

# CORPORATE GOVERNANCE

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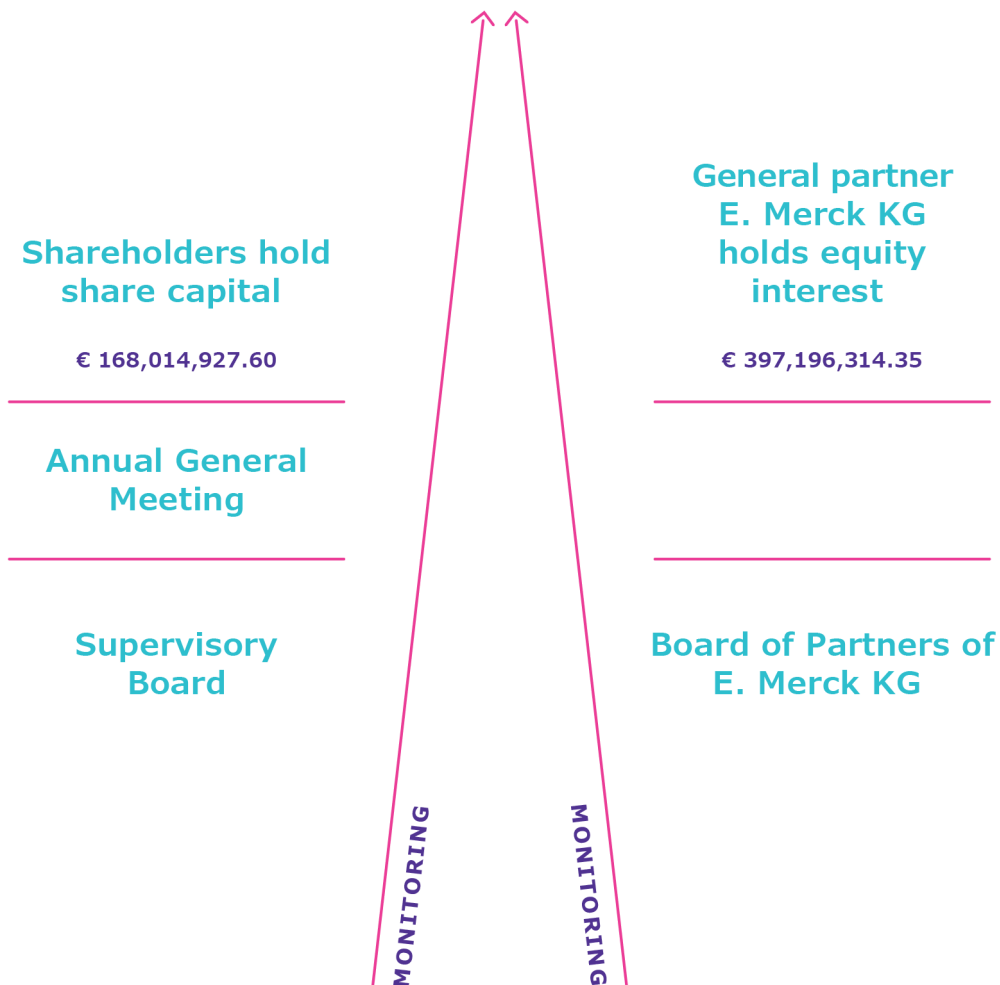
# Capital Structure and Corporate Bodies of Merck KGaA

## Total capital of Merck KGaA

€ 565,211,241.95

## Executive Board of Merck KGaA

General partners with no equity interest



# Statement on Corporate Governance including Compensation Report

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

## Joint report of the Executive Board and the Supervisory Board including Declaration of Conformity

The German Corporate Governance Code is geared toward the conditions found in a German stock corporation (“Aktiengesellschaft” or “AG”) and does not take into consideration the special characteristics of a corporation with general partners (“Kommanditgesellschaft auf Aktien” or “KGaA”) such as Merck KGaA. Given the structural differences between an AG and a KGaA, several recommendations of the German Corporate Governance Code are to be applied to a KGaA only in a modified form. Major differences between the two legal forms exist in terms of liability and management. While, in the case of an AG, only the AG is liable as a legal entity, the general partners of a KGaA also have unlimited personal liability for the company’s obligations (section 278 [1] of the German Stock Corporation Act [AktG]). At Merck KGaA, this pertains to both E. Merck KG – which pursuant to article 8 (5) of the Articles of Association is excluded from management and representation – as well as to the managing general partners, who together make up the Executive Board of Merck KGaA. The members of the Executive Board of Merck KGaA are therefore subject to unlimited personal liability. Unlike an AG, their executive authority is not conferred by the Supervisory Board, but rather by their status as general partners. Consequently, in addition to other responsibilities typical of the supervisory board of an AG (see description of the procedures of the Supervisory Board), the supervisory board of a KGaA does not have the authority to appoint the management board, draw up management board contracts, or specify compensation of the management board. This legal form also involves special features with regard to the General Meeting. For example, in a KGaA, many of the resolutions made require the consent of the general partners (section 285 [2] AktG), including in particular the adoption of the annual financial statements (section 286 [1] AktG).

Merck KGaA applies the German Corporate Governance Code analogously where these regulations are compatible with the legal form of a KGaA. In order to enable shareholders to compare the situation at other companies more easily, to a broad extent we base corporate governance on the conduct recommendations made by the Government Commission of the German Corporate Governance Code and forgo having our own, equally permissible, code. The recommendations of the Code in the version dated February 7, 2017, the intent and meaning of which are applied, have been complied with since the last Declaration of Conformity issued on February 3, 2020, in the version updated on February 27, 2020, with one exception. In future, we aim to comply with the recommendations of the Code in the version dated December 16, 2019.

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

## Merck KGaA

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

Based on the provisions of the German Stock Corporation Act, the Articles of Association of Merck KGaA, and the rules of procedure of the various committees, Merck KGaA has a set of rules for the Executive Board and its supervision that meet the requirements of the German Corporate Governance Code. The investors, who bear the entrepreneurial risk, are protected as provided for by the German Corporate Governance Code. We take suggestions from the capital market on corporate governance seriously and hold discussions with investors and shareholder representatives.

## The General Meeting of Merck KGaA

The 25<sup>th</sup> Annual General Meeting of Merck KGaA was held on May 28, 2020, in Darmstadt, Germany. In response to the coronavirus pandemic, the Executive Board decided, with the approval of the Supervisory Board, to hold the 2020 Annual General Meeting in virtual form, i.e. without the shareholders and their proxies attending in person. In doing so, it took the option provided by the legislation introduced by the act on mitigating the consequences of the Covid-19 pandemic in civil, insolvency, and criminal procedure law (Gesetz zur Abmilderung der Folgen der Covid-19-Pandemie im Zivil-, Insolvenz- und Strafverfahrensrecht). Shareholders and shareholder representatives participated in the General Meeting virtually. The meeting was broadcast audiovisually on the Internet in full. At 69.44%, the proportion of share capital represented at the meeting (including postal votes) was slightly higher than in the previous year. In 2019, the proportion of share capital represented was 66.96%. The Annual General Meeting service provider does not forward voting instructions to Merck in advance of the Annual General Meeting, but keeps them in the system until the count takes place.

In particular, the Annual General Meeting passes resolutions concerning the approval of the annual financial statements, the appropriation of net retained profit, the approval of the actions of the Executive Board members and the Supervisory Board members, as well as the election of the auditor. Changes to the Articles of Association likewise require the adoption of a resolution by the General Meeting. The shareholders of Merck KGaA exercised their rights at the virtual Annual General Meeting using the Internet-based General Meeting system and via a prior question and answer process. They were able to exercise their voting rights personally, through an authorized representative, or through a proxy appointed by the company. The proxies were 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. The introductory speech by the Chairman of the Executive Board was published in advance on the Internet on May 25, 2020, in order to make it available to interested shareholders and members of the public and thus satisfy the high transparency requirements of the Merck Group.

## Declaration of Conformity

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

“Declaration of the Executive Board and the Supervisory Board of Merck KGaA on the recommendations of the Government Commission of the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG). Since the last Declaration of Conformity on February 3, 2020, in the version updated on February 27, 2020, we have complied with the recommendations of the Government Commission of the German Corporate Governance Code in the version dated February 7, 2017, as published in the official section of the German Federal Gazette, with the following exception: Contrary to section 5.3.2 of the German Corporate Governance Code, the Supervisory Board has not established an audit committee. However, an audit committee does exist in the form of the Finance Committee of the Board of Partners of E. Merck KG, which to a large extent exercises the duties described in section 5.3.2 of the Code. Due to the relatively limited authority of the supervisory board of a KGaA in comparison with that of an AG, this therefore satisfies the requirements of the German Corporate Governance Code. In addition, as of March 20, 2020, Merck KGaA has not maintained a D&O liability insurance policy for the members of the Supervisory Board with a corresponding deductible, as the relevant recommendation was dropped in the current version of the Code dated December 16, 2019.

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: The company will comply with the recommendations of the Code in the version dated December 16, 2019.”

Darmstadt, February 26, 2021

For the Executive Board

**signed Stefan Oschmann**

For the Supervisory Board

**signed Wolfgang Büchele**

## Compensation Report

(This section is part of the Combined Management Report.)

### Compensation philosophy

As the world's oldest pharmaceutical and chemical company, Merck attaches great importance to responsible governance and entrepreneurship. This is also reflected by the compensation of the members of the Executive Board of Merck KGaA. Unlike management board members of stock corporations, they are not merely employed members of a corporate board. Rather, they are personally liable general partners of both Merck KGaA and the general partner E. Merck KG, and in this capacity they receive profit sharing from E. Merck KG. Owing to the legal form as a KGaA (corporation with general partners), the stipulations of the German Corporate Governance Code concerning the compensation of management board members of publicly listed German stock corporations as well as the individual disclosure thereof do not apply to the Executive Board members of Merck KGaA. Nevertheless, we have decided to comply with the recommendations of the German Corporate Governance Code in the version dated February 7, 2017. The Compensation Report for the coming fiscal year and on the revised compensation system for the Executive Board will be based on the recommendations of the German Corporate Governance Code in the version dated December 16, 2019.

The compensation paid to the members of the Executive Board takes into account the responsibilities and duties of the individual Executive Board members, their status as personally liable partners, their individual performance, and the economic situation, as well as the performance and future prospects of the company. At the same time, the compensation should create a high long-term ambition for the members of the Executive Board while also protecting against disproportionality.

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

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

### Regulatory requirements and principles of good corporate governance

The structure of the compensation system and the assessment of individual compensation are guided by the German Stock Corporation Act (AktG) and, with regard to compensation for 2020, by the German Corporate Governance Code in the version dated February 7, 2017, for the last time. The revised compensation system for the Executive Board of Merck KGaA will take into account the recommendations of the German Corporate Governance Code in the version dated December 16, 2019. Within the regulatory framework conditions, the objective is to offer the Executive Board members a competitive compensation package in line with market practice.

