

STRONG QUARTER AND GUIDANCE UPGRADE

Merck Q2 2016 results

Stefan Oschmann, CEO
Marcus Kuhnert, CFO
Udit Batra, CEO Life Science

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MERCK

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This communication may include “forward-looking statements.” Statements that include words such as “anticipate,” “expect,” “should,” “would,” “intend,” “plan,” “project,” “seek,” “believe,” “will,” and other words of similar meaning in connection with future events or future operating or financial performance are often used to identify forward-looking statements. All statements in this communication, other than those relating to historical information or current conditions, are forward-looking statements. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond control of Merck KGaA, Darmstadt, Germany, which could cause actual results to differ materially from such statements.

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This quarterly presentation contains certain financial indicators such as EBITDA pre exceptionals, net financial debt and earnings per share pre exceptionals, which are not defined by International Financial Reporting Standards (IFRS). These financial indicators should not be taken into account in order to assess the performance of Merck in isolation or used as an alternative to the financial indicators presented in the consolidated financial statements and determined in accordance with IFRS. The figures presented in this quarterly statement have been rounded. This may lead to individual values not adding up to the totals presented.

Agenda

01 Executive summary

02 Financial overview

03 Guidance



01

EXECUTIVE SUMMARY

Highlights

Operations

- ▶ Healthcare – strong profitable growth, cladribine tablets filing and positive MCC* data
- ▶ Life Science – strong growth momentum continues while integration is on track
- ▶ Performance Materials – healthy profitability despite ongoing industry destocking

Financials

- ▶ Acquisition-driven sales growth of 18.2%; EBITDA pre up 28.8% to €1,158 m
- ▶ EBITDA pre margin increases to 30.4% driven by profitable growth in Healthcare and Life Science as well as Sigma synergies
- ▶ Guidance upgrade: Sales €14.9 – 15.1 bn, EBITDA pre €4,250 – 4,400 m, EPS pre €5.85 – 6.10

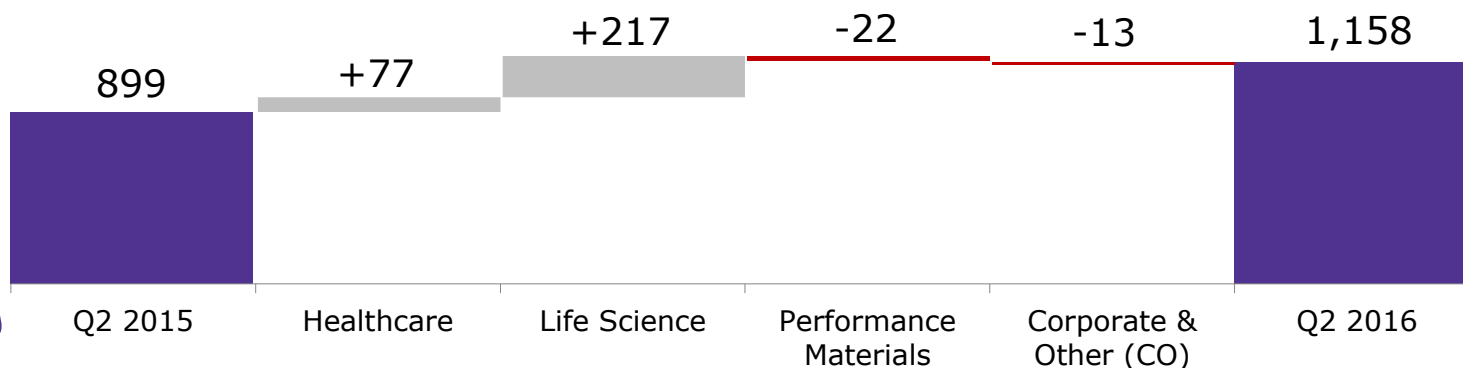
Life Science and Healthcare drive increase in EBITDA pre

Q2 2016 YoY net sales

	Organic	Currency	Portfolio	Total
Healthcare	7.3%	-9.0%	-1.0%	-2.7%
Life Science	8.1%	-2.8%	79.7%	85.0%
Performance Materials	-4.7%	-2.0%	3.1%	-3.5%
Merck Group	5.1%	-6.1%	19.2%	18.2%

- Growth in Healthcare driven by strong Fertility, GM* as well as Xalkori commissions
- Process Solutions continues to drive strong organic growth in Life Science
- Organic decline in Performance Materials reflects display supply chain destocking
- Portfolio is Sigma and Kuvan

Q2 YoY EBITDA pre contributors [€ m]

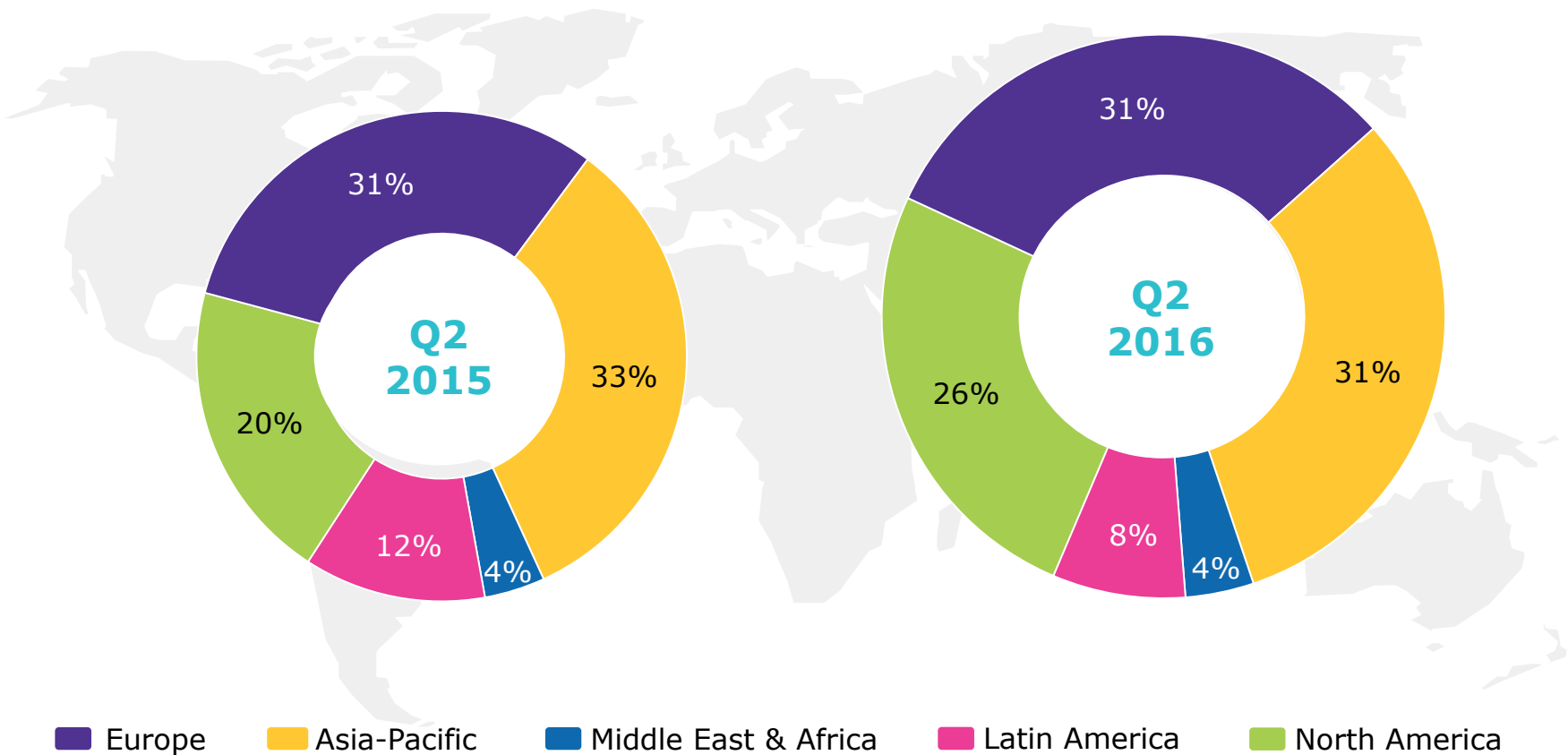


- HC benefits from strong organic growth, end of Rebif commission expenses and ~€30 m disposal gain
- Life Science driven by Sigma, strong organic growth and synergies
- Performance Materials only slightly lower despite LC sales decline
- CO contains corporate initiatives & hedging

