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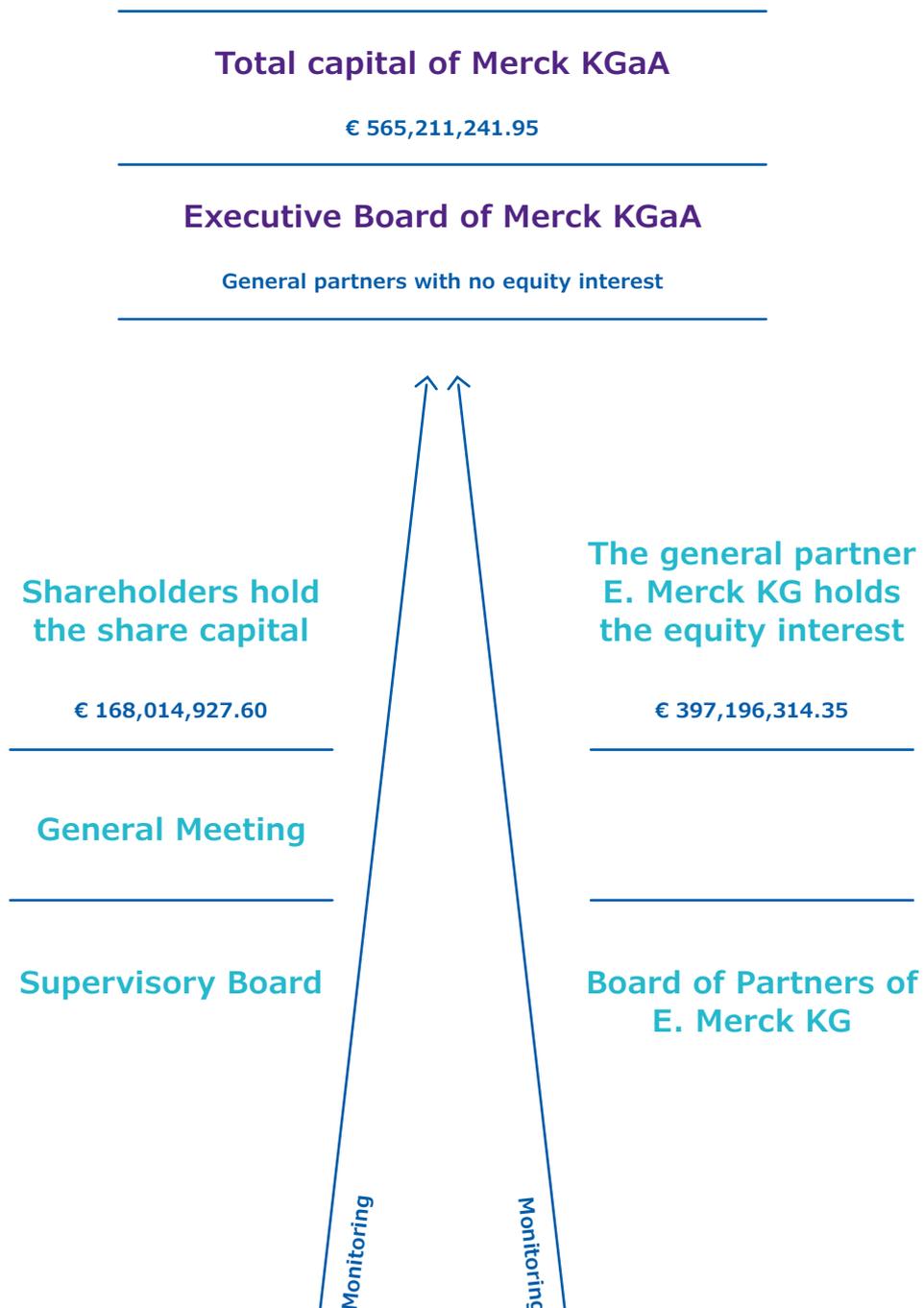
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# corporate GOVERNANCE

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# CAPITAL STRUCTURE AND GOVERNANCE BODIES OF MERCK KGAA



# STATEMENT ON CORPORATE GOVERNANCE

**The Statement on Corporate Governance contains the Statement of Compliance, relevant information on practices within the company as well as a description of the procedures of the corporate bodies.**

## Joint report of the Executive Board and the Supervisory Board according to section 3.10 of the German Corporate Governance Code including Statement of Compliance

The German Corporate Governance Code is geared toward the conditions found in a German stock corporation (“Aktien-gesellschaft” 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 Art. 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 page 159 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 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 both of the last two versions dated June 24, 2014 and May 5, 2015, the intent and meaning of which are applied, were complied with in the period between the last Statement of Compliance issued on February 27, 2015 with four exceptions. In the future, the recommendations of the Code will again be adhered to with four exceptions. Further details can be found on page 149.

For a clearer understanding, the following gives a general explanation of the application of German company law at Merck 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, and exercises its influence accordingly. 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 Code. The investors, who bear the entrepreneurial risk, are protected as provided for by the Code.

### The General Meeting of Merck KGaA

The twentieth General Meeting of Merck KGaA was held on April 17, 2015 in Frankfurt am Main, Germany. At 64.32%, the proportion of share capital represented at the meeting was slightly higher than in the previous year. In 2014, the proportion of share capital represented was 63.85%.

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 choice 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 web-cast 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.