## Long-term Group strategy

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

## Long-term interests of our shareholders

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

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

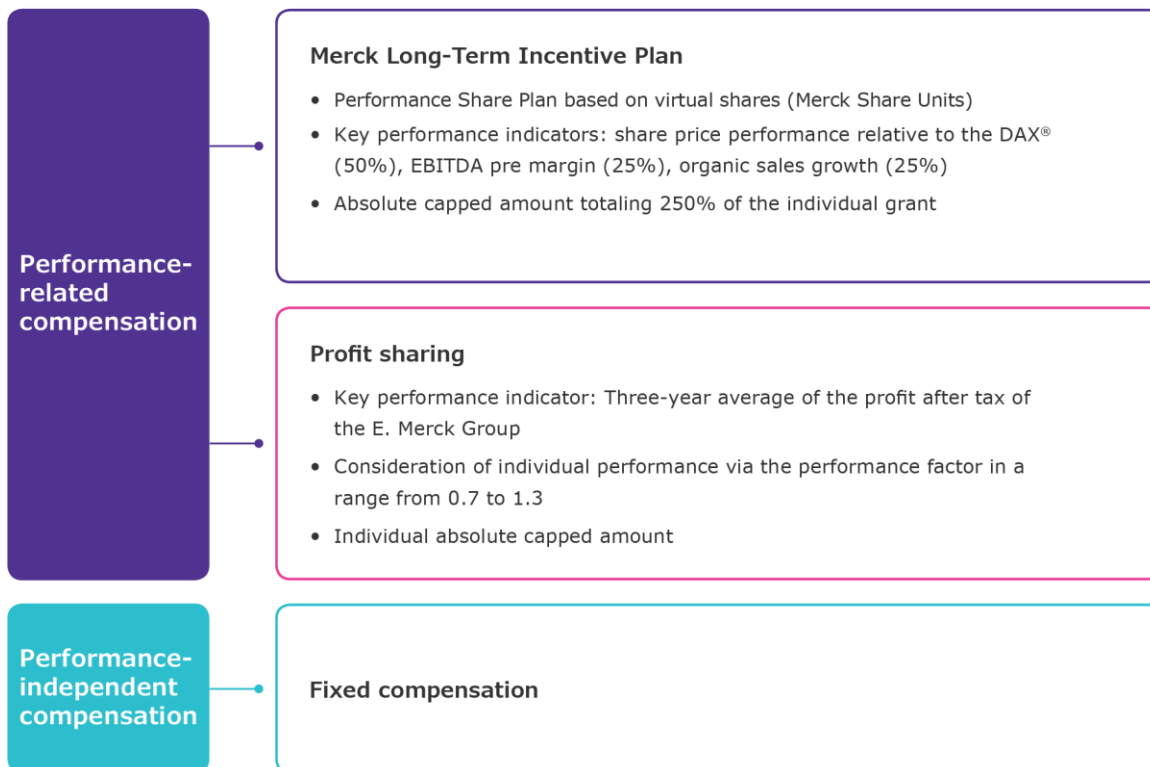
- Development and regular review of the compensation system
- Structure and examination of the performance-independent and performance-related compensation elements
- Contract terms of members of the Executive Board
- Assumption of honorary offices, board positions, or other sideline activities
- Distribution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

Our compensation system for the Executive Board was revised again in 2020 in view of another round of regulatory changes resulting from the entry into force of the German Act Implementing the Second Shareholder Rights Directive (ARUG II) and the German Corporate Governance Code reform. The revised compensation system is expected to be submitted to the Annual General Meeting for approval in 2021. All mentions of the German Corporate Governance Code in this Compensation Report refer to the version dated February 7, 2017.

## Overview of the structure and the components of the compensation system

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

### Compensation elements and compensation structure<sup>1</sup>



<sup>1</sup> Excluding additional benefits and company pension

## Performance-independent compensation and additional benefits

### Fixed compensation

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

### Additional benefits

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

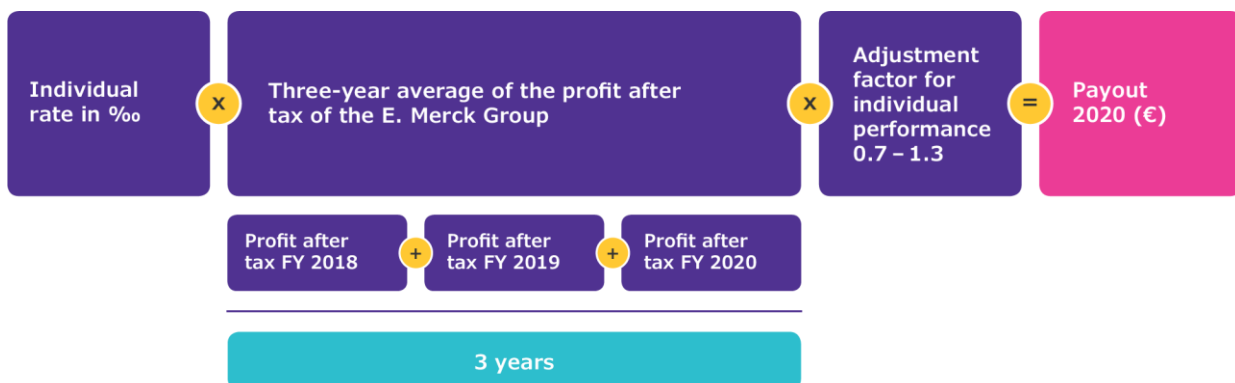
## Performance-related compensation

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

## Profit Sharing

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

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



Since fiscal year 2018, the Personnel Committee has resolved to define criteria applicable to the adjustment of profit sharing, for applying the factor in a range of between 0.7 and 1.3. Insofar as the adjustment increases or decreases the profit sharing of a member of the Executive Board, this is to be published in the Compensation Report.

Adjustment criteria for increasing profit sharing could include the following:

- Extraordinary success in connection with M&A activities of the Merck Group
- Extraordinary success in the sustainable strategic, technical, product-related, or structural further development or reorganization of the Merck Group
- Extraordinary performance in the execution of especially important projects or the achievement of other exceptionally important objectives in the area of responsibility
- Extraordinary performance leading to a clear over-achievement of targets for relevant key performance indicators in the area of responsibility
- Extraordinary contributions to the aspirations and targets of the Merck Group's stakeholders (for example, employee satisfaction, customer satisfaction, Corporate Social Responsibility, implementation of diversity requirements)

Adjustment criteria for lowering profit sharing could include the following:

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

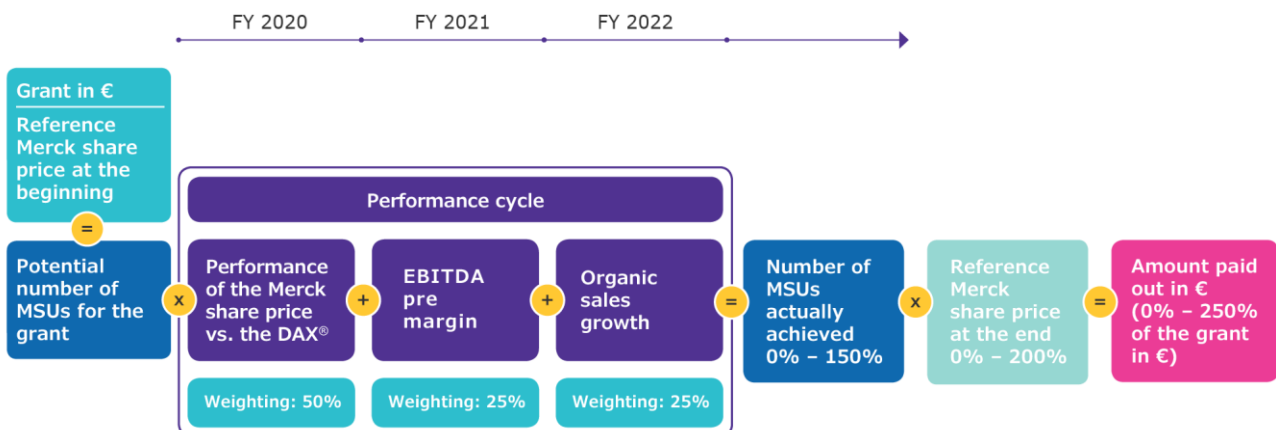
**Merck Long-Term Incentive Plan (LTIP)**

Key Performance Indicators	<ul style="list-style-type: none"> <li>• Share price performance relative to the DAX® (50% weighting)</li> <li>• EBITDA pre margin (25% weighting)</li> <li>• Organic sales growth (25% weighting)</li> </ul>
Cycle	Three years
Limit	Absolute capped amount totaling 250% of the individual grant
Reference price (share price for conversion into numbers or for payment)	Average closing price of Merck shares in Xetra® trading during the last 60 trading days prior to the beginning or the end of the performance cycle

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

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

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



The Merck Long-Term Incentive Plan thus links two key performance indicators derived from the strategy with an external, relative key performance indicator. In light of Merck's diversified business, the comparison of the Merck share price performance with the DAX® as an external, relative key performance indicator is more suitable than a comparison with an individual industry-specific index, as well as being more independent than a comparison with a defined peer group of companies. On the one hand, the performance indicators create an incentive to achieve strategic objectives. On the other hand, the strong share price orientation takes into account the company's long-term development prospects and the expectations of our shareholders. To prevent distortions as a result of exceptional factors as well as to directly reflect the performance of the Executive Board members, the EBITDA pre margin is used.

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

### **Clawback provision**

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

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

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

### **Share Ownership Guideline**

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

## Outlook at the compensation system from 2021

The compensation system of the Executive Board of Merck has been revised effective January 1, 2021, and at the same time been integrated into the Agreements with the Executive Board members. The revised compensation system aims to create a high long-term ambition for the members of the Executive Board and at the same time to protecting against disproportionality. It will be presented to the Annual General Meeting on April 23, 2021 and will be subject to a "Say on Pay" on the Annual General Meeting 2021. The adjustments of the compensation system of the Executive Board include the following compensation components:

### Profit sharing

- Reduction of modifier range: In the future, the range of the modifier will be reduced to 0.8-1.2 (up to and including 2020, the range was 0.7-1.3).
- Introduction of a threshold value and recalibration of the individual profit-sharing rates:  
A threshold value will be implemented for participating in the three-year average of the profit after tax of the E. Merck Group. If the three-year average of the profit after tax of the E. Merck Group is below this threshold, no payment will be made.
- Introduction of a mandatory personal investment as part of the new Share Ownership Guideline:  
In the future, the members of the Executive Board of Merck KGaA will be obliged to invest one-third of the profit-sharing payment (net) in Merck-Shares and to hold these shares for at least four years. Consequently, the revised compensation system will comply with the German Corporate Governance Code on share-based variable compensation (G. 10) in the revised version dated December 16, 2019. The previous Share Ownership Guideline will be replaced by this new regulation.

### Merck Long-Term Incentive Plan (LTIP)

- Extension to a period of four years by introducing an additional one-year holding period:  
As before, target achievement will be determined after a three-year target achievement cycle. In addition, a one-year holding period will be added at the end of this target achievement cycle. This means that the LTIP is linked to the absolute share price performance of Merck's shares for a performance cycle of four years in total. This ensures compliance with G. 10 of the German Corporate Governance Code in the revised version dated December 16, 2019, while also maintaining a uniform target achievement cycle for the LTIP for the members of the Executive Board and the other executives eligible to participate in the LTIP. Furthermore, the additional one-year holding period establishes an emphasized incentive regarding a sustainable increase of the Merck Share price in the long term.

### Link to sustainability strategy

From 2021 onward, the sustainability strategy of Merck will also be integrated into the compensation system for the Executive Board. The following steps are planned:

#### Fiscal year 2021

The sustainability strategy of Merck KGaA will be integrated into the compensation system for the Executive Board via the modifier. The modifier, which will have a range of 0.8-1.2 in the future, also takes particular account of the ambitious sustainability targets developed for the Merck Group in fiscal year 2020, which are geared toward non-financial performance criteria:

- Human Progress
- Sustainable value chains
- Reduction of our ecological Footprint

## Fiscal year 2022

It is intended to integrate the sustainability strategy into the Merck Long-Term Incentive Plan from 2022 onward. The necessary concepts and performance indicators will be successively developed in fiscal year 2021. The integration of the sustainability strategy into the Merck Long-Term Incentive Plan will be based on the Group-wide sustainability targets and is intended to generate a corresponding incentive to achieve these goals.

## Overall compensation limit

Compensation is capped with respect to its performance-related compensation elements of profit sharing and the Merck Long-Term Incentive Plan, as well as having an overall cap. The maximum limits are presented in the following table.

### Overall compensation limit

€ thousand	Fixed compensation	Maximum profit-sharing limit	Maximum limit for Merck Long-Term Incentive Plan	Maximum limit for overall compensation <sup>1</sup>
<b>Member of the Executive Board</b>				
Stefan Oschmann	1,400	4,810	5,638	9,800
Udit Batra (left on: July 13, 2020)	1,100	3,640	4,263	8,000
Kai Beckmann	1,100	3,120	3,825	8,000
Belén Garijo	1,200	3,900	4,925	8,000
Marcus Kuhnert	1,000	3,120	3,300	8,000

<sup>1</sup> Excluding additional benefits and company pension.

