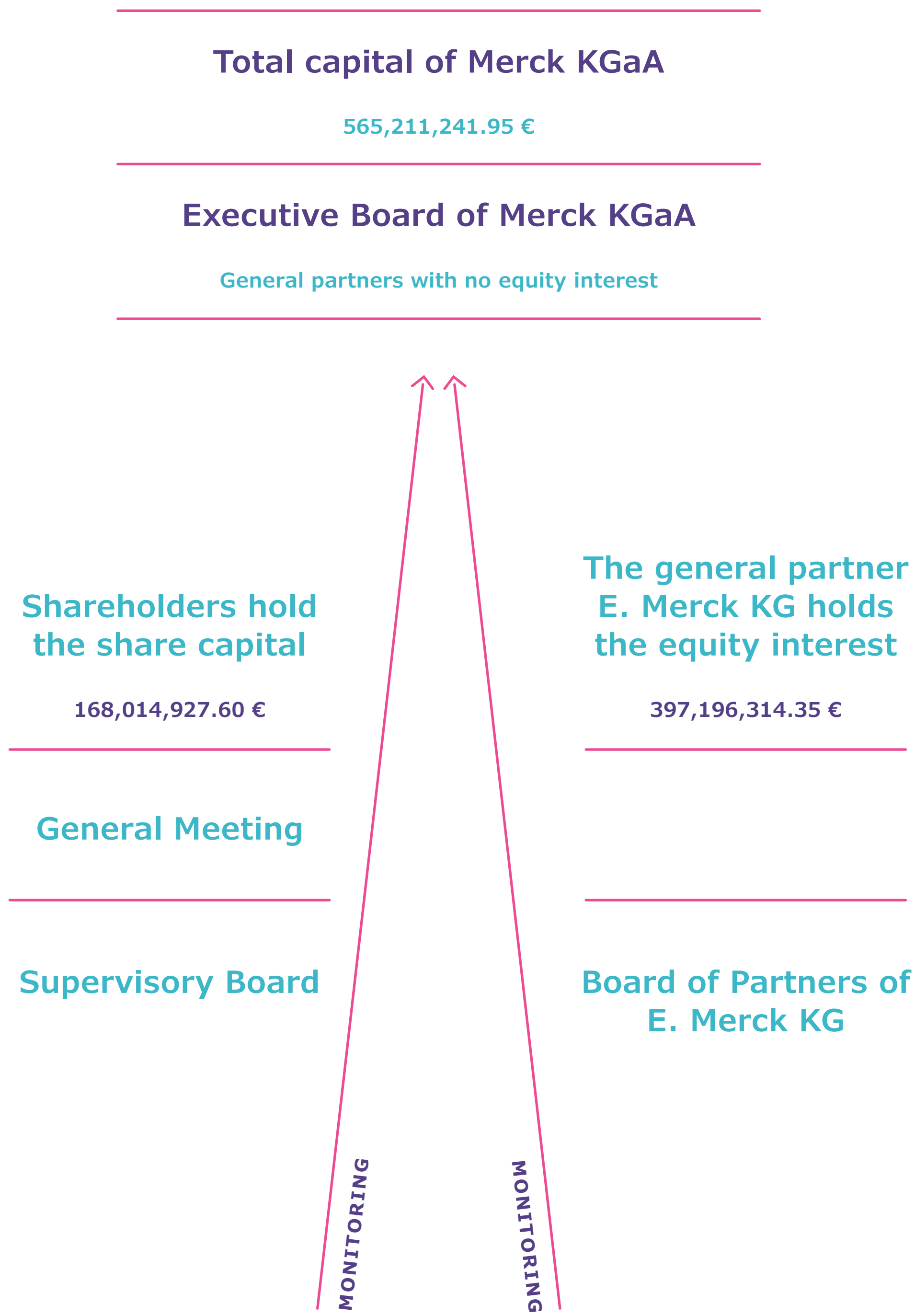
CORPORATE GOVERNANCE

163–196

CORPORATE GOVERNANCE

Capital Structure and Corporate Bodies of Merck KGaA



Further information can be found under “Merck KGaA” on page 166.

Statement on Corporate Governance

The Statement on Corporate Governance contains the Declaration of Conformity, relevant information on practices within the company, a description of the procedures of the corporate bodies, as well as targets for the percentage of positions held by women as well as the diversity policy.

Joint report of the Executive Board and the Supervisory Board according to section 3.10 of the German Corporate Governance Code including the Declaration of Conformity

The German Corporate Governance Code is geared toward the conditions found in a German stock corporation ("Aktiengesellschaft" or "AG") and does not take into consideration the special characteristics of a corporation with general partners ("Kommanditgesellschaft auf Aktien" or "KGaA") such as Merck KGaA. Given the structural differences between an AG and a KGaA, several recommendations of the German Corporate Governance Code are to be applied to a KGaA only in a modified form. Major differences between the two legal forms exist in terms of 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) of the German Stock Corporation Act – "AktG"). At Merck KGaA, this pertains to both E. Merck KG – which pursuant to Article 8 (5) of the Articles of Association is excluded from management and representation – as well as to the managing general partners, who together make up the Executive Board of Merck KGaA. The members of the Executive Board of Merck KGaA are therefore subject to unlimited personal liability. Unlike an AG, their executive authority is not conferred by the Supervisory Board, but rather by their status as general partners. Consequently, in addition to other responsibilities typical of the supervisory board of an AG (see description of the procedures of the Supervisory Board on pages 186 et seq.), the supervisory board of a KGaA does not have the authority to appoint the management board, draw up management board contracts or specify compensation of the management board. This legal form also involves special features with regard to the General Meeting. For example, in a KGaA, many of the resolutions made require the consent of the general partners (section 285 (2) AktG), including in particular the adoption of the annual financial statements (section 286 (1) AktG).

Merck KGaA applies the German Corporate Governance Code analogously where these regulations are compatible with the legal form of a KGaA. In order to enable shareholders to compare the situation at other companies more easily, to a broad extent we base corporate governance on the conduct recommendations made by the Government Commission of the German Corporate Governance Code and forego having our own, equally permissible, code. The recommendations of the Code in the version dated February 7, 2017, the intent and meaning of which are applied, were complied with in the period between the last Declaration of Conformity issued on February 28, 2018 with one exception.

For a clearer understanding, the following gives a general explanation of the application of German company law at Merck KGaA with additional references to the General Meeting and shareholder rights.

MERCK KGAA

The general partner E. Merck KG holds around 70% of the total capital of Merck KGaA (equity interest); the shareholders hold the remainder, which is divided into shares (share capital). E. Merck KG is excluded from the management of business activities. The general partners with no equity interest (Executive Board) manage the business activities. Nevertheless, due to its substantial capital investment and unlimited personal liability, E. Merck KG has a strong interest in the businesses of Merck KGaA operating efficiently in compliance with procedures. Merck KGaA's participation in the profit/loss of E. Merck KG in accordance with Articles 26 et seq. of the Articles of Association further harmonizes the interests of the shareholders and of E. Merck KG. E. Merck KG appoints and dismisses the Executive Board. In addition, E. Merck KG has created bodies – complementing the expertise and activities of the Supervisory Board – to monitor and advise the Executive Board. This task applies primarily to the Board of Partners of E. Merck KG.

Based on the provisions of the German Stock Corporation Act, the Articles of Association of Merck KGaA and the rules of procedure of the various committees, Merck KGaA has a set of rules for the Executive Board and its supervision that meet the requirements of the German Corporate Governance Code. The investors, who bear the entrepreneurial risk, are protected as provided for by the German Corporate Governance Code.

THE GENERAL MEETING OF MERCK KGAA

The twenty-third General Meeting of Merck KGaA was held on April 27, 2018 in Frankfurt am Main, Germany. At 59.25%, the proportion of share capital represented at the meeting was slightly lower than in the previous year. In 2017, the proportion of share capital represented was 64.03%.

In particular, the Annual General Meeting passes resolutions concerning the approval of the annual financial statements, the appropriation of net retained profit, the approval of the actions of the Executive Board members and the Supervisory Board members, as well as the election of the auditor. Changes to the Articles of Association likewise require the adoption of a resolution by the General Meeting. The shareholders of Merck KGaA exercise their rights at the General Meeting. They may exercise their voting rights personally, through an authorized representative or through a proxy appointed by the company. The proxy is in attendance throughout the duration of the General Meeting. All the documents and information concerning upcoming General Meetings (including a summary explanation of shareholder rights) are also posted on our website. Moreover, the General Meeting is webcast live on the Internet from its commencement until the end of the speech by the Chairman of the Executive Board. The introductory speeches by the Chairman of the Executive Board and the Chairman of the Supervisory Board are recorded in order to make them available to interested members of the public at any time after the meeting. In this way, we are satisfying the high transparency requirements of the Merck Group.

DECLARATION OF CONFORMITY

In accordance with section 161 AktG, applying the provisions of the German Corporate Governance Code correspondingly, the Executive Board and the Supervisory Board issued the following Declaration of Conformity with the recommendations of the Government Commission of the German Corporate Governance Code:

“Declaration of the Executive Board and the Supervisory Board of Merck KGaA on the recommendations of the Government Commission of the German Corporate Governance Code pursuant to section 161 AktG. Since the last Declaration of Conformity on February 28, 2018, we have complied with the recommendations of the Government Commission of the German Corporate Governance Code in the version dated February 7, 2017 published in the official section of the German Federal Gazette with the following exception: Contrary to section 5.3.2 of the German Corporate Governance Code, the Supervisory Board has not established an audit committee. However, an audit committee does exist in the form of the Finance Committee of the Board of Partners of E. Merck KG, which to a large extent exercises the duties described in section 5.3.2 of the Code. Due to the relatively limited authority of the supervisory board of a KGaA in comparison with that of an AG, this therefore satisfies the requirements of the German Corporate Governance Code.

In view of future compliance with the current recommendations of the Government Commission of the German Corporate Governance Code, the Executive Board and the Supervisory Board declare the following: With the exception of the aforementioned deviation from section 5.3.2 (audit committee), the company will comply with the recommendations of the Code in the version dated February 7, 2017.”

Darmstadt, February 26, 2019

For the Executive Board	For the Supervisory Board
s. Stefan Oschmann	**s. Wolfgang Büchele**

Compensation report

(The compensation report is part of the notes to the audited consolidated financial statements).

COMPENSATION PHILOSOPHY

As the world's oldest pharmaceutical and chemical company, Merck attaches great importance to responsible governance and entrepreneurship. This is also reflected by the compensation of the members of the Executive Board of Merck KGaA. Unlike management board members of stock corporations, they are not merely employed members of a corporate board. Rather, they are personally liable general partners of both Merck KGaA and the general partner E. Merck KG, and in this capacity they receive profit sharing from E. Merck KG. Owing to the legal form as a KGaA (corporation with general partners), the stipulations of the German Corporate Governance Code concerning the compensation of management board members of publicly listed German stock corporations as well as the individual disclosure thereof do not apply to the Executive Board members of Merck KGaA. Nevertheless, we have decided to comply with the requirements of the German Corporate Governance Code.

The compensation paid to the members of the Executive Board takes into account the responsibilities and duties of the individual Executive Board members, their status as personally liable partners, their individual performance, the economic situation, as well as the performance and future prospects of the company.

Furthermore, Executive Board compensation orients towards the external peer environment of Merck KGaA, meaning in a comparison with other German blue-chip companies as well as international competitors. The relationship between Executive Board compensation and the compensation of top management and the workforce as a whole continues to be taken into account, also in a multi-year assessment. The Personnel Committee regularly commissions an independent compensation consultant to review the appropriateness of the compensation.

The following principles are followed or taken into account when it comes to the specific structure of the compensation, the setting of individual compensation, the selection of the key performance indicators and the structure of payout and allocation terms:

REGULATORY REQUIREMENTS AND PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The structure of the compensation system and the assessment of individual compensation are guided by the German Stock Corporation Act (AktG) and the German Corporate Governance Code. Within the regulatory framework conditions, the objective is to offer the Executive Board members a competitive compensation package in line with market practice.

LONG-TERM GROUP STRATEGY

The execution of the long-term Group strategy is promoted through the selection of appropriate, ambitious key performance indicators for performance-related compensation. Against this background, our performance-related compensation components (profit sharing and Merck Long-Term Incentive Plan) orient towards the key performance indicators of the Group.

LONG-TERM INTERESTS OF OUR SHAREHOLDERS

The long-term interests of our shareholders are taken into account through a significantly high amount of variable, performance-related compensation as a proportion of total compensation as well as the compensation system's strong focus on the share price. The performance of the Executive Board members should be properly recognized, with the failure to meet targets leading to a noticeable reduction in performance-related compensation.

In our company, unlike publicly listed German stock corporations, it is not the Supervisory Board, but the Board of Partners of E. Merck KG that decides on the amount and composition of compensation received by our Executive Board members. The Board of Partners has assigned this task to its Personnel Committee. The Personnel Committee is thus primarily responsible for the followings topics as they relate to our Executive Board and the compensation thereof:

- Structure and examination of the performance-independent and performance-related compensation elements
- Contract terms of members of the Executive Board
- Assumption of honorary offices, board positions or other sideline activities
- Distribution of responsibilities among Executive Board members
- Granting of loans and salary advances

Taking the suggestions of our shareholders into account, the compensation system was further revised with the help of an independent compensation consultant with effect from fiscal 2018, while taking account of the regulatory requirements and the internal corporate strategy. In April 2018, the compensation system was submitted to the General Meeting for approval and accepted by 98.9% of the votes cast.