### Statement of Compliance

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 statement of compliance 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 statement of compliance on February 27, 2015, the Merck Group has complied with the recommendations of the Government Commission of the German Corporate Governance Code in the versions dated June 24, 2014 and May 5, 2015 published in the official section of the German Federal Gazette during its period of validity with the following exceptions:

Contrary to section 4.2.5 para 3 sentences 1 and 2 of the German Corporate Governance Code, certain information on the compensation of Executive Board members has not been included, nor have the model tables provided for this purpose

been utilized. It seems doubtful as to whether the largely repetitive provision of identical information in two additional tables contributes to the transparency or the understandability of the Compensation Report (see section 4.2.5 para 1 sentence 3 of the German Corporate Governance Code).

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.

Contrary to section 5.4.1 para 2 sentence 1 of the German Corporate Governance Code, no age limit or regular limit on the length of Supervisory Board membership is taken into account when proposing candidates for election to the Supervisory Board pursuant to the published objectives of the Supervisory Board. The age and length of membership of Supervisory Board members are not criteria for their qualifications and competence. Moreover, we do not wish to forego the many years of experience of Supervisory Board members. Crucial to the successful work of the Supervisory Board is a good balance among Supervisory Board members in terms of age and length of membership.

Contrary to section 7.1.2 sentence 4 of the German Corporate Governance Code, owing to the way in which the German legal holidays fall, the interim report for the first quarter was only made publicly accessible slightly after the allotted 45-day time limit from the end of the reporting period. In fiscal 2016, the allotted 45-day time limit for publication of the interim report for the first quarter will also be slightly exceeded again for the same reason.

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 deviations from section 4.2.5 para 3 sentences 1 and 2 (disclosure of compensation), section 5.3.2 (audit committee), section 5.4.1 para 2 sentence 1 (age limit, regular limit on length of membership), and section 7.1.2 sentence 4 (publication deadline), the company will comply with the recommendations of the Code in the version dated May 5, 2015.”

Darmstadt, March 4, 2016

For the Executive Board

For the Supervisory Board

s. **Karl-Ludwig Kley**

s. **Wolfgang Büchele**

## Compensation report

(The Compensation Report is part of the audited Notes to the Group accounts).

### Compensation of members of the Executive Board of Merck KGaA

Unlike management board members of German stock corporations, the members of the Executive Board of Merck KGaA are not employed officers of the company. 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-based compensation from E. Merck KG. Given this context, 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, Merck KGaA has decided to disclose the individual compensation of each Executive Board member in the following report.

Unlike publicly listed German stock corporations, at Merck KGaA it is not the Supervisory Board, but the Board of Partners of E. Merck KG that decides on the amount and composition of compensation. E. Merck KG has transferred the execution of this right to its Personnel Committee. Among other things, the Personnel Committee is responsible for the following decisions: contents of contracts with Executive Board members, granting of loans and advance salary payments, approval for taking on honorary offices, board positions and other sideline activities, as well as the division of responsibilities within the Executive Board of Merck KGaA. The compensation system defined by the Personnel Committee for Executive Board members takes into account various aspects relevant to compensation, including the responsibilities and duties of the individual Executive Board members and their status as personally liable partners, their individual performance, the economic situation, performance and prospects of the company as well as normal compensation levels (by way of peer comparison) and the rewards structure otherwise in place in the company. The relationship between Executive Board compensation and the compensation of top management and the workforce as a whole is also taken into account, also in a multiyear assessment. The Personnel Committee regularly commissions an independent compensation consultant to review the appropriateness of the compensation.

### Features of the compensation system

The compensation paid to the Executive Board members of Merck KGaA in fiscal 2015 comprises fixed components, variable compensation components and additions to pension provisions. Benefits in kind and other benefits are additionally granted.

### Fixed compensation

Fixed compensation is paid in the form of 12 equivalent monthly installments. The table on page 152 provides an overview of the amount of the fixed compensation paid in 2014 and 2015.

### Variable compensation

Variable compensation is based on the three-year rolling average of profit after tax of the E. Merck Group. The Personnel Committee of E. Merck KG decides at its own and equitable discretion whether to consider exceptional factors of particular importance. From the net income determined in this manner, the members of the Executive Board receive individually fixed per mille rates based on the net income of the E. Merck Group.

Additionally, in exceptional cases the Personnel Committee of E. Merck KG, which is responsible for the compensation of the Executive Board, may grant one-time payments voluntarily and at its own discretion.

### Additional variable compensation (Merck Long-Term Incentive Plan)

In 2012, a long-term variable compensation component known as the Merck Long-Term Incentive Plan was added to the variable compensation of the members of the Executive Board. It aims to enhance the sustainability of the compensation system and to align it not only with target achievement based on key performance indicators, but above all with a sustainable performance of Merck shares.

Subject to the resolution of the Personnel Committee each year, under the Merck Long-Term Incentive Plan the members of the Executive Board could be eligible to receive a certain number of virtual shares – Merck Share Units (MSUs) – at the end of a three-year performance cycle. The number of MSUs that could be received depends on the total value defined for the respective person and the average closing price of Merck shares in Xetra® trading during the last 60 trading days prior to January 1 of the respective fiscal year (reference price). In order to participate in the Plan, members of the Executive Board must personally own an investment in Merck shares equivalent to 10% of their respective fixed annual compensation, taking into account the equity interest held in E. Merck KG as a personally liable general partner. It is not permitted to sell these shares during the performance cycle. After termination of the three-year performance cycle, the number of MSUs to be granted then is determined based on the development of two key performance indicators (KPIs). These are:

- a) the performance of the Merck share price compared to the DAX® with a weighting of 70%, and
- b) the development of the EBITDA pre margin during the performance cycle as a proportion of a defined target value with a weighting of 30%.