## Pension entitlements

Effective January 1, 2017, for the Executive Board members Kai Beckmann, Belén Garijo and Marcus Kuhnert, the individual contractual pension agreements were changed from defined benefit to defined contribution pension obligations, maintaining the direct commitment modality<sup>1</sup>. A defined contribution pension agreement was also in place with Udit Batra. Within the scope of these defined contribution pension obligations, every year an amount of € 400,000 respectively € 450,000 is paid into a benefit account and interest is paid on this at standard market interest rates. Once the respective Executive Board members reach the contractually agreed age limit and are no longer employed by E. Merck KG, the amount in the benefit account is paid out either in ten annual installments or as a one-time payment. The balance in the benefit account is disbursed as a one-time payment, possibly topped up by additional contributions (maximally ten contributions, up to the age of 60) in the event of permanent disability, or in the event of death to surviving dependents. The vested amount from the former defined benefit pension agreement was credited to the benefit account when the changeover took place.

There is a defined benefit pension obligation for Stefan Oschmann. The old-age pension is determined in accordance with a certain percentage of pensionable compensation. The percentages can be found in the table below. The individual contractual pension obligation grants Stefan Oschmann an entitlement to a lifelong old-age pension or surviving dependents' pension in the event of reaching the individual contractually agreed age limit, permanent disability, or death. As an alternative to an old-age pension, the promised pension may be paid out as a one-time amount calculated on the basis of actuarial principles once the age limit stipulated in the relevant contract has been reached.

<sup>1</sup> For accounting purposes, this corresponds to a defined-benefit obligation within the meaning of IAS 19.8.

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

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

#### Defined contribution obligations

€ thousand	Contribution level	IFRS			
		Service cost of pension obligations earned in the current year		Present value of the defined contribution pension obligation as of Dec.	
		2019	2020	2019	2020
<b>Member of the Executive Board</b>					
Udit Batra (left on: July 13, 2020)	400	393	147	1,406	1,532
Kai Beckmann	400	392	392	4,867	5,325
Belén Garijo	450	391	440	5,119	5,649
Marcus Kuhnert	400	414	409	3,419	3,860
<b>Total</b>	<b>1,650</b>	<b>1,590</b>	<b>1,388</b>	<b>14,811</b>	<b>16,366</b>

#### Defined benefit obligation

€ thousand	Pensionable compensation	Percentage entitlement	IFRS			
			Service cost of pension obligations earned in the current year		Present value of the defined contribution pension obligation as of Dec.	
			2019	2020	2019	2020
<b>Member of the Executive Board</b>						
Stefan Oschmann <sup>1</sup>	800	68	1,372	1,611	14,524	17,344

<sup>1</sup> The percentage entitlement increases until retirement by two percentage points per year of service up to 70%.

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

In the event of the early termination of the employment relationship, without notice for good cause, the employment contracts of the Executive Board members stipulate a cap on severance pay in accordance with the recommendations of the German Corporate Governance Code in the version dated February 17, 2017. Pursuant to this, payments in connection with the termination of an Executive Board member's duties shall not exceed twice the annual total compensation, or constitute compensation for more than the remaining term of the employment contract (severance cap). If an Executive Board member's duties prematurely end due to the termination of the employment contract either by the company or the Executive Board member before the performance cycle of an open tranche in the Merck Long-Term Incentive Plan expires, the obligations resulting from the plan no longer apply as a matter of principle.

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

## Loans and advances

The members of the Executive Board did not receive any advances or loans in fiscal 2020.

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

Payments to former members of the Executive Board or their surviving dependents are made for a limited period of time and represent continued payment of fixed compensation in the event of death, as well as pension payments. In fiscal 2020, these amounted to € 13,849 thousand (previous year: € 13,448 thousand). Pension provisions amounted to € 177,037 thousand in 2020 (previous year: € 163,617 thousand).

## Other

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

## Performance-related compensation in 2020

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

### Profit sharing

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

Key performance indicator (€ million)	2017	2018	2019	2020
Profit after tax of the E. Merck Group	2,549	3,324	1,255	1,915
Three-year average profit after tax of the E. Merck Group (2017 – 2019)	2,376			
Three-year average profit after tax of the E. Merck Group (2018 – 2020)	2,165			

The amount of the individual per mille profit-sharing rates is staggered at intervals. This staggering incentivizes the achievement of an average profit after tax of more than € 1 billion more strongly than amounts below € 1 billion. However, insofar as the average profit after tax is more than € 1.5 billion, the amount greater than

€ 1.5 billion is not taken into account when determining the profit-sharing payment. The average profit-sharing rates in per mille for the members of the Executive Board in 2020 were as follows:

Member of the Executive Board	Average profit-sharing rate in per mill in 2020	Performance factor for individual performance 2020
Stefan Oschmann	1.88	1.2
Udit Batra (left on: July 13, 2020)	0.63	1
Kai Beckmann	1.22	1.2
Belén Garijo	1.52	1.2
Marcus Kuhnert	1.22	1.2

The adjustment factor for the profit-sharing amount for Stefan Oschmann, Belén Garijo, Kai Beckmann and Marcus Kuhnert has been set to 1.2. This is to recognize the extraordinary contributions by these members of the Executive Board to the aspirations and targets of the Merck Group's stakeholders during the Covid-19 pandemic. The extraordinary handling of the pandemic situation has led to a remarkable success in terms of employee well-being, strong financial results, steady business operations as well as a very positive share price development in the fiscal year 2020. Specifically, the aforementioned members of the Executive Board distinguished themselves through the following achievements under the difficult conditions of the crisis.

In his role as CEO, Stefan Oschmann made the following objectives his top priority from the very beginning of the pandemic: the health and safety of all employees, business continuity in all three sectors, and a contribution to society via the provision of materials, e.g. for vaccine production. By establishing both a well-organized global task force and local crisis teams and connecting them very efficiently, it was always ensured that high safety standards were applied at all sites in all countries. Well thought-out hygiene measures were introduced quickly and efficiently, applied and communicated transparently. As a result, both the health situation at the Merck sites and the economic success of the Merck Group were always ensured. Additionally, Stefan Oschmann took over the responsibility for the Life Science sector ad interim. In addition to his regular duties, he successfully managed the business and ensured that the disproportionate increase in demand for life science products for diagnostics and vaccination could be responded to in a timely and demand-oriented manner.

Belén Garijo ensured that business operations could continue uninterrupted by setting clear priorities, communicating transparently, planning flexibly, and networking the crisis teams on critical issues. As member of the Executive Board being responsible for EQ (Environment, Health, Safety, Security and Quality), she held a leading role in the global management of the crisis. In addition, the Healthcare sector, under her leadership, ensured the supply of vital medicines to patients. The identification and development of drugs for the treatment of Covid-19 was given special priority.

The pandemic decisively changed living and working conditions around the world – a crisis situation in which the Performance Materials sector, with its materials for the electronics industry, was particularly important. In order to meet this rapidly and significantly increased demand, Kai Beckmann set the decisive course in the Performance Materials sector to be able to drive forward digitization in a new dimension worldwide. As the Executive Board member responsible for Germany, Kai Beckmann played a key role in talks with government representatives to initiate suitable measures in companies. In addition, within his area of responsibility for Site Management worldwide, Kai Beckmann ensured that both the health and safety of employees and business operations were always safeguarded.

In his role as Chief Financial Officer for the Merck Group, Marcus Kuhnert made the necessary decisions to maintain the economic performance and liquidity of the Merck Group. Through his efforts, business operations were able to continue steadily without the need for government financial support. Beyond his contributions as CFO, Marcus Kuhnert, with his additional responsibilities for IT and the global Merck Shared Services organization, has secured seamlessly the delivery of accounting, procurement and HR administrative and transactional services throughout the pandemic on a global scale. Challenges in the procurement process as securing critical materials to keep employees healthy and safe were handled efficiently and resolved quickly. In the IT function measures were taken on quickly and efficiently in adjusting the infrastructure to ensure remote working for a vast number of employees while keeping business processes running without disruptions. This has allowed the businesses of Healthcare, Life Science and Performance Materials to continue to operate without disruption and secured business continuity for customers and patients worldwide.

### Merck Long-Term Incentive Plan

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

Key performance indicator <sup>1</sup>	Lower target corridor limit	Target	Upper target corridor limit	Actually achieved value of Merck LTIP tranche 2016	Target achievement of Merck LTIP tranche 2016
Share price performance relative to the DAX® (external key performance indicator)	-20.0%	0.0%	50.0%	0.7%	100.7%
EBITDA pre margin (internal key performance indicator)	24.0%	27.0%	30.0%	28.1%	118.4%

<sup>1</sup>The key performance indicator organic sales growth became a component of the Merck Long-Term Incentive Plan in 2017 and is therefore not relevant for target achievement of the tranche in fiscal 2016.

Key performance indicator	Lower target corridor limit	Target	Upper target corridor limit	Actually achieved value of Merck LTIP tranche 2017	Target achievement of Merck LTIP tranche 2017
Share price performance relative to the DAX® (external key performance indicator)	-20.0%	0.0%	50.0%	-9.5%	52.5%
EBITDA pre margin (internal key performance indicator)	24.7%	27.7%	30.7%	27.1%	80.0%
Organic sales growth	2.5%	5.5%	8.5%	5.0%	83.4%

## Total compensation

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

		Performance-independent components		Performance-related components			Total	Expense recorded for the period for share-based compensation <sup>4</sup>	
		Fixed compensation	Additional benefits	Profit sharing (without long-term incentive effect) <sup>1</sup>	Merck Long-Term Incentive Plan (with long-term incentive effect)				
					Grant value	Number of MSUs <sup>2</sup>			Fair value <sup>3</sup>
		(€ thousand)	(€ thousand)	(€ thousand)	(€ thousand)		(€ thousand)	(€ thousand)	
Member of the Executive Board									
Stefan Oschmann	2020	1,400	269	4,069	2,255	21,371	1,969	7,707	4,848
	2019	1,400	721	4,810	2,255	24,054	1,520	8,451	1,859
Udit Batra (left on: July 13, 2020)	2020	636	4	1,364	1,705	16,159	1,489	3,493	2,575
	2019	1,100	7	2,800	1,705	18,187	1,149	5,056	1,368
Kai Beckmann	2020	1,100	21	2,640	1,530	14,500	1,336	5,097	3,187
	2019	1,100	30	2,400	1,530	16,320	1,031	4,561	1,202
Belén Garijo	2020	1,200	66	3,299	1,970	18,670	1,720	6,285	4,065
	2019	1,100	49	3,000	1,870	19,947	1,260	5,409	1,541
Marcus Kuhnert	2020	1,000	25	2,640	1,320	12,510	1,153	4,818	2,838
	2019	942	26	2,284	1,320	14,080	890	4,142	1,088
<b>Total</b>	<b>2020</b>	<b>5,336</b>	<b>385</b>	<b>14,012</b>	<b>8,780</b>	<b>83,210</b>	<b>7,667</b>	<b>27,400</b>	<b>17,513</b>
	<b>2019</b>	<b>5,642</b>	<b>833</b>	<b>15,294</b>	<b>8,680</b>	<b>92,588</b>	<b>5,850</b>	<b>27,619</b>	<b>7,058</b>

<sup>1</sup> Date of granting (date of legally binding commitment).

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

<sup>3</sup> Fair value on the grant date (date of the legally binding entitlement). This does not determine the amount of any payment. Payment is subject to target achievement and is made on a specified date after the expiration of the three-year performance cycle. The fair value of the obligations was calculated using a Monte Carlo simulation based on the previously described KPIs. The expected volatilities are based on the implicit volatility of Merck shares and the DAX® in accordance with the remaining term of the LTIP tranche. The dividend payments incorporated into the valuation model are based on medium-term dividend expectations.

