REPORT ON ECONOMIC POSITION
MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

The year 2014 was characterized by the repercussions of the financial crisis and uncertainties regarding future economic and political developments. According to the most recent report published by the International Monetary Fund (IMF), global gross domestic product (GDP) grew by 3.3% in 2014, which was 0.4 percentage points more than in 2013. While the industrialized countries generated an increase of 1.8%, emerging markets continued to make the largest contribution to global growth, with GDP in emerging economies rising by 4.4%.

The GDP of the United States, the world's largest economy, grew by 2.2% in 2014, which was 0.4 percentage points slower than the 2013 forecast. Growth in the United States was stalled by a decline in exports and a harsh winter. For the eurozone, the IMF noted an increase of 0.8% in GDP. While particularly the countries of southern Europe continued to struggle with the consequences of the sovereign debt crisis, some nations, for example Germany, showed signs of recovery.

Merck's performance was influenced by general global trends as well as the continued growing importance of emerging markets. In 2014, the Emerging Markets region accounted for around 80% of Merck's organic sales growth. While Merck Millipore generated around 50% of its sales growth in the Emerging Markets region, the sales growth of both Performance Materials (approx. 80%) and Consumer Health (approx. 70%) was particularly strong in this region. Merck Serono generated its sales growth nearly entirely in the Emerging Markets region, thus compensating for a slight sales decline in Europe.

Healthcare market

IMS Health, a market research firm specialized in the health sector, reported 8.1% sales growth for the pharmaceutical market in 2014. This sales increase approximately corresponded to the 2013 forecast. The increase was primarily attributable to emerging markets. For instance, the pharmaceutical market of China posted growth of 11.6% and in Latin America, the pharmaceutical market grew by as much as 15.1%. However, after having seen slightly declining growth rates in 2013, the United States and Europe also reported growth of 11.7% and 2.5% respectively. According to the market research institute Evaluate Pharma, particularly the markets for multiple sclerosis therapies and type 2 diabetes treatments delivered above-average growth rates of 13% and 14% respectively. Whereas the market for oncology therapies to treat colorectal cancer saw a 2% decline in sales, sales of Erbitux®, one of Merck Serono's top-selling products, increased organically by around 6% in this indication.

Nicholas Hall, a market research firm for the pharmaceutical industry, reported a 4.0% increase for the global over-the-counter drug market in 2014, which fell 1 percentage point short of the forecast made in 2013. Latin America and Asia were growth drivers here, while Europe posted growth of 2.4%.

Market for high-tech materials

With its liquid crystals business, Merck is the leading producer of liquid crystal mixtures for the display industry. According to market researchers from Display Search, the display industry registered a sharper sales increase of 10% in 2014 following slightly lower sales growth of 5% in 2013, based on the surface areas of liquid crystal displays sold. Liquid crystals remain the leading display technology, with growth primarily coming from the increasing size of television screens.

The markets for automotive coatings and cosmetics are crucial to Merck's Pigments business. As reported by the German Automobile Industry Association (VDA), global automobile sales increased by 2% in 2014. Declines in other markets were offset by growth in China (+10%), as well as the United States and western Europe (+4% each). Nevertheless, global automobile sales growth in 2014 fell by 3 percentage points compared with 2013 (+5%). According to Euromonitor International, global consumption of materials used to produce cosmetics grew by 1.9%, with Asia reporting the highest growth rate of 4.9%.

The semiconductor industry is one of the main sales markets for AZ Electronic Materials, another key business for the Performance Materials division. According to Gartner, a market research institute specializing in technology and electronics markets, the semiconductor industry grew by 7.2% in 2014 compared with 5.0% in 2013.

Life science market

Merck Millipore is a leading supplier of products and services for general laboratory applications, as well as for the research, development and production of drug therapies of biological and chemical origin.

For the global laboratory product market relevant to the Lab Solutions business, the market research firm Frost & Sullivan calculated slight growth of 2.6 % for 2014. Growth was thus 0.8 percentage points higher than the original forecast for the year 2014 (+1.8 %). In terms of growth, the individual regions varied considerably. In comparison with 2013, the market situation in Europe (+1.6%) and the United States (+ 2.5 %) improved, especially due to positive market developments in Germany, the United Kingdom and Spain, as well as an initial slight improvement in the U.S. academic and government sectors. Emerging economies grew much more strongly than industrialized countries; however their 11.9 % share of the global market volume remains relatively low. The main drivers of growth in emerging economies were India (+ 8.7 %) and China (+ 8.5 %).

The demand for Process Solutions products depends heavily on the sales as well as research & development activities of pharmaceutical companies. Both primary influencing factors had a positive impact on the Process Solutions market, leading to noticeable growth. Global pharmaceutical sales increased by 8.1 % according to IMS Health. Moreover, research & development spending increased by 3.2 % compared with the previous year, according to the market research firm Evaluate Pharma, and the number of Phase I to III clinical trials continues to increase, leading to higher demand for Process Solutions products. This is mostly being driven by greater demand for monoclonal antibodies as well as increased biosimilars development and biological manufacturing, particularly in emerging markets.

REVIEW OF FORECAST AGAINST ACTUAL BUSINESS DEVELOPMENTS

In the Annual Report for 2013, Merck forecast slight organic sales growth for the Merck Group in 2014, mainly driven by the Merck Millipore and Consumer Health divisions. For EBITDA pre one-time items in 2014, a value at the 2013 level was expected. This assumed that significantly reduced royalty and license income, higher investments in research and development activities in the Biosimilars business unit and expected negative foreign exchange effects could be compensated for by the positive effect resulting from the implemented efficiency measures. Business free cash flow was forecast to decrease slightly owing to further imminent investments in strategic growth projects.

In the event of the successful acquisition and consolidation of AZ Electronic Materials as of the second quarter of 2014, Merck had forecast a moderate increase in Group sales and EBITDA pre one-time items as well as a slight improvement in business free cash flow for 2014, compared with 2013.

Since Merck was able to successfully complete the acquisition of AZ Electronic Materials and the first-time consolidation of the business as of May 2, 2014, the forecast assuming the acquisition of AZ Electronic Materials is used for the following comparison.