Depending on the development of the KPIs, at the end of the respective performance cycle the members of the Executive Board are granted between 0% and 150% of the MSUs they could be eligible to receive.

Based on the number of MSUs granted, the members of the Executive Board receive a cash payment at a defined point in time in the year following the expiration of the three-year performance cycle. The value of an MSU corresponds to the average closing price of Merck shares in Xetra® trading during the last 60 trading days prior to January 1 after the performance cycle. The payment amount is limited to three times the reference price. The members of the Executive Board invest 50% of the payment amount in Merck shares. One-third of

these shares may be sold at the earliest one year after termination of the performance cycle, another third after two years, and another third after three years.

In fiscal 2015, the following total values were specified for members of the Executive Board, which resulted in the respective number of MSUs they were eligible to receive based upon the definitive reference price of Merck shares (60 trading days preceding January 1, 2015) of € 74.53: Karl-Ludwig Kley

€ 1.5 million (20,127 MSUs), Stefan Oschmann € 1.0 million (13,418 MSUs), Kai Beckmann € 1.0 million (13,418 MSUs), Belén Garijo Lopez € 1.0 million (13,418 MSUs), Marcus Kuhnert € 1.0 million (13,418 MSUs), and Bernd Reckmann € 1.0 million (13,418 MSUs).

The following maximum compensation amounts for variable compensation components, which were applicable for the first time in 2014, have been agreed.

	One-time payment (€ thousand)	Variable compensation (€ thousand)	Merck Long-Term Incentive Plan (times the respec- tive total amount)	Total variable compensation components (€ thousand)
Karl-Ludwig Kley	2,000	8,000	4.5	9,800
Stefan Oschmann	1,500	6,000	4.5	8,000
Kai Beckmann	1,500	6,000	4.5	8,000
Belén Garijo Lopez	1,500	6,000	4.5	8,000
Marcus Kuhnert	1,500	6,000	4.5	8,000
Bernd Reckmann	1,500	6,000	4.5	8,000

#### Additional benefits

The members of the Executive Board also receive certain additional benefits, mainly contributions to insurance policies, personal security expenses, as well as a company car, which they are entitled to use privately. Overall, the value of other additional benefits totaled € 252 thousand in 2015 (2014: € 156 thousand). Of this amount, in 2015 € 148 thousand was attributable to Karl-Ludwig Kley (2014: € 53 thousand); € 25 thousand to Stefan Oschmann (2014: € 21 thousand); € 25 thousand to Kai Beckmann (2014: € 41 thousand); € 6 thousand to Belén Garijo Lopez; € 20 thousand to Marcus Kuhnert (2014: € 7 thousand); € 28 thousand to Bernd Reckmann (2014: € 28 thousand); and € 0 thousand to Matthias Zachert (2014: € 6 thousand).

## Total compensation

Accordingly, the following total compensation results for the members of the Executive Board of Merck KGaA broken down by performance-independent and performance-related components:

		Performance-independent components		Performance-related components			Total	Expense recorded in the period for share-based compensation <sup>4</sup>
		Fixed compensation	Additional benefits	Without a long-term incentive effect	With a long-term incentive effect			
				Variable compensation <sup>1</sup>	Merck Long-Term Incentive Plan			
		(€ thousand)	(€ thousand)	(€ thousand)	Number of MSUs <sup>2</sup> (units)	Time value <sup>3</sup> (€ thousand)	(€ thousand)	(€ thousand)
<b>Current members</b>								
Karl-Ludwig Kley	2015	1,300	148	4,464	20,127	1,974	7,886	2,959
	2014	1,300	53	5,265	12,211	1,147	7,765	4,196
Stefan Oschmann	2015	1,200	25	4,161	13,418	1,316	6,702	1,973
	2014	1,200	21	4,799	8,141	765	6,785	2,797
Kai Beckmann	2015	1,000	25	3,411	13,418	1,316	5,752	1,973
	2014	1,000	41	3,049	8,141	765	4,855	2,797
Belén Garijo Lopez	2015	1,000	6	3,411	13,418	1,316	5,733	383
	2014	-	-	-	-	-	-	-
Marcus Kuhnert	2015	800	20	2,411	13,418	1,316	4,547	687
	2014	333	7	882	3,392	462	1,684	107
Bernd Reckmann	2015	1,200	28	4,411	13,418	1,316	6,955	1,973
	2014	1,200	28	3,549	8,141	765	5,542	2,797
Matthias Zachert (until March 31, 2014)	2015	-	-	-	-	-	-	-
	2014	250	6	762	-	-	1,018	0
<b>Total</b>	<b>2015</b>	<b>6,500</b>	<b>252</b>	<b>22,269</b>	<b>87,217</b>	<b>8,554</b>	<b>37,575</b>	<b>9,948</b>
	<b>2014</b>	<b>5,283</b>	<b>156</b>	<b>18,306</b>	<b>40,026</b>	<b>3,904</b>	<b>27,649</b>	<b>12,694</b>

<sup>1</sup> The one-time payment for 2015 granted to Bernd Reckmann as well as the one-time payments for 2014 granted to Karl-Ludwig Kley and Stefan Oschmann are included in the variable compensation components for 2015 and 2014, respectively.

