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News Release

March 6, 2014

Merck KGaA, Darmstadt, Germany, reports record result for 2013

- **EBITDA pre one-time items increases by 10 percent to a record level of € 3.25 billion**
- **Net income more than doubles to € 1.2 billion**
- **Positive business performance in all four divisions**
- **Accelerated implementation of efficiency measures**
- **Transfer of Neurobion and Floratil to Consumer Health to strengthen the division's position in Emerging Markets**
- **Karl-Ludwig Kley, Chairman of the Executive Board: "We lowered our costs faster than planned and drove the realignment of the Group. Therefore, we expect to achieve slight organic growth in sales and constantly high earnings in 2014."**

Darmstadt, Germany, March 6, 2014 – Merck KGaA, Darmstadt, Germany today announced strong full-year results and the achievement of its objectives for 2013 despite a challenging market environment. The company, which offers top-quality high-tech products in the pharmaceutical and chemical sectors, reported solid organic sales growth of 4.2 percent to € 10.7 billion. Thanks to the accelerated implementation of the company's efficiency measures, EBITDA pre one-time items increased by 9.7 percent to the record level of € 3.25 billion. The EBITDA pre margin rose by nearly three percentage points from 27.6 percent to 30.4 percent.

"We delivered on our promises in 2013 as well," said Karl-Ludwig Kley, Chairman of the Merck KGaA Executive Board, in Darmstadt on Thursday. "We developed our business with innovative and highly specialized products and services further,

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expanding our presence in global growth markets," Kley added. "The numbers reflect this development. Merck KGaA was never as profitable as it is today. Therefore, we expect to achieve slight organic growth in sales and constantly high earnings in 2014."

Significantly impacted by currency headwinds, **total revenues** of the Merck KGaA Group declined slightly by 0.7 percent to around € 11.1 billion (2012: € 11.17 billion). **Sales**, i.e. total revenues less royalty, license and commission income, saw solid organic growth of 4.2 percent in 2013, but the increase was outweighed by adverse foreign exchange effects of 4.7 percent. All four divisions contributed to the increase in organic sales of the Merck KGaA Group.

Dynamic business performance in Emerging Markets drives growth

Above all, dynamic business performance in Emerging Markets, i.e. Latin America and Asia (excluding Japan), contributed to organic growth in 2013. At 9.3 percent, the region achieved strong organic growth, which was mainly driven by the biopharmaceuticals division. In 2013, the region thus increased its contribution to Group sales by nearly one percentage point to 36 percent. In Europe, organic sales growth of 1.4 percent was partially canceled out by negative foreign exchange effects of 0.7 percent. Europe's percentage contribution to Group sales thus remained unchanged at 37 percent.

Record earnings and significantly lower net debt

EBITDA pre one-time items, the key financial indicator used by Merck KGaA, Darmstadt, Germany to steer operating business, increased by 9.7 percent to € 3.25 billion (2012: € 2.96 billion). The resulting EBITDA pre margin thus increased to 30.4 percent from 27.6 percent in 2012. Apart from solid business performance, particularly the faster implementation of the efficiency measures had a visibly positive effect on profitability.

Merck KGaA, Darmstadt, Germany posted a considerable increase of 67.2 percent in the **operating result (EBIT)**, which amounted to € 1.61 billion (2012: € 964 million). This was due on the one hand to the good performance of operating business and on

News Release

the other hand to the sharp decline in the very high level of restructuring–related one-time items incurred in 2012. One-time items (excluding impairments) totaled around € 184 million in 2013; in 2012 they amounted to € 605 million. Net income, i.e. profit after tax attributable to Merck KGaA shareholders, more than doubled to € 1.2 billion in 2013 (2012: € 567 million). Adjusted for one-time items, earnings per share increased by 15.4 percent to € 8.78 (2012: € 7.61).

The **business free cash flow** of the Merck KGaA Group in 2013 amounted to € 2.96 billion (2012: € 2.97 billion), remaining at the previous year’s high level. In 2013, **net financial debt** was significantly reduced by € 1.62 billion or 84.1 percent to € 307 million (2012: € 1.93 billion).

The Merck KGaA Group thus achieved earlier than expected the targets for 2013 announced in May 2012 as regards sales and earnings per share, and even slightly exceeded its target with respect to EBITDA pre one-time items.