*General Medicine and CardioMetabolic Care
Totals may not add up due to rounding

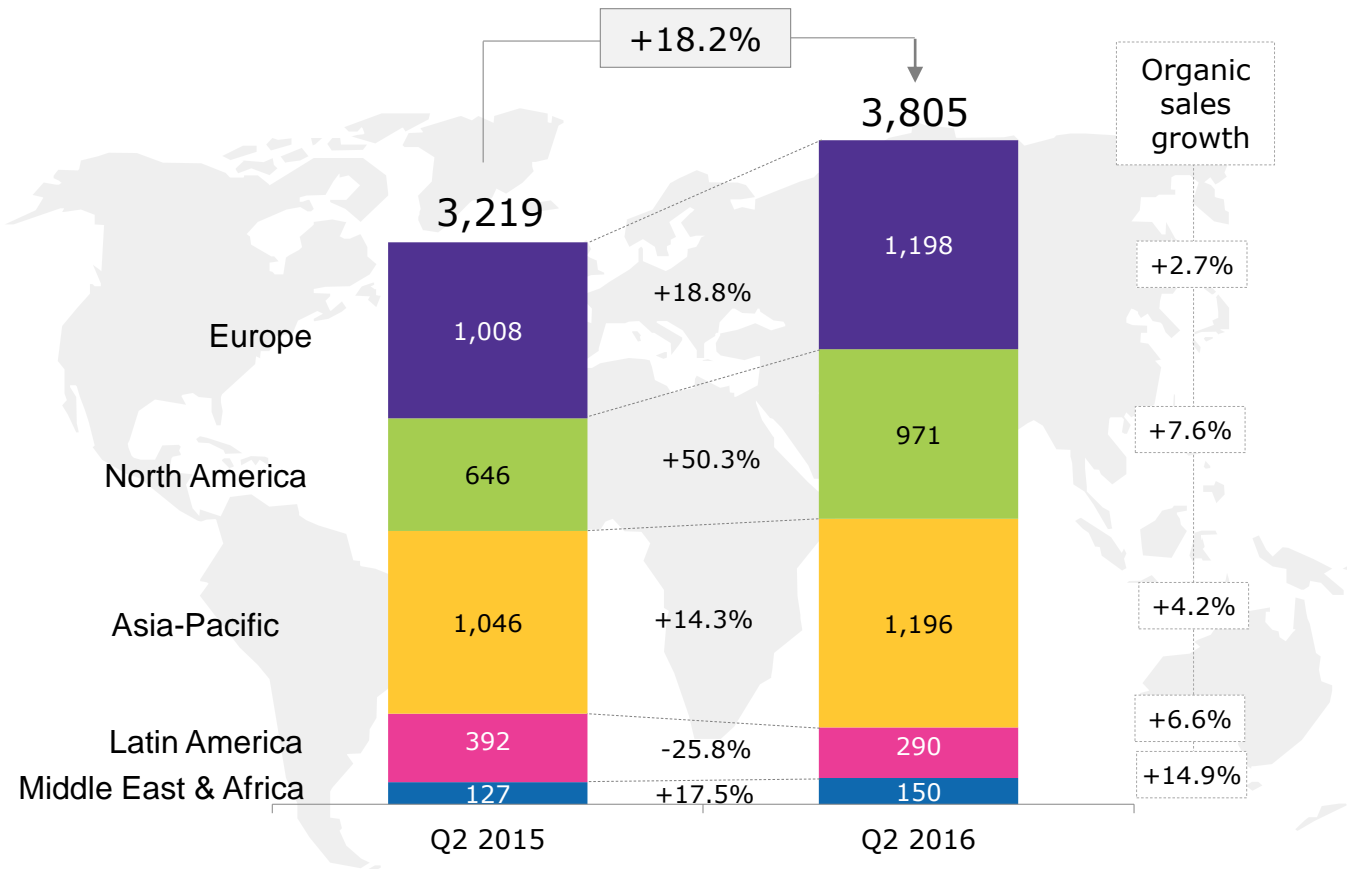
Q2 2016 sales split reflects growth in North America and Sigma footprint

Merck Group Q2 2015 and Q2 2016 net sales by region [in %]



Organic growth across all regions

Regional breakdown of net sales [€ m]



Organic regional development

- Growth in Europe driven by robust demand within Process Solutions
- North America benefits from strong Fertility business, Rebif pricing and demand for Process Solutions products
- Asia-Pacific shows solid growth driven by Fertility, GM and Life Science, partially offset by display destocking
- Solid growth in LatAm driven by GM and CH as well as increasing demand for analytical testing (Applied Solutions)



02

FINANCIAL OVERVIEW

Q2 2016: Overview

Key figures

[€m]	Q2 2015	Q2 2016	Δ
Net sales	3,219	3,805	18.2%
EBITDA pre	889	1,158	28.8%
Margin (in % of net sales)	27.9%	30.4%	
EPS pre	1.30	1.55	19.2%
Operating cash flow	326	311	-4.7%

[€m]	Dec. 31, 2015	June 30, 2016	Δ
Net financial debt	12,654	12,510	-1.1%
Working capital	3,448	3,813	10.6%
Employees	49,613	50,456	1.7%

Comments

- EBITDA pre & margin increase driven by Sigma, organic performance and end of Rebif commission expenses
- EPS pre up due to EBITDA pre increase, but higher LTIP* charges burden financial result
- Healthy operating cash flow due to strong business performance amid higher tax payments
- Net financial debt reflects operating cash flow and dividend payments
- Working capital shows increase in business activity – further room for improvement

*Long Term Incentive Plan
Totals may not add up due to rounding

Reported figures reflect strong business performance

Reported results

[€m]	Q2 2015	Q2 2016	Δ
EBIT	501	550	9.8%
Financial result	-41	-121	>100%
Profit before tax	461	429	-6.8%
Income tax	-115	-115	0.0%
<i>Effective tax rate (%)</i>	24.9%	26.7%	
Net income	343	312	-9.1%
EPS (€)	0.79	0.72	-8.9%

Comments

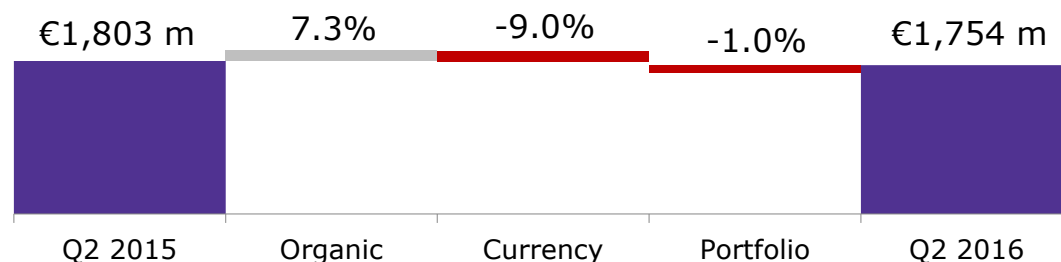
- EBIT reflects increased EBITDA pre amid integration costs, Sigma D&A and Xalkori impairment (~€70 m)
- Financial result contains Sigma financing interest expenses and significant adverse effects from LTIP
- Effective tax rate slightly above guided range of ~23% to 25% due to Xalkori impairment

Healthcare: Strong organic growth, EBITDA pre and profitability

Healthcare P&L

[€m]	Q2 2015	Q2 2016
Net sales	1,803	1,754
Marketing and selling	-730	-643
Administration	-69	-66
Research and development	-358	-378
EBIT	267	298
EBITDA	461	558
EBITDA pre	480	557
Margin (in % of net sales)	26.6%	31.8%

Net sales bridge

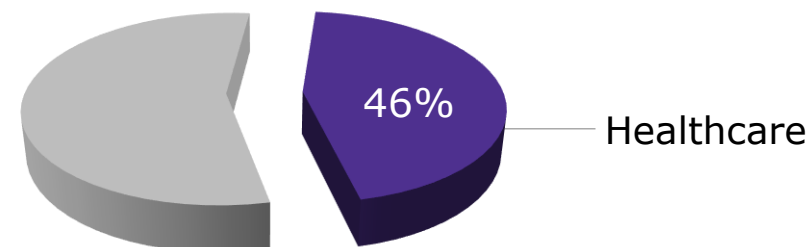


*Productive Development Partnership
Totals may not add up due to rounding

Comments

- Rebif organically stable; ramp-up of competition in Europe partially offset by tender in Russia; in U.S. pricing offsets declining volumes
- Solid organic growth of Erbitux across all regions, especially strong volume growth in China, but also low comparables
- Fertility shows strong growth across portfolio especially in China; Gonal-f benefiting from competitive situation in U.S. and low base
- Marketing & selling reflects end of commission expenses for Rebif (U.S.) partially offset by reinvestments in sales force & launch preparations
- R&D spend increases as pipeline development progresses
- Higher EBITDA pre due to strong organic growth, end of Rebif commissions and ~€30 m disposal gain from Merck Ventures minority

Q2 2016 share of group net sales

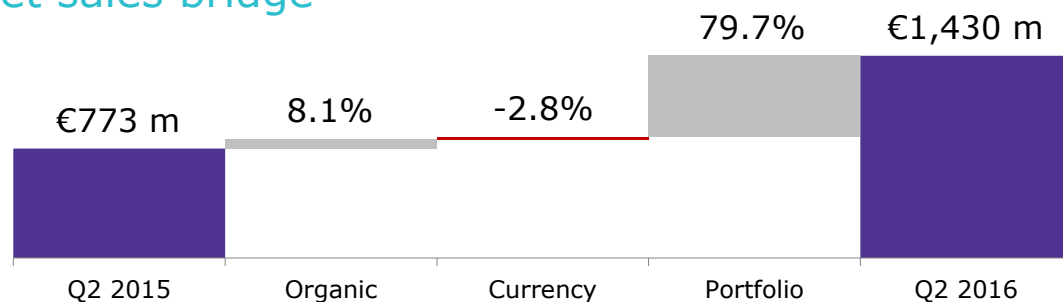


Life Science: Another strong quarter while integration on track

Life Science P&L

[€m]	Q2 2015	Q2 2016
Net sales	773	1,430
Marketing and selling	-244	-413
Administration	-28	-58
Research and development	-49	-65
EBIT	87	166
EBITDA	170	343
EBITDA pre	200	417
Margin (in % of net sales)	25.9%	29.1%