<sup>4</sup> In accordance with IFRS, the expense recorded for 2020 includes the amounts for the 2018, 2019, and 2020 LTIP tranches. In accordance with IFRS, the expense recorded for 2019 includes the amounts for the 2017, 2018, and 2019 LTIP tranches.

## Information in accordance with the requirements of the German Corporate Governance Code

In accordance with the requirements of the German Corporate Governance Code, the following tables present the compensation granted for 2020, including additional benefits, contributions to the company pension plan, and the achievable minimum and maximum values of the variable compensation components, as well as the allocation of the respective compensation components for the fiscal year. The maximum amounts shown are purely arithmetical values. When compensation is allocated to the members of the Executive Board, the applicable overall compensation limit applies.

### Benefits granted for the fiscal year

Benefits granted (€ thousand)	Stefan Oschmann				Udit Batra			
	Chairman of the Executive Board				Member of the Executive Board (left on: July 13, 2020)			
	2019	2020	2020 (min.)	2020 (max.)	2019	2020	2020 (min.)	2020 (max.)
Fixed compensation	1,400	1,400	1,400	1,400	1,100	636	636	636
Additional benefits	721	269	269	269	7	4	4	4
<b>Total</b>	<b>2,121</b>	<b>1,669</b>	<b>1,669</b>	<b>1,669</b>	<b>1,107</b>	<b>640</b>	<b>640</b>	<b>640</b>
Profit sharing	4,810	4,069	0	4,810	2,800	1,364	0	3,640
Multi-year variable compensation								
LTI 2019 (2019 to 2021)	1,520				1,149			
LTI 2020 (2020 to 2022)		1,969	0	5,638		1,489	0	4,263
<b>Total</b>	<b>8,451</b>	<b>7,707</b>	<b>1,669</b>	<b>12,117</b>	<b>5,056</b>	<b>3,493</b>	<b>640</b>	<b>8,543</b>
Service cost	1,372	1,611	1,611	1,611	393	147	147	147
<b>Total compensation</b>	<b>9,823</b>	<b>9,318</b>	<b>3,280</b>	<b>13,728</b>	<b>5,449</b>	<b>3,640</b>	<b>787</b>	<b>8,690</b>

Benefits granted (€ thousand)	Kai Beckmann				Belén Garijo			
	Member of the Executive Board				Member of the Executive Board			
	2019	2020	2020 (min.)	2020 (max.)	2019	2020	2020 (min.)	2020 (max.)
Fixed compensation	1,100	1,100	1,100	1,100	1,100	1,200	1,200	1,200
Additional benefits	30	21	21	21	49	66	66	66
<b>Total</b>	<b>1,130</b>	<b>1,121</b>	<b>1,121</b>	<b>1,121</b>	<b>1,149</b>	<b>1,266</b>	<b>1,266</b>	<b>1,266</b>
Profit sharing	2,400	2,640	0	3,120	3,000	3,299	0	3,900
Multi-year variable compensation								
LTI 2019 (2019 to 2021)	1,031				1,260			
LTI 2020 (2020 to 2022)		1,336	0	3,825		1,720	0	4,925
<b>Total</b>	<b>4,561</b>	<b>5,097</b>	<b>1,121</b>	<b>8,066</b>	<b>5,409</b>	<b>6,285</b>	<b>1,266</b>	<b>10,091</b>
Service cost	392	392	392	392	391	440	440	440
<b>Total compensation</b>	<b>4,953</b>	<b>5,489</b>	<b>1,513</b>	<b>8,458</b>	<b>5,800</b>	<b>6,725</b>	<b>1,706</b>	<b>10,531</b>

Marcus Kuhnert				
Member of the Executive Board				
Benefits granted (€ thousand)	2019	2020	2020 (min.)	2020 (max.)
Fixed compensation	942	1,000	1,000	1,000
Additional benefits	26	25	25	25
<b>Total</b>	<b>968</b>	<b>1,025</b>	<b>1,025</b>	<b>1,025</b>
Profit sharing	2,284	2,640	0	3,120
Multi-year variable compensation				
LTI 2019 (2019 to 2021)	890			
LTI 2020 (2020 to 2022)		1,153	0	3,300
<b>Total</b>	<b>4,142</b>	<b>4,818</b>	<b>1,025</b>	<b>7,445</b>
Service cost	414	409	409	409
<b>Total compensation</b>	<b>4,556</b>	<b>5,227</b>	<b>1,434</b>	<b>7,854</b>

### Allocation for the fiscal year

Allocation (€ thousand)	Stefan Oschmann		Udit Batra		Kai Beckmann	
	Chairman of the Executive Board		Member of the Executive Board (left on: July 13, 2020)		Member of the Executive Board	
	2019	2020	2019	2020	2019	2020
Fixed compensation	1,400	1,400	1,100	636	1,100	1,100
Additional benefits	721	269	7	4	30	21
<b>Total</b>	<b>2,121</b>	<b>1,669</b>	<b>1,107</b>	<b>640</b>	<b>1,130</b>	<b>1,121</b>
Profit sharing	4,810	4,069	2,800	1,364	2,400	2,640
Multi-year variable compensation						
LTI 2016 (2016 to 2018)	2,261		1,708		1,617	
LTI 2017 (2017 to 2019)		1,670		1,262		1,059
<b>Total</b>	<b>9,192</b>	<b>7,408</b>	<b>5,615</b>	<b>3,266</b>	<b>5,147</b>	<b>4,820</b>
Service cost	1,372	1,611	393	147	392	392
<b>Total compensation</b>	<b>10,564</b>	<b>9,019</b>	<b>6,008</b>	<b>3,413</b>	<b>5,539</b>	<b>5,212</b>

Allocation (€ thousand)	Belén Garijo		Marcus Kuhnert	
	Member of the Executive Board		Member of the Executive Board	
	2019	2020	2019	2020
Fixed compensation	1,100	1,200	942	1,000
Additional benefits	49	66	26	25
<b>Total</b>	<b>1,149</b>	<b>1,266</b>	<b>968</b>	<b>1,025</b>
Profit sharing	3,000	3,299	2,284	2,640
Multi-year variable compensation				
LTI 2016 (2016 to 2018)	1,922		1,492	
LTI 2017 (2017 to 2019)		1,385		977
<b>Total</b>	<b>6,071</b>	<b>5,950</b>	<b>4,744</b>	<b>4,642</b>
Service cost	391	440	414	409
<b>Total compensation</b>	<b>6,462</b>	<b>6,390</b>	<b>5,158</b>	<b>5,051</b>

## Compensation for the Supervisory Board members of Merck KGaA

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

€	Fixed compensation		Compensation for meeting attendance		Total compensation	
	2020	2019	2020	2019	2020	2019
Wolfgang Büchele (Chairman)	94,000.00	94,000.00	3,000.00	3,750.00	97,000.00	97,750.00
Michael Fletterich (Vice Chairman) (until April 26, 2020)	19,057.53	70,500.00	1,500.00	3,750.00	20,557.53	74,250.00
Sascha Held (Vice Chairman) (since April 26, 2019)	70,500.00	32,191.78	3,000.00	3,000.00	73,500.00	35,191.78
Crocifissa Attardo (until April 26, 2019)	-	14,936.99	-	750.00	-	15,686.99
Mechthild Auge (until April 26, 2019)	-	14,936.99	-	750.00	-	15,686.99
Gabriele Eismann	47,000.00	47,000.00	3,000.00	3,750.00	50,000.00	50,750.00
Edeltraud Glänzer	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Jürgen Glaser (since April 26, 2019)	47,000.00	32,191.78	3,000.00	3,000.00	50,000.00	35,191.78
Michaela Freifrau von Glenck (until April 26, 2019)	-	14,936.99	-	750.00	-	15,686.99
Siegfried Karjetta (until April 26, 2019)	-	14,936.99	-	750.00	-	15,686.99
Michael Kleinemeier (since April 26, 2019)	47,000.00	32,191.78	3,000.00	2,250.00	50,000.00	34,441.78
Renate Koehler (since April 26, 2019)	47,000.00	32,191.78	3,000.00	3,000.00	50,000.00	35,191.78
Anne Lange (since April 26, 2019)	47,000.00	32,191.78	3,000.00	2,250.00	50,000.00	34,441.78
Albrecht Merck (until April 26, 2019)	-	14,936.99	-	750.00	-	15,686.99
Peter Emanuel Merck (since April 26, 2019)	47,000.00	32,191.78	3,000.00	3,000.00	50,000.00	35,191.78
Dietmar Oeter	47,000.00	47,000.00	3,000.00	3,750.00	50,000.00	50,750.00
Alexander Putz (until April 26, 2019 and since May 28, 2020)	27,942.47	14,936.99	1,500.00	750.00	29,442.47	15,686.99
Christian Raabe (since April 26, 2019)	47,000.00	32,191.78	3,000.00	3,000.00	50,000.00	35,191.78
Helene von Roeder (since April 26, 2019)	47,000.00	32,191.78	3,000.00	3,000.00	50,000.00	35,191.78
Helga Rübsamen-Schaeff	47,000.00	47,000.00	3,000.00	3,000.00	50,000.00	50,000.00
Gregor Schulz (until April 26, 2019)	-	14,936.99	-	750.00	-	15,686.99
Theo Siegert (until April 26, 2019)	-	14,936.99	-	750.00	-	15,686.99
Daniel Thelen (since April 26, 2019)	47,000.00	32,191.78	3,000.00	3,000.00	50,000.00	35,191.78
Simon Thelen (since April 26, 2019)	47,000.00	32,191.78	3,000.00	3,000.00	50,000.00	35,191.78
Tobias Thelen (until April 26, 2019)	-	14,936.99	-	750.00	-	15,686.99
Veit Ulshöfer (until April 26, 2019)	-	14,936.99	-	750.00	-	15,686.99
<b>Total</b>	<b>822,500.00</b>	<b>823,787.70</b>	<b>48,000.00</b>	<b>57,000.00</b>	<b>870,500.00</b>	<b>880,787.70</b>

As a member of the corporate bodies of E. Merck KG, the Supervisory Board member Wolfgang Büchele received an additional payment of € 140,000 for performing this function in 2020 (2019: € 140,000).

As a member of the corporate bodies of E. Merck KG, the Supervisory Board member Helga Rübsamen-Schaeff received an additional payment of € 150,000 for performing this function in 2020 (2019: € 150,000).

As a member of the corporate bodies of E. Merck KG, the Supervisory Board member Michael Kleinemeier received an additional payment of € 140,000 for performing this function in 2020.

As a member of the corporate bodies of E. Merck KG, the Supervisory Board member Helene von Roeder received an additional payment of € 150,000 for performing this function in 2020.

As a member of the corporate bodies of E. Merck KG, the Supervisory Board member Peter Emanuel Merck received an additional payment of € 80,000 for performing this function in 2020 (2019: € 80,000).

As a member of the corporate bodies of E. Merck KG, the Supervisory Board member Daniel Thelen received an additional payment of € 140,000 for performing this function in 2020 (2019: € 130,246).

As a member of the corporate bodies of E. Merck KG, the Supervisory Board member Simon Thelen received an additional payment of € 140,000 for performing this function in 2020 (2019: € 137,151).

## Loans, advances or liabilities

The members of the Supervisory Board did not receive any loans or advances in the fiscal year 2020. Similarly, no liability was entered into in favor of the members of the Supervisory Board in the fiscal year 2020.

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

As of December 31, 2020, the members of the Executive Board and of the Supervisory Board held fewer 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

<https://www.merckgroup.com/en/investors/corporate-governance/directors-dealings.html>.