Regarding the forecast of slight organic sales growth in the Annual Report for 2013, Merck showed moderate organic sales growth of 4.0% in 2014. This was mainly attributable to the organic sales developments of Merck Serono and Performance Materials, which exceeded expectations. The Merck Group's organic sales growth was reduced by negative foreign exchange effects amounting to –1.8%. However, owing to the appreciation of the U.S. dollar and important Asian currencies in the fourth quarter, negative foreign exchange effects were not as pronounced as expected. Due to the acquisition of AZ Electronic Materials and the associated positive acquisition effect of 3.3%, Merck achieved overall sales growth of 5.5% in the actual course of business and thereby fulfilled its forecast of a moderate increase in sales.

Thanks to stable sales of the drug Rebif® and organic growth in all other key franchises, Merck Serono achieved organic growth of 3.6%. Assuming that sales of Rebif® would decline, the division still expected stable organic sales at the beginning of 2014. The Performance Materials division achieved organic sales growth of 4.1% due to slightly higher sales than expected in the Liquid Crystals business unit, as well as the good performance of the Advanced Technologies business unit. Only slight organic growth had been forecast. As a result of the positive acquisition effect arising from the acquisition of AZ Electronic Materials, the Performance Materials division was able to significantly increase sales overall as forecast. The Consumer Health and Merck Millipore divisions achieved organic sales growth of 5.4% and 4.5% respectively in accordance with the corresponding forecasts.

As forecast, EBITDA pre one-time items of the Merck Group, which amounted to € 3,388 million in 2014, increased moderately in comparison with 2013, particularly as a result of the acquisition of AZ Electronic Materials. EBITDA pre one-time items of the Merck Serono division declined slightly by –1.3% as expected. This was mainly attributable to lower royalty and license income from Humira®, as well as the loss of royalty and license income from Avonex® and Enbrel®. The Consumer Health division did not achieve the forecast of a moderate increase in EBITDA pre one-time items due to higher marketing and selling expenses, showing a slight decline of 1.7% to € 169 million. In line with the forecast, the Performance Materials division posted a significant increase in EBITDA pre one-time items to € 895 million, due to the integration of the AZ Electronic Materials business. Likewise as forecast, the Merck Millipore division posted a slight increase in EBITDA pre one-time items to € 659 million thanks to moderate organic sales growth. EBITDA pre one-time items of Corporate and Other showed an improvement of 15.5% to € –166 million particularly as a consequence of slightly higher gains from currency hedging, thereby achieving a more positive result than expected.

Declining by –12.0% compared with 2013, the development of the Merck Group's business free cash flow to € 2,605 million fell short of forecasts. As expected, the decrease at Merck Serono was caused by the initiation of further investments in growth projects, as well as lower EBITDA pre one-time items. In the other divisions, the increase in inventories and trade accounts receivable was primarily responsible for the deviation.

Review of forecast against actual business developments in 2014

	Actual results 2013 € million	Forecast 2014 in Annual Report 2013	Guidance for 2014 provided in Q1/2014 Interim Report	Guidance for 2014 provided in Q2/2014 Interim Report	Guidance for 2014 provided in Q3/2014 Interim Report	Actual results 2014 € million
Merck Group						
Sales	10,700	moderate increase, slight organic growth	€ 10.9 – 11.1 billion	€ 10.9 – 11.1 billion	€ 11.0 – 11.2 billion	11,291 (+ 5.5 / + 4.0 % org. / + 3.3 % acquisition)
EBITDA pre one-time items	3,253	moderate increase	€ 3.3 – 3.4 billion	€ 3.3 – 3.4 billion	€ 3.3 – 3.4 billion	3,388 (+ 4.1 %)
Business free cash flow	2,960	slight increase	€ 2.7 – 2.8 billion	€ 2.7 – 2.8 billion	€ 2.7 – 2.8 billion	2,605 (–12.0 %)
Earnings per share pre one-time items[1]	€ 4.39	–	€ 4.50 – 4.75	€ 4.50 – 4.75	€ 4.50 – 4.75	€ 4.60 (+ 4.8 %)
Merck Serono						
Sales[2]	5,688	organic stable on a comparable basis	organic stable	slight organic growth	slight organic growth	5,783 (+1.7 % / + 3.6 % org.)
EBITDA pre one-time items[2]	1,855	slight decline on a comparable basis	€ 1.75 – 1.85 billion	€ 1.75 – 1.83 billion	€ 1.77 – 1.83 billion	1,831 (–1.3 %)
Business free cash flow[2]	1,787	moderate decline on a comparable basis	€ 1.5 – 1.6 billion	€ 1.5 – 1.6 billion	€ 1.5 – 1.6 billion	1,577 (–11.7 %)
Consumer Health						
Sales[2]	742	moderate increase on a comparable basis	moderate organic growth	moderate organic growth	moderate organic growth	766 (+ 3.2 % / + 5.4 % org.)
EBITDA pre one-time items[2]	172	moderate increase on a comparable basis	€ 170 – 180 million	€ 170 – 180 million	€ 170 – 180 million	169 (–1.7 %)
Business free cash flow[2]	172	slight increase on a comparable basis	€ 150 – 170 million	€ 150 – 170 million	€ 150 – 160 million	124 (– 28.1 %)
Performance Materials						
Sales	1,642	significant increase	slight organic growth	slight organic growth	slight organic growth	2,060 (+ 25.4 % / + 4.1 % org. / + 22.8 % acquisition)
EBITDA pre one-time items	780	significant increase	€ 830 – 880 million	€ 850 – 880 million	€ 860 – 880 million	895 (+ 14.8 %)
Business free cash flow	788	significant increase	€ 720 – 770 million	€ 720 – 770 million	€ 720 – 770 million	700 (–11.2 %)
Merck Millipore						
Sales	2,628	slight increase	moderate organic growth	moderate organic growth	moderate organic growth	2,682 (+ 2.1 % / + 4.5 % org.)
EBITDA pre one-time items	643	slight increase	€ 640 – 670 million	€ 640 – 670 million	€ 640 – 670 million	659 (+ 2.5 %)
Business free cash flow	494	stable	€ 460 – 490 million	€ 460 – 490 million	€ 460 – 490 million	419 (–15.2 %)
Corporate and Other						
EBITDA pre one-time items	–197	stable	€ –170 – –200 million	€ –160 – – 190 million	€ –160 – –190 million	–166 (–15.5 %)
Business free cash flow	– 281	–	~ € – 240 million	€ – 200 – – 230 million	€ – 200 – – 220 million	–215 (– 23.7 %)

[1] Based on the number of shares following the share split, which was approved by the Annual General Meeting on May 9, 2014.
[2] Previous year's figures have been adjusted, see "The Merck Group" in the Group management report.