<sup>2</sup> Number of the potential MSUs subject to target achievement. For details see page 150/151. The actual number of MSUs to be granted after the expiration of the three-year performance cycle may deviate from this.

The share split that took effect on June 30, 2014 does not affect the number of MSUs granted. The 1:2 share split was compensated for by a doubling in the accounting value of an MSU.

<sup>3</sup> Time value on the date of the grant (date of the legally binding entitlement). The amount of a potential payment is thus not predefined. Payment is subject to target achievement and is only made on a specified date after the expiration of a three-year performance cycle. The time value 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® index in accordance with the remaining term of the Long-Term Incentive Plan tranche. The dividend payments incorporated into the valuation model orient towards medium-term dividend expectations.

<sup>4</sup> In accordance with IFRS, the expense recorded for 2015 includes the values for the 2013, 2014, and 2015 Long-Term Incentive Plan tranches. In accordance with IFRS, the expense recorded in 2014 includes the values for the Long-Term Incentive Plan tranches 2012, 2013 and 2014.

### Pension provisions

The individual contractual pension obligations grant the members of the Executive Board entitlement to a life-long 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, upon reaching the age limit specified in their individual contracts, the members of the Executive Board have been offered

the possibility to receive their pension entitlement in the form of a one-time lump-sum payment calculated in accordance with actuarial principles.

The amount of the old-age pension is determined by a percentage share of pensionable compensation defined by the Personnel Committee.

The individual values are presented in the following table:

	Pensionable compensation (€ thousand)	Percentage entitlement
Karl-Ludwig Kley	900	70
Stefan Oschmann	650	55
Kai Beckmann	400	49
Belén Garijo Lopez	400	50
Marcus Kuhnert	300	40
Bernd Reckmann	650	64

The percentage entitlement increases up until retirement by two percentage points per year of service up to 70% for Kai Beckmann and Bernd Reckmann. Their pension entitlement was thus accordingly increased in 2015.

For Belén Garijo Lopez and Marcus Kuhnert, as of 2016 the percentage entitlement will increase up until retirement by two percentage points per year of service up to 70%.

The pension provisions and the service cost are presented in the following table.

€ thousand	Service cost		Amount of pension provisions as of Dec. 31, 2015
	2015	2014	
Karl-Ludwig Kley	1,607	1,127	13,957
Stefan Oschmann	953	549	3,502
Kai Beckmann	230	108	5,053
Belén Garijo Lopez	672	–	672
Marcus Kuhnert	353	144	435
Bernd Reckmann	375	215	10,131
<b>Total</b>	<b>4,190</b>	<b>2,143</b>	<b>33,750</b>

The surviving dependents' pension grants the spouse a lifelong surviving dependents' pension amounting to 60% of the pension entitlement, and dependent children either a half-orphan's or an orphan's pension maximally until the age of 25.

### Benefits in the event of termination of duties as an Executive Board member

The employment contracts of Karl-Ludwig Kley, Stefan Oschmann, Kai Beckmann and Bernd Reckmann each contain a post-contractual non-competition clause. An amount equal to 50% of the average contractual benefits paid to the respective Executive Board member within the past 12 months prior to leaving the company shall be provided as compensation for

each year of the two-year non-competition period. During the period of the non-competition clause, other employment income and pension payments will be credited toward 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 cease to apply.

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 this and existing pension obligations, no further obligations exist in the event of the termination of the contractual relationships of the Executive Board members.

### Miscellaneous

The members of the Executive Board do not receive additional compensation for serving on the boards of Group companies.

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 recommendations of the German Corporate Governance Code.

### Payments to former Executive Board members and their surviving dependents

Pension payments to former members of the Executive Board or their surviving dependents amounted to € 11,908 thousand

in 2015 (2014: € 11,220 thousand). Pension provisions totaling € 111,812 thousand exist for the pension entitlements of this group of persons (2014: € 120,674 thousand).

### Compensation of 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 this amount and the Vice Chairman receives one and a half times this amount. In addition, 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	
	2015	2014	2015	2014	2015	2014
Wolfgang Büchele (Chairman since May 9, 2014)	94,000.00	77,517.81	3,750.00	3,750.00	97,750.00	81,267.81
Michael Fletterich (Vice Chairman since May 9, 2014)	70,500.00	62,258.90	3,750.00	3,750.00	74,250.00	66,008.90
Crocifissa Attardo	47,000.00	47,000.00	3,750.00	3,000.00	50,750.00	50,000.00
Mechthild Auge	47,000.00	47,000.00	3,750.00	3,750.00	50,750.00	50,750.00
Johannes Baillou <sup>1</sup>	0.00	16,610.96	0.00	750.00	0.00	17,360.96
Frank Binder <sup>1</sup>	0.00	16,610.96	0.00	750.00	0.00	17,360.96
Gabriele Eismann <sup>2</sup>	47,000.00	30,517.81	3,750.00	3,000.00	50,750.00	33,517.81
Jens Frank <sup>1</sup>	0.00	16,610.96	0.00	750.00	0.00	17,360.96
Edeltraud Glänzer	47,000.00	47,000.00	2,250.00	3,000.00	49,250.00	50,000.00
Jürgen Glaser <sup>1</sup>	0.00	16,610.96	0.00	750.00	0.00	17,360.96
Michaela Freifrau von Glenck	47,000.00	47,000.00	3,750.00	3,750.00	50,750.00	50,750.00
Siegfried Karjetta <sup>2</sup>	47,000.00	30,517.81	3,750.00	3,000.00	50,750.00	33,517.81
Rolf Krebs <sup>1</sup> (Chairman until May 9, 2014)	0.00	33,221.92	0.00	750.00	0.00	33,971.92
Hans-Jürgen Leuchs <sup>1</sup>	0.00	16,610.96	0.00	750.00	0.00	17,360.96
Albrecht Merck	47,000.00	47,000.00	3,750.00	3,750.00	50,750.00	50,750.00
Dietmar Oeter <sup>2</sup>	47,000.00	30,517.81	3,750.00	3,000.00	50,750.00	33,517.81
Alexander Putz <sup>2</sup>	47,000.00	30,517.81	3,750.00	3,000.00	50,750.00	33,517.81
Helga Rübsamen-Schaeff <sup>2</sup>	47,000.00	30,517.81	3,750.00	3,000.00	50,750.00	33,517.81
Karl-Heinz Scheider	47,000.00	47,000.00	3,750.00	3,750.00	50,750.00	50,750.00
Gregor Schulz <sup>2</sup>	47,000.00	30,517.81	3,750.00	3,000.00	50,750.00	33,517.81
Theo Siegert	47,000.00	47,000.00	3,750.00	3,750.00	50,750.00	50,750.00
Tobias Thelen <sup>2</sup>	47,000.00	30,517.81	3,750.00	3,000.00	50,750.00	33,517.81
Heiner Wilhelm <sup>1</sup> (Vice Chairman until May 9, 2014)	0.00	24,916.44	0.00	750.00	0.00	25,666.44
<b>Total</b>	<b>822,500.00</b>	<b>823,594.54</b>	<b>58,500.00</b>	<b>58,500.00</b>	<b>881,000.00</b>	<b>882,094.54</b>