## Information on corporate governance practices

### Reporting

It is Merck KGaA's objective to provide the latest information to all shareholders, media, financial analysts, and interested members of the public, while creating the greatest possible transparency. For this reason, Merck uses a wide range of communication platforms to engage in a timely dialogue with all interested parties about the company's situation 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. In addition to a detailed financial calendar, quarterly statements and/or quarterly and half-year financial reports covering at least the past three years are available there in German and English. In line with the legal requirements, ad hoc announcements are also 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, and 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 generally webcast live on the Internet. The Annual General Meeting on May 28, 2020 was held virtually and hence was webcast live on the Internet in full.

### 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, the Executive Board issued internal insider guidelines applicable throughout the Merck Group worldwide, which were most recently updated in fiscal 2020. The guidelines inform employees about their responsibilities under insider trading laws and give clear instructions for compliant behavior. In addition, they describe the function of the Insider Committee in detail. Moreover, our Code of Conduct, which is binding on all employees, also contains an explicit, detailed reference to the ban on using insider information. Within the scope of obligatory training courses on the Code of Conduct

as well as specific training courses on insider law, all employees are instructed on the stipulations of insider trading.

### Accounting and audits of financial statements

Merck KGaA prepares its Consolidated Financial Statements and Combined Management Report in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union, as well as the supplementary German statutory provisions applicable under section 315e (1) of the German Commercial Code (HGB). The Consolidated Financial Statements and the Combined Management Report are prepared by the Executive Board and examined by an auditor, taking into account the German 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 2020. Moreover, the Supervisory Board agreed with KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, that the auditor shall inform the Supervisory Board without delay of any grounds for disqualification or bias occurring during the audit if these cannot be immediately rectified. Additionally, the auditor shall immediately report to the Supervisory Board any findings and issues that emerge during the audit that have a direct bearing upon the tasks of the Supervisory Board. The auditor shall inform the Supervisory Board or note in the audit report any circumstances determined during the audit that would render inaccurate the Declaration of Conformity made by the Executive Board and the Supervisory Board. It has also been agreed with the auditor that in order to assess whether the Executive Board has fulfilled its obligations in accordance with section 91 (2) of the German Stock Corporation Act (AktG), the audit will also cover the company's early warning risk identification system. Moreover, the auditor is required to examine and evaluate the accounting-relevant internal control system insofar as this is necessary and appropriate for assessing the accuracy of financial reporting.

Since 1995, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, has been the audit firm for the statutory audit of the Annual Financial Statements and Consolidated Financial Statements of Merck KGaA. The auditor responsible for auditing the Consolidated Financial Statements changes regularly. Dirk Janz is currently leading the audit engagement. Mr. Janz has been the auditor in charge of the engagement since fiscal 2020, replacing Mr. Rackwitz after the latter had performed this role for five years. The Supervisory Board had KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, provide a statement regarding the scope of the business, financial, personal, and other relationships between KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, its bodies and head auditors, and Merck KGaA, its Group companies and the members of their bodies (independence declaration). The statement also covers the scope of the services provided by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, in the previous fiscal year as well as the services (other than auditing services) that are contracted for the upcoming year (especially consultancy services) for Merck KGaA and its subsidiaries. Having examined the declaration, the Supervisory Board has found no grounds to doubt the independence of KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. Neither party identified any conflicts of interest. The Supervisory Board reviews the quality of the audit, including the performance of the auditor in charge of the engagement, annually on the basis of objective indicators.

Due to the requirement to change auditors at regular intervals, Merck KGaA must appoint a new auditor (different than the current one) no later than for fiscal 2024. In fiscal 2019, the Supervisory Board of Merck KGaA therefore decided to prepare a public request for tender for the audit of the annual financial statements and consolidated financial statements of Merck KGaA and to voluntarily change auditors for the fiscal 2023 audit, earlier than required. The public request for tender was published in the German Federal Gazette in February 2020.

## Further reports

The Combined Management Report of Merck KGaA and the Merck Group does not contain a non-financial declaration. Instead, we issue a separate combined non-financial (Group) report in accordance with sections 289b-289e and 315b-315c HGB. This is available effective April 13, 2021, as an online version on our website at <https://www.merckgroup.com/en/sustainability-report/2020/>. It is integrated into the 2020 Corporate Responsibility Report in accordance with DRS 20 subsection 252 (b). We have compiled an overview of the information contained in the combined non-financial (Group) declaration at [www.merckgroup.com/nfr20](http://www.merckgroup.com/nfr20).

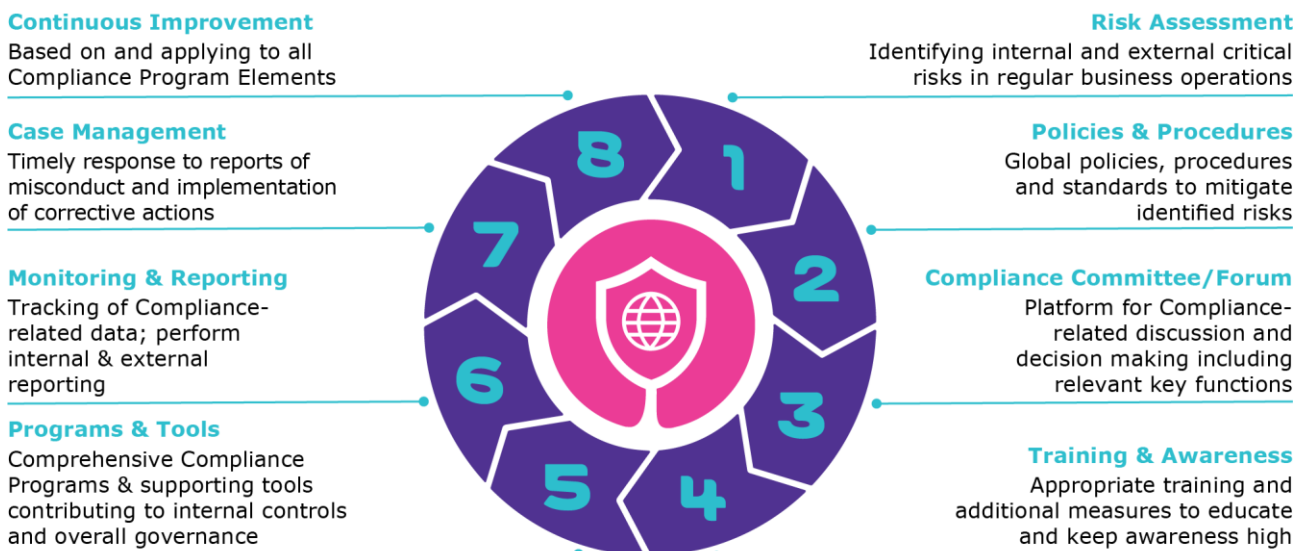
## Values and compliance

First and foremost, responsible entrepreneurship means acting in accordance with the law – also known as compliance. All our activities are required to adhere to the applicable laws, regulations, and international ethical standards around the world. Compliance violations would result not only in possible legal action but also could seriously compromise our reputation as an employer and business partner.

Our “Group Compliance & Data Protection” function is responsible for the core topics of anti-corruption, anti-money laundering, business partner due diligence, data protection and transparency requirements, as well as for compliance with healthcare regulations and dawn raids. Group-wide policies, procedures, and processes are in place for these important compliance topics in order to ensure that our business activities are consistent with the relevant laws, regulations, and international ethical standards.

Our compliance management system encompasses important core elements that make up our compliance portfolio:

### Elements of our compliance program



The underlying principle of our compliance management system is living our values together. The Compliance department adopts a specific brief in this respect.

A global framework for ethical and legally compliant business processes serves to minimize risk. We achieve this by identifying specific compliance risks and requirements. Suitable policies and controls are implemented in order to reduce risk. Our goals also focus on our employees: It is up to us. This serves to strengthen

employees' sense of responsibility and accountability. We achieve this by informing employees about the applicable compliance rules and ethical standards and by giving them the responsibility for complying with these requirements. As compliance is the second line of defense against risks, it is important that we consistently safeguard what really matters. This is why we regularly implement key figures that allow us to assess risks and the effectiveness of controls. Compliance not only contributes to company growth but also creates targeted value added by allowing us to advise the business sectors and help them to navigate the respective compliance requirements. The advice we provide takes account of changes in business requirements and is adapted accordingly.

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, our Code of Conduct ([www.merckgroup.com/company/responsibility/en/regulations-and-guidelines/code-of-conduct.pdf](http://www.merckgroup.com/company/responsibility/en/regulations-and-guidelines/code-of-conduct.pdf)) helps those involved in the business to implement the values when dealing with one another on a daily basis.

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

The Code of Conduct explains the company principles for dealings with business associates, shareholders, colleagues, and employees, and within the scope of our responsibility for society. Therefore, it supports all employees in acting ethically – not only in their dealings with one another but also outside the company. Accordingly, the Code of Conduct is also the main set of rules for our Compliance Program. Merck has aligned the content of its Code of Conduct with the Merck values and integrated important topics such as data privacy, healthcare compliance, and bioethics. To Merck, compliance means observing legal and internal regulations and the basic ethical principles anchored in the company's 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 applies to all employees, both at headquarters and in the subsidiaries. We also expect our business associates worldwide to accept these principles or to have their own comparable principles. While supplier management ensures compliant behavior of suppliers, global business partner risk management encompasses the relations with sales-related business associates such as distributors and wholesalers.

The Compliance department monitors observance of the Code of Conduct with support from corresponding monitoring and training programs throughout the Group. All employees are called upon to report potential compliance violations to their supervisor, Legal, HR, or other relevant departments. In cooperation with Group Internal Auditing, the Compliance Office regularly reviews the implementation of Group-wide compliance measures at the subsidiaries. The audits regularly focus on the local compliance structure, the compliance measures taken, and the existence of corresponding compliance guidelines and processes.

The Group Compliance Officer is responsible for the establishment, maintenance, and further development of our global Compliance Program. Among other things, the Group Compliance Officer and his team, consisting of a center of excellence and sector compliance officers, take appropriate measures to help lower the risk of serious violations of antitrust law, anti-corruption rules, and legal regulations and requirements of industry codes in the healthcare sector and support the business sectors with specific compliance input. Responsibility for money laundering prevention was added in 2018, with Compliance coordinating the necessary organizational measures, including training.

A further focus 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 on extensive measures with the affected areas of the company in order to establish an internal framework of rules as well as the corresponding processes for approving and documenting interactions with experts that ensure correct publication. We, of course, also ensure compliance with the respectively valid data protection regulations.

The role of the Group Compliance Officer is reflected in the subsidiaries, which ensure via country representatives that compliance measures are implemented in the countries. Since 2013, Compliance tasks in

the countries and on a regional basis have largely been performed by full-time compliance officers. As a result, a higher level of compliance expertise is based locally, and the increasing tasks in all business sectors are taken into account. At the same time, the management structure was streamlined and the reporting lines for the countries were consolidated regionally/globally. Since the end of 2016, the compliance officers in the countries have been reporting to the dedicated compliance officers for the respective business sectors (Healthcare, Life Science, and Performance Materials). A separate responsibility was also created for Group functions. Regular regional and global compliance meetings are held to promote the exchange of information within the Compliance organization. This is supplemented by a global concept for local compliance forums and global compliance committees, at which compliance-related topics including the compliance priorities in the respective countries or at a global level are discussed with senior management. These constitute an important element of risk assessment and quality assurance.

