Merck shares

Pessimism takes hold in the capital markets

Sentiment in the international capital markets worsened considerably in the course of 2008. Uncertainties regarding potential defaults on sub-prime mortgages, which had begun in 2007 and increased in the course of the year, led to the collapse of some banks in 2008. These banks were either sold or went bankrupt, which triggered a chain reaction in the stock markets, resulting in recessionary trends in different economies. The development of Merck shares was also characterized by this general turmoil in the capital market.

Merck shares outperform the DAX® in 2008.

Merck shares finished 27% lower than in 2007. In terms of our share price performance, we ranked sixth among the DAX® 30 companies. The DAX® index suffered a 40% drop in value in 2008. Merck shares developed virtually consistent with the broad index of European pharmaceutical companies included in the Bloomberg Europe Pharmaceuticals Index (BEUPHRM). This pharmaceutical index recorded a decline of 22% in 2008 compared to 2007.

The relative stability of Merck shares in these turbulent times can be attributed, among other things, to the Merck Group's business model. The Pharmaceuticals and Chemicals business sectors enable us to balance risk, putting Merck on a solid foundation.

Share price supported by good Erbitux® study results

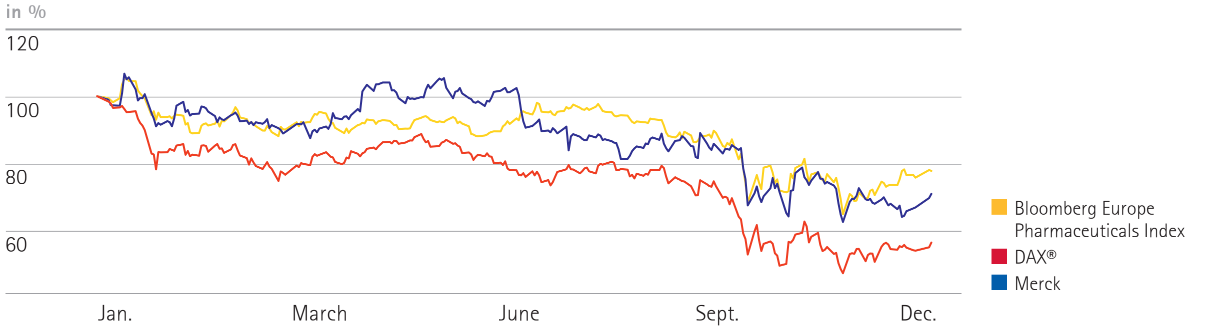
As a result of the strong euro and high oil prices at the beginning of the year, Merck shares suffered with the entire DAX® from fears of only moderate economic growth in Germany. This was followed by a period of uncertainty in which Merck shares remained unchanged in line with the stock markets. At the end of April, the Merck share price recovered and approached its annual high of € 93.79 recorded on January 9, 2008. The capital market's expectations regarding the approval of the oncology drug Erbitux® for early treatment of metastatic colorectal cancer supported the share price development in the second quarter. A committee of the European Medicines Agency issued a positive opinion on May 30. In addition, Merck shares benefited in the second quarter from expectations of positive study results for Erbitux® in the treatment of lung cancer. Merck presented the data at the beginning of June 2008 in Chicago at ASCO, the world's most important oncology congress. We received marketing approval for the early use of Erbitux® in colorectal cancer patients on July 23. This included the potential for broad combination with existing chemotherapies; however, it limits the use of the drug to a certain patient group (see page 34 for details).

Despite turbulence, our share price recovered slightly at year-end.

In a market environment of continued insecurity, profit-taking in July 2008 exerted downward pressure on Merck shares. In September, the financial crisis reached another peak with the collapse of Lehman Brothers and sent the entire stock market into a tailspin. Despite our comparatively crisis-resistant business model, the Merck share price declined and reached its annual low of € 57.67 on November 21 but recovered slightly toward year-end.