<sup>1</sup>Until May 9, 2014.

<sup>2</sup>Since May 9, 2014.

As a member of corporate bodies of E. Merck KG, Wolfgang Büchele received an additional payment of € 140,000 for performing this function in 2015 (2014: € 140,000).

As a member of corporate bodies of E. Merck KG, Michaela Freifrau von Glenck received an additional payment of € 80,000 for performing this function in 2015 (2014: € 80,000).

As a member of corporate bodies of E. Merck KG, Siegfried Karjetta received an additional payment of € 140,000 for performing this function in 2015 (2014: € 137,260).

As a member of corporate bodies of E. Merck KG, Albrecht Merck received an additional payment of € 120,000 for performing this function in 2015 (2014: € 120,000).

As a member of corporate bodies of E. Merck KG, Helga Rübsamen-Schaeff received an additional payment of € 140,000 for performing this function in 2015 (2014: € 139,727).

As a member of corporate bodies of E. Merck KG, Gregor Schulz received an additional payment of € 140,000 for performing this function in 2015 (2014: € 130,411).

As a member of corporate bodies of E. Merck KG, Theo Siegert received an additional payment of € 150,000 for performing this function in 2015 (2014: € 150,000).

As a member of corporate bodies of E. Merck KG, Tobias Thelen received an additional payment of € 140,000 for performing this function in 2015 (2014: € 135,890).

As a member of corporate bodies of E. Merck KG, Johannes Baillou, who left the Supervisory Board in 2014, received an additional payment of € 9,590 for performing this function in 2014.

As a member of corporate bodies of E. Merck KG, Frank Binder, who left the Supervisory Board in 2014, received an additional payment of € 8,220 for performing this function in 2014.

As a member of corporate bodies of E. Merck KG, Rolf Krebs, who left the Supervisory Board in 2014, received an additional payment of € 10,274 for performing this function in 2014.

As a member of corporate bodies of E. Merck KG, Hans-Jürgen Leuchs, who left the Supervisory Board in 2014, received an additional payment of € 9,590 for performing this function in 2014.

### Ownership, purchase or sale of shares in the company by members of the Executive Board and of the Supervisory Board

As of December 31, 2015, the members of the Executive Board and of the Supervisory Board either directly or indirectly held 81,992 shares of Merck KGaA. Their total ownership represents 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->Investors->Corporate Governance->Directors' Dealings](http://www.merckgroup.com->Investors->Corporate Governance->Directors' Dealings).

## 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 dialogue 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](http://www.merckgroup.com)), which is the company's most important publication platform. Apart from a detailed financial calendar, 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 dialogue. 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 gives clear instructions for compliant behavior. In addition, it describes 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 (IFRS), as applicable in the EU, as well as the supplementary rules applicable under section 315a (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 2015. Moreover, the Supervisory Board agreed with KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, that the auditor shall inform the Supervisory Board without delay of any grounds for bias or disqualification 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 Statement of Compliance 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.

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, its bodies and head auditors, and Merck KGaA, its Group companies and the members of their bodies. The statement also covers the scope of the services provided by KPMG AG 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 (independence declaration). 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.

### 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 helps those involved in the business process to implement the values when dealing with one another on a daily basis.

Merck has created the Code of Conduct as 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 principles for dealings with business associates, general partners, colleagues and employees, as well as the communities in which we operate. 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.

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. 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 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, antitrust law or anticorruption rules. Since 2014 and 2015, compliance officers of the business sectors have been providing specific compliance input. 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 approval and documentation processes that ensure truthful publication. The role of the Group Compliance Officer is reflected in the subsidiaries, which ensure 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. 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 scope of this 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 onsite events. By presenting various training topics, particularly on the Code of Conduct, corruption, antitrust and competition law as well as healthcare compliance, 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 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 Committee to guide these processes. The Compliance Committee consists of members from various Group functions; they are involved in reviewing compliance violations and introducing countermeasures. The joint work in the Compliance 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 and reporting these, both within the subsidiary abroad and to the Group functions. Group Compliance 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, as well as 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 page 120.