COURSE OF BUSINESS AND ECONOMIC POSITION
MERCK GROUP

OVERVIEW OF 2014

→ Sales increase by 5.5 % to € 11.3 billion – organic growth of 4.0 %, acquisition-related increases of 3.3 % as well as slight negative foreign exchange effects of –1.8 %
→ Emerging Markets contribute significantly to organic sales growth
→ EBITDA pre one-time items increase by 4.1 % to around € 3.4 billion – main drivers were the Performance Materials division due to the first-time consolidation of AZ Electronic Materials (AZ) as well as the successful operating business of Liquid Crystals
→ Improvement in earnings per share before one-time items by 4.8 % to € 4.60
→ Business free cash flow remains at a high level
→ Net financial debt as of December 31, 2014 only increased slightly to € 0.6 billion, despite payment of the AZ purchase price of € 1.9 billion
→ Only a slight adjustment to the long-term credit ratings to “A” with negative outlook (Standard & Poor’s) and “Baa1” with negative outlook (Moody’s), despite the announcement of the acquisition of the Sigma-Aldrich Corporation (Sigma-Aldrich) for around US$ 17 billion

MERCK GROUP →
KEY FIGURES

€ million	2014	2013	Change in %
Total revenues	11,500.8	11,095.1	3.7
Sales	11,291.5	10,700.1	5.5
Operating result (EBIT)	1,762.0	1,610.8	9.4
Margin (% of sales)	15.6	15.1	
EBITDA	3,122.9	3,069.2	1.7
Margin (% of sales)	27.7	28.7	
EBITDA pre one-time items	3,387.7	3,253.3	4.1
Margin (% of sales)	30.0	30.4	
Earnings per share pre one-time items (€)[1]	4.60	4.39	4.8
Business free cash flow	2,605.1	2,960.0	–12.0

[1]Taking into account the share split; previous year’s figures have been adjusted accordingly. See “Earnings per share” in the Notes to the Group accounts.

Development of sales and results of operations

In 2014, the Merck Group generated sales of € 11,291 million (2013: € 10,700 million). This represented an increase in sales of 5.5 % or € 591 million compared with 2013. Organic growth of 4.0 % was responsible for the vast majority of this improvement. Acquisitions / divestments (net) increased sales overall by 3.3 % or € 355 million. The first-time consolidation of AZ in the Performance Materials division as of May 2, 2014 made a positive contribution of € 375 million to Group sales in 2014. Owing to the divestment of the Merck Millipore division’s Discovery and Development Solutions business field, which became effective on March 31, 2014, sales declined in comparison with 2013 by € –20 million (see “Acquisitions and divestments as well as assets held for sale and disposal groups” in the Notes to the Group accounts). Negative foreign exchange effects lowered sales by –1.8 %.

The development of sales in the individual quarters in comparison with 2013 as well as the respective organic growth rates are presented in the following overview:

MERCK GROUP →

SALES AND ORGANIC GROWTH BY QUARTER[1]

€ million / organic growth in %

[1] Quarterly breakdown unaudited.

In 2014, Merck Serono generated 51 % of Group sales (2013: 53 %), remaining the largest division by sales. Merck Millipore and Performance Materials followed, contributing 24 % (2013: 25 %) and 18 % (2013: 15 %) to Group sales, respectively. The three percentage point increase in the contribution of Performance Materials to Group sales is largely due to the acquisition of AZ. As in 2013, the Consumer Health division accounted for 7 % of Group sales.

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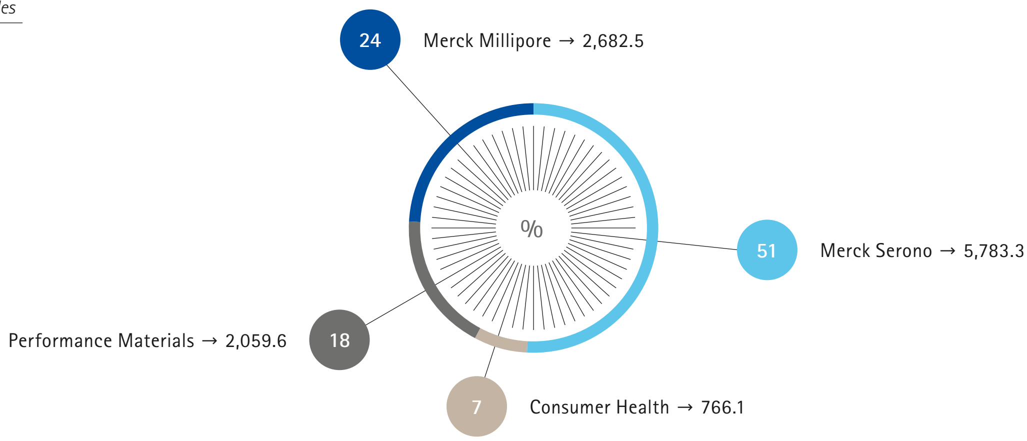
SALES BY DIVISION – 2014

€ million / % of sales



MERCK GROUP →
SALES COMPONENTS BY DIVISION – 2014

€ million / change in %	Sales	Organic growth	Exchange rate effects	Acquisitions / divestments	Total change
Merck Serono	5,783.3	3.6	–1.9	–	1.7
Consumer Health	766.1	5.4	–2.2	–	3.2
Performance Materials	2,059.6	4.1	–1.5	22.8	25.4
Merck Millipore	2,682.5	4.5	–1.7	–0.7	2.1
Merck Group	**11,291.5**	**4.0**	**–1.8**	**3.3**	**5.5**

In 2014, all four divisions of the Merck Group posted organic sales increases with growth rates of between 3.6% and 5.4% as well as negative foreign exchange effects of around –2% in each division. Achieving an organic sales growth rate of 3.6%, which corresponded to an absolute increase of € 207 million, Merck Serono made the strongest absolute contribution to organic sales growth, followed by Merck Millipore with organic sales growth of € 119 million equivalent to a growth rate of 4.5% and Performance Materials with € 67 million, or 4.1%. At 5.4%, Consumer Health generated the highest organic growth rate of all the operating divisions, equivalent to an absolute sales increase of € 40 million. Owing to the first-time consolidation of AZ, the Performance Materials division posted the highest overall sales increase of 25.4%, representing an absolute increase of € 418 million.

