MERCK

Annual Report 2007

Grow

Change

Sustain

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Business Sectors and Divisions

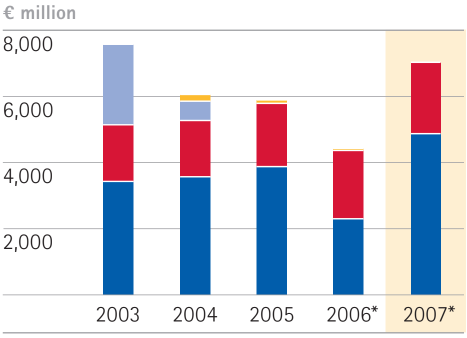
Merck 2007 at a glance

Key figures for 2007*

€ million	Pharma-ceuticals	Chemicals	Corporate and Other	Total
Total revenues	4,877	2,150	29	7,057
Gross margin	4,048	1,226	2.5	5,277
Research and development	891	137	–	1,028
Operating result	417	631	–72	976
Exceptional items	–744	–	–32	–776
Earnings before interest and tax (EBIT)	–327	631	–104	200
EBIT before depreciation and amortization	1,173	766	–81	1,858
Return on sales (ROS)	8.5	29.3	–	13.8
Free cash flow (FCF)	–6,458	557	–406	–6,308
Free cash flow adjusted for acquisitions and disposals	821	557	–406	972

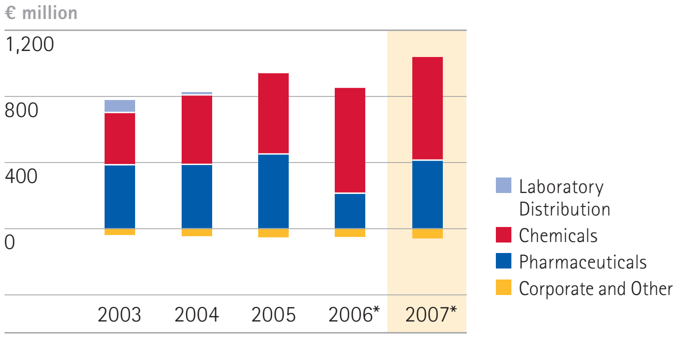
*excluding the Generics division

Total revenues by business sector



*excluding the Generics division

Operating result by business sector



*excluding the Generics division

Major achievements of 2007

With the acquisition of Serono, Merck became one of the world's leading biotech companies. The sale of the Generics division to Mylan Inc. of the United States for € 4.9 billion was another milestone in the strategic realignment of Merck.

Adjusted for the divestment of Generics, total revenues in 2007 amounted to € 7.1 billion. Profit after tax reached a record € 3.5 billion. Shareholders are participating in this success through a higher dividend of € 1.20 per share and a one-time bonus of € 2.00 per share.

The new Merck Serono division achieved growth primarily with biopharmaceutical products: Sales of the multiple sclerosis therapy Rebif® increased by 9.6% on a currency-adjusted basis. The cancer drug Erbitux® continued on its strong growth course with sales increasing by 40%.

The Liquid Crystals division again generated a high return on sales of 53.1% – with a marked increase in free cash flow. Merck successfully maintained its market and technology leadership.

