→ Merck Serono

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Overview of 2013

- → Solid organic sales growth unable to prevent slight decline in sales due to currency headwinds
- → Rebif® achieves stable full-year organic growth despite increasing competition
- → Erbitux® delivers good organic growth thanks to registration in Japan in head and neck cancer indication as well as healthy demand in Emerging Markets
- → Restructuring program within the scope of "Fit for 2018" successfully continued in 2013
- → Significant increase of 2.4 percentage points in EBITDA pre margin despite negative foreign exchange effects and lower royalty income

Merck Serono | Key figures

€ million	2013	2012	Change in %
Total revenues	6,325.8	6,405.2	–1.2
Sales	5,953.6	5,995.8	–0.7
Operating result (EBIT)	893.0	547.7	63.1
Margin (% of sales)	15.0	9.1	
EBITDA	1,886.5	1,480.0	27.5
Margin (% of sales)	31.7	24.7	
EBITDA pre one-time items	1,955.0	1,824.7	7.1
Margin (% of sales)	32.8	30.4	
Business free cash flow	1,875.7	1,880.2	–0.2

Development of total revenues and sales as well as results of operations

In 2013, total revenues of the Merck Serono division grew organically by 3.2%. Owing to negative foreign exchange effects amounting to –4.5%, total revenues of the division nevertheless declined by –1.2% to € 6,326 million (2012: € 6,405 million). Despite solid organic growth of 3.9%, sales decreased by –0.7% to € 5,954 million (2012 : € 5,996 million). This slight decline was attributable to strong currency headwinds of –4.6%, which stemmed mainly from Latin American currencies, the Japanese yen as well as the U.S. dollar. All the division's franchises contributed to the organic sales growth, with the highest absolute organic sales increases coming from the General Medicine franchise (including CardioMetabolic Care) and the oncology drug Erbitux®. In geographic terms, the Emerging Markets region and Japan fueled organic sales growth in 2013, posting increases of 12.2% and 16.9%, respectively. Royalty, license and commission income declined by –9.1% to € 372 million (2012: € 409 million). This was primarily the result of the termination of two licensing agreements owing to the expiration of a patent for Avonex® (as of May 2013) and one for Enbrel® (as of November 2013) and adverse foreign exchange effects. The agreement reached with Bristol-Myers Squibb on the co-promotion of Glucophage in China started to positively impact commission income in the third quarter of 2013.

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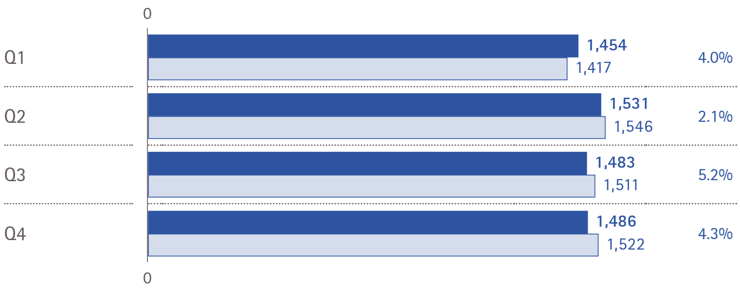
The development of sales in the individual quarters in comparison with 2012 as well as the respective organic growth rates are presented in the following table:

Merck Serono | Sales and organic growth by quarter[1]

€ million/organic growth in %

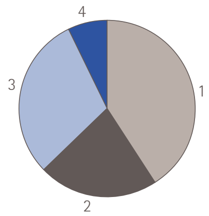


[1] Quarterly breakdown unaudited

2013 2012

Merck Serono | Sales by region – 2013

€ million/% of divisional sales



1	Europe	2,481.8	42%
2	North America	1,279.8	21%
3	Emerging Markets	1,784.6	30%
4	Rest of World	407.4	7%

From a geographic perspective, organic sales growth in the Merck Serono division was bolstered by the Emerging Markets and Rest of World regions, which generated sales increases of 12.2% and 9.9%, respectively.