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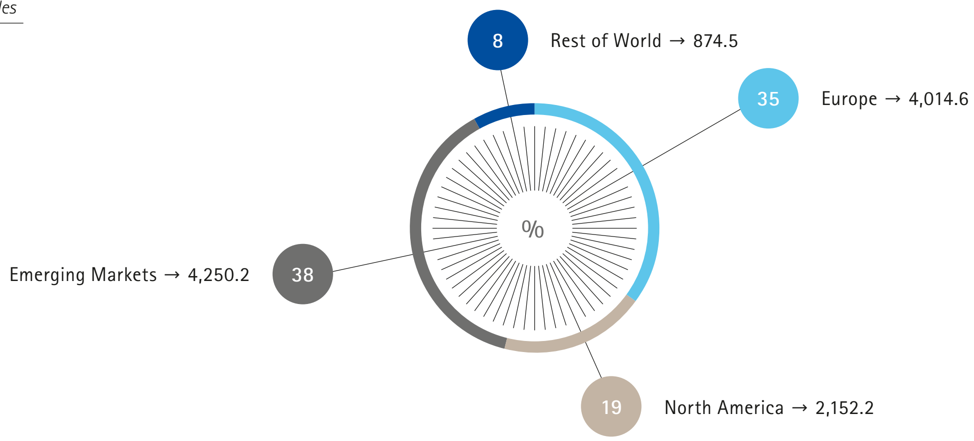
SALES BY REGION – 2014

€ million / % of sales



Dynamic business in the Emerging Markets region, which encompasses Latin America and Asia excluding Japan, fueled global organic sales growth, accounting for around 80% of the total increase in organic sales of the Merck Group. The growth rate in the Emerging Markets region was 9.1%, corresponding to an absolute organic sales increase of € 347 million. In particular, the Merck Serono division was the main driver of this development. Taking into consideration acquisition-related increases as well as negative foreign exchange effects, Merck increased its sales in the Emerging Markets region by a total of 12.0% to € 4,250 million (2013: € 3,796 million). In 2014, the region thus increased its contribution to Group sales by two percentage points to 38%.

Sales in Europe only increased slightly by 0.8% to € 4,015 million (2013: € 3,985 million). This increase was mainly attributable to the acquisition of AZ. Europe's contribution to Group sales thus fell to 35% (2013: 37%).

Sales in North America amounted to € 2,152 million (2013: € 2,078 million) and thus increased by 3.6% or € 74 million in comparison with the previous year. With a slight organic sales increase of 1.7% and coupled with acquisition-related increases of 1.8%, North America's contribution to Group sales was 19%, as in 2013.

The Rest of World region, i.e. Japan, Africa and Australia/Oceania, generated € 875 million (2013: € 842 million) or 8% of Group sales, as in the previous year. Organic and acquisition-related growth was dampened by negative foreign exchange effects (–6.9%), which were mainly attributable to the Japanese yen. Overall, sales increased by 3.9% in this region in 2014.

MERCK GROUP →
SALES COMPONENTS BY REGION – 2014

€ million/change in %	Sales	Organic growth	Exchange rate effects	Acquisitions/divestments	Total change
Europe	4,014.6	0.2	–0.1	0.7	0.8
North America	2,152.2	1.7	0.1	1.8	3.6
Emerging Markets	4,250.2	9.1	–3.5	6.4	12.0
Rest of World	874.5	5.0	–6.9	5.8	3.9
Merck Group	**11,291.5**	**4.0**	**–1.8**	**3.3**	**5.5**

The consolidated income statement of the Merck Group is as follows:

MERCK GROUP →
CONSOLIDATED INCOME STATEMENT

	2014		2013		Change	
	€ million	in %	€ million	in %	€ million	in %
Sales	**11,291.5**	**100.0**	**10,700.1**	**100.0**	**591.4**	**5.5**
Royalty, license and commission income	209.3	1.9	395.0	3.7	–185.7	– 47.0
Total revenues	**11,500.8**	**101.9**	**11,095.1**	**103.7**	**405.7**	**3.7**
Cost of sales[1]	– 3,526.4	– 31.2	– 3,041.7	– 28.4	– 484.7	15.9
(of which: amortization of intangible assets)[1]	*(– 94.0)*		*(– 49.2)*		*(– 44.8)*	*(91.2)*
Gross profit[1]	**7,974.4**	**70.6**	**8,053.4**	**75.3**	**– 79.0**	**–1.0**
Marketing and selling expenses[1]	– 3,104.9	– 27.5	– 3,088.5	– 28.9	–16.4	0.5
(of which: amortization of intangible assets)[1]	*(– 719.0)*		*(– 762.0)*		*(43.0)*	*(– 5.7)*
Royalty, license and commission expenses	– 537.5	– 4.8	– 567.0	– 5.3	29.5	– 5.2
Administration expenses	– 608.6	– 5.4	– 562.4	– 5.3	– 46.2	8.2
Research and development costs[1]	–1,703.7	–15.1	–1,506.6	–14.1	– 197.1	13.1
(of which: amortization of intangible assets)[1]	*(– 3.8)*		*(– 2.3)*		*(–1.5)*	*(64.6)*
Other operating expenses and income	– 257.7	– 2.3	– 718.1	– 6.7	460.4	– 64.1
Operating result (EBIT)	**1,762.0**	**15.6**	**1,610.8**	**15.1**	**151.2**	**9.4**
Financial result	– 205.0	–1.8	– 222.2	– 2.1	17.2	– 7.7
Profit before income tax	**1,557.0**	**13.8**	**1,388.6**	**13.0**	**168.4**	**12.1**
Income tax	– 392.2	– 3.5	–179.5	–1.7	– 212.7	118.4
Profit after tax	**1,164.8**	**10.3**	**1,209.1**	**11.3**	**– 44.3**	**– 3.7**
Attributable to non-controlling interests	– 7.5	– 0.1	– 6.9	– 0.1	– 0.6	8.4
Net income	**1,157.3**	**10.2**	**1,202.2**	**11.2**	**– 44.9**	**– 3.7**