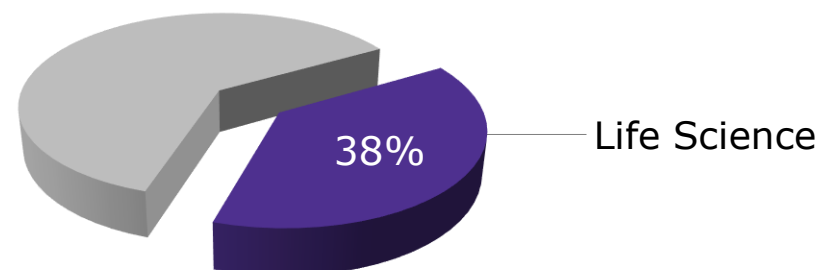
Net sales bridge



Comments

- Double-digit growth of Process Solutions driven by increasing production of large molecules across global and regional accounts
- Applied Solutions shows moderate organic growth, driven by bio-monitoring products for pharma & demand for analytical testing
- Research Solutions benefits from strong demand in Emerging Markets, and for chemical analytics and molecular biology products
- Absolute costs higher due to Sigma, but improve in relation to sales
- Profitability reflects Sigma, business mix and synergies

Q2 2016 share of group net sales



Life Science delivers synergies and integrates as planned

synergies

On track to deliver 2016 synergy target of €90 m:

- HQ measures complete
- 50% of headcount targets met
- 4 site closures in progress
- Procurement actions moving
- Preparing distribution consolidation



integration

Smooth integration ongoing with early achievements:

- Organization structure implemented
- High engagement from organization
- Common definition and implementation of processes well underway, e.g. pricing, customer excellence

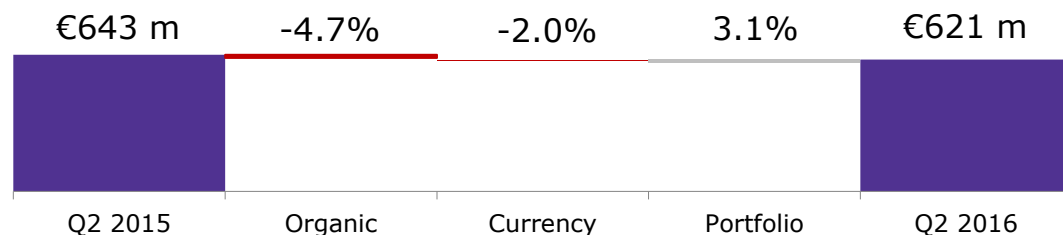
No disruption of growth momentum during integration

Performance Materials: Strong profitability amid ongoing destocking

Performance Materials P&L

[€m]	Q2 2015	Q2 2016
Net sales	643	621
Marketing and selling	-53	-59
Administration	-14	-14
Research and development	-49	-53
EBIT	238	193
EBITDA	299	267
EBITDA pre	295	273
Margin (in % of net sales)	45.9%	44.1%

Net sales bridge

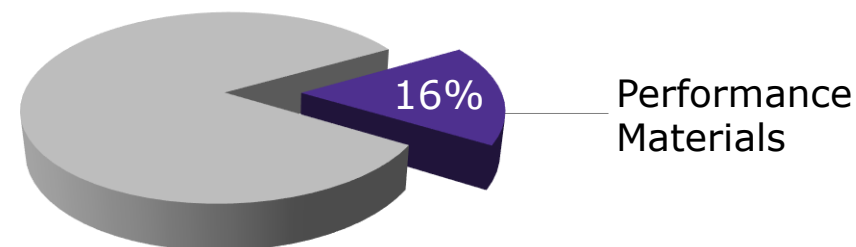


*Active pharmaceutical ingredient
Totals may not add up due to rounding

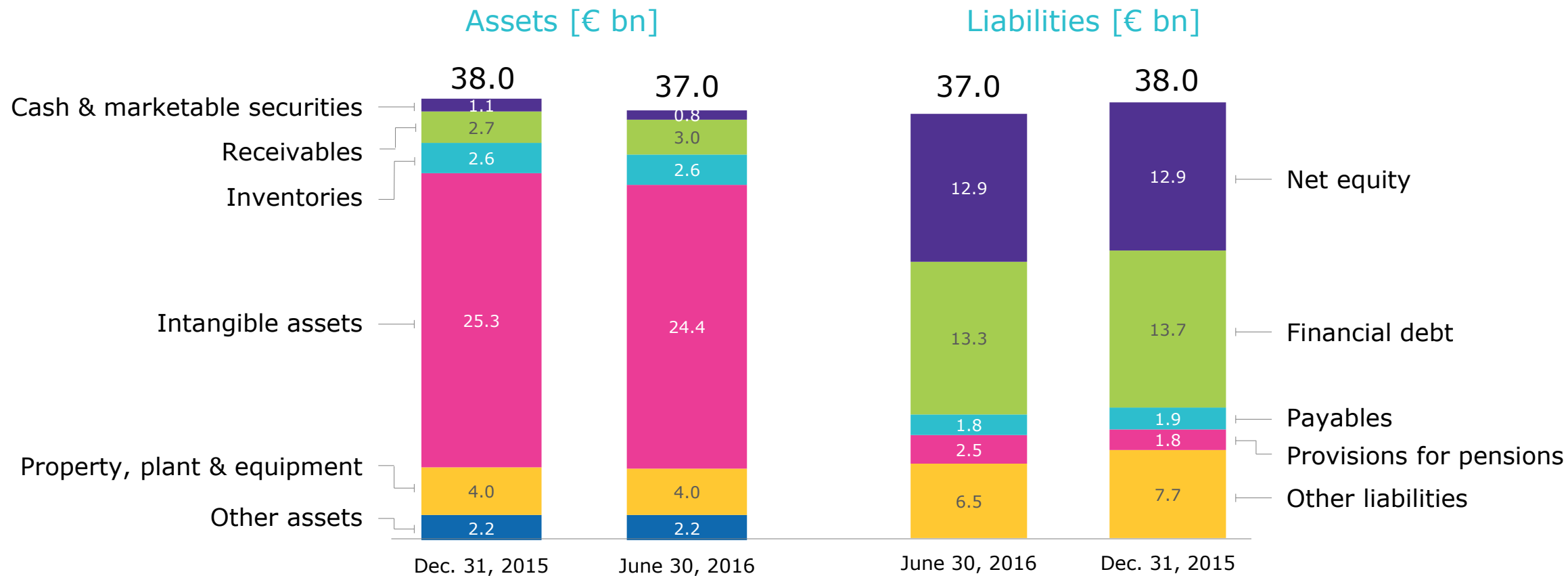
Comments

- LC declining as ongoing supply chain destocking & volume declines of mature TN-TFT outweighs volume increase in PS-VA and IPS
- Destocking is expected to continue into H2 2016
- OLED continues to grow on industry capacity expansion & investments
- Integrated Circuit Materials (ICM) shows above market growth mainly driven by dielectric and lithography materials for chip production
- Strong growth of Pigments & Functionals due to strong Xirallic for automotive coatings and cosmetic functionals, but on low comparables
- High profitability reflects leading market position, positive product mix within ICM and Pigments as well as active cost management

Q2 2016 share of group net sales



Balance sheet – deleveraging in progress after Sigma acquisition



- Total assets decline by 2.6%, equity ratio grows to 34.7%
- Other liabilities decrease by €1.2 bn mainly due to dividend payment to E. Merck and lower deferred taxes

- Further decline in interest rates increases pension provisions
- Stable net equity: Profit after tax offset by dividends, FX translation and actuarial losses

Healthy underlying operating cash flow

Q2 2016 – cash flow statement

[€m]	Q2 2015	Q2 2016	Δ
Profit after tax	346	314	-32
D&A	343	519	176
Changes in provisions	-70	-67	3
Changes in other assets/liabilities	-270	-397	-127
Other operating activities	3	-28	-31
Changes in working capital	-25	-30	-5
Operating cash flow	326	311	-15
Investing cash flow	1,860	-114	-1,974
thereof Capex on PPE	-93	-125	-32
Financing cash flow	-174	-357	-183

Cash flow drivers

- D&A increases due to Sigma and Xalkori impairment
- Higher tax payments burden changes in other assets/liabilities
- Investing cash flow LY contained cash-in from Sigma hedging
- Capex higher due to HQ & Sigma; 2016 peak expected in Q4
- Financing cash flow reflects repayment of Millipore bond and commercial paper



03 GUIDANCE

Upgrade of full-year 2016 guidance

Merck guidance for 2016

▶ **Net sales:** ~ €14.9 – 15.1 bn ◀

▶ **EBITDA pre:** ~ €4,250 – 4,400 m ◀

▶ **EPS pre:** ~ €5.85 – 6.10 ◀



2016 business sector guidance



Healthcare

Net sales

- Solid organic growth
- Organic Rebif decline
- Strong growth in Fertility
- Other franchises growing

EBITDA pre

~ €1,950 – 2,050 m



Life Science

Net sales

- Mid to high single-digit organic growth
- Main driver Process Solutions
- High double-digit contribution from Sigma