Europe, Merck's top-selling region, posted a slight organic decline in sales of –0.1%, with a negative foreign exchange impact of –0.6%, thereby generating sales of € 2,482 million (2012: € 2,502 million). While Russia, Turkey, Germany, and eastern European countries in particular delivered organic sales growth, France as well as countries in southern Europe suffered sales declines. Overall, the division continued to feel the

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negative effects of the budget constraints in several European countries as well as the resulting health care cost containment measures. At 42%, Europe continued to account for the largest proportion of the division's sales, as in 2012.

Emerging Markets, the division's second-largest region by sales, posted very strong organic growth of 12.2%, which was offset by a negative foreign exchange impact of –9.5%. Consequently, sales increased from € 1,737 million to € 1,785 million. All of Merck Serono's franchises in this region contributed to organic growth. The main drivers were products to treat cardiovascular diseases, diabetes and thyroid disorders. The share of divisional sales generated by the Emerging Markets region increased by one percentage point to 30%, which reflects the growing importance of this region to Merck Serono.

In 2013, sales in North America amounted to € 1,280 million, declining by –4.1% compared to 2012 (€ 1,335 million), which comprised an organic sales decrease of –1.1% and unfavorable foreign exchange effects of –3.0%. This slight organic decline is primarily attributable to the Fertility franchise. The North America region contributed 21% (2012: 22%) to the division's sales.

In the Rest of World region, sales grew organically by 9.9%, mainly powered by the good sales performance of Erbitux® and strong demand for products from the Fertility franchise. Including strong currency headwinds of –13.4%, which were primarily attributable to the Japanese yen, sales totaled € 407 million (2012: € 422 million). Once again, the Rest of World region contributed 7% to divisional sales.

Merck Serono | Sales components by region – 2013

€ million/change in %	Sales	Organic growth	Exchange rate effects	Acquisitions/ divestments	Total change
Europe	2,481.8	–0.1	–0.6	–	–0.8
North America	1,279.8	–1.1	–3.0	–	–4.1
Emerging Markets	1,784.6	12.2	–9.5	–	2.7
Rest of World	407.4	9.9	–13.4	–	–3.5
Merck Serono	**5,953.6**	**3.9**	**–4.6**	**–**	**–0.7**

In 2013, sales of the key products of the Merck Serono division developed as follows:

Merck's top-selling drug Rebif®, which is used to treat relapsing forms of multiple sclerosis, achieved slight organic growth of 1.4% in 2013. This was especially attributable to its good performance in the first half of 2013, during which sales grew organically by 4.7%. Yet in the second half of 2013, Rebif® suffered an organic decline in sales, primarily in North America. Taking adverse foreign exchange effects of –2.9% into account, Rebif® sales decreased by –1.5% to € 1,865 million (2012: € 1,893 million). In North America, which generated 51% of Rebif® sales (2012: 52%) and is the largest market for this product, sales saw slight organic growth of 0.3% to € 956 million (2012: € 983 million). In particular, this was the result of a tougher competitive environment in North America in the second half of 2013, where lower sales volumes could not be completely compensated for by price increases. In Europe, sales of Rebif® grew organically by 2.8%, totaling

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€ 745 million (2012: € 731 million). Including a foreign exchange impact of –0.9%, sales grew by a total of 1.9%. Consequently, Europe accounted for 40% of total Rebif® sales (2012: 39%). The Emerging Markets and the Rest of World regions posted organic increases in Rebif® sales of 1.1% and 5.4%, respectively, with adverse foreign exchange effects of –11.5% and –5.8%, respectively. Overall, this resulted in Emerging Markets sales declining by –10.4% to € 130 million (2012: € 145 million). In the Rest of World region, Merck Serono generated sales of € 34 million, as in 2012. At around 9%, the combined contribution of these two regions to Rebif® sales remained comparatively low.

