margin owing to higher volumes and prices as well as continued cost control

2014 Outlook (including AZ*):

The Group:

- **EBITDA pre: ~ €3.3 – 3.4 bn**
- Sales: ~ €10.9 – 11.1 bn
- EPS pre**: ~ €4.50 – 4.75

Outlook by division:

Biopharmaceuticals

- Slight organic sales growth
- EBITDA pre: ~ €1.75 – 1.83 bn

Consumer Health

- Moderate organic sales growth
- EBITDA pre: ~ €170 – 180 m

Performance Materials*

- Slight organic sales growth
- EBITDA pre: ~ €850 – 880 m

Life Science

- Moderate organic sales growth
- EBITDA pre: ~ €640 – 670 m

Additional financial guidance

- The Group royalty, license and commission income in 2015 ~ €130 – 150 m
- Corporate EBITDA pre: around -€160-190 m
- Underlying tax rate: ~ 23% to 25%
- Capex on PPE and software: ~ €450 – 500 m
- Hedging / USD assumption: 2014 and 2015 hedge ratio around 30% at EUR/USD ~ 1.30 – 1.35

*Including AZ Electronic Materials from May to December 2014

**Based on number of shares after the share split, which has been effective since June 30, 2014

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Executive Board

and General Partners:

Karl-Ludwig Kley (Chairman),

Kai Beckmann, Marcus Kuhnert, Stefan Oschmann,

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The Group Q2

€ m	Group			Serono			Consumer Health			Performance Materials			Millipore			Corporate/Others		
	Q2 2013	Q2 2014	% YoY	Q2 2013	Q2 2014	% YoY	Q2 2013	Q2 2014	% YoY	Q2 2013	Q2 2014	% YoY	Q2 2013	Q2 2014	% YoY	Q2 2013	Q2 2014	% YoY
Sales	2,744	2,796	2%	1,468	1,446	-1%	179	185	3%	431	506	17%	666	659	-1%			
% organic			3%			3%			8%			2%			4%			
% FX			-5%			-4%			-5%			-5%			-4%			
% portfolio			3%			0%			0%			21%			-1%			
EBIT	465	441	-5%	266	240	-10%	34	37	8%	170	137	-19%	72	75	4%	-78	-48	-38%
Depreciation and amortization	328	326	-1%	211	205	-3%	2	2	4%	35	41	16%	76	75	-1%	3	3	1%
EBITDA	793	767	-3%	478	444	-7%	37	39	8%	205	178	-13%	148	150	1%	-74	-45	-40%
One-time items on EBITDA	33	79	>100%	-3	8	n.m.	-1	2	n.m.	4	48	>100%	8	15	>100%	26	5	-80%
EBITDA (pre-one time items)	826	846	2%	475	452	-5%	35	41	17%	209	226	8%	156	166	6%	-49	-40	-18%

The Group H1

€ m	Group			Serono			Consumer Health			Performance Materials			Millipore			Corporate/Others		
	H1 2013	H1 2014	% YoY	H1 2013	H1 2014	% YoY	H1 2013	H1 2014	% YoY	H1 2013	H1 2014	% YoY	H1 2013	H1 2014	% YoY	H1 2013	H1 2014	% YoY
Sales	5,404	5,409	0%	2,856	2,821	-1%	361	365	1%	852	908	7%	1,335	1,315	-1%			
% organic			4%			4%			7%			1%			4%			
% FX			-5%			-5%			-6%			-5%			-5%			
% portfolio			2%			0%			0%			10%			0%			
EBIT	865	909	5%	437	476	9%	71	74	4%	343	289	-16%	145	162	12%	-130	-91	-30%
Depreciation and amortization	682	628	-8%	449	397	-12%	5	5	-4%	66	68	3%	155	152	-2%	7	7	-2%
EBITDA	1,547	1,537	-1%	886	872	-2%	76	78	3%	408	357	-13%	300	314	5%	-123	-84	-32%
One-time items on EBITDA	81	116	43%	26	18	-33%	-1	4	n.m.	8	56	>100%	18	21	18%	29	16	-44%
EBITDA (pre-one time items)	1,627	1,653	2%	913	890	-2%	75	83	11%	416	413	-1%	318	335	6%	-94	-68	-28%