OVERVIEW OF THE STRUCTURE AND THE COMPONENTS OF THE COMPENSATION SYSTEM

The compensation system for the Executive Board basically comprises the three main components fixed compensation, profit sharing and the Merck Long-Term Incentive Plan. It is complemented by contributions to the company pension plan as well as additional benefits. The components of the compensation system are as follows:

COMPENSATION ELEMENTS AND COMPENSATION STRUCTURE[1]

Performance-related compensation

Merck Long-Term Incentive Plan

- Performance Share Plan based on virtual shares (Merck Share Units)
- Key performance indicators: share price performance relative to the DAX® (50%), EBITDA pre margin (25%), organic sales growth (25%)
- Absolute capped amount totaling 250% of the individual grant

Profit sharing

- Key performance indicator: Three-year average of the profit after tax of the E. Merck Group
- Consideration of individual performance via the performance factor in a range from 0.7 to 1.3
- Individual absolute capped amount

Performance-independent

Fixed compensation

[1] Excluding additional benefits and company pension.

PERFORMANCE-INDEPENDENT COMPENSATION AND ADDITIONAL BENEFITS

Fixed compensation

The fixed compensation received by the members of the Executive Board comprises fixed and non-performance related amounts that are paid in the form of 12 equivalent monthly installments.

Additional benefits

In addition, the members of the Executive Board receive non-performance related additional benefits. These consist mainly of contributions to insurance policies, personal security expenses and a company car, which they may use privately.

PERFORMANCE-RELATED COMPENSATION

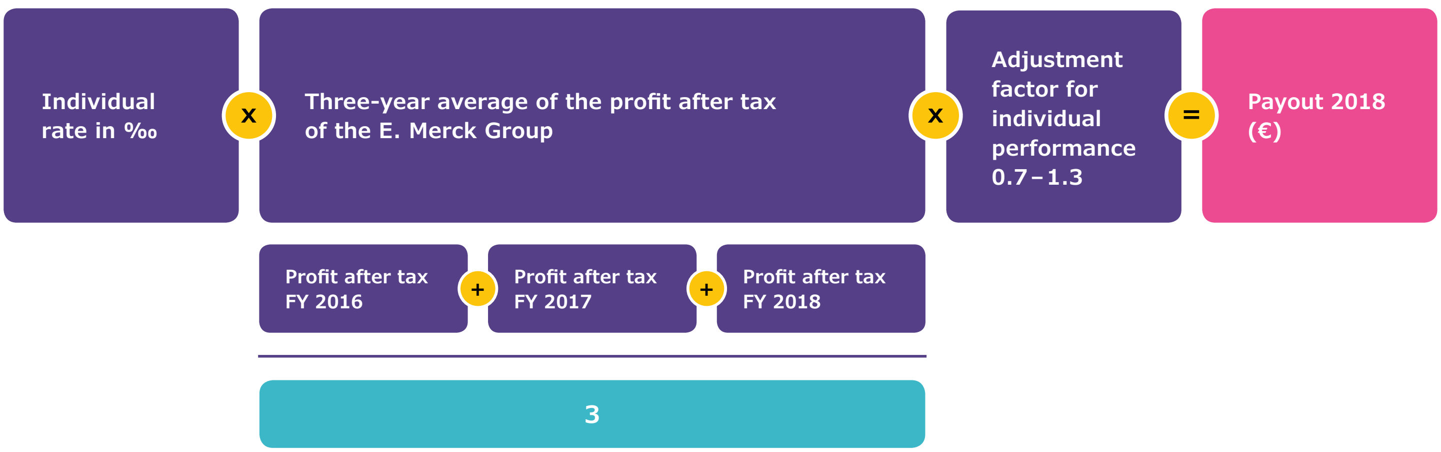
Performance-related compensation comprises profit sharing as well as the Merck Long-Term Incentive Plan. Both performance-related compensation components are based on multi-year steering parameters. The regulatory requirements of the German Stock Corporation Act and the German Corporate Governance Code are taken into account, and particular recognition is given for sustainable corporate development.

Profit sharing

PROFIT SHARING

Key performance indicator	Three-year average of the profit after tax of the E. Merck Group
Period	Three years
Limit	Individual absolute capped amount

As part of profit sharing, at the end of a fiscal year the members of the Executive Board receive an individual per mille rate of the three-year average of profit after tax of the E. Merck Group. The current and the two preceding years are included in the calculation. The use of profit after tax as the key performance indicator, which also serves as the basis for dividend payments, ensures very close alignment with the shareholder interests. The amount of the individual per mille rate is staggered at intervals. Through staggering, the achievement of an average profit after tax of more than € 1 billion is more strongly incentivized than amounts below € 1 billion. However, insofar as the average profit after tax is more than € 1.5 billion, the amount greater than € 1.5 billion is not taken into account when determining the profit-sharing payment. To appropriately take into account the individual performance of the Executive Board members, since fiscal 2017 the Personnel Committee has been able to adjust the payment by applying a factor ranging from 0.7 to 1.3. The performance factor makes it possible to recognize superb performance of a member of the Executive Board by multiplying profit sharing by a value greater than 1.0 up to 1.3. Similarly, multiplying by a value less than 1 down to 0.7 can lower profit sharing if the case calls for it. The maximum profit-sharing payment is capped individually.



Effective fiscal year 2018, the Personnel Committee abolished one-time payments to members of the Executive Board as part of performance-related compensation. This adjustment measure serves primarily to take our international shareholder structure into account.

Moreover, the Personnel Committee resolved to define criteria applicable to the adjustment of profit sharing by applying the factor in a range of between 0.7 and 1.3. Insofar as the adjustment increases or decreases the profit sharing of a member of the Executive Board, this is to be published in the Compensation Report.

Adjustment criteria for increasing profit sharing could include the following:

- Extraordinary success in connection with M&A activities of the Merck Group;
- Extraordinary success in the sustainable strategic, technical, product-related or structural further development or reorganization of the Merck Group;
- Extraordinary performance in the execution of especially important projects or the achievement of other exceptionally important objectives in the area of responsibility;
- Extraordinary performance leading to a clear overachievement of targets for relevant key performance indicators in the area of responsibility;

- Extraordinary contributions to the aspirations and targets of the Merck Group's stakeholders (for example, employee satisfaction, customer satisfaction, Corporate Social Responsibility, implementation of diversity requirements).

Adjustment criteria for lowering profit sharing could include the following:

- Violations of internal rules and guidelines (for example, the Merck Code of Conduct), legislation or other binding external requirements in the area of responsibility;
- Significant breaches of duty of care within the meaning of section 93 AktG or other grossly non-compliant or unethical behavior;
- Behaviors or actions that are contradictory to our company values;
- Failure to implement particularly important projects or to reach other exceptionally important targets in the area of responsibility;
- Clear failure to achieve targets for relevant key performance indicators in the area of responsibility.

Merck Long-Term Incentive Plan

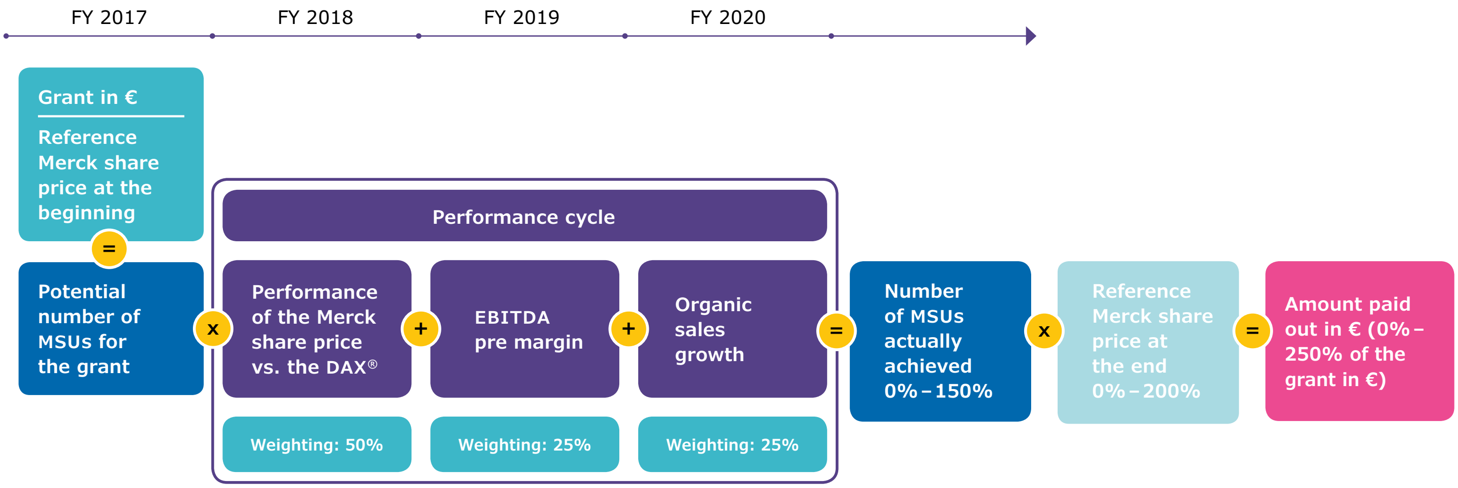
MERCK LONG-TERM INCENTIVE PLAN (LTIP)

Key performance indicators	• Share price performance relative to the DAX® (50% weighting) • EBITDA pre margin (25% weighting) • Organic sales growth (25% weighting)
Cycle	Three years
Limit	Absolute capped amount totaling 250% of the individual grant
Reference price (share price for conversion into numbers or for payment)	Average closing price of Merck shares in Xetra® trading during the last 60 trading days prior to the beginning or the end of the performance cycle

The Long-Term Incentive Plan is based on a three-year performance, future-oriented performance cycle. As part of the Long-Term Incentive Plan, the members of the Executive Board are eligible to receive a certain number of virtual shares – Merck Share Units (MSUs). The number of MSUs is calculated as follows:

At the beginning of the performance cycle, for each Executive Board member the Personnel Committee sets an individual grant in euros. This grant is then divided by the definitive reference share price at the beginning of the performance cycle, resulting in the number of MSUs they could be eligible to receive. The final number of MSUs that are actually allocated to the Executive Board members after the performance cycle has expired depends on the development of three weighted key performance indicators over the three-year performance cycle:

a) the performance of the Merck share price compared with the performance of the DAX® with a weighting of 50%,
b) EBITDA pre margin, as a proportion of a defined target value with a weighting of 25%, and
c) the organic sales growth of the Merck Group as a proportion of a defined target value with a weighting of 25%.



The Merck Long-Term Incentive Plan thus links two key performance indicators derived from the strategy with an external, relative key performance indicator. On the one hand, this creates an incentive to achieve strategic objectives. On the other hand, the strong share price orientation takes into account the company's long-term development prospects and the expectations of our shareholders. To prevent distortions as a result of exceptional factors as well as to directly reflect the performance of the Executive Board members, the EBITDA pre margin is used.

Depending on the performance of the key performance indicators, after the three-year performance cycle between 0% and 150% of the provisionally promised MSUs are finally allocated. The value of these MSUs is paid out to the Executive Board in the year after the three-year performance cycle has ended. For this, the final allocated number of MSUs is multiplied by the definitive reference share price at the end of the performance cycle. The maximum increase in the share price is limited to 200% of the reference 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 allocated MSUs and on the applicable share price increase, the overall Merck Long-Term Incentive Plan payment is limited to 250% of the individual grant. If targets are clearly missed, it is also possible that absolutely no payment is made from the Merck Long-Term Incentive Plan (0%).

Clawback provision

Through their status as personally liable general partners of Merck KGaA and E. Merck KG, the Executive Board members bear a very unique entrepreneurial responsibility. This is also reflected by the penalty criteria set forth in profit sharing and by the German statutory regulations on liability for damages stipulated in section 93 of the German Stock Corporation Act.

In order to take even greater account of the prominent position of entrepreneurial responsibility in compensation, a clawback provision was included in the Long-Term Incentive Plan, effective January 1, 2018, allowing amounts allocated from the Long-Term Incentive Plan but not yet paid out to be retained. Cases in which the clawback provision may be applied include violations of internal rules and regulations (Merck Code of Conduct), legislation, other binding external requirements in the area of responsibility, significant breaches of duty of care within the meaning of section 93 AktG, other grossly non-compliant or unethical behavior or actions that are contradictory to our company values.

To further increase the transparency of the Executive Board compensation system, the performance corridor for the key performance indicators used in the Merck Long-Term Incentive Plan will be subsequently disclosed. However, the company will continue to refrain from publishing this performance corridor in advance as this could permit market-related and competitively relevant conclusions to be drawn about strategic objectives.

Share Ownership Guideline

A Share Ownership Guideline was introduced in 2017. This obligates the Executive Board members, for the duration of their employment relationship, to permanently hold Merck shares in an amount equal to 100% of their annual gross fixed compensation. Owing to his position as Chairman of the Executive Board, Stefan Oschmann is obligated to hold a higher amount, or at least 200% of his annual gross fixed compensation, in Merck shares. The duty to provide evidence of the complete number of shares must be met no later than on expiration of four years after having joined the Executive Board or after the introduction of the rule. The Share Ownership Guideline promotes even stronger alignment between the interests of the Executive Board members and those of our shareholders and it additionally raises the entrepreneurial responsibility of the Executive Board members. Moreover, the introduction of the Share Ownership Guideline takes into account the widespread practice of share ownership among management and executive board members in international peer comparisons.

OVERALL COMPENSATION LIMIT

Compensation is capped with respect to its performance-related compensation elements of profit sharing and Merck Long-Term Incentive Plan, as well as having an overall cap.

Compared with the previous year, one-time payments were abolished as part of the implementation of the revised compensation system and the maximum cap of the profit sharing was adjusted by the multiplication factor for individual benefits. The maximum limits are presented in the following table.