EBITDA pre

~ €1,620 – 1,670 m



Performance Materials

Net sales

- Moderate organic decline
- Improving macro signals amid destocking in liquid crystals
- Growing demand in all businesses

EBITDA pre

~ €1,100 – 1,150 m



APPENDIX

Additional financial guidance 2016

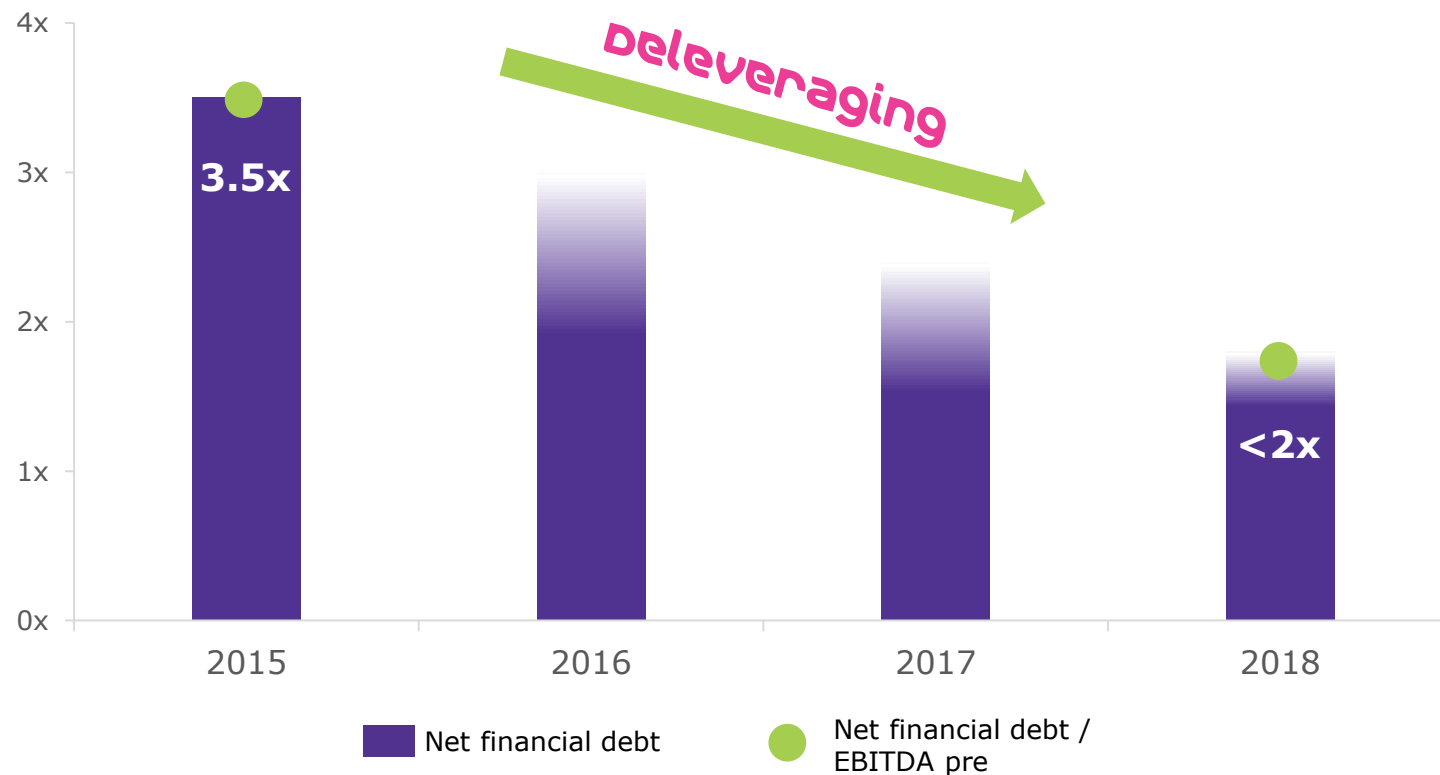
Further financial details

Corporate & Other EBITDA pre	~ -€370 – -400 m
Interest result	~ -€270 – -300 m
Intangibles amortization from Sigma PPA	~ €250 – 300 m p.a.
Underlying tax rate	~23% to 25%
Capex on PPE	~€750 – 800 m
Hedging/USD assumption	2016 & 2017 hedge ratio ~40%-45% at EUR/USD ~1.10 to 1.15
2016 Ø EUR/USD assumption	~1.07 – 1.12

Strong focus on cash generation to ensure swift deleveraging

Net debt and leverage development

[Net debt/
EBITDA pre]

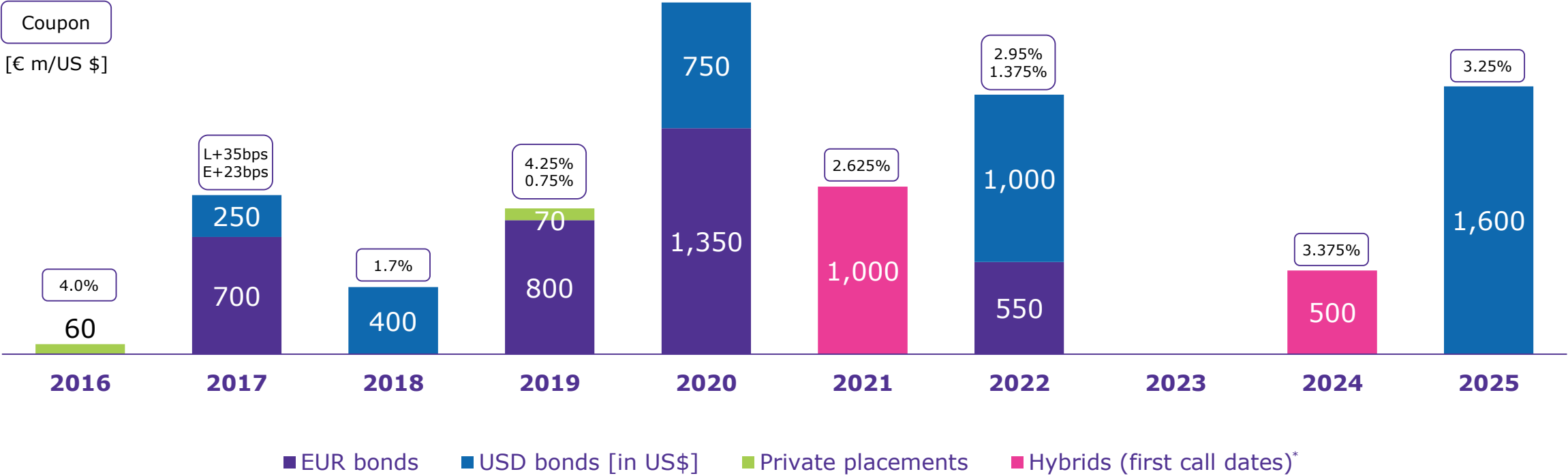


Focus on deleveraging

- Commitment to swift deleveraging to ensure a strong investment grade rating and financial flexibility
- Strong cash flow will be used to drive down leverage to expected <2x net debt/EBITDA pre in 2018
- Larger acquisitions (>€500 m) ruled out for the next two years (or financed by divestments)

Well-balanced maturity profile reflects capital market transactions related to Sigma-Aldrich

Maturity profile as of June 30, 2016



Financing structure enables flexible and swift deleveraging

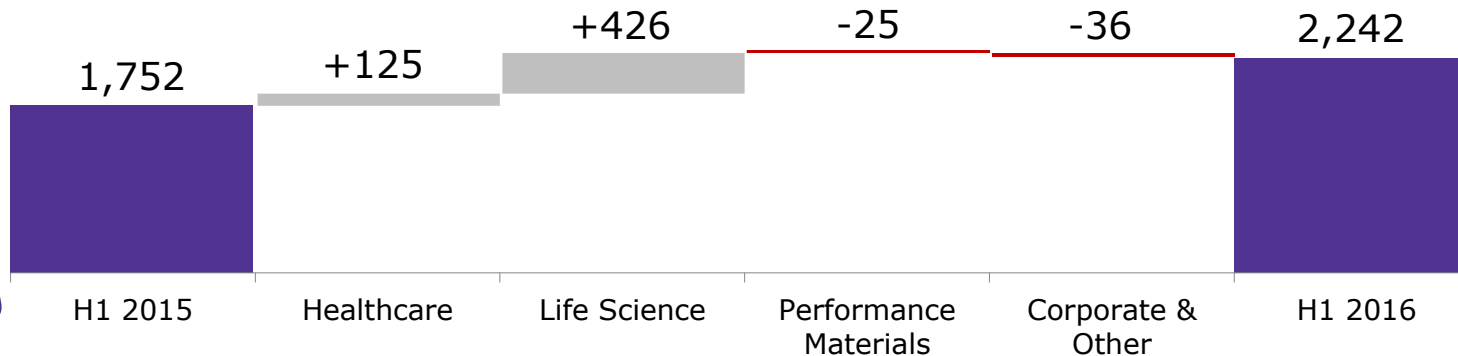
Life Science and Healthcare drive growth and profitability

H1 2016 YoY net sales

	Organic	Currency	Portfolio	Total
Healthcare	6.4%	-7.9%	-1.0%	-2.6%
Life Science	8.5%	-2.1%	80.6%	87.1%
Performance Materials	-3.5%	-0.8%	2.9%	-1.4%
Merck Group	4.9%	-5.1%	19.5%	19.3%