[1]The disclosure of amortization of intangible assets (excluding software) has been changed. See "Accounting and measurement principles" in the Notes to the Group accounts.

Royalty, license and commission income declined by – 47.0 % to € 209 million in 2014 (2013: € 395 million). This sharp drop of € –186 million was mainly due to the decrease in royalty and license income in the Merck Serono division. Total revenues (sales plus royalty, license and commission income) rose by 3.7 % to € 11,501 million (2013: € 11,095 million).

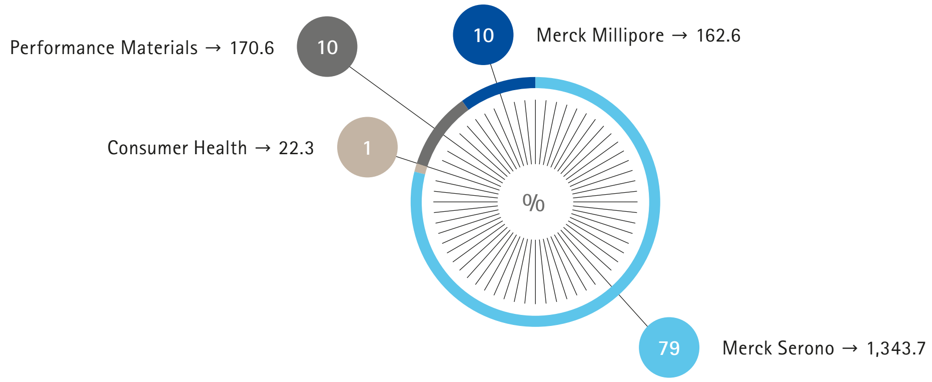
Including cost of sales, which increased by 15.9 % to € 3,526 million in 2014, the Merck Group recorded gross profit of € 7,974 million (2013: € 8,053 million). The strong increase in cost of sales was due among other things to organic sales growth in all divisions, as well as the first-time consolidation of AZ. As part of the purchase price allocation, the acquired inventories of AZ were stepped up to fair values on the date of first-time consolidation. In 2014, € 45 million of this step-up was recognized as an expense in cost of sales. In addition, cost of sales of the Performance Materials division rose due to the amortization of intangible assets in connection with the AZ purchase price allocation. Along with stronger sales growth in regions with lower margins as well as isolated production and supply bottlenecks in the Merck Serono division, gross margin, i.e. gross profit as a percentage of sales, declined to 70.6 % (2013: 75.3 %) in 2014. In addition to the aforementioned effects, the sharp decline in royalty, license and commission income also had a negative effect on gross margin.

The increase in research and development costs was mainly attributable to Merck Serono and included in particular expenses for provisions set up for unavoidable subsequent costs that are likely to be incurred in connection with the discontinuation of clinical development programs. Consequently, 79 % of Group-wide research and development spending was attributable to this division (2013: 78 %). The Group research spending ratio (research and development costs as a percentage of sales) rose accordingly to 15.1 % (2013: 14.1 %).

MERCK GROUP →

RESEARCH AND DEVELOPMENT COSTS BY DIVISION – 2014

€ million / in %



In 2014, the improvement in other operating expenses and income (net) to € – 258 million (2013: € – 718 million) mainly reflected the adjustment of provisions for litigation, lower expenses from one-time items and higher foreign exchange gains (see also "Other operating expenses and income" in the Notes to the Group accounts). However, other operating expenses and income were affected in 2014 by higher impairments of intangible assets in connection with the discontinuation of clinical development programs in the Merck Serono division.

Owing to the good performance of the Merck share price compared with the DAX, expenses from additions to provisions within the scope of the Merck Long-Term Incentive Plan (LTIP) were higher in 2014 than in the previous year. The intrinsic value of Merck Share Units (MSUs) was recognized under the respective functional costs in the income statement depending on the field of activity of the eligible participants. MSUs are virtual Merck shares that eligible executives and employees could receive at the end of a three-year performance period within the scope of the LTIP.

As a result of the development of income and expenses described above, the operating result (EBIT) of the Merck Group increased by 9.4 % to € 1,762 million in 2014.

The improvement in the financial result by € 17 million to € – 205 million was largely attributable to the positive development of the interest result (see also "Financial result" in the Notes to the Group accounts).

Income tax expenses of € 392 million (2013: € 180 million) led to a tax ratio of 25.2 % (2013: 12.9 %). The low tax ratio of the previous year was attributable to one-time deferred tax income (see also "Income tax" in the Notes to the Group accounts).

Net income, i.e. profit after tax attributable to Merck shareholders, in 2014 was € 1,157 million (2013: € 1,202 million). Taking the share split into account, this resulted in earnings per share of € 2.66 (2013: € 2.77).

The key financial indicator used to steer operating business, EBITDA pre one-time items, climbed 4.1 % to € 3,388 million (2013: € 3,253 million). The resulting EBITDA pre margin of 30.0 % nearly reached the year-earlier level (30.4 %). The reconciliation of the operating result (EBIT) to EBITDA pre one-time items is presented under "Internal management system of the Merck Group".