€ thousand	Fixed compensation	Maximum profit sharing limit	Maximum limit Merck Long-Term Incentive Plan	Maximum limit overall compensation
Member of the Executive Board				
Stefan Oschmann	1,300	4,810	5,638	**9,800**
Udit Batra	1,000	3,640	4,263	**8,000**
Kai Beckmann	1,000	3,120	3,575	**8,000**
Walter Galinat (left on: September 30, 2018)	800	2,860	3,300	**8,000**
Belén Garijo	1,100	3,900	4,675	**8,000**
Marcus Kuhnert	900	2,860	3,300	**8,000**

PENSION ENTITLEMENTS

Effective January 1, 2017, for the Executive Board members Kai Beckmann, Belén Garijo and Marcus Kuhnert, the individual contractual pension agreements were changed from defined-benefit to defined-contribution pension obligations, maintaining the direct commitment modality[1]. A defined-contribution pension agreement is also in place with Udit Batra. Within the scope of these defined-contribution pension obligations, every year an amount of €400,000 is paid into a benefit account and interest is paid on this at standard market interest rates. Once the respective Executive Board members reach the contractually agreed age limit and are no longer employed by E. Merck KG, the amount in the benefit account is paid out 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 (maximally ten contributions, up to the age of 60) in the event of permanent disability, or in the event of death to surviving dependents. The vested amount from the former defined-benefit pension agreement was credited to the benefit account when the changeover took place.

Walter Galinat received a performance-related pension entitlement until his departure on September 30, 2018. Stefan Oschmann continues to receive such a pension provision. The old-age pension is determined in accordance with a certain percentage of pensionable compensation. The percentages can be found in the table below. The individual contractual pension obligations grant Stefan Oschmann and Walter Galinat entitlement to a lifelong old-age pension or surviving dependents' pension in the event of reaching the individual contractually agreed age limit, permanent disability, or death. As an alternative to an old-age pension, the promised pension may be paid out as a one-time amount calculated on the basis of actuarial principles once the age limit stipulated in the relevant contract has been reached.

Moreover, surviving dependents of the two Executive Board members receive a surviving dependents' pension. For spouses, this amounts to 60% of the pension entitlement. Dependent children are entitled to either a half-orphan's or an orphan's pension maximally until the age of 25.

[1] For accounting purposes, this corresponds to a defined-benefit obligation within the meaning of IAS 19.8.

The contribution amounts or pensionable compensation and the percentage obligation as well as the pension provisions and service costs are listed in the following tables:

Defined-contribution obligation

		IFRS			
	Contribution level	Service cost of pension obligations earned in the current year		Present value of the defined-contribution pension obligation as of Dec. 31	
€ thousand		2017	**2018**	2017	**2018**
Member of the Executive Board					
Udit Batra	400	379	400	633	990
Kai Beckmann[1]	400	396	395	3,977	4,402
Belén Garijo[2]	400	398	394	4,162	4,637
Marcus Kuhnert[3]	400	426	421	2,512	2,958
Total	**1,600**	**1,599**	**1,610**	**11,284**	**12,987**

[1] For 2017, in addition to the current service cost of € 396 thousand for Kai Beckmann occurred a past service revenue of € 2,424 thousand (total service revenue: € 2,028 thousand).
[2] For 2017, in addition to the current service cost of € 398 thousand for Belén Garijo occurred a past service cost of € 2,184 thousand (total service cost: € 2,582 thousand).
[3] For 2017, in addition to the current service cost of € 426 thousand for Marcus Kuhnert occurred a past service cost of € 1,178 thousand (total service cost: € 1,604 thousand).

Defined-benefit obligations

			IFRS			
	Pensionable compensation	Percentage entitlement	Service cost of pension obligations earned in the current year		Present value of the defined-benefit pension obligation as of Dec. 31	
€ thousand			2017	**2018**	2017	**2018**
Member of the Executive Board						
Stefan Oschmann[1]	750	64	1,401	1,369	9,802	10,955
Walter Galinat (left on: September 30, 2018)	490	65	168	166	6,958	7,025
Total	**1,240**		**1,569**	**1,535**	**16,760**	**17,980**

[1] The percentage entitlement increases until retirement by two percentage points per year of service up to 70%.

BENEFITS IN THE EVENT OF TERMINATION OF DUTIES AS AN EXECUTIVE BOARD MEMBER

In the event of the early termination of the employment relationship, without notice for good cause, the employment contracts of the Executive Board members stipulate a cap on severance pay in accordance with the recommendations of the German Corporate Governance Code. Pursuant to this, payments in connection with the termination of an Executive Board member's duties shall not exceed twice the annual total compensation or constitute compensation for more than the remaining term of the employment contract (severance cap). If an Executive Board member's duties prematurely end due to the termination of the employment contract either by the company or the Executive Board member before the performance cycle of an open tranche in the Merck Long-Term Incentive Plan expires, the obligations resulting from the plan are no longer applicable.

The employment contracts of Stefan Oschmann, Kai Beckmann and Udit Batra each contain a post-contractual non-competition clause. During a two-year period, an amount totaling 50% of the contractual average benefits received by the Executive Board member in question within the last twelve months prior to their departure is provided as compensation for each year of the period of the non-competition clause. During the period of the non-competition clause, other employment income and pension payments will be credited against this compensation. Within certain time limits, E. Merck KG has the possibility to dispense with adherence to the non-competition clause with the consequence that the obligation to make the compensation payments shall no longer exist. The contracts of the Executive Board members further provide for the continued payment of fixed compensation to surviving dependents for a limited period of time in the event of death. Above and beyond existing pension obligations, no further obligations exist in the event of the termination of the contractual relationships of the Executive Board members.

LOANS AND ADVANCES

The members of the Executive Board did not receive any advances or loans in fiscal 2018.

PAYMENTS TO FORMER EXECUTIVE BOARD MEMBERS AND THEIR SURVIVING DEPENDENTS

Payments to former members of the Executive Board or their surviving dependents are made for a limited period of time and represent continued payment of fixed compensation in the event of death as well as pension payments. In fiscal 2018, these amounted to € 13,763 thousand (2017: € 12,786 thousand). Pension provisions for 2018 come to € 155,950 thousand (2017: € 152,973 thousand).

MISCELLANEOUS

The total compensation of the Executive Board of Merck KGaA includes both the compensation received from E. Merck KG as well as possibly also from subsidiaries consolidated in the Group financial statements. Should members of the Executive Board be held liable for financial losses while executing their duties, under certain circumstances this liability risk is covered by a D&O insurance policy from Merck KGaA. The D&O insurance policy has a deductible in accordance with the legal requirements and the recommendations of the German Corporate Governance Code.

PERFORMANCE-RELATED COMPENSATION IN 2018

The compensation system for our Executive Board is geared to suitably rewarding the performance of Executive Board members in terms of sustainable corporate development and the creation of shareholder value, whereas the failure to meet targets leads to a noticeable decrease in performance-related compensation. In response to the suggestions from our shareholders and to further increase the transparency of the Executive Board compensation system, the following tables present the average individual profit-sharing rates and the performance corridors for the key performance indicators used in the Merck Long-Term Incentive Plan.

Profit sharing

As part of profit sharing, at the end of a fiscal year the members of the Executive Board receive an individual per mille rate of the three-year average of profit after tax of the E. Merck Group. The current and the two preceding years are relevant here.

Key performance indicator (€ million)	2015	2016	2017	**2018**
Profit after tax of the E. Merck Group	1,066	1,559	2,549	3,324
Three-year average profit after tax of the E. Merck Group (2015 – 2017)		1,724		–
Three-year average profit after tax of the E. Merck Group (2016 – 2018)	–		2,477	

The amount of the individual per mille profit-sharing rates is staggered at intervals. This staggering incentivizes the achievement of an average profit after tax of more than € 1 billion more strongly than amounts below € 1 billion. However, insofar as the average profit after tax is more than € 1.5 billion, the amount greater than € 1.5 billion is not taken into account when determining the profit-sharing payment. The average profit-sharing rates in per mille for the members of the Executive Board in 2018 were as follows:

Member of the Executive Board	**Average profit-sharing rate in per mille in 2018**	**Performance factor for individual performance 2018**
Stefan Oschmann	1.49	1
Udit Batra	1.13	1
Kai Beckmann	0.97	1
Walter Galinat (left on: September 30, 2018)	0.89	1
Belén Garijo	1.57	1.3
Marcus Kuhnert	0.89	1

The amount of profit-sharing for Belén Garijo was increased by a factor of 1.3. The following positive criterion was used to justify the increase in profit participation:

Extraordinary performance in the execution of especially important projects or the achievement of other exceptionally important objectives in the area of responsibility; Belén Garijo fulfilled this positive criterion in 2018 due to the following achievements.

- Success with the multi-year repositioning of the R&D area and significant productivity increases in pharmaceutical research.
- Many important gains in the pharmaceutical pipeline (Bavencio®, Evobrutinib, TGF-β trap).
- Approval and market introduction of Cladribin/Mavenclad® in the European Union.
- Today the Merck pipeline is seen by external experts as having very high value, and this also significantly eases the task of winning top-level talent for Merck.

Merck Long-Term Incentive Plan

Until the beginning of fiscal 2017, payment from the Merck Long-Term Incentive Plan was based on the achievement of specific targets with respect to the development of the Merck share price compared with the DAX® as well as the development of the EBITDA pre margin during the three-year performance cycle. Since fiscal year 2017, organic sales growth of the Merck Group has been included as an additional key performance indicator. The tables below show the target values that lead to 100% target achievement relative to the respective key performance indicator. Below the lower target corridor limit, target achievement for the respective key performance indicator is 0%. Above the upper target corridor limit, target achievement no longer increases.

Key performance indicator[1]	Lower target corridor limit	Target	Upper target corridor limit	Actually achieved value Merck LTIP tranche 2014	Target achievement Merck LTIP tranche 2014
Share price development relative to the DAX® (external key performance indicator)	–20%	0%	50%	36.3%	136.3%
EBITDA pre margin (internal key performance indicator)	25%	28%	31%	29.6%	126.7%

[1] The key performance indicator organic sales growth became a component of the Merck Long-Term Incentive Plan in 2017 and is therefore not relevant for target achievement of the tranche in fiscal 2014.

Key performance indicator[1]	Lower target corridor limit	Target	Upper target corridor limit	Actually achieved value Merck LTIP tranche 2015	Target achievement Merck LTIP tranche 2015
Share price performance relative to the DAX® (external key performance indicator)	–20%	0%	50%	–16.1%	19.5%
EBITDA pre margin (internal key performance indicator)	25%	28%	31%	29%	116.7%

[1] The key performance indicator organic sales growth became a component of the Merck Long-Term Incentive Plan in 2017 and is therefore not relevant for target achievement of the tranche in fiscal 2015.

TOTAL COMPENSATION

According to the German Commercial Code (HGB), the total compensation of the members of the Executive Board of Merck KGaA, broken down by performance-related and performance-independent compensation components, is as follows.

		Performance-independent components		Performance-related components				Total	Expense (+)/income (–) recorded in the period for share-based compensation[3]
		Fixed compensation	Additional benefits	Profit sharing (without a long-term incentive effect)	Merck Long-Term Incentive Plan (with a long-term incentive effect)				
		(€ thousand)	(€ thousand)	(€ thousand)	Grant value (€ thousand)	Number of MSUs[1]	Time value[2] (€ thousand)	(€ thousand)	(€ thousand)
Member of the Executive Board									
Stefan Oschmann	2018	1,300	186	3,700	2,255	24,584	1,426	6,612	3,536
	2017	1,300	164	3,700	2,255	23,581	2,146	7,310	–375
Udit Batra	2018	1,000	38	2,800	1,705	18,588	1,078	4,916	2,791
	2017	1,000	12	2,800	1,705	17,830	1,623	5,435	–335
Kai Beckmann	2018	1,000	81	2,400	1,430	15,590	904	4,385	2,387
	2017	1,000	36	2,400	1,430	14,954	1,361	4,797	–388
Walter Galinat (left on: September 30, 2018)	2018	600	26	2,200	1,320	14,391	835	3,661	2,051
	2017	800	32	2,200	1,320	13,804	1,256	4,288	91
Belén Garijo	2018	1,100	66	3,900	1,870	20,386	1,183	6,249	2,969
	2017	1,100	49	3,000	1,870	19,555	1,779	5,928	–376
Marcus Kuhnert	2018	900	26	2,200	1,320	14,391	835	3,961	2,203
	2017	800	21	2,200	1,320	13,804	1,256	4,277	–385
Total	**2018**	**5,900**	**423**	**17,200**	**9,900**	**107,930**	**6,261**	**29,784**	**15,937**
	2017	**6,000**	**314**	**16,300**	**9,900**	**103,528**	**9,421**	**32,035**	**–1,768**

[1] Number of potential MSUs subject to target achievement. For details see pages 171 and 172. The actual number of MSUs to be granted after the expiration of the three-year performance cycle may deviate from this.

[2] Time value on the date of the grant (date of the legally binding entitlement). The amount of a payment is thus not predefined. Payment is subject to target achievement and is made on a specified date after the expiration of the three-year performance cycle. The time value of the obligations was calculated using a Monte Carlo simulation based on the previously described KPIs. The expected volatilities are based on the implicit volatility of Merck shares and the DAX® in accordance with the remaining term of the LTIP tranche. The dividend payments incorporated into the valuation model orient towards medium-term dividend expectations.

[3] In accordance with IFRS, the expense recorded for 2018 includes the values for the 2016, 2017 and 2018 LTIP tranches. In accordance with IFRS, the expense recorded for 2017 includes the values for the 2015, 2016 and 2017 LTIP tranches.

INFORMATION IN ACCORDANCE WITH THE REQUIREMENTS OF THE GERMAN CORPORATE GOVERNANCE CODE

In accordance with the requirements of the German Corporate Governance Code, the following tables present the compensation granted for 2018, including additional benefits, contributions to the company pension plan and the achievable minimum and maximum values of the variable compensation components, as well as the allocation of the respective compensation components for the fiscal year.