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

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

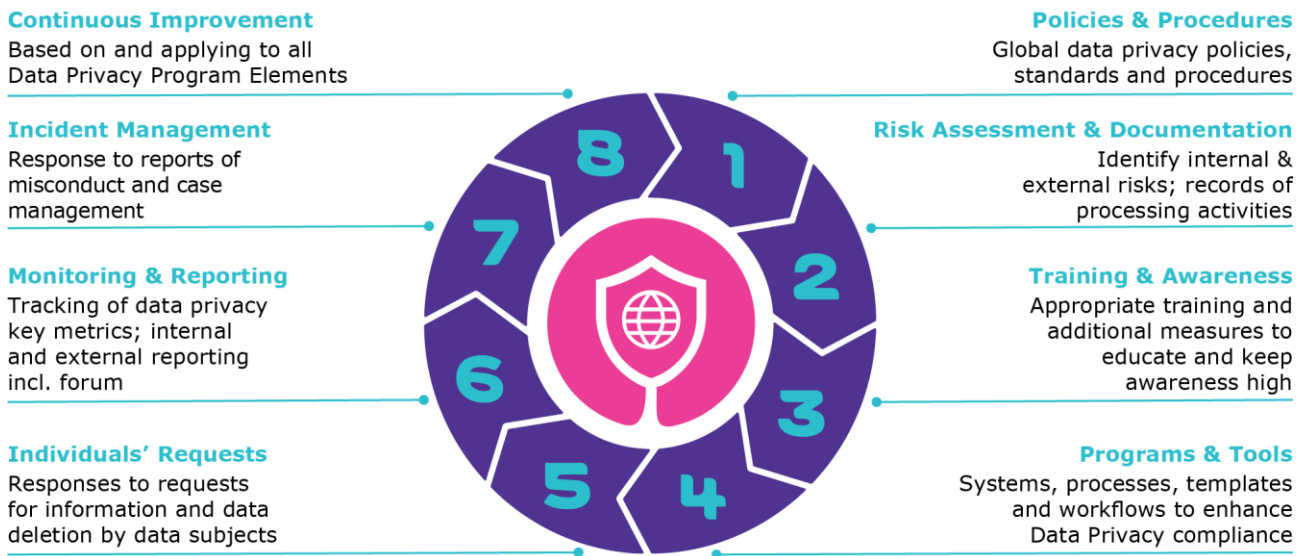
The Executive Board informs the supervisory bodies at least once a year about the key compliance issues.

## Data protection

Group data protection at Merck is integrated into the Group's Compliance organization. As required by law, this department operates independently. The department regularly prepares data protection updates and produces a comprehensive data protection report at regular intervals as part of our broader compliance reporting efforts. In addition to the Group's central Data Protection Officer, many sites worldwide also have local data protection officers.

Our data protection department encompasses various elements that make up our data protection program portfolio:

#### Elements of our data protection program



Specific guidelines have been put in place to ensure that data protection processes comply with the relevant regulations. The "Policy for Data Protection and Personal Data Privacy" defines the standards according to which data is processed, stored, used, and transmitted at Merck. This enables us to provide a high level of protection for the data of our employees, contract partners, customers, and suppliers as well as the data of patients and participants in clinical trials. A central IT tool has also been established in order to comply with the statutory documentation requirements. The tool serves as the basis for key data protection processes. In addition to documenting processing activities, these include processing reports from the local data protection officers, documenting video recordings, and reporting potential data protection violations. Our understanding of data protection throughout the Group is based on European legislation in particular, including the provisions of the EU's General Data Protection Regulation (EU GDPR), which has been in force since May 2018. However, we also comply with and implement local data protection regulations.

#### 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.

#### Avoidance of conflicts of interest

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

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

In its report to the General Meeting, the Supervisory Board discloses any conflicts of interest involving its members and how they were dealt with. Consultancy agreements as well as other service and work contracts of a Supervisory Board member with Merck require the approval of the Supervisory Board. In fiscal 2020, 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, environmental protection is based on closed-loop thinking and the integration of precautionary measures into our process, procedural, and product development planning. The principles and strategies set out in our Environment, Health and Safety Policy implement the guidelines formulated by the national and international associations of the chemical industry in the Responsible Care guidelines. The Responsible Care Global Charter, developed by the International Council of Chemical Associations (ICCA) in 2014, places even greater emphasis on overall responsibility for products, supply chains, and the community. Merck signed this expanded version of Responsible Care Global Charter for the entire Group in the same year. It is currently being implemented by Merck at an international level. We report our ecological, economic and social performance transparently in accordance with the internationally recognized principles of the Global Reporting Initiative (GRI), taking into account the requirements of the German Sustainability Code and the principles of the UN Global Compact. We are in the process of achieving the first major step toward climate protection, which is to achieve a 20% reduction in our greenhouse gas emissions by 2020 measured against the 2006 baseline. Among other things, Merck has also set itself the goal of climate-neutral business operations along the entire value chain by 2040 in terms of Scope 1 and Scope 2 as well as our Scope 3 emissions.

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

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

### Members of the Executive Board of Merck KGaA

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

Member	Memberships of (a) statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
<b>Stefan Oschmann</b> Munich, Chairman	(a) – Springer Nature AG & Co. KGaA (not listed)
<b>Belén Garijo</b> Frankfurt am Main, Vice Chair	(b) – Banco Bilbao Vizcaya Argentaria S.A., Bilbao, Spain (listed) – L'Oréal S.A., Clichy, France (listed)
<b>Udit Batra (until July 31, 2020)</b> Wellesley, Massachusetts, USA, CEO Life Science	No board positions
<b>Kai Beckmann</b> Darmstadt, CEO Performance Materials	(a) – Bundesdruckerei GmbH, Berlin (not listed)
<b>Marcus Kuhnert</b> Königstein, Chief Financial Officer	No board positions
<b>Peter Guenter</b> Frankfurt am Main, CEO Healthcare	(b) – Galapagos N.V., Mecheln, Belgium (listed)

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 with the approval 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 or her respective business area. Among other things, 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 observed, 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 approval by the Executive Board.

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

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

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

## Supervisory Board

The Supervisory Board has 16 members. The Supervisory Board was composed as follows in fiscal 2020:

Member	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations	Member of the Supervisory Board since
<b>Wolfgang Büchele (Chairman of the Supervisory Board)</b> Römerberg, Chairman of Exyte GmbH, Stuttgart	(a) – Gelita AG, Eberbach (Chairman) (not listed) (b) – E. Merck KG, Darmstadt <sup>1</sup> (not listed) – Wegmann Unternehmens-Holding GmbH & Co. KG, Fürstenfeldbruck (Chairman) (not listed) – Kemira Oyj, Helsinki, Finland (not listed) – KNDS NV, Amsterdam, Netherlands (not listed)	01.07.2009
<b>Michael Fletterich (until May 28, 2020)</b> Gernsheim, Chairman of the Merck Joint Works Council	No board positions	01.07.1998
<b>Gabriele Eismann</b> Seeheim-Jugenheim, Senior Product Manager (currently full-time member of the Merck Joint Works Council)	No board positions	09.05.2014
<b>Jürgen Glaser</b> Bingen, Regional Director of the German Mining, Chemical, and Energy Industrial Union (IG BCE), Darmstadt	(a) – SIRONA Dental Systems GmbH, Wals, Austria (not listed) – HFC Prestige Service Germany GmbH (Vice Chairman) (listed) (b) – Merck BKK (not listed)	26.04.2019
<b>Edeltraud Glänzer</b> Hanover, Chair of August-Schmidt-Stiftung, Bochum	(a) – B. Braun Melsungen AG, Melsungen (not listed)	28.03.2008
<b>Sascha Held (Vice Chairman of the Supervisory Board)</b> Riedstadt, Application Consultant (currently full-time member of the Merck Joint Works Council)	No board positions	26.04.2019
<b>Michael Kleinemeier</b> Heidelberg, Managing Director of e-mobiligence GmbH, Heidelberg	(b) – E. Merck KG, Darmstadt <sup>1</sup> (not listed) – Transporeon GmbH, Ulm (not listed)	26.04.2019
<b>Renate Koehler</b> Darmstadt, pharmacist and Manager of Engel-Apotheke pharmacy, Darmstadt	No board positions	26.04.2019
<b>Anne Lange</b> Riedstadt, Application Engineer (currently full-time member of the Merck Joint Works Council)	No board positions	26.04.2019
<b>Peter Emanuel Merck<sup>2</sup></b> Hamburg, Managing Partner of Golf-Lounge GmbH, Hamburg	No board positions	26.04.2019
<b>Dietmar Oeter</b> Seeheim-Jugenheim, Vice President Corporate Quality Assurance	No board positions	09.05.2014
<b>Alexander Putz</b> Michelstadt, Laboratory Chemist (currently full-time member of the Merck Joint Works Council)	No board positions	28.05.2020
<b>Christian Raabe</b> Höchst, IT Business Partner Darmstadt Site	No board positions	26.04.2019
<b>Helene von Roeder</b> Frankfurt am Main, Member of the Executive Board (CFO) of Vonovia SE, Bochum	(b) – E. Merck KG, Darmstadt <sup>1</sup> (not listed) – Vonovia Finance B.V., Amsterdam, Netherlands (listed) – AVW Versicherungsmakler GmbH, Hamburg (not listed)	26.04.2019
<b>Helga Rübsamen-Schaeff</b> Langenburg, Chair of the Advisory Board of AiCuris Antiinfective Cures GmbH, Wuppertal	(a) – 4SC AG, Martinsried (listed) – Merck Healthcare KGaA <sup>1</sup> (Chair) (not listed) (b) – E. Merck KG, Darmstadt <sup>1</sup> (not listed)	09.05.2014
<b>Daniel Thelen</b> Cologne, Head of Infrastructure Development for western region at DB Netz AG, Frankfurt am Main/Duisburg	(b) – E. Merck KG, Darmstadt <sup>1</sup> (not listed)	26.04.2019
<b>Simon Thelen<sup>2</sup></b> Cologne, Senior Physician at the Clinic for Trauma and Hand Surgery, University Hospital Düsseldorf	(a) – Merck Healthcare KGaA <sup>1</sup> (not listed) (b) – E. Merck KG, Darmstadt <sup>1</sup> (not listed)	26.04.2019

<sup>1</sup> Internal board position.

<sup>2</sup> Members delegated according to article 6 (5) of the Articles of Association.

The Supervisory Board performs a monitoring function. It supervises the Executive Board's management of the company. 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 responsible for the management of the company. In particular, the Supervisory Board is not responsible for appointing and dismissing general partners or for regulating the terms and conditions of their contracts. This is the responsibility of E. Merck KG. Nor does the Supervisory Board have the authority to issue rules of procedure for the Executive Board or a catalog of business transactions requiring approval. This authority likewise belongs to E. Merck KG (article 13 (3) sentence 1 and (4) sentence 1 of the Articles of Association).

However, the fact that the Supervisory Board has no possibilities to directly influence the Executive Board restricts neither its information rights nor its 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 in accordance with section 111 (1) AktG.

The Supervisory Board examines the Annual Financial Statements as well as the consolidated financial statements and the Combined Management Report, taking into account in each case the reports of the auditor. Moreover, the Supervisory Board discusses the quarterly statements 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 chairpersons of the two boards.

The Supervisory Board has adopted rules of procedure for its activities that are available on the company's website at [www.merckgroup.com/company/who-we-are/management-and-company-structure/supervisory-board/EN/Rules-of-Procedure-Supervisory-Board-EN.pdf](http://www.merckgroup.com/company/who-we-are/management-and-company-structure/supervisory-board/EN/Rules-of-Procedure-Supervisory-Board-EN.pdf).

The rules of procedure prescribe that the Supervisory Board may form committees. The Supervisory Board has formed a Nomination Committee comprising three shareholder representatives. Its members are Wolfgang Büchele, Helga Rübsamen-Schaeff, and Simon Thelen. The Nomination Committee is responsible for proposing to the Supervisory Board suitable candidates for its proposal to the Annual General Meeting. Apart from legal requirements and the recommendations of the German Corporate Governance Code, the "Objectives of the Supervisory Board with respect to its composition," "Profile of skills and expertise," and the "Diversity Policy" are to be taken into consideration as well. Owing to the aforementioned limited authority, and since a corresponding need has not yet arisen, the Supervisory Board in fiscal 2020 had no further committees. In the coming fiscal year, the Supervisory Board will address the formation of an Audit Committee at the Supervisory Board level.