Business Development 2003 – 2007

€ million	2003	2004	2005	2006[1]	2007[2]	Change in %
Total revenues	7,343	5,994	5,865	6,284	7,057	12
Total revenues[3] (Continuing Operations)	3,559	3,849	4,154	4,460	7,057	58
Pharmaceuticals[3]	3,438	3,579	3,885	2,314	4,877	111
Merck Serono[2]	1,528	1,597	1,797	1,914	4,458	133
Generics[3]	1,584	1,625	1,712	–	–	–
Consumer Health Care	327	357	376	400	420	5.0
Chemicals	1,705	1,694	1,905	2,112	2,150	1.8
Liquid Crystals	443	589	741	895	916	2.3
Performance & Life Science Chemicals	1,082	1,105	1,163	1,217	1,235	1.5
Electronic Chemicals	181	–	–	–	–	–
Laboratory Distribution[3] (incl. intragroup sales)	2,199	520	–	–	–	–
Corporate and Other	–	200	76	34	29	–13
Generics[3] (Discontinued Operations)	–	–	–	1,824	1,395	–
Operating result	736	776	883	1,105	976	–12
Operating result[3] (Continuing Operations)	512	541	646	799	976	22
Pharmaceuticals[3]	389	391	454	217	417	92
Chemicals	316	420	492	641	631	–1.6
Laboratory Distribution[3]	79	21	–	–	–	–
Corporate and Other	–48	–56	–63	–60	–72	19
Generics[3] (Discontinued Operations)	–	–	–	307	189	–
EBITDA[3]	1,008	1,419	1,245	1,334	1,858	39
Earnings before interest and tax (EBIT)[3]	538	1,044	956	1,031	200	–81
Profit before tax[3]	423	961	893	982	–111	–
Profit after tax (incl. Generics)	218	672	673	1,001	3,520	252
Free cash flow (incl. Generics)	442	1,889	657	–1,073	–1,473	37
Capital expenditure on property, plant and equipment (incl. Generics)	281	234	268	253	283	12
Research and development[3]	605	599	713	615	1,028	67
Total assets	6,982	5,754	7,281	8,102	14,922	84
Net equity	2,363	2,800	3,329	3,807	8,688	128
Employees (number as of Dec. 31)[3]	34,206	28,877	29,133	25,531	30,968	21
Return on sales[3] (ROS) in % (ROS: Operating result/Total revenues)	10.2	13.2	15.3	17.9	13.8	
Earnings per share in €	1.15	3.47	3.40	5.07	16.21	–
Dividend per share in €	0.80	0.80	0.85	0.90	1.20	33
One-time bonus per share in €	–	0.20	–	0.15	2.00	–

[1] In order to harmonize accounting practices, as of 2006 the way in which certain customer rebates in the Pharmaceuticals business sector are reported has been changed.
[2] Following its acquisition, the Swiss biopharmaceutical company Serono was integrated with the Ethicals division into Merck Serono.
[3] The Generics division was sold in October 2007 and is thus reported as a Discontinued Operation. All revenue, profit and employee figures have been adjusted for 2006 and 2007. The Laboratory Distribution business (VWR) was divested in 2004.

Pharmaceuticals business sector

Merck develops, manufactures and markets innovative prescription drugs as well as over-the-counter products. The Serono acquisition was completed in early January 2007 and the sale of the Generics business to Mylan closed in early October 2007. We develop therapies for high unmet medical needs. Through their targeted effect, these help patients to live a longer and better life. Our over-the-counter products can prevent disease and relieve minor complaints.

Merck Serono division

The product portfolio of this division includes leading prescription drugs such as the cancer drug Erbitux® and the multiple sclerosis treatment Rebif®. In addition, we offer therapies to treat infertility, growth disorders, cardiovascular or metabolic diseases, and psoriasis. The focus of our research activities is on Oncology, Neurodegenerative Diseases, Fertility, Autoimmune and Inflammatory Diseases.

Consumer Health Care division

Many consumers trust a wide range of well-known over-the-counter brands that Merck develops, manufactures and markets in its Consumer Health Care division. The portfolio ranges from products for everyday health such as Bion®3, or Femibion®, which is specially for women, classic cold remedies such as the well-known brand Nasivin®, to products that strengthen the joints such as Seven Seas® JointCare and Kytta®.

Chemicals business sector

Merck offers a very wide range of specialty chemicals for technologically sophisticated applications. Many of these are contained in products that people encounter in everyday life, such as mobile phones, televisions, automotive coatings and cosmetics. Top quality, diversity and a customer-centric approach to research and product development characterize our Chemicals business.

Liquid Crystals division

Close cooperation in development and production of liquid crystals (LC) with the world's leading display manufacturers has made Merck the number one company worldwide in this market of the future. Modern life would be hard to imagine without LC displays. In order to meet the growing demand, we continuously invest in research for customized LC mixtures and OLEDs (organic light-emitting diodes). At the same time, we adapt our production capacities to the dynamic market development.

Performance & Life Science Chemicals division

Our specialty chemicals and our expertise in application technologies, quality assurance and approval processes have made us a successful supplier in key markets, in particular the food, optics, plastics, coatings, printing, cosmetics and pharmaceutical industries. Products and services from Merck are used throughout the entire process chain, from analysis, research and development, through to production and quality control. Our portfolio includes, for example, effect pigments, cosmetic actives, reagents and test kits.

Pharmaceuticals and chemicals are important to people all over the world. Merck plays an active role in these sectors and has helped to shape them. Our success and corporate culture are founded on strong pillars, namely innovation and tradition. For generations, Merck has repeatedly proven its courage in taking the first steps while sustaining what has worked well in the past. In a world of constant change, it's important to be able to rely on experience in things that really matter.