BENEFITS GRANTED FOR THE FISCAL YEAR

	Stefan Oschmann				Udit Batra			
	Chairman of the Executive Board				Member of the Executive Board			
Benefits granted (€ thousand)	2017	**2018**	**2018 (min.)**	**2018 (max.)**	2017	**2018**	**2018 (min.)**	**2018 (max.)**
Fixed compensation	1,300	1,300	1,300	1,300	1,000	1,000	1,000	1,000
Additional benefits	164	186	186	186	12	38	38	38
Total	**1,464**	**1,486**	**1,486**	**1,486**	**1,012**	**1,038**	**1,038**	**1,038**
Profit sharing	3,700	3,700	–	4,810	2,800	2,800	–	3,640
Multi-year variable compensation								
LTI 2017 (2017 to 2019)	2,146	–	–	–	1,623		–	–
LTI 2018 (2018 to 2020)	–	1,426	–	5,638	–	1,078	–	4,263
Total	**7,310**	**6,612**	**1,486**	**11,934**	**5,435**	**4,916**	**1,038**	**8,941**
Service cost	1,401	1,369	1,369	1,369	379	400	400	400
Total compensation	**8,711**	**7,981**	**2,855**	**13,303**	**5,814**	**5,316**	**1,438**	**9,341**

	Kai Beckmann				Walter Galinat			
	Member of the Executive Board				Member of the Executive Board (left on: September 30, 2018)			
Benefits granted (€ thousand)	2017	**2018**	**2018 (min.)**	**2018 (max.)**	2017	**2018**	**2018 (min.)**	**2018 (max.)**
Fixed compensation	1,000	1,000	1,000	1,000	800	600	600	600
Additional benefits	36	81	81	81	32	26	26	26
Total	**1,036**	**1,081**	**1,081**	**1,081**	**832**	**626**	**626**	**626**
Profit sharing	2,400	2,400	–	3,120	2,200	2,200	–	2,860
Multi-year variable compensation								
LTI 2017 (2017 to 2019)	1,361	–	–	–	1,256	–	–	–
LTI 2018 (2018 to 2020)	–	904	–	3,575	–	835	–	3,300
Total	**4,797**	**4,385**	**1,081**	**7,776**	**4,288**	**3,661**	**626**	**6,786**
Service cost	–2,028	395	395	395	168	166	166	166
Total compensation[1]	**2,769**	**4,780**	**1,476**	**8,171**	**4,456**	**3,827**	**792**	**6,952**

	Belén Garijo				Marcus Kuhnert			
	Member of the Executive Board				Member of the Executive Board			
Benefits granted (€ thousand)	2017	**2018**	**2018 (min.)**	**2018 (max.)**	2017	**2018**	**2018 (min.)**	**2018 (max.)**
Fixed compensation	1,100	1,100	1,100	1,100	800	900	900	900
Additional benefits	49	66	66	66	21	26	26	26
Total	**1,149**	**1,166**	**1,166**	**1,166**	**821**	**926**	**926**	**926**
Profit sharing	3,000	3,900	–	3,900	2,200	2,200	–	2,860
Multi-year variable compensation								
LTI 2017 (2017 to 2019)	1,779	–	–	–	1,256	–	–	–
LTI 2018 (2018 to 2020)	–	1,183	–	4,675	–	835	–	3,300
Total	**5,928**	**6,249**	**1,166**	**9,741**	**4,277**	**3,961**	**926**	**7,086**
Service cost	2,582	394	394	394	1,604	421	421	421
Total compensation[2,3]	**8,510**	**6,643**	**1,560**	**10,135**	**5,881**	**4,382**	**1,347**	**7,507**

[1] Kai Beckmann's total compensation in 2017 comprised current service costs of € 396 thousand and past service revenues of € 2,424 thousand (total: € 2,028 thousand).
[2] Belén Garijo's total compensation in 2017 comprised current service costs of € 398 thousand and past service costs of € 2,184 thousand (total: € 2,582 thousand).
[3] Marcus Kuhnert's total compensation in 2017 comprised current service costs of € 426 thousand and past service costs of € 1,178 thousand (total: € 1,604 thousand).

ALLOCATION FOR THE FISCAL YEAR

	Stefan Oschmann		Udit Batra		Kai Beckmann	
	Chairman of the Executive Board		Member of the Executive Board		Member of the Executive Board	
Allocation (€ thousand)	2017	**2018**	2017	**2018**	2017	**2018**
Fixed compensation	1,300	1,300	1,000	1,000	1,000	1,000
Additional benefits	164	186	12	38	36	81
Total	**1,464**	**1,486**	**1,012**	**1,038**	**1,036**	**1,081**
Profit sharing	3,700	3,700	2,800	2,800	2,400	2,400
Multi-year variable compensation						
LTI 2014 (2014 to 2016)	2,077	–	402	–	2,077	–
LTI 2015 (2015 to 2017)	–	599	–	326	–	599
Total	**7,241**	**5,785**	**4,214**	**4,164**	**5,513**	**4,080**
Service cost	1,401	1,369	379	400	–2,028	395
Total compensation[1]	**8,642**	**7,154**	**4,593**	**4,564**	**3,485**	**4,475**

	Walter Galinat		Belén Garijo		Marcus Kuhnert	
	Member of the Executive Board (left on: September 30, 2018)		Member of the Executive Board		Member of the Executive Board	
Allocation (€ thousand)	2017	**2018**	2017	**2018**	2017	**2018**
Fixed compensation	800	600	1,100	1,100	800	900
Additional benefits	32	26	49	66	21	26
Total	**832**	**626**	**1,149**	**1,166**	**821**	**926**
Profit sharing	2,200	2,200	3,000	3,900	2,200	2,200
Multi-year variable compensation						
LTI 2014 (2014 to 2016)	140	–	1,194	–	866	–
LTI 2015 (2015 to 2017)	–	105	–	599	–	599
Total	**3,172**	**2,931**	**5,343**	**5,665**	**3,887**	**3,725**
Service cost	168	166	2,582	394	1,604	421
Total compensation[2, 3]	**3,340**	**3,097**	**7,925**	**6,059**	**5,491**	**4,146**

	Karl-Ludwig Kley		Bernd Reckmann	
	Member of the Executive Board (left on: August 31, 2016)		Member of the Executive Board (left on: April 29, 2016)	
Allocation (€ thousand)	2017	**2018**	2017	**2018**
Fixed compensation	–		–	
Additional benefits	–		–	
Total	**–**		**–**	
Profit sharing	–		–	
Multi-year variable compensation	–		–	
LTI 2014 (2014 to 2016)	2,769		2,077	
LTI 2015 (2015 to 2017)	–	499	–	265
Total	**–**		**–**	
Service cost	–		–	
Total compensation	**2,769**	**499**	**2,077**	**265**

[1] Kai Beckmann's total compensation in 2017 comprised current service costs of € 396 thousand and past service revenues of € 2,424 thousand (total: € 2,028 thousand).
[2] Belén Garijo's total compensation in 2017 comprised current service costs of € 398 thousand and past service costs of € 2,184 thousand (total: € 2,582 thousand).
[3] Marcus Kuhnert's total compensation in 2017 comprised current service costs of € 426 thousand and past service costs of € 1,178 thousand (total: € 1,604 thousand).

COMPENSATION FOR THE SUPERVISORY BOARD MEMBERS OF MERCK KGAA

The compensation of the Supervisory Board members is defined by Article 20 of the Articles of Association of Merck KGaA. The members of the Supervisory Board receive fixed compensation of € 47,000 per year. The Chairman receives double and the Vice Chairman receives one and a half times this amount. Moreover, the members receive additional compensation of € 750 per meeting. The individual values are presented in the following table:

in €	Fixed compensation		Compensation for meeting attendance		Total compensation	
	2018	2017	**2018**	2017	**2018**	2017
Wolfgang Büchele (Chairman)	94,000.00	94,000.00	3,000.00	3,000.00	97,000.00	97,000.00
Michael Fletterich (Vice Chairman)	70,500.00	70,500.00	2,250.00	3,000.00	72,750.00	73,500.00
Crocifissa Attardo	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Mechthild Auge	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Gabriele Eismann	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Edeltraud Glänzer	47,000.00	47,000.00	3,000.00	2,250.00	50,000.00	49,250.00
Michaela Freifrau von Glenck	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Siegfried Karjetta	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Albrecht Merck	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Dietmar Oeter	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Alexander Putz	47,000.00	47,000.00	3,000.00	2,250.00	50,000.00	49,250.00
Helga Rübsamen-Schaeff	47,000.00	47,000.00	3,000.00	2,250.00	50,000.00	49,250.00
Gregor Schulz	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Theo Siegert	47,000.00	47,000.00	2,250.00	3,000.00	49,250.00	50,000.00
Tobias Thelen	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Veit Ulshöfer	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Total	**822,500.00**	**822,500.00**	**46,500.00**	**45,750.00**	**869,000.00**	**868,250.00**

As a member of corporate bodies of E. Merck KG, Supervisory Board member Wolfgang Büchele received an additional payment of € 140,000 for performing this function in 2018 (2017: € 140,000).
As a member of corporate bodies of E. Merck KG, Supervisory Board member Michaela Freifrau von Glenck received an additional payment of € 80,000 for performing this function in 2018 (2017: € 80,000).
As a member of corporate bodies of E. Merck KG, Supervisory Board member Siegfried Karjetta received an additional payment of € 140,000 for performing this function in 2018 (2017: € 140,000).
As a member of corporate bodies of E. Merck KG, Supervisory Board member Albrecht Merck received an additional payment of € 120,000 for performing this function in 2018 (2017: € 120,000).
As a member of corporate bodies of E. Merck KG, Supervisory Board member Helga Rübsamen-Schaeff received an additional payment of € 150,000 for performing this function in 2018 (2017: € 150,000).
As a member of corporate bodies of E. Merck KG, Supervisory Board member Gregor Schulz received an additional payment of € 140,000 for performing this function in 2018 (2017: € 140,000).
As a member of corporate bodies of E. Merck KG, Supervisory Board member Theo Siegert received an additional payment of € 150,000 for performing this function in 2018 (2017: € 150,000).
As a member of corporate bodies of E. Merck KG, Supervisory Board member Tobias Thelen received an additional payment of € 140,000 for performing this function in 2018 (2017: € 140,000).

OWNERSHIP, PURCHASE OR SALE OF SHARES IN THE COMPANY BY MEMBERS OF THE EXECUTIVE BOARD AND OF THE SUPERVISORY BOARD

As of December 31, 2018, the members of the Executive Board and of the Supervisory Board held less than 1% of the issued shares of Merck KGaA. Transactions executed by members of the Executive Board and of the Supervisory Board are disclosed on the Merck website at www.merckgroup.com/en/investors/corporate-governance/directors-dealings.html.

Information on corporate governance practices

REPORTING

It is Merck KGaA's objective to provide the latest information to all shareholders, media, financial analysts and interested members of the public, while creating the greatest possible transparency. For this reason, Merck uses a wide range of communication platforms to engage in a timely dialog with all interested parties about the situation of the company and business changes. Merck's principles include providing factually correct, comprehensive and fair information.

Information subject to disclosure requirements, as well as information that is not, can be accessed worldwide on the Merck KGaA website (www.merckgroup.com), which is the company's most important publication platform. Apart from a detailed financial calendar, quarterly statements and/or quarterly and half-year financial reports covering the past three years are available here in German and English. In addition, in line with the legal requirements, ad hoc announcements are published on the website. These contain information on circumstances and facts that could impact the Merck share price.

Regular press conferences, investor meetings on the occasion of investor conferences as well as road shows offer another platform for dialog. The company presentations prepared for this purpose are also available on the Merck KGaA website. In addition, the Investor Relations team is always available to private and institutional investors who wish to receive further information. To ensure the greatest possible transparency, all documents concerning the General Meeting are available on the company website. Additionally, some parts of the General Meeting are webcast live on the Internet.

DEALING WITH INSIDER INFORMATION

Dealing properly with insider information is very important to us. Our insider committee examines the existence of insider information, ensures compliance with legal obligations and prepares any necessary measures. The members of the insider committee are appointed by the Executive Board; at least two members work in Group Legal & Compliance. The insider committee meets at regular intervals, yet also meets when circumstances require. The Chief Financial Officer is vested with the authority to make the final decision on handling potential insider information.

In order to ensure a high level of protection for insider information, in 2011 the Executive Board issued internal insider guidelines applicable throughout the Merck Group worldwide. The guidelines inform employees about their responsibilities under insider trading laws and give clear instructions for compliant behavior. In addition, they describe the function of the insider committee in detail. Moreover, our Code of Conduct, which is binding on all employees, also contains an explicit, detailed reference to the ban on using insider information. Within the scope of obligatory training courses on the Code of Conduct as well as specific training courses on insider law, all employees are instructed on the stipulations of insider trading.

ACCOUNTING AND AUDITS OF FINANCIAL STATEMENTS

Merck KGaA prepares its consolidated financial statements and combined management report in accordance with International Financial Reporting Standards (IFRSs), as applicable in the EU, as well as the supplementary rules applicable under section 315e (1) of the German Commercial Code (HGB) and as stipulated by our Articles of Association. The consolidated financial statements and the combined management report are prepared by the Executive Board and examined by an auditor, taking into account the generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW).

The Supervisory Board commissioned KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, to audit the consolidated financial statements and the combined management report for 2018. Moreover, the Supervisory Board agreed with KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, that the auditor shall inform the Supervisory Board without delay of any grounds for disqualification or bias occurring during the audit if these cannot be immediately rectified. Additionally, the auditor shall immediately report to the Supervisory Board any findings and issues which emerge during the audit that have a direct bearing upon the tasks of the Supervisory Board. The auditor shall inform the Supervisory Board or note in the audit report any circumstances determined during the audit that would render inaccurate the Declaration of Conformity made by the Executive Board and the Supervisory Board. It has also been agreed with the auditor that in order to assess whether the Executive Board has fulfilled its obligations in accordance with section 91 (2) AktG, the audit will also cover the company's early warning risk identification system. Moreover, the auditor is required to examine and evaluate the accounting-relevant internal control system insofar as this is necessary and appropriate for assessing the accuracy of financial reporting.