In 2013, sales of the oncology drug Erbitux® showed organic growth of 5.9%. Including a foreign exchange impact of –6.5%, which primarily stemmed from the Japanese yen and Latin American currencies, sales declined slightly by € –5 million to € 882 million (2012: € 887 million). Merck Serono achieved organic growth in all three regions in which it holds the marketing rights. In 2013, 57% of Erbitux® sales were generated in Europe (2012: 56%), making it the top-selling region for this product. Erbitux® sales in this region grew organically by 0.5% in 2013, thereby totaling € 501 million, which includes adverse foreign exchange effects of –0.4% (2012: € 500 million). Despite strong organic growth of 8.9%, sales in Emerging Markets declined slightly to € 232 million (2012: € 236 million) as a result of currency headwinds of –10.3%. This region contributed 26% (2012: 27%) of total Erbitux® sales. At 18.8%, the Rest of World region generated the strongest organic growth for this oncology drug, delivering sales of € 149 million (2012: € 152 million). Posting organic growth of 22.1%, business in Japan performed well. However, this was canceled out by adverse exchange rate effects stemming from the weak Japanese yen against the euro. In particular, the approval of Erbitux® in head and neck cancer as well as higher market shares in other Erbitux® indications were the main drivers of the increase in organic sales.

Merck Serono | Sales and organic growth of Rebif® and Erbitux® by region – 2013

		Total	Europe	North America	Emerging Markets	Rest of World
Rebif®	€ million	1,864.7	744.8	956.1	130.2	33.6
	Organic growth in %	1.4	2.8	0.3	1.1	5.4
	% of sales	100	40	51	7	2
Erbitux®	€ million	882.2	500.9	–	232.4	148.9
	Organic growth in %	5.9	0.5	–	8.9	18.8
	% of sales	100	57	–	26	17

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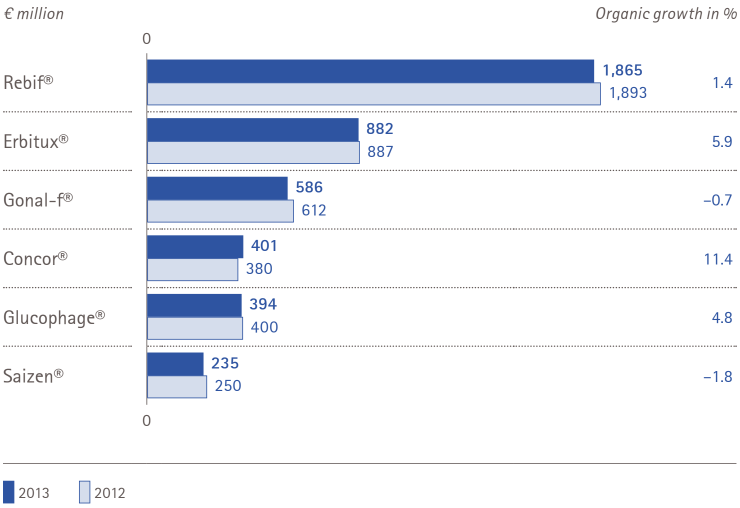
Merck Serono | Sales and organic growth of key products – 2013



Sales of Gonal-f®, the leading recombinant hormone used in the treatment of infertility, totaled € 586 million in 2013 (2012: € 612 million). This decline was largely attributable to adverse foreign exchange effects of –3.5%. Gonal-f® sales saw a slight organic decrease of –0.7%. Strong organic growth in the Emerging Markets and Rest of World regions could not offset the weaker sales performance in Europe and North America, where the correlation between economic developments and the demand for fertility products remained visible. However, other products from the Fertility franchise achieved strong organic growth, thereby generating total organic sales growth of 2.4% for the franchise and, including adverse foreign exchange effects, sales of € 807 million (2012: € 817 million).