The development of EBITDA pre one-time items in the individual quarters in comparison with 2013 is presented in the following overview:

MERCK GROUP →

EBITDA PRE ONE-TIME ITEMS AND CHANGE BY QUARTER[1]

€ million / change in %

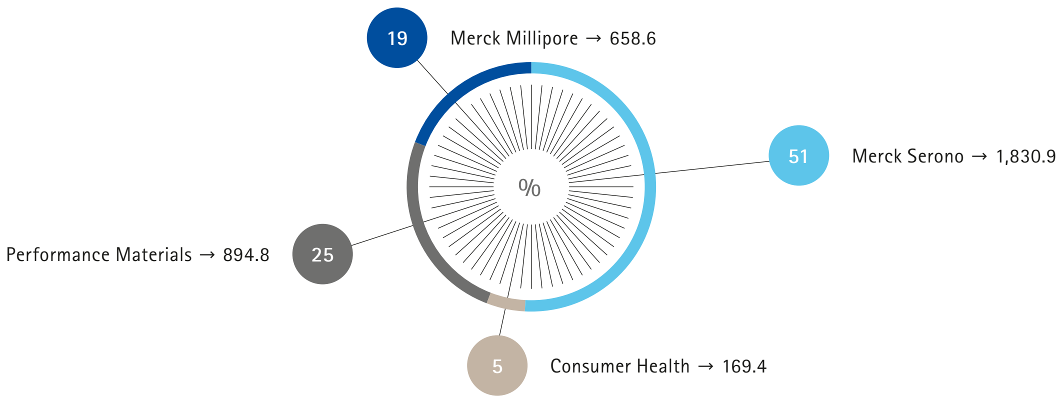
[1] Quarterly breakdown unaudited.

The increase in EBITDA pre one-time items was mainly attributable to the Performance Materials division, which achieved the strongest rise in EBITDA pre one-time items of all the operating divisions with an absolute increase of € 115 million. The division thus increased its share of Group EBITDA pre one-time items by two percentage points to 25 % (2013: 23 %). This excludes the € –166 decline due to Corporate and Other. With a share of 51 % (2013: 54 %, excluding Corporate and Other), Merck Serono's contribution to EBITDA pre one-time items was the highest among all the operating divisions. The percentage contributions of Merck Millipore and Consumer Health remained at the previous year's level of 19 % and 5 % respectively.

MERCK GROUP →

EBITDA PRE ONE-TIME ITEMS BY DIVISION – 2014

€ million / in %



Not presented: Decline in Group EBITDA pre one-time items by € –166 million due to Corporate and Other.

Net assets and financial position

MERCK GROUP → BALANCE SHEET STRUCTURE

	Dec. 31, 2014		Dec. 31, 2013		Change	
	€ million	in %	€ million	in %	€ million	in %
Current assets	**10,480.4**	**40.3**	**7,384.5**	**35.5**	**3,095.9**	**41.9**
of which:						
Cash and cash equivalents	2,878.5		980.8		1,897.7	
Current financial assets	2,199.4		2,410.5		–211.1	
Trade accounts receivable	2,235.6		2,021.4		214.2	
Inventories	1,659.7		1,474.2		185.5	
Other current assets	1,507.2		497.6		1,009.6	
Non-current assets	**15,529.7**	**59.7**	**13,434.1**	**64.5**	**2,095.6**	**15.6**
of which:						
Intangible assets	11,395.5		9,867.2		1,528.3	
Property, plant and equipment	2,990.4		2,647.2		343.2	
Other non-current assets	1,143.8		919.7		224.1	
Total assets	**26,010.1**	**100.0**	**20,818.6**	**100.0**	**5,191.5**	**24.9**
Current liabilities	**6,601.4**	**25.4**	**3,898.8**	**18.7**	**2,702.6**	**69.3**
of which:						
Current financial liabilities	2,075.9		440.4		1,635.5	
Trade accounts payable	1,539.4		1,364.1		175.3	
Current provisions	561.7		494.7		67.0	
Other current liabilities	2,424.4		1,599.6		824.8	
Non-current liabilities	**7,607.7**	**29.2**	**5,850.6**	**28.1**	**1,757.1**	**30.0**
of which:						
Non-current financial liabilities	3,561.1		3,257.5		303.6	
Non-current provisions	626.1		1,011.1		–385.0	
Provisions for pensions and other post-employment benefits	1,820.1		910.9		909.2	
Other non-current liabilities	1,600.5		671.1		929.4	
Equity	**11,801.0**	**45.4**	**11,069.2**	**53.2**	731.8	**6.6**
Total liabilities and equity	**26,010.1**	**100.0**	**20,818.6**	**100.0**	5,191.5	24.9

The total assets of the Merck Group amounted to € 26,010 million as of December 31, 2014. This represents an increase of € 5,192 million or 24.9 % over December 31, 2013 (€ 20,819 million). This sharp increase was primarily attributable to the following developments:

The issue of a hybrid bond with a volume of € 1.5 billion as well as higher other financial liabilities led in 2014 to an increase of around € 1.9 billion in liquid assets as well as financial liabilities, which relates to the financing of the planned acquisition of Sigma-Aldrich. Currency hedging transactions completed for the expected purchase price payment in U.S. dollars for the acquisition of Sigma-Aldrich in 2015 resulted in high positive market values that increased equity without affecting profit or loss as of December 31, 2014.

Within the scope of the global alliance entered into with Pfizer Inc., USA, in November 2014 on the development and commercialization of the anti-PD-L1 antibody, the Merck Group received an upfront payment of US$ 850 million (€ 678 million). Based on the collaboration agreement, Merck will co-market Xalkori®, a drug for the treatment of non-small cell lung cancer, with Pfizer in the United States and certain other major markets over a multi-year period. Other current assets of € 294 million were capitalized for the entitlement to the right. Both the upfront payment received and the value of the right to co-market Xalkori® were recognized in the balance sheet as deferred revenues under other liabilities, leading to an increase of nearly € 1 billion in the balance sheet total as of December 31, 2014.

Owing to a weaker euro, positive foreign exchange effects resulted, which increased total assets by around € 0.9 billion as of December 31, 2014.