Since 1995, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, has been the audit firm for the statutory audit of the annual financial statements and consolidated financial statements of Merck KGaA. The auditor responsible for auditing the consolidated financial statements changes regularly in accordance with the statutory requirements. Bodo Rackwitz is currently leading the audit engagement and has been the auditor in charge of the engagement since fiscal 2015. The Supervisory Board had KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, provide a statement regarding the scope of the business, financial, personal, and other relationships between KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, its bodies and head auditors, and Merck KGaA, its Group companies and the members of their bodies (independence declaration). The statement also covers the scope of the services provided by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, in the previous fiscal year as well as the services (other than auditing services) that are contracted for the upcoming year (especially consultancy services) for Merck KGaA and its subsidiaries. Having examined the declaration, the Supervisory Board has found no grounds to doubt the independence of KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. Neither party identified any conflicts of interest.

FURTHER REPORTS

The combined management report of Merck KGaA and the Merck Group does not contain a non-financial declaration. Instead, we issue a separate combined non-financial (Group) report in accordance with sections 289b – 289e and 315b – 315c HGB. This is available effective April 15, 2019, as an online version on our website at https://www.merckgroup.com/en/cr-report/2018/. It is integrated into the 2018 Corporate Responsibility Report in accordance with DRS 20 subsection 252 (b). We have compiled an overview of the information contained in the combined non-financial (Group) report, which can be viewed at https://www.merckgroup.com/nfr18. The report on gender and salary equality pursuant to section 21 in conjunction with sections 25 and 22 of the German Transparency of Pay Act for fiscal 2017 is included as an appendix to the combined management report of Merck KGaA.

VALUES AND COMPLIANCE

Based on a corporate culture that places the fundamental company values – courage, achievement, responsibility, respect, integrity and transparency – at the center of our entrepreneurial actions, the Code of Conduct (www.merckgroup.com/en/company/who-we-are/strategy-and-values.html) helps those involved in the business process to implement the values when dealing with one another on a daily basis.

With its Code of Conduct, a revised version of which was issued in mid-2017, Merck has established a set of rules and regulations intended to help our employees to act responsibly and to make the right decisions in their daily work.

The Code of Conduct explains the company principles for dealings with business associates, shareholders, colleagues and employees, and within the scope of our responsibility for society. Thus, it supports all employees in acting ethically – not only in their dealings with one another, but also outside the company. The Code of Conduct is thus the main set of rules of our compliance program. In the newly published version, Merck has aligned its Code of Conduct even more closely with the Merck values. Additionally, it has expanded the Code of Conduct to include further important topics such as data privacy, healthcare compliance and bioethics. To Merck, compliance means observing legal and company-internal regulations and the basic ethical principles anchored in the company values. With the Code of Conduct and the various unit-specific ethical compliance rules, the values are integrated into daily work and business practice. The Code of Conduct is binding on all employees, both at headquarters and in the subsidiaries. We also expect our business associates worldwide to accept these principles or to have their own comparable principles. While supplier management ensures compliant behavior of suppliers, global business partner risk management encompasses the relations with sales-related business associates such as distributors and wholesalers.

The Compliance Office monitors observance of the Code of Conduct with support from corresponding monitoring and training programs throughout the Group. All employees are called upon to report potential compliance violations to their supervisor, Legal, HR or other relevant departments. Merck created the position of Group Compliance Officer in 2002. This employee is responsible for setting up, maintaining and further developing our global compliance program. By taking appropriate measures, the Group Compliance Officer and his team, including regional compliance officers, help to lower the risk of serious legal violations of, for instance, anti-trust law, anticorruption rules, or legal regulations and requirements of industry codes in the healthcare sector. Money laundering prevention was added in 2018, with Compliance coordinating the necessary organizational measures, including training.

In 2014, we began appointing compliance officers for the various business sectors. In particular, they are responsible for business-specific compliance input and they evaluate sector-specific risks that are incorporated in the design of the Compliance program.

A further focal area of the Compliance program is ensuring legally and ethically correct dealings with medical professionals and adhering to the transparency requirements. Since October 2013, the Group Compliance Officer has agreed extensive measures with the affected areas of the company in order to establish an internal framework of rules as well as the corresponding processes for approving and documenting interactions with experts that ensure correct publication. We of course also ensure compliance with the respectively valid data protection regulations.

The role of the Group Compliance Officer is reflected in the subsidiaries, which ensure via country representatives that compliance measures are implemented in the countries. Since 2013, Compliance tasks in the countries and on a regional basis have largely been performed by full-time compliance officers. As a result, a higher level of compliance expertise is based locally and the increasing tasks in all business sectors are taken into account. At the same time, the management structure was streamlined and the reporting lines for the countries were consolidated regionally. Since the end of 2016, the compliance officers in the countries have been reporting to the dedicated compliance officers for the respective business sectors (Healthcare, Life Science and Performance Materials). A separate responsibility was also created for Group functions. Regular regional compliance meetings are held to promote the exchange of information within the Compliance organization.

Newcomer training seminars were introduced in 2010 for newly appointed compliance officers. These seminars serve to build up compliance expertise and strengthen cooperation within the Compliance organization. This Group-wide network is used to steer the global compliance program. Within the Group Compliance function in Darmstadt, a team is occupied with continuously further developing the compliance program and shaping company-internal compliance projects. The Compliance organization is also involved in the relevant due diligence processes for the incorporation of new business units as well as possible divestments and acquisitions, and the subsequent integration of companies. Within the scope of the global compliance program, a high degree of importance is attached to regular compliance seminars of the Merck Compliance Training Plan, which are conducted as Web-based training courses and classroom sessions. By presenting various training topics, particularly on the Code of Conduct, corruption, antitrust and competition law as well as healthcare compliance and data privacy, they serve to sensitize employees and management to the consequences of compliance violations and to show ways of avoiding them. Since Merck set up a central SpeakUp line, employees and certain business partners have been able to report compliance violations by telephone or via a Web-based application in their respective national language. The SpeakUp line is available 24 hours a day, free of charge. Case numbers enable anonymous, two-way communication. The reports received are individually reviewed. If a compliance violation exists, corresponding corrective action is taken based on concrete action plans. If necessary, disciplinary measures are taken. These can range from a simple warning up to the dismissal of the employee who violated a compliance rule. In 2010, Merck set up a Compliance Case Committee to guide these processes. The Compliance Case Committee consists of senior members from various Group governance functions; they are involved in reviewing compliance violations and introducing countermeasures. The joint work in the Compliance Case Committee enables processes between the various Group functions to be optimally coordinated and designed efficiently.

Further significant elements of the Compliance program include requirements on locally identifying and assessing risks as well as reporting these, both within the subsidiary abroad and to the Group functions. The Compliance Office regularly reviews and assesses the implementation status of the Compliance program at the subsidiaries abroad. In cooperation with Group Internal Auditing, the Compliance Office regularly reviews the implementation of Group-wide compliance measures at the subsidiaries abroad. The audits regularly focus on the local compliance structure, the compliance measures taken, and the existence of corresponding compliance guidelines and processes.

The Compliance Office reports regularly to the Executive Board and the Supervisory Board, informing them of the status of compliance activities (including training status), compliance risks and serious compliance violations.

The Executive Board informs the supervisory bodies at least once a year about the key compliance issues.

RISK AND OPPORTUNITY MANAGEMENT

The Executive Board, the Supervisory Board and the Finance Committee are regularly informed about the current risk portfolio of the Group and the individual companies. More detailed information can be found in the Report on Risks and Opportunities on pages 137 et seq.

AVOIDANCE OF CONFLICTS OF INTEREST

Within the framework of their work, all Executive Board and Supervisory Board members of Merck KGaA are exclusively committed to the interests of the company and neither pursue personal interests nor grant unjustified advantages to third parties.

Before an Executive Board member takes on honorary offices, board positions or other sideline activities, this must be approved by the Personnel Committee of the Board of Partners of E. Merck KG. The Chairman of the Executive Board, Stefan Oschmann, and the Chief Financial Officer, Marcus Kuhnert, are both members of the Executive Board of E. Merck KG. This does not, however, create conflicts of interest.

In its report to the General Meeting, the Supervisory Board discloses any conflicts of interest involving its members and how they were dealt with. Consultancy agreements as well as other service and work contracts of a Supervisory Board member with Merck require the approval of the Supervisory Board. In fiscal 2018, there were neither conflicts of interest nor consultancy agreements or other service or work contracts with Merck KGaA involving Supervisory Board members.

ADHERENCE TO ENVIRONMENTAL AND SAFETY STANDARDS

At Merck, closed-loop thinking guides the way in which we address environmental protection issues. To this end, we integrate precautionary measures into our process, procedural and product development planning. Our Environment, Health and Safety Policy, with its principles and strategies, implements the guidelines formulated by the national and international associations of the chemical industry in the Responsible Care guidelines. The Responsible Care Global Charter, developed by the International Council of Chemical Associations (ICCA) in 2014, puts even more emphasis than before on overall responsibility for products, supply chains and the community. Merck signed this expanded version of Responsible Care Global Charter for the entire Group in the same year. It is currently being implemented by Merck at an international level. We report our ecological, economic and social performance transparently in accordance with the internationally recognized principles of the Global Reporting Initiative (GRI), taking into account the requirements of the German Sustainability Code and the principles of the UN Global Compact. One of our major climate protection objectives is to achieve a 20% reduction in our greenhouse gas emissions by 2020, measured against the 2006 baseline.

Many guidelines specify how the sites and employees of the Merck Group are to observe the principles in their daily work. The Group function Environment, Health, Safety, Security, Quality steers these global activities and ensures compliance with statutory requirements, internal standards and business needs throughout the entire Group. In this way, Group-wide risks are minimized and continuous improvement is promoted in the areas of Environment, Health, Safety, Security and Quality. Corporate Responsibility reports are also published at regular intervals.

Procedures of the Executive Board, Supervisory Board, Board of Partners and its Committees

MEMBERS OF THE EXECUTIVE BOARD OF MERCK KGAA

Information on memberships of statutory supervisory boards and comparable German and foreign supervisory bodies (section 285 No. 10 HGB in conjunction with section 125 (1) sentence 5 AktG).

Member	Memberships of (a) statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
Stefan Oschmann Munich, Chairman	no board positions
Udit Batra Wellesley (Massachusetts, United States), CEO Life Science	(b) – EMD Millipore Corporation, Billerica, Massachusetts, United States (President)
Kai Beckmann Darmstadt, CEO Performance Materials	(a) – Bundesdruckerei GmbH, Berlin
Walter Galinat Eppertshausen, Member of the Executive Board until September 30, 2018	no board positions
Belén Garijo Frankfurt am Main, CEO Healthcare	(b) – Banco Bilbao Vizcaya Argentaria S. A., Bilbao, Spain – L'Oréal S. A., Clichy, France
Marcus Kuhnert Königstein, Chief Financial Officer	no board positions

The general partners with no equity interest (Executive Board) manage the business activities in accordance with the laws, the Articles of Association and the rules of procedure. They are appointed by E. Merck KG in accordance with the consent of a simple majority of the other general partners. The members of the Executive Board are jointly responsible for the entire management of the company. Certain tasks are assigned to individual Executive Board members based on a responsibility distribution plan. Each Executive Board member promptly informs the other members of any important actions or operations in his respective business area. The Executive Board is responsible for preparing the annual financial statements of Merck KGaA and of the Merck Group as well as for approving the quarterly and half-year financial statements of the Merck Group. In addition, the Executive Board ensures that all legal provisions, official regulations and the company's internal policies are abided by, and works to achieve compliance with them by all the companies of the Merck Group. A Group-wide guideline defines in detail which transactions require prior Executive Board approval.

The Executive Board provides the Supervisory Board with regular, up-to-date and comprehensive reports about all company-relevant issues concerning strategy, planning, business developments, the risk situation, risk management and compliance. The rules of procedure of the Executive Board and of the Supervisory Board as well as a Supervisory Board resolution regulate further details on the information and reporting duties of the Executive Board vis-à-vis the Supervisory Board.

The Executive Board informs the Board of Partners and the Supervisory Board at least quarterly of the progress of business and the situation of the company. In addition, the Executive Board informs the aforementioned boards at least annually of the company's annual plans and strategic considerations.

The Executive Board passes its resolutions in meetings that are normally held once a month.

SUPERVISORY BOARD

Member	Memberships of (a) statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
Wolfgang Büchele Munich, Chairman of Exyte AG, Stuttgart	(a) – Gelita AG, Eberbach (Vice Chairman) (b) – E. Merck KG, Darmstadt[1] – Kemira Oyj, Helsinki, Finland
Michael Fletterich Gernsheim, Chairman of the Merck Joint Works Council	no board positions
Crocifissa Attardo Darmstadt, Full-time member of the Merck Joint Works Council	b) – Merck BKK (rotating chairperson)
Mechthild Auge Wehrheim, Full-time member of the Merck Joint Works Council	no board positions
Gabriele Eismann Seeheim-Jugenheim, Senior Product Manager	no board positions
Edeltraud Glänzer Hanover, Vice Chairperson of IG Bergbau, Chemie, Energie (IG BCE), Hanover	(a) – B. Braun Melsungen AG, Melsungen – Evonik Industries AG, Essen (Vice Chairperson)
Michaela Freifrau von Glenck Zurich, Retired teacher	no board positions
Siegfried Karjetta[2] Darmstadt, Physician	(b) – E. Merck KG, Darmstadt[1]
Albrecht Merck Schriesheim, Commercial Director of the Castel Peter Winery, Bad Dürkheim	(b) – E. Merck KG, Darmstadt[1]
Dietmar Oeter Seeheim-Jugenheim, Vice President Corporate Quality Assurance	no board positions
Alexander Putz Michelstadt, Full-time member of the Merck Joint Works Council	no board positions
Helga Rübsamen-Schaeff Langenburg, Chairperson of the Advisory Board of AiCuris Antiinfective Cures GmbH, Wuppertal	(a) – 4SC AG, Martinsried – Supervisory Board of Bonn University Hospital (b) – E. Merck KG, Darmstadt[1]
Gregor Schulz Umkirch, Pediatrician	(b) – E. Merck KG, Darmstadt[1]
Theo Siegert Düsseldorf, Managing Partner of de Haen Carstanjen & Söhne KG, Düsseldorf	(a) – Henkel AG & Co. KGaA, Düsseldorf (b) – E. Merck KG, Darmstadt[1] – DKSH Holding Ltd., Zurich, Switzerland
Tobias Thelen[2] Munich, Managing Partner of Altmann Analytik GmbH & Co. KG, Munich	(b) – E. Merck KG, Darmstadt[1]
Veit Ulshöfer Sachsenheim, Merck Global Head of Research and Bioinformatics	no board positions

[1] Internal board position.
[2] Members appointed according to Article 6 (5) of the Articles of Association.