- Growth in Healthcare driven by strong Fertility, GM* as well as Xalkori commissions
- Strong organic growth in Life Science driven by Process Solutions
- Organic decline in Performance Materials reflects destocking in display supply chain
- Portfolio reflects Sigma and Kuvan

H1 YoY EBITDA pre contributors [€ m]



- HC benefits from good organic growth, Rebif commission savings and R&D phasing
- Life Science driven by Sigma, strong organic growth and positive business mix
- Performance Materials slightly lower due to Liquid Crystal sales decrease
- Corporate EBITDA pre contains hedging and investments in corporate initiatives

*General Medicine and CardioMetabolic Care
Totals may not add up due to rounding

H1 2016: Overview

Key figures

[€m]	H1 2015	H2 2016	Δ
Net sales	6,261	7,470	19.3%
EBITDA pre	1,752	2,242	27.9%
Margin (in % of net sales)	28.0%	30.0%	
EPS pre	2.43	3.09	27.2%
Operating cash flow	605	663	9.6%

[€m]	Dec. 31, 2015	Jun. 30, 2016	Δ
Net financial debt	12,654	12,510	-1.1%
Working capital	3,448	3,813	10.6%
Employees	49,613	50,456	1.7%

Comments

- EBITDA pre & margin increase driven by Sigma, organic performance and end of Rebif commission expenses
- EPS pre grows in line with EBITDA pre
- Healthy operating cash flow driven by strong business performance
- Net financial debt reflects cash-in for Kuvan & operating cash flow partially offset by dividend payments
- Working capital shows increase in business activity – further room for improvement

Reported figures reflect solid business performance and Kuvan divestment

Reported results

[€m]	H1 2015	H1 2016	Δ
EBIT	981	1,399	42.6%
Financial result	-141	-190	34.1%
Profit before tax	840	1,209	44.0%
Income tax	-209	-302	44.7%
<i>Effective tax rate (%)</i>	24.9%	25.0%	
Net income	625	903	44.4%
EPS (€)	1.44	2.08	44.4%

Comments

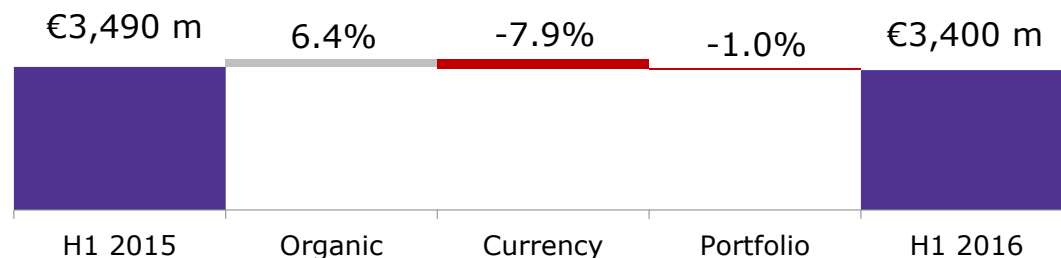
- EBIT reflects increased EBITDA pre and Kuvan disposal gain amid integration costs and D&A from Sigma
- Financial result contains Sigma financing interest expenses
- Effective tax rate within guidance range of ~23% to 25%

Healthcare: Good organic growth and product mix drive profitability

Healthcare P&L

[€m]	H1 2015	H1 2016
Net sales	3,490	3,400
Marketing and selling	-1,390	-1,256
Administration	-135	-137
Research and development	-706	-756
EBIT	536	939
EBITDA	910	1,387
EBITDA pre	941	1,065
Margin (in % of net sales)	27.0%	31.3%

Net sales bridge

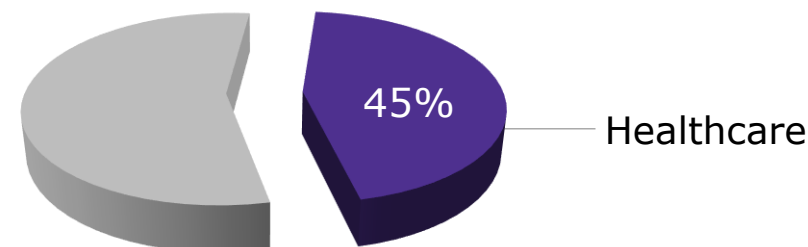


*Productive Development Partnership
Totals may not add up due to rounding

Comments

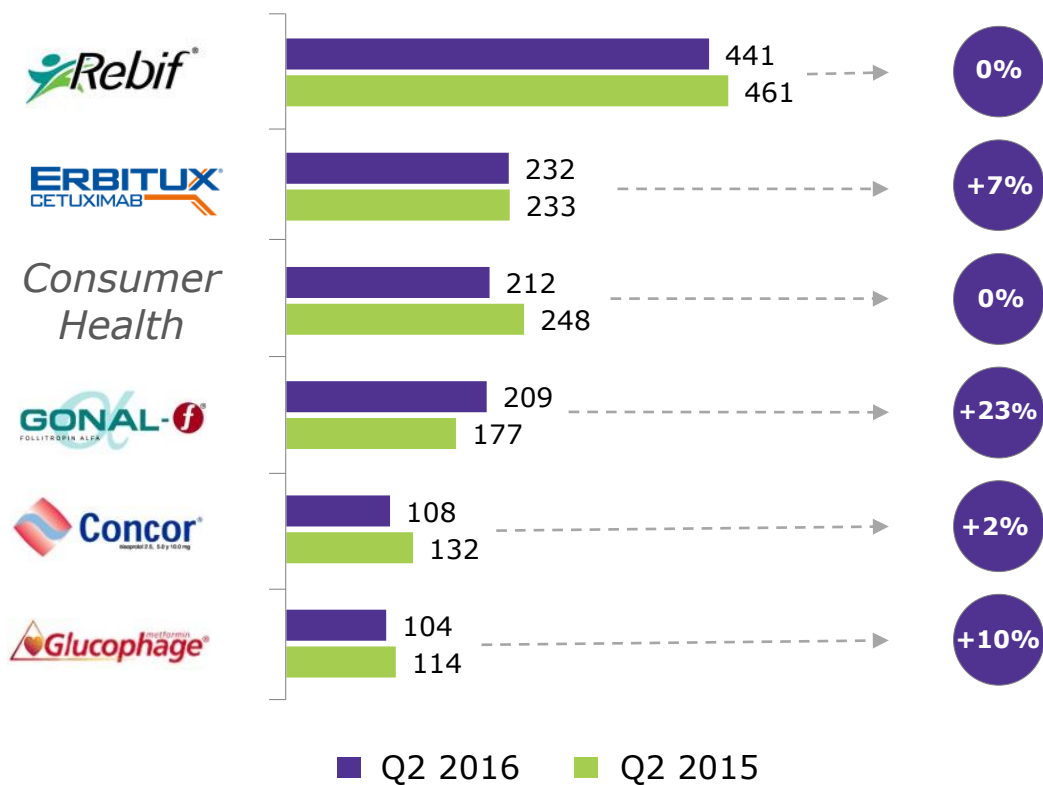
- Rebif still impacted by ramp-up of competition in Europe, while U.S. pricing, Russian tender and PDP* in Brazil support performance
- Erbitux shows solid organic growth benefiting from volume increase in all regions, but also low comparables; EU remains competitive
- Marketing & selling reflects end of commission expenses for Rebif (U.S.) partially offset by reinvestments in sales force & launch preparations
- R&D spend increases as pipeline development progresses
- EBIT reflects Kuvan disposal gain of €324 m in Q1 2016
- Profitability improves due to good organic growth, end of Rebif commissions and ~€30m disposal gain from Merck Ventures minority

H1 2016 share of group net sales

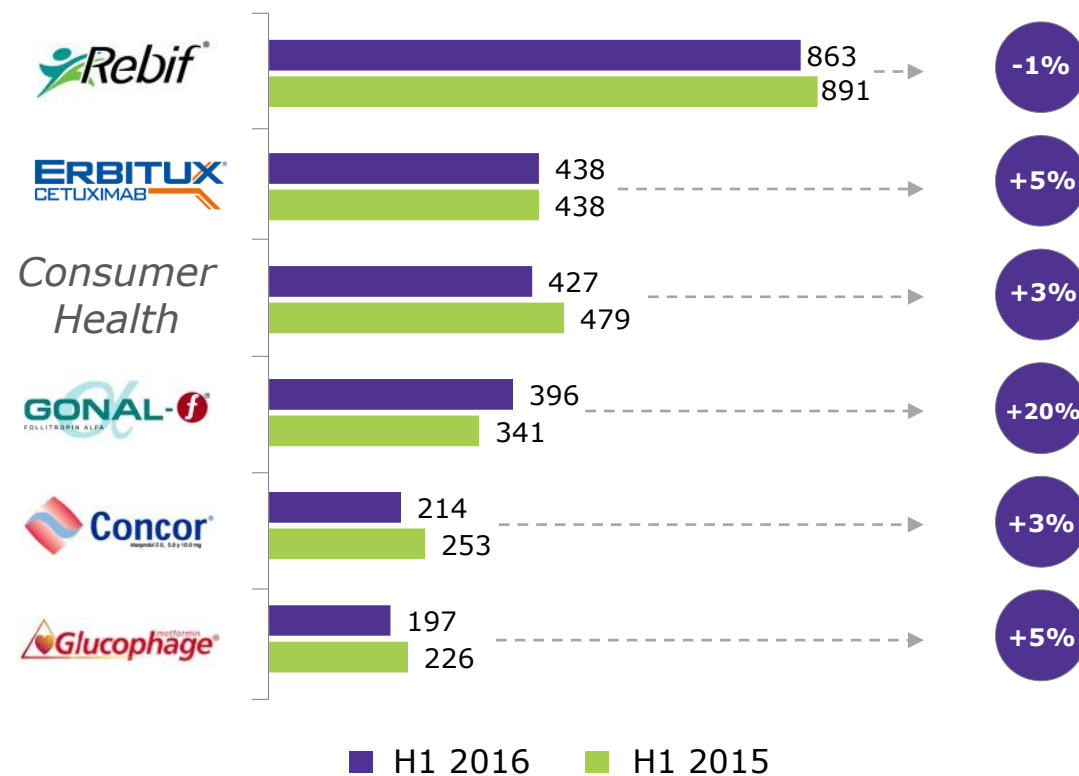


Healthcare organic growth by franchise/product

Q2 2016 organic sales growth [%]
by key product [€ m]