The first-time consolidation of AZ as of May 2, 2014 also had an effect on the consolidated balance sheet as of December 31, 2014. As part of the purchase price allocation for the AZ acquisition, the acquired assets and liabilities were measured at fair values in the balance sheet. On the date of first-time consolidation, this led to an increase in intangible assets (excluding goodwill) by € 1,051 million. The goodwill from the transaction amounted to € 818 million. The payment of the purchase price totaling € 1,875 million was made fully in cash. Further information on the purchase price allocation for the AZ acquisition can be found under “Acquisitions and divestments as well as assets held for sale and disposal groups” in the Notes to the Group accounts.

Equity increased by € 732 million to € 11,801 million (2013: € 11,069 million). This increase was mainly driven by total comprehensive income generated in 2014 (see the Consolidated Statement of Comprehensive Income in the consolidated financial statements). This was countered by dividend payments, the result transfer to E. Merck KG as well as the acquisition of the non-controlling interests in AZ Electronic Materials S.A. (see Consolidated Statement of Changes in Net Equity in the consolidated financial statements). Owing to the sharp increase in the balance sheet total, the equity ratio declined to 45.4 % as of December 31, 2014 (2013: 53.2 %).

The doubling of pension provisions to € 1.8 billion resulted mainly from the lowering of the discount rates used to calculate the present value of the defined benefit obligations of old-age pension plans. The resulting actuarial losses were recognized in the Consolidated Statement of Comprehensive Income and, taking into account deferred taxes, lowered the equity of the Merck Group.

MERCK GROUP →
NET FINANCIAL DEBT

	Maturity	Interest rate (%)	Financial Covenant	Book value Dec. 31, 2014 € million	Book value Dec. 31, 2013 € million	Change € million	Change in %
Eurobond 2010/2015 (Nominal volume € 1,350 million)	March 2015	3.375	No	1,349.7	1,348.2	1.5	0.1
Eurobond 2009/2015 (Nominal volume € 100 million)	Dec. 2015	3.615[1]	No	100.0	100.0	–	–
Eurobond 2006/2016 (Nominal volume € 250 million)	June 2016	5.875	No	218.4	222.4	–4.0	–1.8
Eurobond 2009/2016 (Nominal volume € 60 million)	Nov. 2016	4.000	No	60.0	60.0	–	–
Eurobond 2009/2019 (Nominal volume € 70 million)	Dec. 2019	4.250	No	69.1	69.0	0.1	0.1
Eurobond 2010/2020 (Nominal volume € 1,350 million)	March 2020	4.500	No	1,344.1	1,343.1	1.0	0.1
Hybrid bond KGaA 2014/2074 (Nominal volume € 1,000 million)	Dec. 2074[2]	2.625[2]	No	986.2	–	986.2	–
Hybrid bond KGaA 2014/2074 (Nominal volume € 500 million)	Dec. 2074[3]	3.375[3]	No	496.7	–	496.7	–
Total bonds				**4,624.2**	**3,142.7**	**1,481.5**	**47.1**
Other financial liabilities			No	1,012.8	555.2	457.6	82.4
Total financial liabilities				**5,637.0**	**3,697.9**	**1,939.1**	**52.4**
less:							
Cash and cash equivalents				2,878.5	980.8	1,897.7	193.5
Current financial assets				2,199.4	2,410.5	–211.1	–8.8
Net financial debt				**559.1**	**306.6**	**252.5**	**82.3**

[1] Fixed by interest rate swaps.
[2] Merck has the right of first-time premature repayment in June 2021 for this tranche of the hybrid bond issued in December 2014; the nominal interest rate stated above has been fixed until this date.
[3] Merck has the right of first-time premature repayment in December 2024 for this tranche of the hybrid bond issued in December 2014; the nominal interest rate stated above has been fixed until this date.

The increase in financial liabilities as well as liquid assets is related to the financing of the planned acquisition of Sigma-Aldrich. Net financial debt rose by only € 252 million to € 559 million (2013: € 307 million), even though the payment of the purchase price for AZ amounting to around € 1.9 billion was financed in 2014. This illustrates yet again the high internal financing power of the Merck Group. Expected future cash flows such as repayments and interest from financial liabilities are presented under "Management of financial risks" in the Notes to the Group accounts.

MERCK GROUP →
WORKING CAPITAL

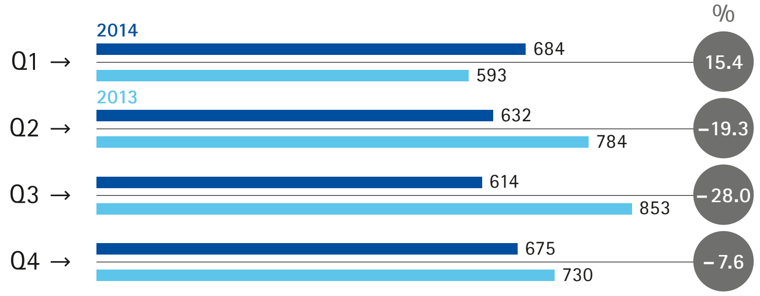
€ million	Dec. 31, 2014	Dec. 31, 2013	Change € million	Change in %
Trade accounts receivable	2,235.6	2,021.4	214.2	10.6
Inventories	1,659.7	1,474.2	185.5	12.6
Trade accounts payable	–1,539.4	–1,364.1	–175.3	12.9
Working capital	**2,355.9**	**2,131.5**	**224.4**	**10.5**
% of sales	20.9 %	19.9 %		

Working capital increased in 2014 by € 224 million. Approximately two-thirds of this increase were due to the first-time consolidation of AZ. Consequently, working capital increased to 20.9 % of sales (2013 19.9 %).

Business free cash flow of the Merck Group was € 2,605 million in 2014 (2013: € 2,960 million), which did not meet the high previous year's level. The composition of this financial indicator is presented in the Group management report under "Internal Management System of the Merck Group".

The distribution of business free cash flow across the individual quarters as well as the percentage changes in comparison with 2013 were as follows:

MERCK GROUP →
BUSINESS FREE CASH FLOW AND CHANGE BY QUARTER[1]
€ million / change in %



[1] Quarterly breakdown unaudited.