The Supervisory Board performs a monitoring function. It supervises the management of the company by the Executive Board. In comparison with the supervisory board of a German stock corporation, the role of the supervisory board of a corporation with general partners (KGaA) is limited. This is due to the fact that the members of the Executive Board are personally liable partners and therefore are themselves responsible for the management of the company. In particular, the Supervisory Board is not responsible for appointing and dismissing general partners or for regulating the terms and conditions of their contracts. This is the responsibility of E. Merck KG. Nor does the Supervisory Board have the authority to issue rules of procedure for the Executive Board or a catalog of business transactions requiring approval. This authority likewise belongs to E. Merck KG (Article 13 (3) sentence 1 and (4) sentence 1 of the Articles of Association).

However, the fact that the Supervisory Board has no possibilities to directly influence the Executive Board restricts neither its information rights nor audit duties. The Supervisory Board must monitor the Executive Board in terms of legality, regularity, usefulness and economic efficiency. In particular, the Supervisory Board has the duty to examine the reports provided by the Executive Board. This includes regular reports on the intended business policy, as well as other fundamental issues pertaining to corporate planning, especially financial, investment and HR planning; the profitability of the Merck Group; the progress of business; the risk situation; risk management (including compliance); and the internal auditing system. In addition, by means of consultation with the Executive Board, it creates the basis for supervision of the management of the company by the Supervisory Board according to section 111 (1) AktG.

The Supervisory Board examines the annual financial statements as well as the consolidated financial statements and the combined management report, taking into account in each case the reports of the auditor. Moreover, the Supervisory Board discusses the quarterly releases and the half-year financial report, taking into account in the latter case the report of the auditor on the audit review of the abridged financial statements and the interim management report of the Group. The adoption of the annual financial statements is not the responsibility of the Supervisory Board, but of the General Meeting. The Supervisory Board normally meets four times a year. Further meetings may be convened if requested by a member of either the Supervisory Board or the Executive Board. As a rule, resolutions of the Supervisory Board are passed at meetings. At the instruction of the chairman, in exceptional cases a resolution may be passed by other means, details of which are given in the rules of procedure.

The members of the Board of Partners of E. Merck KG and of the Supervisory Board may be convened to a joint meeting if so agreed by the chairmen of the two boards.

The rules of procedure prescribe that the Supervisory Board may form committees. The Supervisory Board has formed a Nomination Committee comprising three shareholder representatives. Its members are Albrecht Merck, Wolfgang Büchele and Theo Siegert. The Nomination Committee is responsible for proposing to the Supervisory Board suitable candidates for its proposal to the Annual General Meeting. Apart from legal requirements and the recommendations of the German Corporate Governance Code, the "Objectives of the Supervisory Board with respect to its composition", "Profile of skills and expertise" and the "Diversity Policy" are to be taken into consideration as well. Owing to the aforementioned limited authority, and since a corresponding need has not yet arisen, the Supervisory Board currently has no further committees.

The German Stock Corporation Act prescribes that the Supervisory Board of a publicly listed company must have at least one member who has professional expertise in accounting or auditing. Theo Siegert satisfies these requirements and is furthermore the Chairman of the Finance Committee of the Board of Partners of E. Merck KG.

BOARD OF PARTNERS OF E. MERCK KG

Some of the responsibilities that lie with the supervisory board of a German stock corporation are fulfilled at Merck by E. Merck KG. This applies primarily to the Board of Partners of E. Merck KG. Therefore, the Board of Partners as well as the composition and procedures of its committees are described in the following.

The Board of Partners has nine members. During fiscal 2018 and up until January 27, 2019, the Board of Partners was composed as follows:

Member	Memberships of (a) statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
Johannes Baillou Vienna, Austria, Vice Chairman of the Executive Board and General Partner of E. Merck KG, Chairman	no board positions
Frank Stangenberg-Haverkamp Darmstadt, Chairman of the Executive Board and General Partner of E. Merck KG, Vice Chairman	(b) – Fortas GmbH, Rösrath (Chairman) – Oras Invest Ltd, Helsinki, Finland – Travel Asset Group Ltd., London, United Kingdom (Chairman)
Wolfgang Büchele Munich, Chairman of Exyte AG, Stuttgart	(a) – Merck KGaA, Darmstadt – Gelita AG, Eberbach (Vice Chairman) (b) – Kemira Oyj, Helsinki, Finland
Siegfried Karjetta Darmstadt, Physician	(a) – Merck KGaA, Darmstadt
Albrecht Merck Schriesheim, Commercial Director of the Castel Peter Winery, Bad Dürkheim	(a) – Merck KGaA, Darmstadt
Helga Rübsamen-Schaeff Langenburg, Chairperson of the Advisory Board of AiCuris Antiinfective Cures GmbH, Wuppertal	(a) – Merck KGaA, Darmstadt – 4SC AG, Martinsried – Supervisory Board of Bonn University Hospital
Gregor Schulz Umkirch, Pediatrician	(a) – Merck KGaA, Darmstadt
Theo Siegert Düsseldorf, Managing Partner of de Haen Carstanjen & Söhne KG, Düsseldorf	(a) – Merck KGaA, Darmstadt – Henkel AG & Co. KGaA, Düsseldorf (b) – DKSH Holding Ltd., Zurich, Switzerland
Tobias Thelen Munich, Managing Partner of Altmann Analytik GmbH & Co. KG, Munich	(a) – Merck KGaA, Darmstadt

On January 27, 2019, a new election of the Board of Partners was held. The Board of Partners now consists of the following members:

Member	Memberships of (a) statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
Johannes Baillou Vienna, Austria, Vice Chairman of the Executive Board and General Partner of E. Merck KG, Chairman	no board positions
Frank Stangenberg-Haverkamp Darmstadt, Chairman of the Executive Board and General Partner of E. Merck KG, Vice Chairman	(b) – Fortas GmbH, Rösrath (Chairman) – Oras Invest Ltd, Helsinki, Finland – Travel Asset Group Ltd., London, United Kingdom (Chairman)
Wolfgang Büchele Munich, Chairman of Exyte AG, Stuttgart	(a) – Merck KGaA, Darmstadt – Gelita AG, Eberbach (Vice Chairman) (b) – Kemira Oyj, Helsinki, Finland
Helga Rübsamen-Schaeff Langenburg, Chairperson of the Advisory Board of AiCuris Antiinfective Cures GmbH, Wuppertal	(a) – Merck KGaA, Darmstadt – 4SC AG, Martinsried – Supervisory Board of Bonn University Hospital
Michael Kleinemeier Heidelberg, Member of the Executive Board of SAP SE, Walldorf	(a) – innogy SE, Essen
Katharina Kraft Mannheim, Senior Management Consultant at BASF SE, Ludwigshafen	No board positions
Helene von Roeder Frankfurt am Main, Member of the Executive Board of Vonovia SE, Bochum	(b) – AVW Versicherungsmakler GmbH, Hamburg – Vonovia Finance B.V., Amsterdam, Netherlands
Daniel Thelen Köln, Head of Infrastructure Development at DB Netz AG, Frankfurt am Main	No board positions
Simon Thelen Köln, Senior Physician at the Clinic for Trauma and Hand Surgery, University Hospital Düsseldorf	No board positions

The Board of Partners supervises the Executive Board in its management of the company. It informs itself about the business matters of Merck KGaA, and may inspect and examine the company's accounts, other business documents and assets for this purpose. According to Article 13 (4) of the Articles of Association of Merck KGaA, the Executive Board requires the approval of E. Merck KG for transactions that are beyond the scope of the Group's ordinary business activities. For such transactions, approval must first be obtained from the Board of Partners of E. Merck KG. The Board of Partners convenes as and when necessary; however, it normally meets four times a year. The members of the Executive Board of Merck KGaA are invited to all meetings of the Board of Partners, unless the Board of Partners resolves otherwise in individual cases. The members of the Board of Partners may convene a joint meeting with the Supervisory Board of Merck KGaA if so agreed by the chairmen of the two boards.

The Board of Partners may delegate the performance of individual duties to committees. Currently, the Board of Partners has three committees in place: the Personnel Committee, the Finance Committee, and the Research and Development Committee.

PERSONNEL COMMITTEE

The Personnel Committee has four members. During fiscal 2018 and up until January 27, 2019, these were: Johannes Baillou (Chairman), Wolfgang Büchele, Theo Siegert and Frank Stangenberg-Haverkamp. As of January 27, 2019, the Personnel Committee comprises Johannes Baillou, Wolfgang Büchele, Michael Kleinemeier and Frank Stangenberg-Haverkamp. The Personnel Committee meets at least twice a year. Further meetings are convened as and when necessary. Meetings of the Personnel Committee are attended by the Chairman of the Executive Board of Merck KGaA unless the Committee decides otherwise.

The Personnel Committee is responsible for, among other things, the following decisions concerning members and former members of the Executive Board: contents of and entry into employment contracts and pension contracts; granting of loans and advance payments; changes to the compensation structure and adaptation of compensation; approval for taking on honorary offices, board positions and other sideline activities; and division of responsibilities within the Executive Board of Merck KGaA. The Personnel Committee passes its resolutions by a simple majority; in matters concerning the Chairman of the Executive Board, unanimity is required. The Chairman of the Committee regularly informs the Board of Partners of its activities.

FINANCE COMMITTEE

The Finance Committe has four members. During fiscal 2018 and up until January 27, 2019 these were: Theo Siegert (Chairman), Johannes Baillou, Wolfgang Büchele and Tobias Thelen. As of January 27, 2019, the Finance Committee comprises Johannes Baillou, Wolfgang Büchele, Helene von Roeder and Daniel Thelen. The Finance Committee holds at least four meetings a year, at least one of which is a joint meeting with the auditor of Merck KGaA. Further meetings are convened as and when necessary. Meetings of the Finance Committee are attended by the Chief Financial Officer of Merck KGaA. Other members of the Executive Board of Merck KGaA may attend the meetings upon request of the Finance Committee. These meetings regularly include the Chairman of the Executive Board. The Finance Committee is responsible for, among other things, analyzing and discussing the annual financial statements, the consolidated financial statements and the respective reports of the auditor, as well as the half-year financial report (including the report of the auditors for the audit review of the abridged financial statements and interim management report contained in the half-year report) and the quarterly statements. Moreover, the Finance Committee recommends to the Chairman of the Supervisory Board annual audit focuses for the auditors of the annual financial statements. It also recommends to the Supervisory Board an auditor for the annual financial statements as well as auditors for the audit review of the abridged financial statements and interim management report contained in the half-year financial report for the Supervisory Board's corresponding suggestion to the General Meeting. In addition, the Finance Committee is concerned with the net assets, financial position, results of operations and liquidity of Merck, as well as accounting, internal auditing, risk management and compliance issues. Upon request of the Board of Partners, the Finance Committee examines investment projects that must be approved by the Board of Partners and provides recommendations pertaining thereto. It passes its resolutions with a simple majority. The Committee Chairman regularly informs the Board of Partners of the activities of the Finance Committee.

RESEARCH AND DEVELOPMENT COMMITTEE

The Research and Development Committee has four members. During fiscal 2018 and up until January 27, 2019, these were: Helga Rübsamen-Schaeff (Chairperson), Johannes Baillou, Siegfrid Karjetta and Gregor Schulz. Since January 27, 2019, the Research and Development Committee comprises Helga Rübsamen-Schaeff, Johannes Baillou, Katharina Kraft und Simon Thelen. The Research and Development Committee is convened as and when necessary, but holds at least two meetings a year. Meetings of the Research and Development Committee are attended by members of the Executive Board of Merck KGaA upon request of the Committee. These meetings regularly include the Chairman of the Executive Board as well as the CEO Healthcare, the CEO Life Science and the CEO Performance Materials. The Research and Development Committee is responsible, among other things, for reviewing and discussing the research activities of the Healthcare and Life Science/Performance Materials business sectors. It passes its resolutions with a simple majority. The Chairperson of the Committee reports to the Board of Partners on the insights gained from the meetings held.