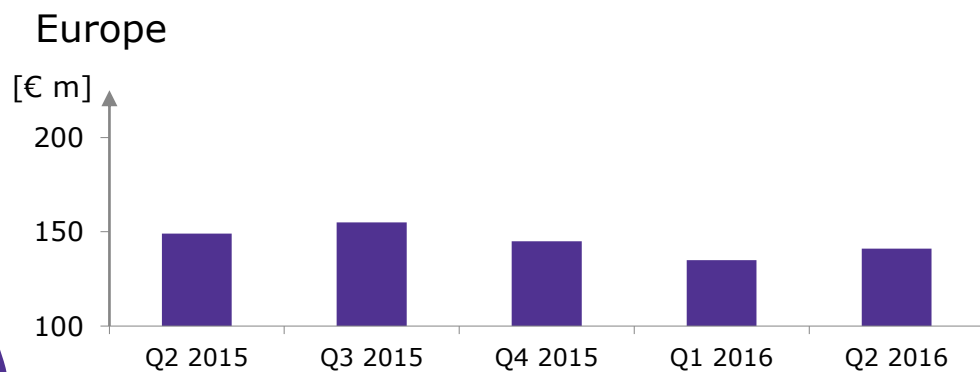
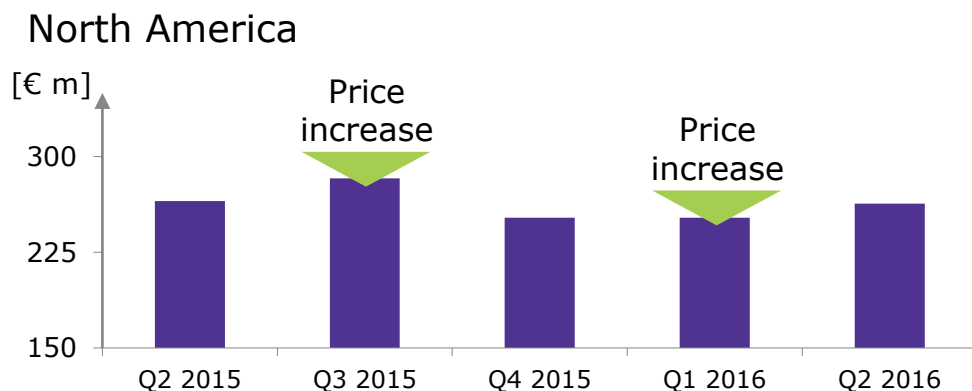


H1 2016 organic sales growth [%]
by key product [€ m]



Rebif: Relief in the U.S. – competitive ramp-up in Europe ongoing

Rebif sales evolution



Q2 drivers
0.0% org.

- Price
- Volume
- FX

Q2 drivers
-2.3% org.

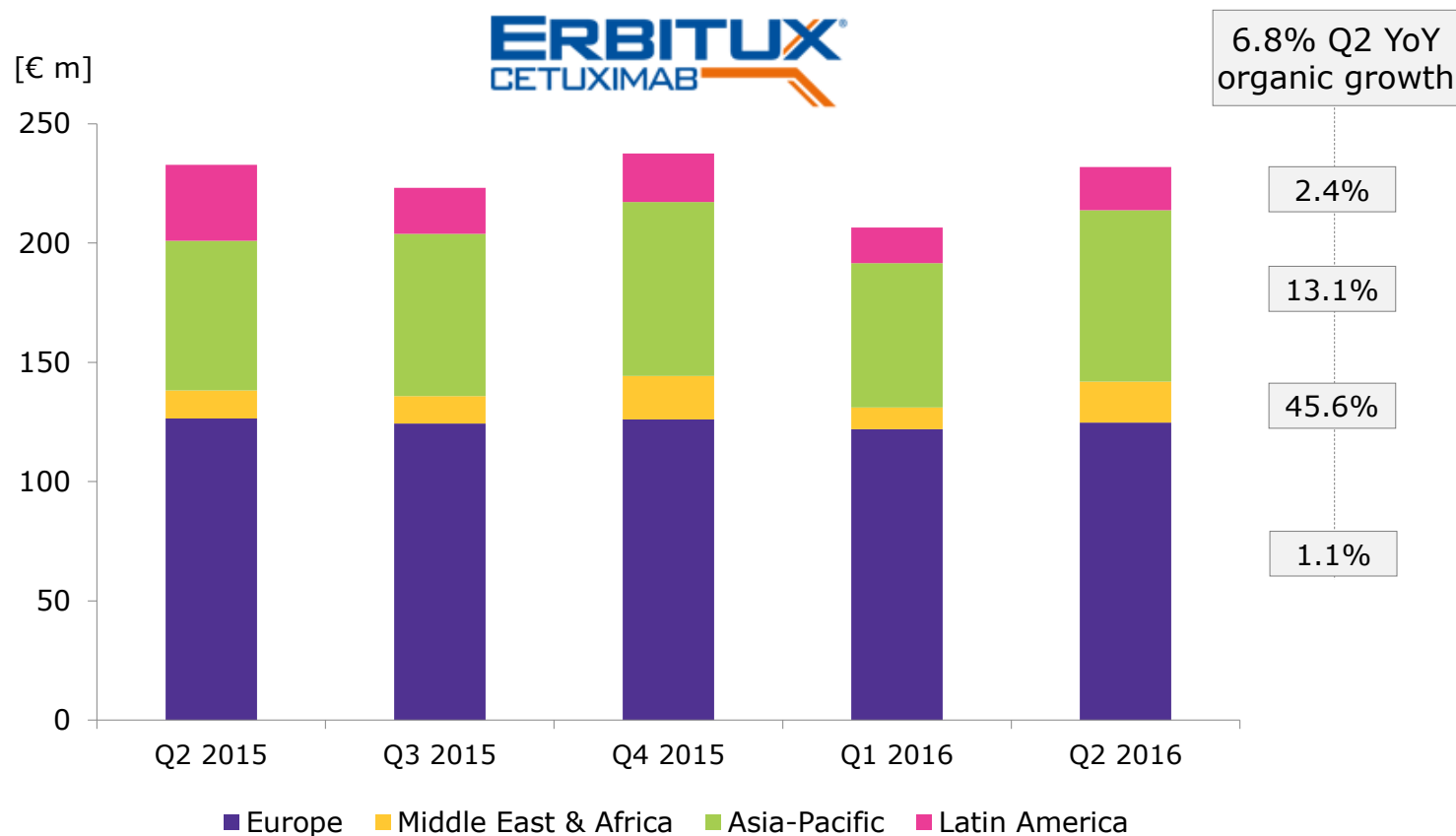
- Price
- Volume

Rebif performance

- Rebif sales of €441 m in Q2 2016 reflect flat organic performance amid negative FX effects from LatAm & EU
- Market shares within interferons stable due to high retention rates and long-term safety track record
- U.S. pricing & market share stabilization offset decline of interferon class
- 5% U.S. price increases in July will support performance going forward
- Phased market entry of orals in Europe causes ongoing volume decline; Q2 2016 contains tender in Russia

Erbitux: A challenging market environment

Erbitux sales by region



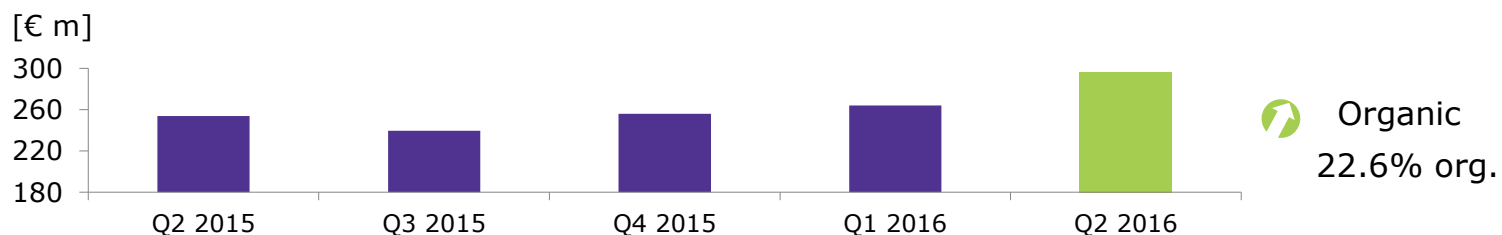
Erbitux performance

- Sales increase to €232 m due to solid volume development especially in growth markets
- Europe stable in ongoing tough environment (price and competition)
- Asia-Pacific shows strong growth led by China
- Organic jump in MEA reflects growing demand but also beneficial tender phasing