Fourth quarter of 2013: Foreign exchange effects weigh on healthy operating business

In the fourth quarter of 2013, Merck KGaA, Darmstadt, Germany posted organic sales growth of around 4 percent compared with the year-earlier quarter. However, this was more than offset by negative foreign exchange effects of around 7 percent. Consequently, sales in the fourth quarter of 2013 declined to € 2.64 billion, corresponding to a decrease of 2.8 percent. Nevertheless, Merck KGaA, Darmstadt, Germany raised its profitability in the fourth quarter: EBITDA pre one-time items increased by 0.7 percent to € 795 million, which was due not only to robust operating business, but primarily to strict cost management. Merck KGaA’s net income in the fourth quarter amounted to € 281 million. Earnings per share pre one-time items increased by 3.4 percent to € 2.12 (Q4/2012: € 2.05).

News Release

Organic growth and cost savings drive the profitability of biopharmaceuticals division

Despite solid organic growth of 3.9 percent, the biopharmaceuticals division's sales declined by 0.7 percent to € 5.95 billion (2012: € 6 billion). This slight decrease was attributable to strong currency headwinds of 4.6 percent, which stemmed from the Japanese yen and the U.S. dollar, among others. All the division's therapeutic areas contributed to the organic sales growth, with the highest absolute organic sales increases coming from the General Medicine franchise and the oncology drug Erbitux. In geographic terms, the Emerging Markets region and Japan fueled organic sales growth.

Merck KGaA's top-selling drug, **Rebif**, which is used to treat relapsing forms of multiple sclerosis, posted slight organic growth of 1.4 percent despite more intense competition. Owing to foreign exchange effects of 2.9 percent, however, Rebif sales decreased by 1.5 percent to € 1.86 billion.

The oncology drug **Erbitux** generated organic growth of 5.9 percent, fueled mainly by its approval in head and neck cancer in Japan as well as good demand in the Emerging Markets region. Including an adverse foreign exchange impact of 6.5 percent, which was primarily attributable to the Japanese yen, sales declined slightly by € 5 million to € 882 million.

Sales of **Gonal-f**, the leading recombinant hormone used in the treatment of infertility, declined to € 586 million in 2013. This decrease was mainly due to adverse foreign exchange effects of 3.5 percent. Organically, sales slightly slipped by 0.7 percent. At € 394 million, sales by the Endocrinology franchise, which mainly consists of products to treat metabolic and growth disorders, decreased slightly by 1.3 percent since organic growth of 2.1 percent was more than offset by an adverse foreign exchange impact of 3.4 percent.

In 2013, the division's cost of sales declined by 7.3 percent to € 1.11 billion thanks to strict cost control. In addition, both the resolute implementation of cost reduction measures and currency translation effects lowered the division's marketing and selling expenses by 6.0 percent to € 1.29 billion and administration expenses by 2.5 percent to € 211 million. The EBITDA pre margin increased by 2.4 percentage points to 32.8 percent in 2013 despite an adverse foreign exchange impact and lower royalty income.

"Within the scope of our 'Fit for 2018' transformation and growth program, in the biopharmaceuticals division we are working to realign our pipeline and to fully exploit the potential of the existing portfolio," said Kley in Darmstadt on Thursday with a view to 2014.

Consumer Health achieves a successful realignment

The **Consumer Health** division, which manufactures and markets over-the-counter pharmaceuticals, reported a slight increase in sales in 2013 of 0.9 percent to € 477 million (2012: € 473 million). Strong organic growth of 5.6 percent was countered by a negative foreign exchange impact of 4.7 percent. Europe and Emerging Markets, the two largest regions in terms of sales, were the main drivers of the strong organic increases and the division's overall positive development. Four of the eight strategic brands (Cebion, Sangobion, Kytta and Femibion) delivered double-digit organic growth rates and gained market share in the division's key regions. The Bion, Nasivin and Sedalmex brands all posted growth rates in the mid-to-high single digits.

The implementation of efficiency measures and improved resource allocation had a positive effect on the division's cost structure and led to visible profitability increases. EBITDA pre one-time items rose by 8.5 percent to € 72 million, or 15.2 percent of sales (2012: € 67 million, or 14.1 percent of sales). "The aim now is to ensure sustainable growth by means of innovations and compelling marketing of strategic brands in high-growth markets," said Kley.