Stipulations to promote the percentage of management positions held by women pursuant to section 76 (4) and section 111 (5) of the German Stock Corporation Act (AktG)

STIPULATIONS PURSUANT TO SECTION 76 (4) AKTG (TARGET FOR THE PERCENTAGE OF POSITIONS HELD BY WOMEN ON THE TWO UPPER MANAGEMENT LEVELS BELOW THE EXECUTIVE BOARD)

We foster diversity within the company, which also includes ensuring a balance of genders in management. To this end, we pursue both voluntary and statutory objectives, and we work continuously and sustainably on achieving them. On December 15, 2016, the Executive Board of Merck KGaA set the new targets for the percentage of positions held by women on the two management levels of Merck KGaA below the Executive Board as follows:

- First management level of Merck KGaA below the Executive Board: 21% of positions held by women
- Second management level of Merck KGaA below the Executive Board: 26% of positions held by women

The deadline set for reaching the new targets is December 31, 2021. The first management level comprises all managers of Merck KGaA with a direct reporting line to the Executive Board of Merck KGaA or who belong to the global executive group. The second management level comprises all managers of Merck KGaA who report to managers with a direct reporting line to the Executive Board of Merck KGaA or the global executive group. In addition, as a global company with correspondingly aligned global (leadership) structures, Merck continues to pursue a (voluntary) global target of maintaining the proportion of leadership positions held by women (managers, experts and project managers in roles 4 and above)[1] at a stable level of 30% in the period until 2021.

[1] The relevant group represents approximately 6% of the entire workforce; see the section entitled "Diversity and Management" (on page 94).

STIPULATIONS PURSUANT TO SECTION 111 (5) AKTG (TARGET FOR THE PERCENTAGE OF POSITIONS ON THE SUPERVISORY BOARD HELD BY WOMEN)

Pursuant to section 111 (5) AktG, the Supervisory Board of companies that are listed or subject to co-determination stipulates binding targets for the percentage of positions on the Supervisory Board and on the Management Board held by women. However, for Merck KGaA, stipulations pursuant to section 111 (5) AktG need not be set for the following reasons:

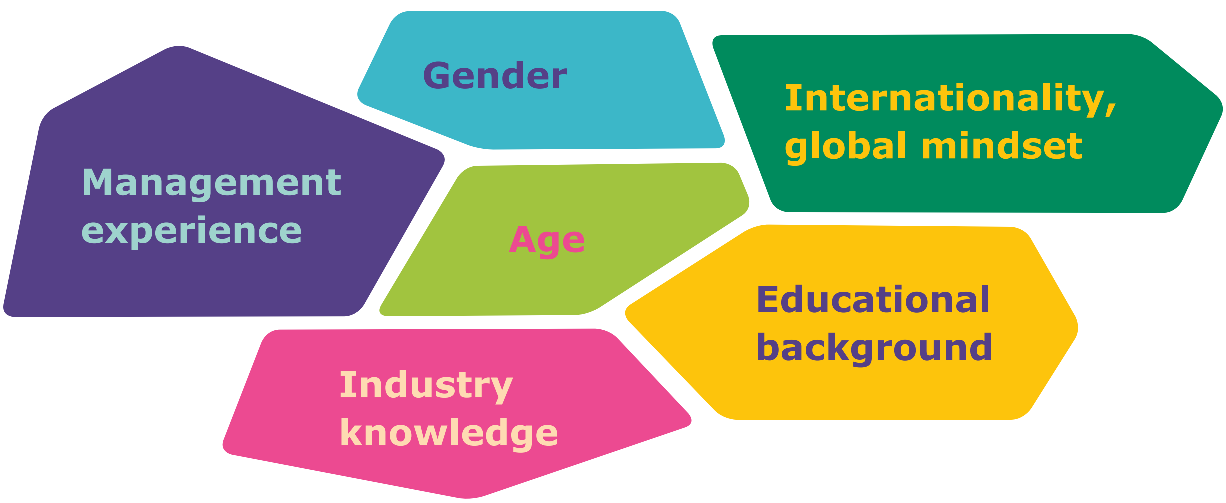
The statutory target of 30% pursuant to section 96 (2) AktG is already applied to the Supervisory Board of Merck KGaA. This eliminates the obligation to stipulate a further target for the percentage of positions held by women on the Supervisory Board (see section 111 (5) sentence 5 AktG).

The obligation to stipulate a target for the percentage of positions held by women on the Management Board pursuant to section 111 (5) AktG is not applicable to the legal form of a corporation with general partners (Kommanditgesellschaft auf Aktien), as a corporation with general partners neither has a management board comparable to that of a stock corporation nor does the Supervisory Board have personnel authority over the Executive Board. Instead, the Executive Board consists of personally liable general partners (see also pages 186 et seq. for the description of Supervisory Board procedures).

Diversity policy pursuant to section 289f (2) No. 6 of the German Commercial Code (HGB)

Merck is pursuing a Group-wide, global diversity program. At Merck, diversity stands for a culture of inclusion, mutual esteem and respect. To demonstrate this open and dynamic company culture, we promote diversity throughout the Group – and do so at all levels, including the Executive Board and Supervisory Board.

We believe that our innovative strength is driven by a diverse workforce and that an inclusive working environment sustainably contributes to entrepreneurial success. That is why we are furthering a culture of diversity independent of age, gender, disability, ethnic or cultural background, religion, industry experience and educational background. The diversity policy to strategically steer the topics of diversity and inclusion at Merck thus focuses on the following key criteria:



Our Group-wide diversity policy encompasses both voluntary as well as legally defined objectives that we continuously and sustainably work on to achieve. In this context, it should be noted that with respect to the Executive Board of Merck KGaA, many rules can only be applied correspondingly. This is because the Executive Board comprises personally liable general partners of Merck KGaA and is not a management board with employed members of a corporate body (for details, please also see the “Joint Report of the Executive Board and the Supervisory Board” on pages 166 et seq.).

In addition to the aspects presented in the following, reference is made to the objectives of the Supervisory Board with respect to its composition and the profile of skills and expertise of the Supervisory Board (see the information on the “Objectives of the Supervisory Board with respect to its composition and profile of skills and expertise” on pages 195 et seq.). The statements made there are part of the diversity policy for the Supervisory Board presented here.

AGE

Our boards are to have a balanced age structure. This permits future-oriented and consistent succession planning and is a key element of sustainable company management and monitoring. Our diversity policy aims for an age range of at least ten years between the youngest and the oldest member of the respective board.

In their current composition, both boards meet this objective. The age range of the Executive Board is 15 years; that of the Supervisory Board is 30 years. In addition, maximum age limits apply to both boards (for the Supervisory Board please see the information regarding the "Objectives of the Supervisory Board with respect to its composition, and profile of skills and expertise" on pages 195 et seq.). For Executive Board members, a maximum age of 70 applies.

GENDER

Gender diversity also plays a crucial role since it enables us to benefit from a larger talent pool, and allows us as a company to develop a better understanding of important customer groups. We have set ourselves the (global) strategic objective of maintaining the proportion of women in leadership positions (managers, experts and project managers in role 4 and higher[1]) at a stable level of 30% by 2021 (please also refer to the description on page 94 under "Diversity and Management").

Additionally, Merck continues to pursue representation of both genders as an objective for the Executive Board. With Ms. Belén Garijo as CEO Healthcare, at Merck a woman is currently responsible for our largest business sector in terms of sales. The statutory target of 30% pursuant to section 96 (2) AktG is already applied to the Supervisory Board of Merck KGaA. We consider further targets to be dispensable here.

INTERNATIONALITY AND GLOBAL MINDSET

As a science and technology company with global operations and major markets on five continents with around 50,000 employees at locations in 66 countries[2], internationality and the associated global mindset is one of our key success factors. According to our diversity policy, the Executive Board's internationality derives from leadership experience or national origin, relative to our key sales markets or those locations that are organizationally and culturally relevant to our employee development efforts. For both criteria, Europe, North America and Asia-Pacific are currently the key regions. The Executive Board meets this objective with management experience in the named regions, for instance in the following countries: France, Spain, Switzerland, the United States, Singapore, India, Taiwan, Malaysia and Australia. One-third of the Executive Board members are not German citizens.

MANAGEMENT EXPERIENCE

The key prerequisites for high-performance leadership teams are both the diversity of the individual competency profiles and a balance between a Group-internal and external management perspective. Therefore, as a whole the Executive Board must have in-depth knowledge and experience in the following key areas of importance to the company: Strategy & Planning, Finance & Accounting, Sales & Operations, Human Resources, Legal & Compliance and Information Technology. In addition, for the composition of the Executive Board it is important to ensure a good balance of members from within and outside the company. Our diversity policy seeks to derive inspiration and innovation from outside the company and to identify the latest trends of relevance to the core businesses of the company, while ensuring sustainability and continuity in line with our corporate culture. We have therefore set ourselves the global objective of filling two-thirds of our leadership positions with candidates from within the company.

The current Executive Board fulfills both of the aforementioned objectives: All required aspects of the competency profile are covered by at least one member of the Executive Board. Likewise, three members of the Executive Board possess multiple years of experience working within the Merck Group prior to their appointment to the Executive Board.

INDUSTRY EXPERIENCE

To efficiently lead and manage the Group, the Executive Board must have in-depth knowledge of the key industries and business sectors that the company operates in. In accordance with the diversity policy, there should be at least one member of the Executive Board with in-depth expertise of Healthcare, Life Science or Performance Materials, respectively.

Currently, the Executive Board has the full breadth of the sector-specific experience required.

EDUCATIONAL BACKGROUND

In order to translate the tremendous innovative potential of a science and technology company into sustainable business success, interdisciplinary educational backgrounds are a key element of our diversity policy both for the Executive Board and for the Supervisory Board. The current composition of both boards illustrates this interdisciplinary aspect to a very high degree.

The members of the Executive Board contribute knowledge of various fields including veterinary medicine, economic sciences, medicine (pharmacology), chemistry and information technology. In addition, all members of the Executive Board hold a university degree and a doctorate from a German or foreign university.

Moreover, the members of the Supervisory Board have a background in one or more of the following fields of specialization: chemistry, biochemistry, nutrition, human medicine, business administration and economics, education and physics, among others.

More than one-half of our Supervisory Board members are university graduates and hold doctorates.

[1] Merck also has employees at sites that are not fully consolidated subsidiaries. These figures refer to all people directly employed by Merck and therefore may deviate from figures in the financial section of this report.
[2] Each country with at least one active employee is considered one country.

Report of the Supervisory Board

The Supervisory Board again properly executed its duties in 2018 in accordance with the law as well as the company's Articles of Association and rules of procedure. In particular, the Supervisory Board monitored the work of the Executive Board diligently and regularly.

COOPERATION WITH THE EXECUTIVE BOARD

The cooperation with the Executive Board was characterized by intensive, trustworthy exchange. During fiscal 2018, the Executive Board provided the Supervisory Board with regular written and verbal reports on the business development of Merck KGaA and the Merck Group. In particular, the Supervisory Board was informed about the market and sales situation of the company against the background of macroeconomic development, the financial position of the company and its subsidiaries, along with their earnings development and corporate planning. Within the scope of quarterly reporting, the sales and operating results were presented for the Merck Group as a whole, and broken down by business sector. Aside from the Supervisory Board meetings, the Chairman of the Supervisory Board also maintained and continues to maintain a regular exchange of information with the Chairman of the Executive Board.

KEY TOPICS OF THE SUPERVISORY BOARD MEETINGS

Four Supervisory Board meetings were held in fiscal 2018. At these meetings, the Supervisory Board intensely discussed the reports of the Executive Board as well as company developments and strategic issues together with the Executive Board.

At the meeting held on February 28, 2018, the Executive Board first intensively addressed the annual financial statements and consolidated financial statements for 2017, the combined management report, the audit report of the auditor on the separate non-financial report (of the Merck Group) for fiscal 2017 and the proposal for the appropriation of the net retained profit. The auditor explained the audit reports including the focus areas of the audit. The Executive Board and the Head of Accounting reported on the financial statements. The Supervisory Board took note of the information on the “Operational Infrastructure” project, the restructuring of Merck KGaA. Furthermore, the Supervisory Board resolved upon the report and the objectives of the Supervisory Board with respect to its composition and the profile of skills and expertise, the Declaration of Conformity with the German Corporate Governance Code and the Statement on Corporate Governance, which simultaneously includes the joint report on Corporate Governance of the Executive Board and Supervisory Board. The Supervisory Board also approved the proposals to be made to the General Meeting. The Executive Board reported on business performance in 2017 and presented the plans for fiscal 2018. The “Roda” project, the divestment of the global Consumer Health business, was the subject of intense deliberations. The Supervisory Board also took note of the written risk report as well as the report from Group Internal Auditing for 2017.

The meeting held on May 9, 2018, focused on current business developments in the first quarter of 2018. The report of the Research and Development Committee Life Science/Performance Materials of the Board of Partners of E. Merck KG was a further focus of the meeting. The Supervisory Board also dealt with the Compliance and Data Protection Report for 2017.

At its meeting on July 31, 2018, the Supervisory Board focused intensively on the report of the Executive Board on business performance in the second quarter of 2018. In addition, the auditor explained the half-year financial report. Risk management within the company was a further topic. The Head of Risk Management presented the status report for the first half of 2018. No risks that threaten the continued existence of the company were identified. In addition, the list of permitted non-audit services was updated, an external audit of the non-financial declaration was resolved upon and various developments in the Corporate Governance area were discussed. Finally, the Supervisory Board elected the new members of the Nomination Committee as regularly scheduled.

At its fourth meeting on November 9, 2018, the Supervisory Board dealt with the report of the Executive Board on the third quarter of 2018. Additional topics of focus were the 2018 status reports of Group Internal Auditing, status reports on compliance and data protection, and the report of the Research and Development Committee Healthcare. Furthermore, the Group Executive Conference and the strategy of Merck Business Services were reported on and discussed. In addition, a revision of the Articles of Association due to the departure of Walter Galinat was discussed.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements of Merck KGaA, the consolidated financial statements of the Merck Group and the combined management report for Merck KGaA and the Merck Group, including the accounts, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin.