### **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, Karl-Ludwig Kley, and the Chief Financial Officer, Marcus Kuhnert, are both members of the Executive Board of E. Merck KG. This does not, however, lead to 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 2015, 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 concerns and environmental protection

issues. To this end, we integrate precautionary measures into our planning processes. 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 2006 puts even more emphasis than before on overall responsibility for products, supply chains and the community. Merck signed this expanded version of Responsible Care for the entire Group in February 2007. In addition, Merck was one of the first companies in 2014 to sign the new version of the Responsible Care Global Charter, which is currently being rolled out by Merck internationally. 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 regulatory requirements, 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

Notes 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
<b>Karl-Ludwig Kley</b> Darmstadt, Chairman	(a) – Bertelsmann SE & Co. KGaA, Gütersloh (until May 2016) – Bertelsmann Management SE, Gütersloh (until May 2016) – BMW AG, Munich (Vice Chairman) – Deutsche Lufthansa AG, Cologne (b) – Verizon Communications Inc., Wilmington (Delaware), USA (since November 5, 2015)
<b>Stefan Oschmann</b> Munich, Vice Chairman	no board positions
<b>Kai Beckmann</b> Darmstadt, Chief Administration Officer	no board positions
<b>Belén Garijo Lopez</b> Frankfurt am Main, CEO Healthcare	(b) – Banco Bilbao Vizcaya Argentaria S. A., Bilbao, Spain – L'Oréal S.A., Clichy, France
<b>Marcus Kuhnert</b> Königstein, Chief Financial Officer	no board positions
<b>Bernd Reckmann</b> Seeheim-Jugenheim, CEO Life Science and Performance Materials	(a) – Zschimmer & Schwarz GmbH & Co KG Chemische Fabriken, Lahnstein (since June 26, 2015)

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 twice a month.

**Supervisory Board**

Member	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
<b>Wolfgang Büchele</b> Munich, Chairman of the Executive Board of Linde AG, Munich, Chairman	b) – E. Merck KG, Darmstadt <sup>1</sup> – Kemira Oyj, Helsinki, Finland
<b>Michael Fletterich</b> Gernsheim, Chairman of the Works Council of Merck Darmstadt/Gernsheim, Vice Chairman	no board positions
<b>Crocifissa Attardo</b> Darmstadt, Full-time member of the Works Council of Merck Darmstadt/Gernsheim	b) – BKK Merck
<b>Mechthild Auge</b> Wehrheim, Full-time member of the Works Council of Merck Darmstadt	no board positions
<b>Gabriele Eismann</b> Seeheim-Jugenheim, Senior Product Manager	no board positions
<b>Edeltraud Glänzer</b> Hannover, Vice Chairperson of the IG BCE	(a) – B. Braun Melsungen AG, Melsungen – Solvay Deutschland GmbH, Hannover (Vice Chairperson)
<b>Michaela Freifrau von Glenck</b> Zurich, Retired teacher	no board positions
<b>Siegfried Karjetta<sup>2</sup></b> Darmstadt, Physician	(b) – E. Merck KG, Darmstadt <sup>1</sup>
<b>Albrecht Merck</b> Schriesheim, Commercial Director of the Castel Peter Winery, Bad Dürkheim	(b) – E. Merck KG, Darmstadt <sup>1</sup>
<b>Dietmar Oeter</b> Seeheim-Jugenheim, Vice President Corporate Quality Assurance	no board positions
<b>Alexander Putz</b> Michelstadt, Full-time member of the Works Council of Merck Darmstadt	no board positions
<b>Helga Rübsamen-Schaeff</b> Langenburg, Chairperson of the Advisory Board of AiCuris Anti-infective Cures GmbH, Wuppertal	(a) – 4SC AG, Martinsried (since January 2, 2015) – Supervisory Board of Bonn University Hospital (since March 1, 2015) (b) – E. Merck KG, Darmstadt <sup>1</sup>
<b>Karl-Heinz Scheider</b> Gross-Zimmern, Specialist, Merck Life Science Operations Strategy	no board positions
<b>Gregor Schulz</b> Umkirch, Pediatrician	(b) – E. Merck KG, Darmstadt <sup>1</sup>
<b>Theo Siegert</b> Düsseldorf, Managing Partner of de Haen-Carstanjen & Söhne, Düsseldorf	(a) – E.ON SE, Düsseldorf – Henkel AG & Co KGaA, Düsseldorf (b) – E. Merck KG, Darmstadt <sup>1</sup> – DKSH Holding Ltd., Zurich, Switzerland
<b>Tobias Thelen<sup>2</sup></b> Munich, Managing Partner of Altmann Analytik GmbH & Co. KG, Munich	(b) – E. Merck KG, Darmstadt <sup>1</sup>

<sup>1</sup> Internal board position.<sup>2</sup> 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 catalogue 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) of the German Stock Corporation Act (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 reports 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 as and when necessary. 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" 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 independent 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 and the composition and procedures of its committees are described in the following.

The Board of Partners has nine members.