As of January 1, 2014, two product groups were transferred from the biopharmaceuticals division division to the Consumer Health division. These are **Neurobion**, a vitamin B-based analgesic, and **Floratil**, a leading brand in the probiotic antidiarrheal segment in Brazil. As a result, the division has become significantly larger. Divisional sales will increase by approximately 55 percent to € 742 million.

The transfer of the two strong brands makes better use of the potential of the consumer-oriented business model of Consumer Health. In addition, it increases the division's exposure in Emerging Markets. This is an important step in the division's journey towards developing a market share of at least 3 percent with three strategic brands in each of its key markets. "We expect new growth impetus in our key region of Emerging Markets due to the transfer of the two brands," said Kley. The share of Consumer Health sales accounted for by Emerging Markets will increase from 28 percent to 51 percent as a result of the transfer.

Performance Materials achieves strong increase in profitability

For the Performance Materials division, which primarily supplies innovative liquid crystals for the electronics industry and effect pigments, 2013 was another successful year. Sales grew organically by a further 3.0 percent over 2012, which was a record year. Taking into account adverse currency headwinds of 4.9 percent, which were mainly attributable to the Taiwanese dollar, the U.S. dollar and the Japanese yen, divisional sales decreased by 1.9 percent to € 1.64 billion (2012: € 1.67 billion), yet remained at a high level.

The **Liquid Crystals** business unit, which accounts for more than 70 percent of divisional sales, defended its market leadership in liquid crystal materials by continuously improving its flagship technologies. The Liquid Crystals business unit benefited from the shift in demand toward technically more complex liquid crystals that are primarily used in large-sized, high-quality television displays. In 2013, the **Pigments & Cosmetics** business unit achieved good organic sales growth thanks to higher demand for decorative pigments, above all the Xirallic product family, which is used in particular in automotive coatings. The business unit recorded a slight increase in organic sales of functional materials.

Adjusted for one-time effects, EBITDA pre rose by 5.1 percent to € 780 million (2012: € 742 million). Despite adverse currency headwinds, the division's profitability, i.e. the EBITDA pre margin, rose to 47.5 percent of sales (2012: 44.3 percent of sales). This profitability increase of more than three percentage points was primarily attributable to changes in the product mix of the Liquid Crystals business unit; it was also the result of cost structure improvements in the Pigments & Cosmetics business unit achieved through efficiency measures under the “Fit for 2018” transformation and growth program.

“Through the steady further development of our products and our strong positioning in OLED technology, we want to continue setting innovation standards for display technologies,” said Kley with regard to further “Fit for 2018” goals for the division. “To strengthen our materials business, we furthermore want to acquire AZ Electronic Materials and are confident that we will be able to complete the transaction within the first six months of 2014.”

Life Science Tools Division delivers robust performance and higher profitability

In 2013, the **Life Science Tools Division**, which markets life science tools, generated strong organic sales growth of 5.5 percent despite a challenging market environment. In particular, Lab Solutions and Process Solutions, the two top-selling business units, contributed to the good growth rates through price increases and higher sales volumes. Biochrom AG, Berlin, which was acquired in 2012, contributed 0.5 percent to the increase in sales in 2013. Taking into account negative currency headwinds of 4.8 percent, divisional sales rose by 1.1 percent to € 2.63 billion (2012: € 2.6 billion).

Sales growth in the Life Science Tools Division’s **Lab Solutions** business unit, which manufactures products for research as well as analytical and clinical laboratories in a wide variety of industries, was mainly driven by price increases as well as the elevated demand for biomonitoring solutions, particularly from customers in the pharmaceutical industry as well as the Emerging Markets region. The **Process Solutions** business unit, which supplies a diversity of products to pharmaceutical and biotechnology companies, generated the highest organic sales growth within the Life Science Tools Division. This increase was driven by higher demand from the pharmaceutical industry for products used in biopharmaceutical manufacturing, especially in Asia and the United States. The **Bioscience** business unit, which primarily markets products and

News Release

services for pharmaceutical, biotechnology and academic research laboratories, recorded stable organic sales.