The auditors issued an unqualified audit opinion on the annual financial statements of Merck KGaA in accordance with German Auditing Standards. The audit opinion for the annual financial statements contained the following key audit matters, i.e. those matters that, in the professional judgment of the auditor, were of most significance in the audit of the annual financial statements:

- Impairment testing of interests in associates
- Recognition and measurement of provisions for tax liabilities
- Spin-off of the Healthcare, Life Science and Performance Materials business sectors to three subsidiaries and leaseback of business sectors as part of business leases

For the consolidated financial statements prepared in accordance with International Financial Reporting Standards and for the combined management report, the auditors issued the unqualified auditor's report reproduced in the Annual Report of the Merck Group. The audit opinion for the consolidated financial statements contained the following audit topics of special importance:

- Goodwill impairment tests
- Recognisition and measurement of income tax liabilities and deferred tax liabilities
- Measurement of provisions for patent disputes
- Measurement of disposal gains/losses from the divestment of the Consumer Health business

In addition, the auditor audited the calculation of Merck KGaA's participation in the profit of E. Merck KG in accordance with Article 27 (2) of the Articles of Association as well as the separate combined non-financial (Group) report. The annual financial statements of Merck KGaA, the consolidated financial statements of the Merck Group, the combined management report for Merck KGaA and the Merck Group, the proposal of the Executive Board for the appropriation of net retained profit and the separate combined non-financial (Group) report were submitted to the Supervisory Board together with the auditor's report.

In accordance with Article 14 (2) of the Articles of Association, the Supervisory Board also examined the annual financial statements of Merck KGaA, the proposal for the appropriation of net retained profit and the auditor's report presented in accordance with Article 27 (2) of the Articles of Association. It also examined the consolidated financial statements of the Merck Group as well as the combined management report for Merck KGaA and the Merck Group, and took note of the auditor's report of KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. It focused particularly on the aforementioned key audit matters of particular importance in the audit opinion, on the resulting risks for the financial statements, the approach adopted during the audit as described and the conclusions drawn by the auditor. Furthermore, the Supervisory Board also examined the separate combined non-financial (Group) report and the memorandum on a limited assurance engagement prepared by the auditor on behalf of the Supervisory Board. The discussion of the relevant agenda item at the Supervisory Board's meeting on February 26, 2019, to approve the financial statements was also attended by the auditors who sign the audit opinion on the annual financial statements of Merck KGaA and the consolidated financial statements of the Merck Group as well as the separate combined non-financial (Group) report. These auditors furthermore reported on their audit at this meeting. The Supervisory Board took note of and approved the results of the audit. On completion of its examination, the Supervisory Board raised no objections and thus approved the annual financial statements for Merck KGaA, the consolidated financial statements of the Merck Group, the combined management report of Merck KGaA and the Merck Group prepared by the Executive Board, the report presented by the auditor in accordance with Article 27 (2) of the Articles of Association and the separate non-financial (Group) report. The Supervisory Board gave its consent to the proposal of the Executive Board for the appropriation of net retained profit.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

Corporate governance is a topic of high priority for the Supervisory Board.

In its own estimation, the Supervisory Board has an adequate number of independent members. There were no conflicts of interest, as defined by the German Corporate Governance Code, involving Supervisory Board members during the year under review. In fiscal 2018, the Chairman of the Supervisory Board was prepared to hold talks with investors on topics pertaining to the Supervisory Board as appropriate and remains willing to do so. The next efficiency review of the Supervisory Board will be held in the coming fiscal year, following the last efficiency audit in fiscal 2017.

After discussing corporate governance issues in detail, the Executive Board and the Supervisory Board on February 14, 2019 (Executive Board), and February 26, 2019 (Supervisory Board), respectively, adopted the updated Declaration of Conformity and issued it jointly on February 26, 2019 in accordance with section 161 AktG. The statement is permanently available on the website of Merck KGaA (www.merckgroup.com/en/investors/corporate-governance.html). More information about corporate governance at Merck KGaA, including the compensation of the Executive Board and Supervisory Board, is given in the Statement on Corporate Governance on pages 166 et seq. of the Annual Report.

COMMITTEES

Apart from the Nomination Committee, the Supervisory Board of Merck KGaA currently has no further committees on account of the special features that apply to the Supervisory Board of a corporation with general partners (KGaA) under German company law and because a corresponding need for this has not emerged to date. The members of the Nomination Committee convened on November 9, 2018, in order to recommend suitable candidates to the Supervisory Board for the Supervisory Board elections in 2019. At its meeting, the committee discussed potential candidates. The discussion took into account the statutory requirements as well as the candidate's fit into the full Supervisory Board, the objectives of the Supervisory Board regarding its composition, its profile of skills and expertise and the diversity policy. No report is given on the work of further committees.

PERSONNEL MATTERS

With the exception of Michael Fletterich, who was excused and absent from the meeting on November 9, 2018, all the Supervisory Board members attended all the Supervisory Board meetings.

Darmstadt, February 26, 2019

The Supervisory Board of Merck KGaA

Wolfgang Büchele
Chairman

Objectives of the Supervisory Board with respect to Its Composition and Profile of Skills and Expertise

INITIAL SITUATION

According to section 5.4.1 of the German Corporate Governance Code, the Supervisory Board shall specify concrete objectives regarding its composition as well as prepare a profile of skills and expertise for the entire board. Within the scope of the company-specific situation, the composition of the Supervisory Board shall appropriately reflect the international activities of the enterprise, potential conflicts of interest, the number of independent Supervisory Board members, an age limit to be specified for the members of the Supervisory Board, a regular limit to be specified for the length of Supervisory Board membership and diversity.

GENERAL NOTES ON THE COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board of Merck KGaA currently comprises 16 members, eight of whom represent the shareholders and a further eight who represent the employees. The eight employee representative members are elected by employee delegates pursuant to the provisions of the German Codetermination Act (Mitbestimmungsgesetz – "MitbestG"). These consist of six company employees, including a senior executive, as well as two union representatives. The Supervisory Board has no statutory proposal right with respect to electing the delegates or employee representatives. Owing to a delegation right of E. Merck Beteiligungen KG, two of the eight shareholder representatives are specified. The Supervisory Board likewise has no statutory proposal right with respect to exercising this delegation right. The other six shareholder representatives are elected by the General Meeting. In accordance with section 124 (3) sentence 1 AktG, the Supervisory Board shall propose to the General Meeting Supervisory Board members for election. These proposals require a majority of the votes of the shareholder representative members of the Supervisory Board. The next scheduled election to the Supervisory Board shall take place at the 2019 General Meeting. The General Meeting is not required to follow the election proposals. The appointment objectives and competency requirements that the Supervisory Board sets forth below therefore do not represent requirements to be met by those eligible to elect or to delegate members. Instead, they are intended to express the objectives pursued by the Supervisory Board in office with regard to its advisory and monitoring functions.

For the Supervisory Board of Merck KGaA, professional qualifications and personal expertise are the two most important prerequisites for appointments to seats on the Supervisory Board. When proposing Supervisory Board candidates for election or delegation, the Supervisory Board will always give top priority to these prerequisites, which are essential for fulfilling its legal duties. Overall, the Supervisory Board's policy is to optimally meet its monitoring and advisory duties by having diversity among its members. Diversity includes, in particular, internationality as well as different experience backgrounds and career paths. The proportion of women on the Supervisory Board is also considered to be an aspect of diversity. When preparing proposals for election or delegation to the Supervisory Board, the Supervisory Board shall consider in each case to what extent different, complementary specialist skills, professional and life experience, and an appropriate representation of both genders benefits the work of the Supervisory Board. Additionally, the Supervisory Board shall support the Executive Board in its efforts to increase diversity within the company.

OBJECTIVES OF THE SUPERVISORY BOARD WITH RESPECT TO ITS COMPOSITION

In accordance with section 5.4.1 (2) of the German Corporate Governance Code, the Supervisory Board has specified the following objectives regarding its composition and reports on the status of implementation below:

Internationality

The Supervisory Board shall have at least three members with business experience in the main sales markets of Merck KGaA. Currently, the main sales markets of Merck KGaA are Europe, North and Latin America, and Asia-Pacific. The present composition of the Supervisory Board satisfies this objective. More than three Supervisory Board members have entrepreneurial experience in a wide range of European countries. More than three Supervisory Board members have experience in management positions in companies that operate globally.

Women on the Supervisory Board

Six women are currently members of the Supervisory Board of Merck KGaA. Accordingly, women make up 37.5% of the Supervisory Board. When nominating candidates for election to the Supervisory Board or making proposals for delegations, the Supervisory Board shall examine whether the percentage of women can be increased by suitable candidates. The Supervisory Board considers the 37.5% share of women members to be satisfactory at the present time. This applies both owing to the percentage of women in leadership positions at Merck as well as the fact that the supervisory boards of other companies have a comparable percentage of women.

Number of independent members, no material conflicts of interest

The Supervisory Board shall have an appropriate number of independent members. Assuming that the status of being an employee representative per se does not justify doubts with respect to the independence criteria within the meaning of section 5.4.2 of the German Corporate Governance Code, as a rule all employee representatives shall be independent within the meaning of the Code. In any case, at least four of the shareholder representatives on the Supervisory Board shall be independent. According to the Articles of Association of Merck KGaA, six members representing the shareholders are to be elected by the General Meeting and two members are to be delegated. Taking this and the special ownership structure of Merck into account, the Supervisory Board considers four shareholder representatives to be an appropriate number of independent members. In the Supervisory Board's estimation, the objectives concerning independent members are met at the present time. The Supervisory Board considers the following members to be independent: Crocifissa Attardo, Mechthild Auge, Wolfgang Büchele, Gabriele Eismann, Michael Fletterich, Edeltraud Glänzer, Michaela Freifrau von Glenck, Siegfried Karjetta, Albrecht Merck, Dietmar Oeter, Alexander Putz, Helga Rübsamen-Schaeff, Gregor Schulz, Theo Siegert, Tobias Thelen and Veit Ulshöfer. In particular, the Supervisory Board does not believe that membership of the Board of Partners of E. Merck KG conflicts with independence. The Board of Partners exists complementary to the competencies and the activities of the Supervisory Board. It is not to be expected that this will lead to material and not merely temporary conflicts of interest. It should also be taken into account that due to its substantial capital investment and unlimited personal liability, E. Merck KG has a strong interest in the businesses of Merck KGaA operating efficiently and in compliance with procedures, counteracting from the outset conflicts of interest between E. Merck KG and Merck KGaA and thus also corresponding conflicts of interest between the members of the respective corporate boards. Moreover, no one shall be proposed for election to the Supervisory Board who simultaneously serves on a board of or advises a major competitor of the company, or owing to another function, such as advisor to major contract partners of the company, who could potentially become involved in a conflict of interest. No Supervisory Board member serves on a board of or advises a major competitor. No Supervisory Board member performs a function that could lead to a lasting conflict of interest.

Age limit

As a rule, the members of the Supervisory Board shall not exceed the age of 75. This objective is met at the present time.

Regular limit on the length of Supervisory Board membership

The objective of the Supervisory Board regarding its composition is that, as a rule, all members belong to the board for an uninterrupted period of no more than 15 years (corresponds to three regular terms of office). With one exception, this objective is also met at the present time.

PROFILE OF SKILLS AND EXPERTISE

Additionally, in accordance with section 5.4.1 (2) of the German Corporate Governance Code, the Supervisory Board has prepared a profile of skills and expertise, and reports on the status of implementation below.

In-depth knowledge of the fields relevant to the company

The Supervisory Board shall have at least four members with in-depth knowledge of and experience in fields that are important to the company, including at least one expert for the Healthcare and Life Science/Performance Materials sectors, respectively. This requirement is met at the present time. At present, the Supervisory Board has more than four members who have in-depth knowledge of and experience in the Healthcare and Life Science/Performance Materials sectors. More than four Supervisory Board members also have executive experience in companies that also or specifically operate in the Healthcare and Life Science/Performance Materials sectors.

Management experience

The Supervisory Board shall have at least three members who have experience in managing or supervising a medium- or large-sized company. The Supervisory Board has more than three members who have the corresponding experience. They include supervisory board members who were or still are members of the management or executive board at relevant companies as well as supervisory board members who have gained experience in supervisory bodies of German or foreign companies of this size.

Knowledge of business administration

The Supervisory Board shall have at least four members who have in-depth knowledge of business administration. This requirement is met at the present time.

Experience on other supervisory or control boards

Lastly, the Supervisory Board shall have at least four members who have experience as members of other supervisory or control boards (whereby possible membership of the Board of Partners of E. Merck KG is not taken into account). This requirement is also met at the present time.

Declaration of the Executive Board and the Supervisory Board of Merck KGaA on the recommendations of the "Government Commission German Corporate Governance Code" pursuant to section 161 German Stock Corporation Act (Aktiengesetz, AktG)

In accordance with section 161 AktG, applying the provisions of the German Corporate Governance Code correspondingly, the Executive Board and the Supervisory Board issued the following Declaration of Conformity with the recommendations of the Government Commission of the German Corporate Governance Code:

"Declaration of the Executive Board and the Supervisory Board of Merck KGaA on the recommendations of the Government Commission of the German Corporate Governance Code pursuant to section 161 AktG.

Since the last Declaration of Conformity on February 28, 2018, we have complied with the recommendations of the Government Commission of the German Corporate Governance Code in the version dated February 7, 2017 published in the official section of the German Federal Gazette with the following exception:

Contrary to section 5.3.2 of the German Corporate Governance Code, the Supervisory Board has not established an audit committee. However, an audit committee does exist in the form of the Finance Committee of the Board of Partners of E. Merck KG, which to a large extent exercises the duties described in section 5.3.2 of the Code. Due to the relatively limited authority of the supervisory board of a KGaA in comparison with that of an AG, this therefore satisfies the requirements of the German Corporate Governance Code.

In view of future compliance with the current recommendations of the Government Commission of the German Corporate Governance Code, the Executive Board and the Supervisory Board declare the following:

With the exception of the aforementioned deviation from section 5.3.2 (audit committee), the company will comply with the recommendations of the Code in the version dated February 7, 2017."

Darmstadt, February 26, 2019

For the Executive Board	For the Supervisory Board
s. Stefan Oschmann	s. Wolfgang Büchele