Member	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
<b>Johannes Baillou</b> Vienna, Austria, Vice Chairman of the Executive Board and General Partner of E. Merck KG, Chairman	no board positions
<b>Frank Stangenberg-Haverkamp</b> Darmstadt, Chairman of the Executive Board and General Partner of E. Merck KG	(a) – Fortas AG, Rösrath (Chairman) (b) – Oras Invest Ltd, Helsinki, Finland – Travel Asset Group Ltd., London, United Kingdom (Chairman)
<b>Wolfgang Büchele</b> Munich, Chairman of the Executive Board of Linde AG, Munich	(a) – Merck KGaA, Darmstadt (b) – Kemira Oyj, Helsinki, Finland
<b>Siegfried Karjetta</b> Darmstadt, Physician	(a) – Merck KGaA, Darmstadt
<b>Albrecht Merck</b> Schriesheim, Commercial Director of the Castel Peter Winery, Bad Dürkheim	(a) – Merck KGaA, Darmstadt
<b>Helga Rübsamen-Schaeff</b> Langenburg, Chairperson of the Advisory Board of AiCuris Anti-infective Cures GmbH, Wuppertal	(a) – Merck KGaA, Darmstadt – 4SC AG, Martinsried (since January 2, 2015) – Supervisory Board of Bonn University Hospital (since March 1, 2015)
<b>Gregor Schulz</b> Umkirch, Pediatrician	(a) – Merck KGaA, Darmstadt
<b>Theo Siegert</b> Düsseldorf, Managing Partner of de Haen-Carstanjen & Söhne, Düsseldorf	(a) – Merck KGaA, Darmstadt – E.ON SE, Düsseldorf – Henkel AG & Co KGaA, Düsseldorf (b) – DKSH Holding Ltd., Zurich, Switzerland
<b>Tobias Thelen</b> Munich, Managing Partner of Altmann Analytik GmbH & Co. KG, Munich	(a) – Merck KGaA, Darmstadt

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 and other business documents, and the 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 to be approved, 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 meets

at least 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 confer the responsibility for 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. These are Johannes Baillou (Chairman since February 9, 2015), Frank Stangenberg-Haverkamp (Chairman until February 9, 2015), Wolfgang Büchele, and Theo Siegert.

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, as well as 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 Committee has four members. These are Theo Siegert (Chairman), Johannes Baillou, Wolfgang Büchele, and Tobias 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 by 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 reports. 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.

### Research and Development Committee

The Research and Development Committee has four members. These are Helga Rübsamen-Schaeff (Chairperson), Johannes Baillou, Siegfried Karjetta, and Gregor Schulz.

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 and the CEO Life Science/Performance Materials. The Research and Development Committee is responsible, among other things, for reviewing and discussing the research activities of Healthcare and/or Life Science/Performance Materials business sectors. 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) AktG (German Stock Corporation Act)

### 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.

Pursuant to section 76 (4) AktG, the management body of companies that are listed or subject to co-determination are required to set binding targets for the percentage of positions held by women on the two management levels below the management body.

In September 2015, the Executive Board of Merck KGaA set the following targets for the percentage of positions held by women on the two management levels below the Executive Board:

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

The targets relate to the percentage of positions held by women on the respective management level as of September 30, 2015 and correspond to the current status. This naturally does not exclude an increase in the percentage of positions held by women on these management levels. The deadline set by the Executive Board of Merck KGaA for reaching this target ends on December 31, 2016.

In addition, as a global company with correspondingly aligned global (management) structures, Merck is continuing to pursue the (voluntary) target of 25% to 30% of management positions held by women (Global Grade 14 and up; see page 83 "Diversity enriches our management team").

### 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 on 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 does not have a management board comparable to that of a stock corporation with personnel authority of the supervisory board, but has an executive board consisting of personally liable partners (see also pages 159/160 for the description of Supervisory Board procedures).

# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board again properly executed its duties in 2015 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 2015, 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, as well as 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 2015. At these meetings, the Supervisory Board discussed the reports of the Executive Board in detail and discussed company developments and strategic issues together with the Executive Board.

At the meeting held on February 27, 2015, the Executive Board first reported on business performance during 2014. In addition, the Supervisory Board intensively addressed the annual financial statements and consolidated financial statements for 2014 and the corresponding management reports. The auditor explained the audit report. The Executive Board reported on the financial statements. Furthermore, the Supervisory Board resolved upon the Statement of Compliance with the German Corporate Governance Code as well as 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 presented the plans for fiscal 2015. Further topics were the report of Group Internal Auditing and the status of the Sigma-Aldrich acquisition.

The meeting held on May 13, 2015 focused on current business developments in the first quarter of 2015. 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 report of the Group Compliance Officer, the report of the Group Data Privacy Officer and a report on ERP strategy.

At its meeting on July 29, 2015, the Supervisory Board focused intensively on the report of the Executive Board on business performance in the second quarter of 2015. In addition, KPMG 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 2015. No risks that threaten the continued existence of the company were identified.

At its fourth meeting on November 10, 2015, the Supervisory Board discussed the results of the efficiency examination that took place in 2015. Furthermore, the Supervisory Board dealt with the report of the Executive Board on the third quarter of 2015. Additional topics of focus were the 2015 status reports of Group Internal Auditing and on compliance and data protection as well as the report of the Research and Development Committee Healthcare. Furthermore, the Group Executive Conference and Merck's current strategic direction were reported on and discussed.

In addition, on October 13, 2015, the Supervisory Board members were informed by telephone of Mr. Oschmann's appointment as successor to Mr. Kley as Chairman of the Executive Board on April 30, 2016 as well as the launch of the new Merck branding.