Adjusted for one-time expenses, the Life Science Tools Division's EBITDA pre one-time items rose by 4.6 percent to € 643 million (2012: € 614 million). Despite unfavorable foreign exchange developments and the difficult market situation in North America, the Life Science Tools Division increased its EBITDA pre margin to 24.5 percent of sales (2012: 23.6 percent of sales).

"In the Life Science Tools Division, our efforts will concentrate on expanding and strategically aligning the portfolio. The key focus regions are North America, Asia and Latin America," said Kley, commenting on the division's next steps within the "Fit for 2018" transformation and growth program.

Guidance for 2014

Merck KGaA, Darmstadt, Germany expects a slight increase in organic sales for 2014. However, the growth is likely to be offset by continued negative foreign exchange effects. As a consequence, Merck KGaA expects stable sales in 2014. Despite the loss of royalty income and continued intensive competition in certain parts of the pharmaceutical business, in 2014 Merck KGaA, Darmstadt, Germany expects to again achieve the 2013 level of EBITDA pre one-time items.

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Guidance for 2014

- Slight organic sales growth
- EBITDA pre stable

Key figures for the Merck KGaA, Darmstadt, Germany Group

€ million	2013	2012	Change in %	Q4/2013	Q4/2012	Change in %
Total revenues	11,095.1	11,172.9	-0.7	2,741.8	2,834.8	-3.3
Sales	10,700.1	10,740.8	-0.4	2,636.3	2,712.1	-2.8
Operating result (EBIT)	1,610.8	963.6	67.2	264.2	311.7	-15.2
Margin (% of sales)	15.1	9.0		10.0	11.5	
EBITDA	3,069.2	2,360.2	30.0	725.9	670.9	8.2
Margin (% of sales)	28.7	22.0		27.5	24.7	
EBITDA pre one-time items	3,253.3	2,964.9	9.7	795.2	789.8	0.7
Margin (% of sales)	30.4	27.6		30.2	29.1	
Earnings per share pre one-time items (€)	8.78	7.61	15.4	2.12	2.05	3.4
Earnings per share	5.53	2.61	111.9	1.29	1.25	3.2
Business free cash flow	2,960.0	2,969.3	-0.3	730.5	790.2	7.6
Net financial debt (as of Dec. 31, 2013)	306.6	1,925.9	-84.1			
Net income	1,202.2	566.7	112.1	280.6	271.8	3.2

Notes to Editors:

- The interactive online version of the **2013 Annual Report**, as well as a press kit with more information, is available in the Internet.
- Follow the **press conference** via webcast at 10 am CET here.
- Click here to follow the **analysts' call** at 2 pm CET, as well as the presentations used for the call.
- Merck KGaA, Darmstadt, Germany on Facebook und Linkedin
- Merck KGaA, Darmstadt, Germany's **stock symbols**
  Reuters: MRCG, *Bloomberg*: MRK GY, *Dow Jones*: MRK.DE
  Frankfurt Stock Exchange: *ISIN*: DE 000 659 9905 – *WKN*: 659 990

News Release

Note regarding forward-looking statements

The information in this document may contain “forward-looking statements". Forward-looking statements may be identified by words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “will”, “sees” or words of similar meaning and include, but are not limited to, statements about the expected future outcome or timing of the transactions described above. These statements are based on the current expectations of the management of Merck KGaA and E. Merck KG, and are inherently subject to uncertainties and changes in circumstances. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are factors relating to changes in global, political, economic, business, competitive, market and regulatory forces. Merck KGaA and E. Merck KG do not undertake any obligation to update the forward-looking statements to reflect actual results, or any change in events, conditions, assumptions or other factors.

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Merck KGaA of Darmstadt, Germany, is a leading company for innovative and top-quality high-tech products in the pharmaceutical and chemical sectors. Its subsidiaries in Canada and the United States operate under the umbrella brand EMD. Around 38,000 employees work in 66 countries to improve the quality of life for patients, to further the success of customers and to help meet global challenges. The company generated total revenues of € 11.1 billion in 2013 with its four divisions: Biopharmaceuticals, Consumer Health, Performance Materials and Life Science Tools. Merck KGaA of Darmstadt, Germany, is the world’s oldest pharmaceutical and chemical company. Since 1668 the name has stood for innovation, business success and responsible entrepreneurship. The founding family remains the majority owner of the company to this day.