At € 394 million (2012: € 399 million), sales by the Endocrinology franchise, which mainly consists of products to treat metabolic and growth disorders, decreased slightly by –1.3% since organic growth of 2.1% was more than offset by an adverse foreign exchange impact of –3.4%. Sales of the growth hormone Saizen® saw an organic decline of –1.8% as well as negative foreign exchange effects of –4.0%. As a result, sales declined by a total of –5.8% to € 235 million. Merck Serono achieved double-digit organic growth rates with Serostim® for HIV-associated wasting, as well as with Kuvan® for the treatment of hyperphenylalaninemia, a metabolic disorder.

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The General Medicine franchise (including CardioMetabolic Care), which commercializes Merck Serono's products to treat cardiovascular diseases and diabetes, among others, generated organic sales growth of 6.5%. Including negative foreign exchange effects, sales amounted to € 2,005 million (2012: € 1,998 million). Overall, sales volumes in this business franchise developed well. This reflected the performance of the three leading product franchises, namely Glucophage® for the treatment of diabetes, the beta-blocker Concor®, and Merck's portfolio for the treatment of thyroid disorders, all of which achieved high organic growth rates. However, negative exchange rate effects were registered here as well. Sales of Glucophage®, which grew organically by 4.8% primarily due to sales in the Emerging Markets region, totaled € 394 million (2012: € 399 million). Thanks mainly to strong demand in Emerging Markets and Europe, Concor® and thyroid products generated organic growth of 11.4% and 21.0%, respectively, posting sales of € 401 million (2012: € 380 million) and € 275 million, respectively (2012: € 234 million).

At € 1,106 million, the division's cost of sales declined by –7.3% (2012: € 1,193 million), with the decline exceeding the percentage decrease in sales. This was primarily due to higher yields in the manufacture of biotech products as well as strict cost control, which had a positive effect on the division's gross profit. Overall, however, gross profit improved only slightly by € 8 million to € 5,220 million (2012: € 5,212 million) as it was countered by the € 37 million decline in royalty, license and commission income. Accordingly, gross margin (in percent of sales) rose slightly to 87.7% (2012: 86.9%).

Both the resolute implementation of cost reduction measures and currency translation effects lowered the division's marketing and selling expenses as well as administration expenses. Marketing and selling expenses fell by –6.0% to € 1,289 million (2012: € 1,371 million) and administration expenses decreased by –2.5% to € 211 million (2012: € 217 million). In 2013, royalty, license and commission expenses totaled € 548 million (2012: € 562 million). This slight decline was primarily the result of currency translation effects as well as lower Rebif® co-marketing expenses in the United States. The significant decrease in other operating expenses (net) from € 669 million in 2012 to € 499 million in 2013 was largely due to the one-time items reported in this line. Whereas in 2012, one-time items (including impairments) amounted to € 391 million and were mainly incurred in connection with "Fit for 2018", one-time items (including impairments) in 2013 were only € 258 million. In 2013, other operating expenses included an impairment loss on intangible assets classified as a one-time item, of € 127 million, for Humira® in the Merck Serono division. The impairment loss resulted from an out-of-court settlement with AbbVie Biotechnology Ltd., Bermudas, and Abbott GmbH & Co. KG, Germany (together referred to as "AbbVie"). Under this settlement, Merck will receive no further royalty payments for this product from AbbVie as of the second half of 2014.

Research and development expenses were only slightly lower than in 2012, totaling € 1,183 million (2012: € 1,187 million). The ratio of R&D spending to sales thus remained at a high level of 19.9% (2012: 19.8%). The long-term development of the Merck Serono division and the pipeline continues to be a top priority.

Since the useful lives of the two intangible assets capitalized as part of the Serono SA purchase price allocation, namely Avonex® and Enbrel®, have expired, amortization of intangible assets declined significantly by –9.5% to € 597 million (2012: € 659 million).