## 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. For the consolidated financial statements prepared in accordance with International Financial Reporting Standards, as well as the combined management report, the auditors issued the unqualified auditor's report reproduced in the Annual Report of the Merck Group. In addition, the auditor audited the calculation of Merck KGaA's participation in the profits of E. Merck KG in accordance with Art. 27 (2) of the Articles of Association. 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, and the proposal by the Executive Board for the appropriation of the net retained profit were presented and distributed to the Supervisory Board, together with the auditor's reports.

In accordance with Art. 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.

The discussion of the relevant agenda item at the Supervisory Board's meeting on March 4, 2016 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. 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 and the combined management report of Merck KGaA and the Merck Group prepared by the Executive Board, as well as the report presented by the auditor in accordance with Article 27 (2) of the Articles of Association. Following its own examination of the situation, the Supervisory Board gave its consent to the proposal of the Executive Board for the appropriation of net retained profit.

### **Corporate governance and Statement of Compliance**

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 2015. After addressing corporate governance topics in detail, the Executive Board and Supervisory Board resolved to adopt and issue the updated Statement of Compliance on February 18, 2016 (Executive Board) and on March 4, 2016 (Supervisory Board) and jointly issued it on March 4, 2016 in accordance with section 161 of the German Stock Corporation Act. The statement is permanently available on the website of Merck KGaA ([www.merckgroup.com](http://www.merckgroup.com) -> Investors -> Corporate Governance). More information about corporate governance at Merck KGaA, including the compensation of the Executive Board and Supervisory Board, is given in the Statement of Compliance on pages 148 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 newly elected on November 11, 2014 did not convene in fiscal 2015. No report is given on the work of further committees.

### **Personnel matters**

With the exception of Edeltraud Glänzer, who was absent from the meeting on November 10, 2015, all the Supervisory Board members attended all the Supervisory Board meetings. There were no changes in the composition of the Supervisory Board in 2015.

Darmstadt, March 4, 2016

The Supervisory Board of Merck KGaA

Wolfgang Büchele  
Chairman

# OBJECTIVES OF THE SUPERVISORY BOARD WITH RESPECT TO ITS COMPOSITION

## Initial situation

According to section 5.4.1 (2) and (3) of the German Corporate Governance Code, the Supervisory Board shall specify concrete objectives regarding its composition which, while considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, the number of independent Supervisory Board members, an age limit to be specified for Supervisory Board members and a regular limit on the length of Supervisory Board membership to be specified, as well as diversity.

## General notes on the composition of the Supervisory Board

The Supervisory Board of Merck KGaA currently consists of 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 remaining 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 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.

## 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 with respect to its composition and reports on the status of their implementation below.

### Expertise and diversity

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, due consideration shall be given in individual cases to the extent to which different, yet complementary professional profiles, career and life experiences, as well as appropriate representation of both genders can benefit the work of the Supervisory Board. Additionally, the Supervisory Board shall support the Executive Board in its efforts to increase diversity within the company.

### In-depth knowledge of the fields relevant to the company

The Supervisory Board shall have at least four members with in-depth knowledge and experience of fields that are important to the company, including at least one expert for the Healthcare and Life Science/Performance Materials sectors, respectively.

Merck is currently meeting this objective for the composition of the Supervisory Board. At present, the Supervisory Board has more than four members who have in-depth knowledge and experience of 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. This includes both Supervisory Board members who were or still are management board members or directors in such companies, as well as Supervisory Board members who have gained experience in supervisory bodies of German and/or foreign companies of this size.

**Family-owned company**

The Supervisory Board shall have at least one member who has experience in managing medium- or large-sized family-owned companies.

The Supervisory Board currently has multiple members who have the appropriate management experience in family-owned companies of this size.

**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 Europe, covering a wide range of 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. This corresponds to 37.5% of the Supervisory Board. When nominating candidates for election to the Supervisory Board or making proposals for delegation, the Supervisory Board shall examine whether the percentage of women can be increased by suitable candidates.

The Supervisory Board currently consists of 37.5% women, which it considers a satisfactory percentage. This is based on both the percentage of women in management 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 adequate 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, normally all employee representatives should be independent within the meaning of the Code. In any case, at least four of the shareholder representatives on the Supervisory Board should 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 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 currently met. 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 bodies.

Moreover, no one shall be proposed for election to the Supervisory Board who simultaneously serves on a body of or advises a major competitor of the company, or owing to another function, e.g. advisor to major contract partners of the company, could potentially become involved in a conflict of interest. No Supervisory Board member serves on a body of or advises a major competitor. No Supervisory Board member performs a function that could lead to a lasting conflict of interest.

#### **No age limit or maximum length of membership**

An age limit or a regular limit on the length of membership for Supervisory Board members is not specified since age and length of membership are not criteria for qualifications and expertise. Moreover, we do not wish to forego the many years of experience of Supervisory Board members. Crucial to the successful work of the Supervisory Board is a good balance among Supervisory Board members in terms of age and length of membership.

The achievement of the aforementioned objectives shall be pursued initially until 2017, taking into account applicable law

within the scope of elections and re-elections, delegations as well as court appointments of replacement members if these become necessary. All Supervisory Board members will correspondingly influence those eligible to elect or delegate. Taking into consideration the aforementioned criteria and in accordance with its duties under German stock corporation law, the Supervisory Board proposes to the General Meeting the candidates it believes to be best suited in each case and will continue to do so in the future.

Every year, the Supervisory Board will provide information in the Annual Report on the status of implementing its objectives.