Merck and its employees support the principle of sustaining and changing in order to remain successful. In 2007, the acquisition of the biotech company Serono was successfully completed and the Generics business was divested. With these steps, Merck has created a wide range of new development opportunities. Merck is clearly focused on profitable growth – driven by innovations that prolong life and improve the quality of life of many people around the world.

Merck – Sustain. Change. Grow.

Sustaining success.

Experience is the soil on which success grows. In 1668, Friedrich Jacob Merck purchased a pharmacy in Darmstadt, which was the foundation stone for today's success. The wealth of experience gained over 340 years was not least also due to the pioneering spirit of Emanuel Merck, who was the first to offer customers a range of high-purity alkaloids. This success story continues to the present day. A good example is the perseverance with which Merck has advanced the development of liquid crystals for the LCD market. In addition, new biopharmaceuticals such as the cancer drug Erbitux® resolutely point the way to the future – with a clear goal for Merck: to expand its expertise and to drive growth. Merck means innovation by tradition. Pharmaceuticals and Chemicals. These are the sources of new ideas that bring about decisive change and make Merck stronger, both as a company and as a brand.

Making decisive change.

With all the continuity – recent developments prove that Merck has the key to creating something fundamentally new at the right moment. The integration of the biopharmaceutical company Serono creates potential for more: The best of both Merck and Serono is converging and cross-pollinating. Merck has the courage and the strength to pursue new avenues in pharmaceutical research with a research and development budget that has nearly doubled. We are working to discover and develop new active ingredients, especially for oncology, neurodegenerative diseases, autoimmune and inflammatory diseases, and fertility. A new organizational structure has enabled us to streamline our development and decision-making processes and clarify the prospects for the success of new active ingredients and technologies at a very early stage. In the future, new developments will happen faster, not only in the laboratory, but also in logistics, service and production. We're strong on the execution side, also when it comes to strategic changes – as the rapid divestment of the Generics division in 2007 showed.

Growing together.

More than ever before, Merck has today what it takes to succeed worldwide tomorrow. There's plenty of evidence of this. In the future-oriented biopharmaceuticals sector, the prospects are excellent following the integration of Serono. We want to further expand our leading position, not only in Europe. We also want to grow sustainably in all key markets and set new standards. For example in 2007, a new formulation of Rebif® – a further development of the successful multiple sclerosis therapy – was approved in the European Union, and the innovative growth hormone injection device Easypod™ was approved by the U.S. Food and Drug Administration. Global market leadership in liquid crystals for displays will also continue to generate exceptional earning power in the Chemicals business sector as flat screens continue to make their way into offices and homes. Co-developments with customers are the decisive factors here. Merck's increased economic strength has also received objective confirmation: On June 18, 2007, our company became part of the DAX®, the blue-chip index of the 30 largest German securities, on the Frankfurt Stock Exchange.

Our strategy.

Merck has a clear objective: profitable growth. This is based on a distinct, fundamental strategy that can be summed up in three words: Sustain. Change. Grow. It's a strategy that suits both our culture and our competencies. It strikes the right balance between the old and the new, between innovation and tradition, between Pharmaceuticals and Chemicals, gives us the best possible preconditions for growth and makes it possible to fully unlock the entrepreneurial potential inside Merck. It gives our workforce of nearly 31,000 employees around the world orientation for their daily work. We enable them to share in the company's success and, thus, also in the execution risk. By tradition, we will remain curious and courageous – and continue to seize many new opportunities in the future.

Grow

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Sustain

Financial calendar for 2008

Annual press conference
Monday, February 18

Annual General Meeting
Friday, March 28

Interim Report 1st quarter
Wednesday, April 23

Interim Report 2nd quarter
Wednesday, July 23

Autumn press conference
Interim Report 3rd quarter
Monday, October 27

More information

The Merck Annual Report for 2007 is available in German and English. An abridged version is also available in German and English. Both reports are available as navigable online versions on the Web at www.financialreports.merck.de.

More information about Merck can be found on the Web at www.merck.de and in the following publications, which you may read or order (in German and English) at www.publications.merck.de:

Responsibility for Employees, the Environment and the Community ________ 2007 Report

Merck – Facts & Figures ________ (also available in French and Spanish)

A Strong Site ________ A Global Player Rooted in Darmstadt

You can order these publications from Corporate Communications, Merck KGaA, 64271 Darmstadt, Germany, or via the following e-mail address: corpcom@merck.de.