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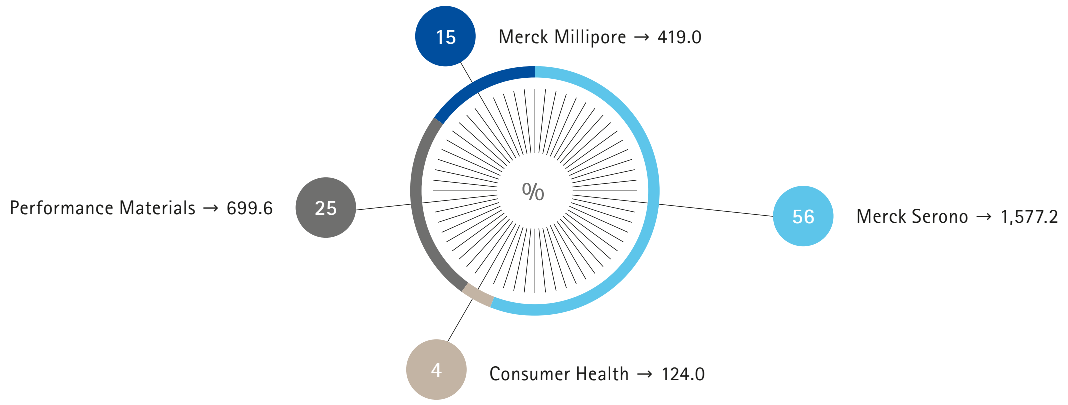
BUSINESS FREE CASH FLOW BY DIVISION – 2014

€ million / in %



Not presented: Decline in Group business free cash flow by € – 215 million due to Corporate and Other.

In 2014, all four operating divisions generated lower business free cash flow than in 2013. The Merck Serono division generated business free cash flow amounting to € 1,577 million (2013: € 1,787 million), thus raising its contribution to Group business free cash flow to 56 % (2013: 55 %). This excludes the decline of € – 215 million due to Corporate and Other. Performance Materials contributed € 700 million (2013: € 788 million) to this Group financial indicator, equivalent to 25 % (2013: 24 %). Taken together, the Merck Millipore and Consumer Health divisions contributed 19 % (2013: 21 %) to Group business free cash flow.

The investments in property, plant, equipment and software included in the calculation of business free cash flow as well as advance payments for intangible assets increased in 2014 by 18.2 % to a total of € 528 million (2013: € 446 million). The investments in property, plant and equipment included therein amounted to € 485 million in 2014 (2013: € 408 million), of which € 220 million was attributable to strategic investment projects each with a project volume of more than € 2 million; the remainder was attributable to smaller capital spending projects.

In 2014, significant investments were approved for the expansion of the Darmstadt site. Some of these investments will serve to upgrade global headquarters. This includes the construction of an Innovation Center, a Visitors Center and an employee restaurant. A new laboratory building involving a total investment of € 65 million will bundle the pharmaceutical research activities of the Merck Serono division as of 2017. Moreover, OLED production capacity in the Performance Materials division will be expanded by an investment of € 31 million in order to meet growing market demand.

Production facilities at two further locations of the Merck Serono division are being significantly expanded. At the Aubonne site in Switzerland, € 27 million is being invested in a new packaging unit and at the Bari site in Italy, € 49 million is being invested in the expansion of the existing filling unit.

In 2014, the two rating agencies Moody's and Standard & Poor's adjusted Merck's long-term credit ratings owing to the expected higher level of debt in the course of the acquisition of Sigma-Aldrich. While Standard & Poor's has now issued a rating of "A" with negative outlook, (previously: "A" with stable outlook), Moody's changed its rating from "A3" with stable outlook to "Baa1" with negative outlook. An overview of the development of Merck's rating for the period from 2009 to 2014 is presented in the Report on Risks and Opportunities.

In October 2014, Merck renewed its Debt Issuance Program with a volume of € 15 billion. The Debt Issuance Program forms the contractual basis for issuing bonds, thus giving the company flexibility in its issuing activities. It represents an important element of the Group's financing activities.

The development of key balance sheet figures is as follows:

MERCK GROUP →
KEY BALANCE SHEET FIGURES

in %		Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Equity ratio	Equity / Total assets	45.4	53.2	48.1	47.4	46.3
Asset ratio	Non-current assets / Total assets	59.7	64.5	69.4	71.1	74.7
Asset coverage	Equity / Non-current assets	76.0	82.4	69.4	66.7	62.0
Finance structure	Current liabilities / Liabilities (total)	46.5	40.0	40.6	37.5	28.0

Overall assessment of business performance and economic situation

Merck can look back on a very successful 2014. The good development of the operating businesses made it possible to seamlessly build on the excellent results of 2013. Major progress was made with the implementation of the "Fit for 2018" transformation and growth program. With the acquisition of AZ and the formation of strategic partnerships, Merck succeeded in securing future growth and profitability. In particular, the planned acquisition of Sigma-Aldrich represents a milestone for the Group's Life Science business.

Group sales increased by 5.5% to € 11.3 billion in 2014. The acquisition of AZ, which was completed at the beginning of May 2014, increased sales by 3.3%. Sales rose not only as a result of acquisitions, but also organically by 4.0%. Whereas in the past years exchange rate developments of key currencies negatively affected sales, only a slight negative effect of –1.8% resulted in 2014.

The development of EBITDA pre one-time items, which increased in 2014 to € 3,388 million (2013: € 3,253 million), also shows the sustainable profitability strength of the Merck Group. Business free cash flow amounted to € 2,605 million in 2014 (2013: € 2,960 million), falling short of the previous year's excellent figure.

The solid accounting and finance policy of the Merck Group is reflected by the very good key balance sheet figures. The equity ratio as of December 31, 2014 was 45.4%, thus remaining at a very good level. Net financial debt only rose from € 307 million to € 559 million, despite the financing of the purchase price payment of € 1.9 billion for the acquisition of AZ. This shows that thanks to its high financing power, Merck is well-prepared for the announced acquisition of Sigma-Aldrich. Against the backdrop of the superb liquidity position and financing base as well as the excellent business development, the economic position of the Merck Group can be assessed positively overall. It represents an ideal starting basis for future organic and inorganic growth.