Net financial debt* 307 2,220 >100%

* 2013 is Dec. 31

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The Group

P&L Group	Q2 2013	Q2 2014	% YoY
Sales	2,744	2,796	2%
Royalty, license and commission income	97	68	-30%
Total revenues	2,841	2,863	1%
Cost of sales	-768	-829	8%
Gross profit	2,073	2,035	-2%
Marketing and selling expenses	-616	-602	-2%
Royalty and commission expenses	-157	-139	-11%
Administration	-138	-151	10%
Other operating income/expenses	-115	-110	-4%
Research and development	-374	-394	6%
Amortization of intangible assets	-209	-197	-6%
EBIT	465	441	-5%
Depreciation and amortization	328	326	-1%
EBITDA	793	767	-3%
One-time items on EBITDA	33	79	>100%
EBITDA (pre-one time items)	826	846	2%
Financial result	-49	-50	3%
Profit before tax	417	391	-6%
Income tax	-101	-85	-16%
Income tax rate	24%	22%	
Profit after tax	316	306	-3%
Non-controlling interest	0	-3	>100%
Net income	316	303	-4%
Number of theoretical shares in million	434.8	434.8	
EPS in €	0.73	0.70	-4%
EPS (pre one-time items) in €	1.13	1.16	3%

Biopharmaceuticals

P&L MS	Q2 2013	Q2 2014	% YoY
Sales	1,468	1,446	-1%
Royalty, license and commission income	93	64	-31%
Total revenues	1,560	1,511	-3%
Cost of sales	-258	-249	-3%
Gross profit	1,302	1,261	-3%
Marketing and selling expenses	-332	-324	-2%
Royalty and commission expenses	-152	-134	-12%
Administration	-50	-56	13%
Other operating income/expenses	-53	-53	1%
Research and development	-295	-312	6%
Amortization of intangible assets	-155	-143	-8%
EBIT	266	240	-10%
Depreciation and amortization	211	205	-3%
EBITDA	478	444	-7%
One-time items on EBITDA	-3	8	n.m.
EBITDA (pre-one time items)	475	452	-5%

Consumer Health

P&L CH	Q2 2013	Q2 2014	% YoY
Sales	179	185	3%
Royalty, license and commission income	1	0	-74%
Total revenues	180	185	3%
Cost of sales	-62	-60	-4%
Gross profit	118	125	7%
Marketing and selling expenses	-72	-70	-3%
Royalty and commission expenses	0	-1	>100%
Administration	-6	-7	3%
Other operating income/expenses	2	-5	n.m.
Research and development	-6	-5	-17%
Amortization of intangible assets	-1	-1	16%
EBIT	34	37	8%
Depreciation and amortization	2	2	4%
EBITDA	37	39	8%
One-time items on EBITDA	-1	2	n.m.
EBITDA (pre-one time items)	35	41	17%

Performance Materials

P&L PM	Q2 2013	Q2 2014	% YoY
Sales	431	506	17%
Royalty, license and commission income	1	0	-65%
Total revenues	432	506	17%
Cost of sales	-160	-245	53%
Gross profit	271	261	-4%
Marketing and selling expenses	-37	-45	22%
Royalty and commission expenses	0	-1	>100%
Administration	-8	-15	89%
Other operating income/expenses	-19	-20	5%
Research and development	-33	-38	13%
Amortization of intangible assets	-4	-5	29%
EBIT	170	137	-19%
Depreciation and amortization	35	41	16%
EBITDA	205	178	-13%
One-time items on EBITDA	4	48	>100%
EBITDA (pre-one time items)	209	226	8%

Life Science

P&L MM	Q2 2013	Q2 2014	% YoY
Sales	666	659	-1%
Royalty, license and commission income	2	3	15%
Total revenues	669	661	-1%
Cost of sales	-286	-274	-4%
Gross profit	383	387	1%
Marketing and selling expenses	-174	-164	-5%
Royalty and commission expenses	-4	-3	-19%
Administration	-23	-26	13%
Other operating income/expenses	-20	-30	54%
Research and development	-40	-39	-1%
Amortization of intangible assets	-50	-49	-2%
EBIT	72	75	4%
Depreciation and amortization	76	75	-1%
EBITDA	148	150	1%
One-time items on EBITDA	8	15	>100%
EBITDA (pre-one time items)	156	166	6%