The German Stock Corporation Act prescribes that the Supervisory Board of a publicly listed company must have at least one member who has professional expertise in accounting or auditing. Helene von Roeder has particular knowledge and experience of the application of reporting principles and internal controls, is familiar with auditing, and is also the Chair of the Finance Committee of the Board of Partners of E. Merck KG. A further provision of the German Stock Corporation Act requires that the members of the Supervisory Board be collectively familiar with the sector in which their company operates. This requirement is specifically addressed

in the Supervisory Board's profile of skills and expertise, which stipulates that the Supervisory Board have at least four members who possess such knowledge of the sector. We currently meet this requirement (see also "Objectives of the Supervisory Board with respect to Its Composition and Profile of Skills and Expertise").

Information on the independence of the shareholder representatives can be found under "Objectives of the Supervisory Board with respect to Its Composition and Profile of Skills and Expertise".

The Supervisory Board carried out a self-assessment in fiscal 2020. The self-assessment of the Supervisory Board took the form of an internal efficiency review based on an extensive questionnaire and resulted in a positive opinion on all topics. Potential improvements to further optimize the work of the committees in individual areas were disclosed and corresponding measures initiated. The next self-assessment of the Supervisory Board is scheduled for 2022.

### Board of Partners of E. Merck KG

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

The Board of Partners has nine members. The Board of Partners was composed as follows in fiscal 2020:

Member	Memberships of (a) 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, Vice Chairman	(a) – Fortas GmbH, Rösrath (Chairman) (not listed) – Merck Healthcare KGaA (not listed) (b) – Travel Asset Group Ltd., London, United Kingdom (Chairman) (not listed)
<b>Wolfgang Büchele</b> Munich, Chairman of Exyte GmbH, Stuttgart	(a) – Merck KGaA, Darmstadt (listed) – Gelita AG, Eberbach (Vice Chairman) (not listed) (b) – Wegmann Unternehmens-Holding GmbH & Co. KG, Fürstenfeldbruck (Chairman) (not listed) – Kemira Oyj, Helsinki, Finland (not listed) – KNDS NV, Amsterdam, Netherlands (not listed)
<b>Helga RübSamen--Schaeff</b> Langenburg, Chair of the Advisory Board of AiCuris Antiinfective Cures GmbH, Wuppertal	(a) – Merck KGaA, Darmstadt (listed) – Merck Healthcare KGaA (Chair) (not listed) – 4SC AG, Martinsried (listed)
<b>Michael Kleinemeier</b> Heidelberg, Managing Director of e-mobiligence GmbH, Heidelberg	(a) – Merck KGaA, Darmstadt (listed) (b) – Transporeon GmbH, Ulm (not listed)
<b>Katharina Kraft</b> Mannheim, Senior Strategy Manager at BASF SE, Ludwigshafen	No board positions
<b>Helene von Roeder</b> Frankfurt am Main, Member of the Executive Board of Vonovia SE, Bochum	(a) – Merck KGaA, Darmstadt (listed) (b) – Vonovia Finance B.V., Amsterdam, Netherlands (listed) – AVV Versicherungsmakler GmbH, Hamburg (not listed)
<b>Daniel Thelen</b> Cologne, Head of Infrastructure Development for Western Region at DB Netz AG, Frankfurt am Main	(a) – Merck KGaA, Darmstadt (listed)
<b>Simon Thelen</b> Cologne, Senior Physician at the Clinic for Trauma and Hand Surgery, University Hospital Düsseldorf	(a) – Merck KGaA, Darmstadt (listed) – Merck Healthcare KGaA (not listed)

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

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

### Personnel Committee

The Personnel Committee has four members: Johannes Baillou (Chair), Wolfgang Büchele, Michael Kleinemeier, and Frank Stangenberg-Haverkamp. The Personnel Committee meets at least twice a year. Additional meetings are convened as and when necessary. Meetings of the Personnel Committee are attended by the Chairman of the Executive Board of Merck KGaA unless the Committee decides otherwise. The Personnel Committee is responsible for, among other things, the following decisions concerning members and former members of the Executive Board: contents of and entry into employment contracts and pension contracts; granting of loans and advance payments; changes to the compensation structure and adaptation of compensation; approval for taking on honorary offices, board positions, and other sideline activities; and division of responsibilities within the Executive Board of Merck KGaA. The Personnel Committee passes its resolutions by a simple majority; in matters concerning the Chairman of the Executive Board, unanimity is required. The Chairman of the Committee regularly informs the Board of Partners of its activities.

### Finance Committee

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

## Research and Development Committee

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

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

### Stipulations pursuant to section 76 (4) AktG (target for the percentage of positions held by women on the two upper management levels below the Executive Board)

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

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

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

<sup>1</sup> The group in question accounts for around 6% of the total workforce; see the description of "Diversity and management".

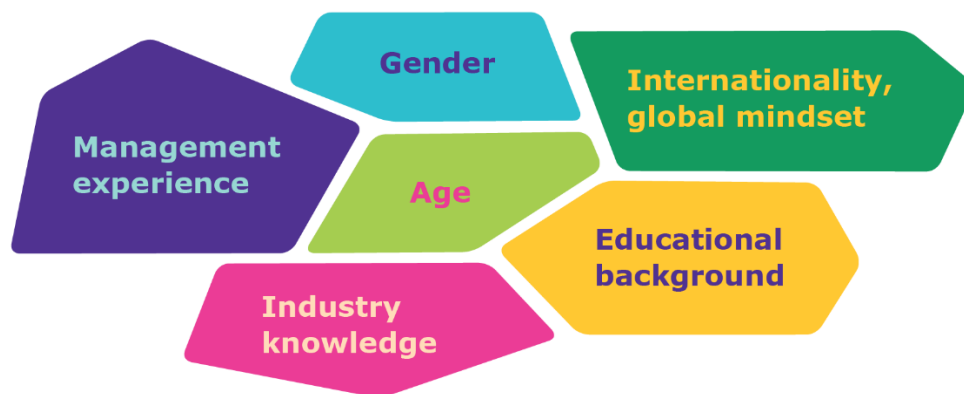
### Stipulations pursuant to section 111 (5) AktG (target for the percentage of positions on the Supervisory Board held by women)

Pursuant to section 111 (5) AktG, the Supervisory Board of companies that are listed or subject to co-determination stipulates binding targets for the percentage of positions on the Supervisory Board and on the Management Board held by women. However, for Merck KGaA, stipulations pursuant to section 111 (5) AktG need not be set for the following reasons: The statutory target of 30% pursuant to section 96 (2) AktG is already applied to the Supervisory Board of Merck KGaA; this eliminates the obligation to stipulate a further target for the percentage of positions held by women on the Supervisory Board (see section 111 [5] sentence 5 AktG). The obligation to stipulate a target for the percentage of positions held by women on the Management Board pursuant to section 111 (5) AktG is not applicable to the legal form of a corporation with general partners (Kommanditgesellschaft auf Aktien), as a corporation with general partners neither has a management board comparable to that of a stock corporation, nor does the Supervisory Board have personnel authority over the Executive Board. Instead, the Executive Board of Merck KGaA consists of personally liable general partners (see also the description of Supervisory Board procedures).

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

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

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



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

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

### Age

Our boards are to have a balanced age structure. This permits future-oriented and consistent succession planning and is a key element of sustainable company management and monitoring. Our diversity policy aims for an age range of at least 10 years between the youngest and the oldest member of the respective board.

In their current composition, both boards meet this objective. The age range of the Executive Board is 11 years, while the age range of the Supervisory Board is over 30 years. In addition, maximum age limits apply to both boards. A maximum age of 70 applies to members of the Executive Board, while the standard age limit for Supervisory Board members is 75.

## Gender

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

Additionally, Merck continues to pursue representation of both genders as an objective for the Executive Board. The Board of Partners of E. Merck KG has appointed Belén Garijo, currently the Vice Chair of the Executive Board and Vice CEO of Merck and former CEO of Healthcare, as the new Chair of the Executive Board and CEO of Merck effective May 1, 2021, making it the first time a woman has been appointed to these positions. The statutory target of 30% pursuant to section 96 (2) AktG already applies to the Supervisory Board of Merck KGaA and is currently met.

<sup>1</sup> Merck also has employees at sites that are not fully consolidated subsidiaries. These figures refer to all people directly employed by Merck and therefore may deviate from figures in the financial section of this report.

## Internationality and global mindset

As a science and technology company with global operations and major markets on five continents with around 58,000 employees at locations in 66<sup>1</sup> countries, internationality and the associated global mindset is one of our key success factors. According to our diversity policy, the Executive Board’s internationality derives from leadership experience or national origin, relative to our key sales markets or those locations that are organizationally and culturally relevant to our employee development efforts. For both criteria, Europe, North America, and Asia-Pacific are currently the key regions. The Executive Board meets this objective with management experience in the named regions, e.g. in the following countries: France, Spain, the United States, Singapore, and Malaysia. In addition, more than one-third of the Executive Board members are not German citizens.

<sup>1</sup> Each country with at least one active employee is included as a separate country.

## Management experience

The key prerequisites for high-performance leadership teams are both the diversity of the individual competency profiles and a balance between a Group-internal and external management perspective. Therefore, as a whole the Executive Board must have in-depth knowledge and experience in the following key areas of importance to the company: strategy and planning, finance and accounting, sales and operations, human resources, and legal and compliance, as well as information technology. In addition, for the composition of the Executive Board it is important to ensure a good balance of members from within and outside the company. Our diversity policy seeks to derive inspiration and innovation from outside the company and to identify the latest trends of relevance to the core businesses of the company, while ensuring sustainability and continuity in line with our corporate culture. We have therefore set ourselves the global objective of filling two-thirds of our leadership positions with candidates from within the company.

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

## Industry experience

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

The Executive Board will have the full breadth of the sector-specific experience required when Matthias Heinzl joins the Executive Board by April 1, 2021. Christos Ross currently reports to the Chairman of the Executive Board as the interim head of Life Science.

## Educational background

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

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

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

Seven Supervisory Board members are university graduates and hold doctorates.

# Report of the Supervisory Board

The Supervisory Board again properly executed its duties in 2020 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 2020, 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 current and potential impact of the Covid-19 pandemic, the market and sales situation of the company against the background of macroeconomic development, and the financial position of the company and its subsidiaries, along with their earnings development and corporate planning. Within the scope of quarterly reporting, the sales and operating results were presented for the Merck Group as a whole, and broken down by business sector. Aside from the Supervisory Board meetings, the Chairman of the Supervisory Board also maintained, and continues to maintain, a regular exchange of information with the Chairman of the Executive Board.

## Key topics of the Supervisory Board meetings

Four Supervisory Board meetings were held in fiscal 2020. At these meetings, the Supervisory Board intensely discussed the reports of the Executive Board as well as, together with the Executive Board, company developments and strategic issues.

At the meeting held on February 28, 2020, the Executive Board first intensively addressed the Annual Financial Statements and Consolidated Financial Statements for 2019, the Combined Management Report, the audit report of the auditor on the separate non-financial (Group) report for fiscal 2019, and the proposal for the appropriation of the net retained profit. The auditor explained the audit reports including the focus areas of the audit. The Executive Board and the Head of Accounting reported on the financial statements and discussed the impact of the acquisition of Versum Materials in particular. Furthermore, the Supervisory Board resolved upon the report and the objectives of the Supervisory Board with respect to its composition and the profile of skills and expertise, the Declaration of Conformity with the German Corporate Governance Code, and the Statement on Corporate Governance, which simultaneously includes the joint report on Corporate Governance of the Executive Board and Supervisory Board. The Supervisory Board also approved the proposals to be made to the Annual General Meeting. The Executive Board reported on business performance in 2019 and presented the plans for fiscal 2020 as well as the forecast impact of the Covid-19 pandemic on Merck's global business, which it discussed in detail with the Supervisory Board. The Supervisory Board also took note of the written risk report as well as the report from Group Internal Auditing for 2019. In addition, the Supervisory Board discussed the mandatory change of auditor.