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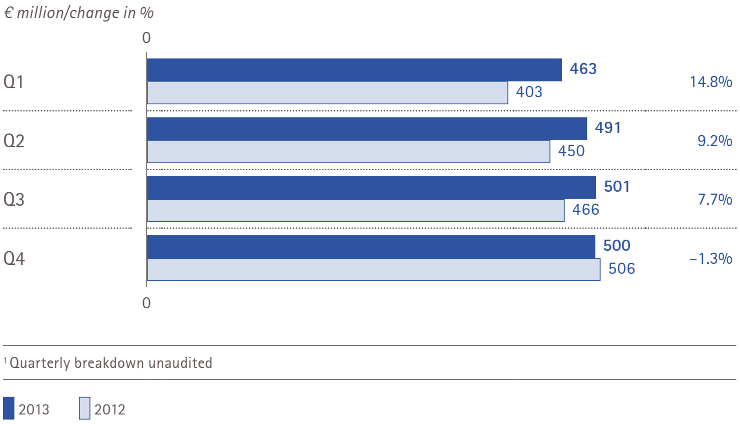
The presented development of income and expenses resulted in a very sharp increase in the division's operating result (EBIT) in 2013, of 63.1% to € 893 million (2012: € 548 million). After eliminating depreciation and amortization, and adjusted for one-time effects, EBITDA pre one-time items rose by 7.1% to € 1,955 million (2012: € 1,825 million), corresponding to a margin of 32.8% of sales (2012: 30.4%).

Merck Serono | Reconciliation EBIT to EBITDA pre one-time items

€ million	2013	2012	Change in %
Operating result (EBIT)	**893.0**	**547.7**	**63.1**
Depreciation/Amortization/Reversals of impairments	993.5	932.3	6.6
EBITDA	**1,886.5**	**1,480.0**	**27.5**
One-time items	68.5	344.7	–80.1
EBITDA pre one-time items	**1,955.0**	**1,824.7**	**7.1**

The development of EBITDA pre one-time items in the individual quarters in comparison with 2012 is presented in the following table:

Merck Serono | EBITDA pre one-time items and change by quarter[1]



[1] Quarterly breakdown unaudited

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Development of business free cash flow

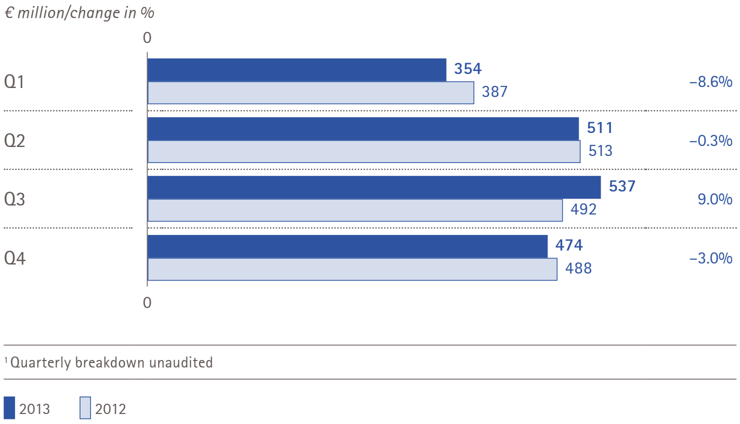
In 2013, the Merck Serono division's business free cash flow amounted to € 1,876 million, which represents only a slight decline compared with the very high level of € 1,880 million in 2012. The increase in EBITDA pre one-time items by € 130 million, or 7.1%, positively affected the business free cash flow. However, the changes in trade accounts receivable achieved in 2012 could not be reached in 2012. In 2013, receivables declined by only € –43 million, whereas in 2012 this balance sheet item was significantly reduced by € –180 million.

Merck Serono | Business free cash flow

€ million	2013	2012	Change in %
EBITDA pre one-time items	1,955.0	1,824.7	7.1
Investments in property, plant and equipment, software as well as advance payments for intangible assets	–164.3	–160.5	2.4
Changes in inventories	41.7	35.8	16.3
Changes in trade accounts receivable	43.3	180.2	–75.9
Business free cash flow	**1,875.7**	**1,880.2**	**–0.2**

The development of business free cash flow in the individual quarters in comparison with 2012 is presented in the following table:

Merck Serono | Business free cash flow and change by quarter[1]



[1] Quarterly breakdown unaudited