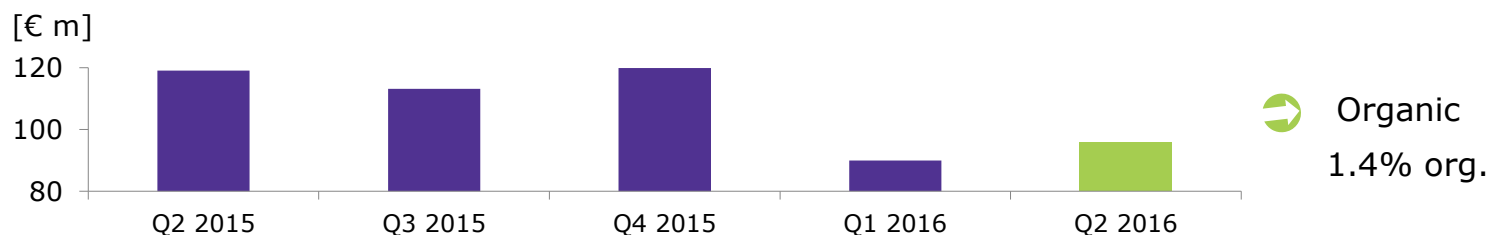
Strong organic growth in Fertility, General Medicine and Endocrinology

Sales evolution

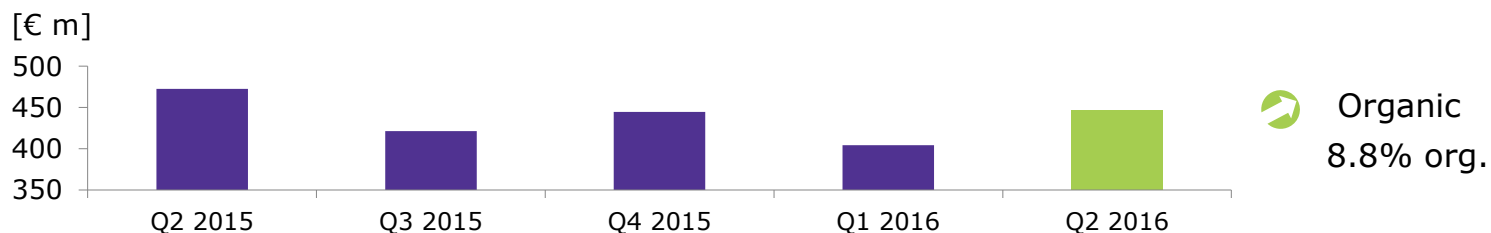
Fertility



Endocrinology



General Medicine*



Q2 drivers

- Gonal-f continues to benefit from competitive situation in U.S. and strong demand in China
- Sales drop in Endocrinology reflects Kuvan divestment; remaining portfolio (Saizen, Serostim) growing organically
- General Medicine sales burdened by FX headwinds from LatAM, organic performance sustainably healthy
- Euthyrox posts strong growth fueled by all regions, China remains key organic contributor of organic growth
- Glucophage growing in all regions especially benefiting from high demand in Middle East

Merck pipeline

Phase I

Tepotinib
c-Met kinase inhibitor
Solid tumors
M2698
p70S6K & Akt inhibitor
Solid tumors
M3814
DNA-PK inhibitor
Solid tumors
Beigene-283
BRAF inhibitor
Solid tumors

Avelumab¹
Anti-PD-L1 mAb
Solid tumors
Avelumab¹
Anti-PD-L1 mAb
Hematological malignancies
M9241 (NHS-IL12)²
Cancer immunotherapy
Solid tumors
M7824
Bifunctional immunotherapy
Solid tumors

M1095 (ALX-0761)
Anti-IL-17 A/F nanobody
Psoriasis
M2951
BTK inhibitor
Systemic lupus erythematosus

Phase II

M2736 (ATX-MS-1467)
Immune tolerizing agent
Multiple sclerosis

Tepotinib
c-Met kinase inhibitor
Non-small cell lung cancer
Tepotinib
c-Met kinase inhibitor
Hepatocellular cancer

Avelumab¹
Anti-PD-L1 mAb
Merkel cell carcinoma

Sprifermin
Fibroblast growth factor 18
Osteoarthritis
Atacicept
Anti-Blys/anti-APRIL fusion protein
Systemic lupus erythematosus
M2951
BTK inhibitor
Rheumatoid arthritis

Phase III

Avelumab¹ – Anti-PD-L1 mAb
Non-small cell lung cancer 1L³
Avelumab¹ – Anti-PD-L1 mAb
Non-small cell lung cancer 2L⁴
Avelumab¹ – Anti-PD-L1 mAb
Gastric cancer 1L³
Avelumab¹ – Anti-PD-L1 mAb
Gastric cancer 3L⁵
Avelumab¹ – Anti-PD-L1 mAb
Bladder cancer 1L³
Avelumab¹ – Anti-PD-L1 mAb
Ovarian cancer platinum resistant/refractory
Avelumab¹ – Anti-PD-L1 mAb
Ovarian cancer 1L³
Avelumab¹ – Anti-PD-L1 mAb
Renal cell cancer 1L³

MSB11022
Proposed biosimilar of Adalimumab
Chronic plaque psoriasis

Registration

Cladribine Tablets⁶ –
Lymphocyte targeting agent
Relapsing-remitting multiple sclerosis

- Neurodegenerative Diseases
- Oncology
- Immunology
- Immuno-Oncology
- Biosimilars

Pipeline as of July 28th, 2016

Pipeline products are under clinical investigation and have not been proven to be safe and effective. There is no guarantee any product will be approved in the sought-after indication.

¹Avelumab is the proposed International Non-proprietary Name (INN) for the anti-PD-L1 monoclonal antibody (previously known as MSB 0010718C);

²Sponsored by the National Cancer Institute (USA); ³1st line treatment; ⁴2nd line treatment; ⁵3rd line treatment

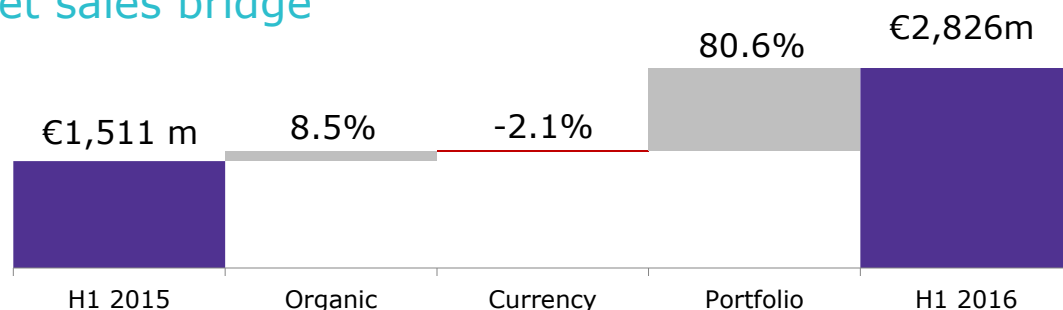
⁶As announced on July 18th, 2016 the European Medicines Agency accepted Merck's Marketing Authorization Application

Life Science: A strong first half of 2016

Life Science P&L

[€m]	H1 2015	H1 2016
Net sales	1,511	2,826
Marketing and selling	-477	-833
Administration	-59	-121
Research and development	-94	-126
EBIT	170	271
EBITDA	334	627
EBITDA pre	384	810
Margin (in % of net sales)	25.4%	28.6%

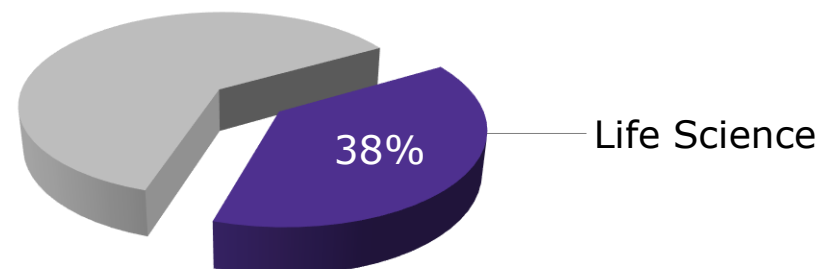
Net sales bridge



Comments

- Very strong growth of Process Solutions driven by increasing biopharma production and single-use demand across all regions
- Applied Solutions shows moderate organic growth, driven by bio-monitoring products for pharma & demand for analytical testing
- Research Solutions benefits from increased research on biologics as well as solid demand for high-value chemicals
- Cost base contains Sigma, but improves in relation to sales
- Profitability reflects Sigma, business mix and synergies