The meeting held on May 13, 2020, again focused on the Covid-19 pandemic. In particular, the Executive Board reported on the global pandemic situation, Merck's crisis strategy (safety and business continuity) and the impact in terms of the financial forecast, which also required the preparation of supplementary reports on the Annual Financial Statements and Consolidated Financial Statements for fiscal 2019 and the Combined Management Report. After intensively addressing the current and potential impact of the Covid-19 pandemic and the supplementary reports, the Supervisory Board approved the supplementary reports and drew up the proposed resolution to be made to the Annual General Meeting recommending the adoption of the Annual Financial Statements (including the supplementary report). The Executive Board also discussed the current business development in the first quarter of 2020 and provided an outlook concerning the expected business development in 2020 as a whole. The report of the Research and Development Committee of the Board of Partners of E. Merck KG for Life Science/Performance Materials was a further focus of the meeting. The

Supervisory Board also discussed the Compliance and Data Protection Report for 2019. Another special topic discussed was the organization of the Annual General Meeting on May 28, 2020, in virtual form. Finally, the Supervisory Board dealt with the pre-selection of potential auditors in connection with the mandatory change of auditor.

At the meeting on July 30, 2020, the Executive Board provided an overview of the continued development of the Covid-19 pandemic and Merck's strategies, concepts, projects, and partnerships for dealing with the pandemic, which it discussed with the members of the Supervisory Board. The Supervisory Board elected Sascha Held as Vice Chairman of the Supervisory Board after Michael Fletterich stepped down as a member of the Supervisory Board and Vice Chairman during the Annual General Meeting on May 28, 2020. At the meeting, the Supervisory Board also focused intensively on the report of the Executive Board on business performance in the second quarter of 2020. In addition, the auditors reported on the results of their review of the half-yearly 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 2020. No risks that could threaten the continued existence of the company were identified. Moreover, the list of permitted non-audit services was updated, and an external audit of the non-financial declaration was resolved upon. In addition, a formal amendment to the Articles of Association of Merck KGaA was resolved to reflect the departure of the former Executive Board member Udit Batra. The Head of Legal informed the Supervisory Board about new legal provisions concerning transactions with related parties and recapitulated the organization of the virtual Annual General Meeting.

At its fourth meeting on November 11, 2020, the Supervisory Board started by discussing the current development of the Covid-19 pandemic and the report of the Executive Board on the third quarter of 2020. Additional topics focused on by the meeting were the 2020 status reports of Group Internal Auditing, status reports on compliance and data protection, and the report of the Research and Development Committee for Healthcare. Merck KGaA's transactions with related parties within the meaning of section 111a et seq. of the German Stock Corporation Act (AktG) were also presented and discussed by the Supervisory Board. A procedure was established to regularly assess whether the conditions of section 111a (2) sentence 1 AktG have been met for such transactions. There were no transactions requiring the approval of the Supervisory Board in accordance with section 111b (1) AktG. Furthermore, the Group Executive Conference and the status of the mandatory change of auditor were discussed. A resolution on preparing for the mandatory change of auditor for Merck KGaA for the fiscal 2023 audit was adopted. In addition, a transformation project in the Healthcare business sector was discussed. Finally, the results of the self-assessment of the Supervisory Board were presented by the Head of Legal and discussed by the Supervisory Board.

In parts of its meetings, the Supervisory Board regularly meets without the members of the Executive Board being present.

## 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 and for 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 profit of E. Merck KG in accordance with article 27 (2) of the Articles of Association, as well as the separate combined non-financial (Group) report. The annual financial statements of Merck KGaA, the Consolidated Financial Statements of the Merck Group, the Combined Management Report for Merck KGaA and the Merck Group, the proposal of the Executive Board for the appropriation of net retained profit, and the separate combined non-financial (Group) report were submitted to the Supervisory Board together with the auditor's report.

In accordance with article 14 (2) of the Articles of Association, the Supervisory Board also examined the Annual Financial Statements of Merck KGaA, the proposal for the appropriation of net retained profit, and the auditor's report presented in accordance with article 27 (2) of the Articles of Association. It also examined the Consolidated Financial Statements of the Merck Group as well as the Combined Management Report for Merck KGaA and the Merck Group, and took note of the auditor's report of KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. It focused particularly on the key audit matters of particular importance in the audit opinion, on the resulting risks for the financial statements, the approach adopted during the audit as described, and the conclusions drawn by the auditor. Furthermore, the Supervisory Board also examined the separate combined non-financial (Group) report and the memorandum on a limited assurance engagement prepared by the auditor on behalf of the Supervisory Board. The discussion of the relevant agenda item at the Supervisory Board's meeting on February 26, 2021, to approve the financial statements was also attended by the auditors who sign the audit opinion on the Annual Financial Statements of Merck KGaA and the Consolidated Financial Statements of the Merck Group as well as the separate combined non-financial (Group) report. The auditors also reported on their audit at this meeting. The Supervisory Board took note of and approved the results of the audit. On completion of its examination, the Supervisory Board raised no objections and thus approved the Annual Financial Statements for Merck KGaA, the Consolidated Financial Statements of the Merck Group, the Combined Management Report of Merck KGaA and the Merck Group prepared by the Executive Board, the report presented by the auditor in accordance with article 27 (2) of the Articles of Association, and the separate non-financial (Group) report. The Supervisory Board gave its consent to the proposal of the Executive Board for the appropriation of net retained profit after conducting its own review.

## Corporate governance and Declaration of Conformity

Corporate governance is a topic of high priority for the Supervisory Board. In its own estimation, the Supervisory Board has an adequate number of independent members. There were no conflicts of interest, as defined by the German Corporate Governance Code, involving Supervisory Board members during the year under review. In fiscal 2020, the Chairman of the Supervisory Board was prepared to hold talks with investors on topics pertaining to the Supervisory Board as appropriate, and remains willing to do so. In fiscal 2020, the Chairman of the Supervisory Board conducted an investor discussion with the shareholders' association Deutsche Schutzvereinigung für Wertpapierbesitz (DWS) on the nomination of new candidates for the Supervisory Board. No other discussions were requested by investors. Following the most recent self-assessment in fiscal 2020, the next self-assessment of the Supervisory Board is scheduled to take place in fiscal 2022.

After discussing corporate governance issues in detail, the Executive Board (on February 16, 2021) and the Supervisory Board (on February 26, 2021) adopted the updated Declaration of Conformity and issued it jointly on February 26, 2021, in accordance with section 161 AktG. The statement is permanently available on the website of Merck KGaA ([www.merckgroup.com/en/investors/corporate-governance/reports.html](http://www.merckgroup.com/en/investors/corporate-governance/reports.html)). More information about corporate governance at Merck KGaA, including the compensation of the Executive Board and Supervisory Board, is given in the Statement on Corporate Governance 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. In the coming fiscal year, the Supervisory Board will address the formation of an Audit Committee at Supervisory Board level. The members of the Nomination Committee did not convene in fiscal 2020. No report is required on the work of other committees.

## Personnel matters

All the Supervisory Board meetings were attended by all Supervisory Board members. The composition of the Supervisory Board changed as follows in 2020: Michael Fletterich stepped down as a member of the Supervisory Board during the Annual General Meeting on May 28, 2020, and was replaced by Alexander Putz as a substitute employee representative. Mr. Putz was inducted by Merck KGaA with onboarding activities and continuing education on topics such as corporate governance, the internal organization, and applicable regulations and legal requirements. The members of the Supervisory Board are responsible for undertaking the training and continuing education required for their tasks, such as on changes in the legal framework, with regular support from the company.

Darmstadt, February 26, 2021

The Supervisory Board of Merck KGaA

Wolfgang Büchele

Chairman

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

## Initial situation

According to recommendation C. I of the German Corporate Governance Code in the version dated December 16, 2019, the Supervisory Board shall specify concrete objectives regarding its composition as well as prepare a profile of skills and expertise for the entire board. In its composition the Supervisory Board shall take into account the number of independent members, consider the principle of diversity, specify an age limit, and disclose the term of Supervisory Board membership.

## General notes on the composition of the Supervisory Board

The Supervisory Board of Merck KGaA currently comprises 16 members, eight of whom represent the shareholders and a further eight who represent the employees. The eight employee representative members are elected by employee delegates pursuant to the provisions of the German Co-determination 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. Two of the eight shareholder representatives are specified by a delegation right of E. Merck Beteiligungen KG. The Supervisory Board likewise has no statutory proposal right with respect to exercising this delegation right. The other six shareholder representatives are elected by the General Meeting. In accordance with section 124 (3) sentence 1 AktG, the Supervisory Board shall propose to the General Meeting Supervisory Board members for election. These proposals require a majority of the votes of the shareholder representative members of the Supervisory Board. The next scheduled election to the Supervisory Board shall take place at the 2024 Annual General Meeting. The General Meeting is not required to follow the election proposals. The appointment objectives and competency requirements that the Supervisory Board sets forth below therefore do not represent requirements to be met by those eligible to elect or to delegate members. Instead, they are intended to express the objectives pursued by the Supervisory Board in office with regard to its advisory and monitoring functions.

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

## Objectives of the Supervisory Board with respect to its composition

According to recommendation C. I of the German Corporate Governance Code in the version dated December 16, 2019, the Supervisory Board specified the following objectives regarding its composition, and reports below on their status of implementation.

### 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, America, and Asia-Pacific. The present composition of the Supervisory Board satisfies this objective. More than three Supervisory Board members have entrepreneurial experience in a wide range of European countries. More than three Supervisory Board members have experience in management positions in companies that operate globally.

### Women on the Supervisory Board

Six women are currently members of the Supervisory Board of Merck KGaA. Accordingly, women make up 37.5% of the Supervisory Board. When nominating candidates for election to the Supervisory Board or making proposals for delegations, the Supervisory Board shall examine whether the percentage of women can be increased by suitable candidates. The Supervisory Board considers the 37.5% share of female members to be satisfactory at the present time. This is due to the percentage of women in leadership positions at Merck and in consideration of the composition of the supervisory boards of other companies of comparable size.

### Independence

The Supervisory Board shall have an appropriate number of independent shareholder representatives as members. In any case, at least five of the shareholder representatives on the Supervisory Board shall be independent. According to the Articles of Association of Merck KGaA, six members representing the shareholders are to be elected by the General Meeting, and two members are to be delegated. Taking this and the special ownership structure of Merck KGaA into account, the shareholder representatives consider five shareholder representatives to be an appropriate number of independent members. In the opinion of the shareholder representatives, the objectives concerning independent members are met at the present time. The shareholder representatives consider the following members to be independent: Wolfgang Büchele, Michael Kleinemeier, Renate Koehler, Peter Emanuel Merck, Helene von Roeder, Helga Rübsamen-Schaeff, Daniel Thelen, and Simon Thelen. In particular, the shareholder representatives do not believe that membership of the Board of Partners of E. Merck KG conflicts with independence. The Board of Partners exists complementary to the competencies and the activities of the Supervisory Board. It is not to be expected that this will lead to material and not merely temporary conflicts of interest. It should also be taken into account that due to its substantial capital investment and unlimited personal liability, E. Merck KG has a strong interest in the businesses of Merck KGaA operating efficiently and in compliance with procedures, counteracting from the outset conflicts of interest between E. Merck KG and Merck KGaA and thus also corresponding conflicts of interest between the members of the respective corporate boards.

### No material conflicts of interest

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

### Age limit

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

### Regular limit on the length of Supervisory Board membership

The objective of the Supervisory Board regarding its composition is that, as a rule, all members belong to the board for an uninterrupted period of no more than 15 years (corresponding to three regular terms of office). This objective is also met at the present time. The length of membership of the Supervisory Board members is set out in the Statement on Corporate Governance in the “Procedures of the Executive Board, Supervisory Board, Board of Partners, and its Committees” section.

### Profile of skills and expertise

Additionally, in accordance with recommendation C. I of the German Corporate Governance Code in the version dated December 16, 2019, the Supervisory Board has prepared a profile of skills and expertise and reports on the status of implementation below.

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

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

### Management experience

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

### Knowledge of business administration

The Supervisory Board must have at least four members who have in-depth knowledge of business administration and at least one member who has professional expertise in accounting or auditing. This requirement is met at the present time.

### Experience in other supervisory or control bodies

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