H1 2016 share of group net sales

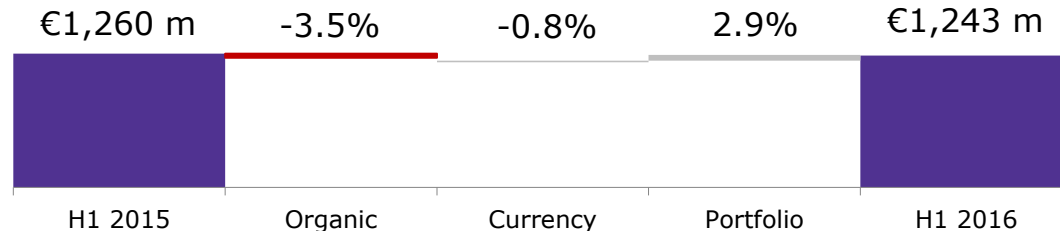


Performance Materials: Healthy profitability amid destocking of display industry inventories

Performance Materials P&L

[€m]	H1 2015	H1 2016
Net sales	1,260	1,243
Marketing and selling	-99	-116
Administration	-32	-31
Research and development	-95	-101
EBIT	452	399
EBITDA	572	534
EBITDA pre	572	547
Margin (in % of net sales)	45.4%	44.0%

Net sales bridge

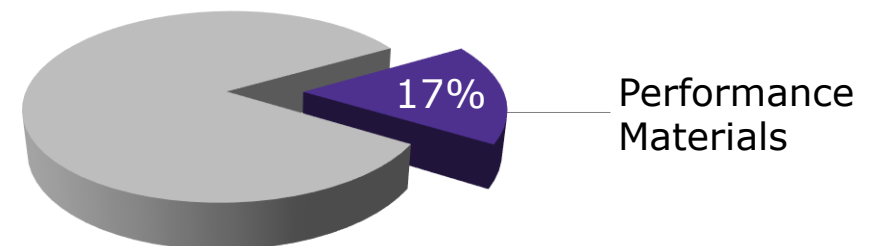


*Active pharmaceutical ingredient
Totals may not add up due to rounding

Comments

- LC impacted by volume declines of mature TN-TFT and indicated inventory correction in supply chain, expected to continue into H2
- OLED continues to grow on industry capacity expansion & investments
- Integrated Circuit Materials (ICM) shows solid above-market growth mainly driven by dielectric materials for chip production
- Pigments & Functionals post solid growth esp. due to cosmetic API*
- Marketing & selling reflects contribution from Sigma's SAFC Hitech
- Healthy profitability due to leading market position with highly differentiated products, despite destocking in display supply chain

H1 2016 share of group net sales



Healthy operating cash flow reflects strong business performance

H1 2016 – cash flow statement

[€m]	H1 2015	H1 2016	Δ
Profit after tax	631	907	276
D&A	669	952	283
Changes in provisions	20	-46	-66
Changes in other assets/liabilities	-501	-431	70
Other operating activities	-18	-422	-404
Changes in working capital	-197	-296	-99
Operating cash flow	605	663	58
Investing cash flow	2,252	170	-2,082
thereof Capex on PPE	-167	-285	-118
Financing cash flow	2,114	-930	-3,044

Cash flow drivers

- Profit after tax includes gain from Kuvan divestment, which is neutralized in other operating activities
- D&A increases due to Sigma and Xalkori impairment
- Tax payments drive main changes in other assets/liabilities
- Changes in working capital reflect lower payables due to expired Pfizer-Rebif co-commercialization agreement
- Investing cash flow contains increased Capex & Kuvan; LY with sale of financial assets & Sigma hedging cash-in
- Financing cash flow reflects first repayments of Sigma-related debt; LY contains USD bond issuance

Exceptionals in Q2 2016

Exceptionals in EBIT

[€m]	Q2 2015		Q2 2016	
	Exceptionals	thereof D&A	Exceptionals	thereof D&A
Healthcare	21	2	70	71
Life Science	30	0	74	0
Performance Materials	-3	0	7	0
Corporate & Other	9	0	10	0
Total	56	2	160	71

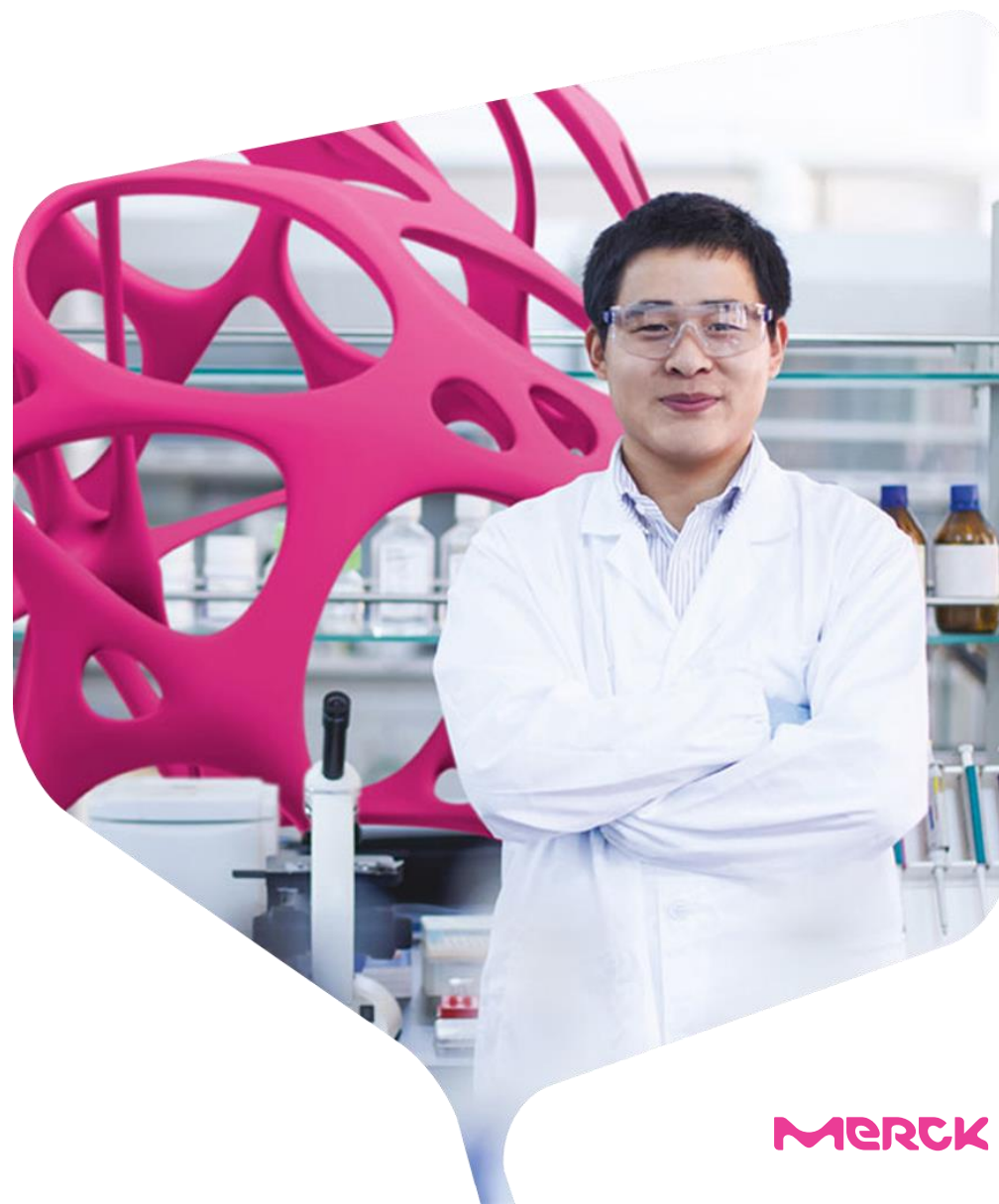
Exceptionals in H1 2016

Exceptionals in EBIT

[€m]	H1 2015		H1 2016	
	Exceptionals	thereof D&A	Exceptionals	thereof D&A
Healthcare	32	2	-251	71
Life Science	50	0	183	0
Performance Materials	0	0	13	0
Corporate & Other	21	0	17	0
Total	104	2	-38	71

Financial calendar

Date	Event
October 13, 2016	Capital Market Day - 2016
November 15, 2016	Q3 2016 Earnings release
March 9, 2017	Q4 2016 Earnings release
April 28, 2017	Annual General Meeting
May 18, 2017	Q1 2017 Earnings release



CONSTANTIN FEST



Head of Investor Relations
+49 6151 72-5271
constantin.fest@merckgroup.com

SVENJA BUNDSCHUH



Assistant Investor Relations
+49 6151 72-3744
svenja.bundschuh@merckgroup.com

ALESSANDRA HEINZ



Assistant Investor Relations
+49 6151 72-3321
alessandra.heinz@merckgroup.com

ANNETT WEBER



Institutional Investors /
Analysts
+49 6151 72-63723
annett.weber@merckgroup.com

NILS KUSTUSCH



Institutional Investors /
Analysts
+49 6151 72-7434
nils.kustusch@merckgroup.com

EVA STERZEL



Retail Investors / AGM /
CMDs / IR Media
+49 6151 72-5355
eva.sterzel@merckgroup.com

OLLIVER LETTAU



Institutional Investors /
Analysts
+49 6151 72-34409
olliver.lettau@merckgroup.com

EMAIL: investor.relations@merckgroup.com

WEB: www.investors.merck.de

FAX: +49 6151 72-913321