12 Overall economic situation
14 Economic development of Merck
15 Financial position and results of operations
24 Responsibility
26 Merck shares
30 Pharmaceuticals business sector
50 Chemicals business sector
60 Corporate and Other
61 Risk report
64 Report on expected developments
64 Subsequent events

The performance of Merck shares vs. the DAX®/Bloomberg Pharmaceuticals Index in 2008



Share data[1]

	2008	2007
Earnings per share after tax and minority interest from continuing operations (in €)	1.69	–0.50
Earnings per share after tax and minority interest from continuing and discontinued operations (in €)	1.69	16.21
Dividend in €	1.50	1.20
One-time bonus in €	–	2.00
Share price high in € (January 9, 2008/June 15, 2007)	93.79	106.55
Share price low in € (November 21, 2008/January 2, 2007)	57.67	79.96
Year-end share price in €	64.51	88.30
Actual number of shares in millions (as of year-end)	64.6	64.6
Theoretical total number[2] of shares in millions (as of year-end)	217.4	217.4
Market capitalization[3] in € million (as of year-end)	14,024	19,196

[1] Share-price relevant figures relate to the closing price in Xetra® trading on the Frankfurt Stock Exchange.
[2] The calculation of the theoretical number of shares is based on the fact that the general partner's equity capital is not represented by shares. As the share capital of € 168.0 million was divided into 64.6 million shares, the corresponding calculation for the general partner's capital of € 397.2 million resulted in 152.8 million theoretical shares on December 31, 2008.
[3] Based on the theoretical number of shares.

Established in the DAX®

The liquidity of our shares remained at a high level in 2008. On average, 744,506 shares were traded daily. High liquidity makes Merck shares attractive for more investors. At the end of 2008, Merck again ranked 24th in the DAX® with respect to market capitalization, and 30th once again with respect to average share trading volumes.

www.merck.de/investors

Analysts' estimates

As of the end of 2008, Merck shares were covered and assessed by 34 stockbrokers and equity analysts. In comparison, other DAX® companies are followed by an average of 38 brokerages. They serve as multipliers that inform the stakeholders in the capital markets of business developments in a timely manner.

Analysts see share price potential of 20% over the year-end closing price.

At the end of 2008, a total of 34 investment recommendations had been issued: Merck shares were given buy recommendations by 26 analysts, seven brokerages gave the shares a neutral rating, and one issued a sell recommendation. Analysts adjusted their expectations for the share price as a result of the general pessimism in the capital market. Whereas in 2007 they had estimated an average price of € 102 for Merck shares within one year, their share price estimate was € 79 in 2008. This corresponds to a share price potential of more than 20% compared to the year-end share price of 2008.

Details of the individual analysts and their estimates can be found on our website at www.merck.de/investors.

Transparency and proximity to shareholders

Programs for institutional and private investors intensified.

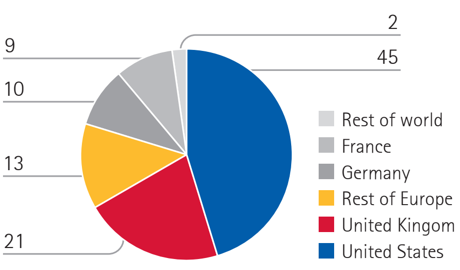
We participated in 16 conferences in 2008 in the United States, Europe and Japan as part of our Investor Relations program. Roadshows were conducted in Germany, the United Kingdom, France, Switzerland, Ireland, Italy, Scandinavia and the Benelux countries, as well as on the U.S. west and east coasts, in Canada and Singapore. Altogether, we held more than 500 one-on-one meetings with institutional investors in 2008. We participated in events held by the Deutsche Schutzvereinigung für Wertpapierbesitz e.V. and the Schutzgemeinschaft der Kapitalanleger e.V. to strengthen the private investor base in Germany. We redesigned our website and made it more transparent. We webcasted the Annual General Meeting for the first time in 2008, thereby reaching a broader target group.

A more international shareholder structure

The shareholder identification survey conducted in August 2008 identified over 54 million shares and thus more than 80% of the bearer shares in free float. The analysis provides information about the regional distribution of shareholders as well as the classification of investor types. With 45%, U.S. investors continue to hold the majority of Merck shares in free float (2007: 49%), followed by investors residing in the United Kingdom and Germany. The significance of France increased slightly compared to 2007.

Identified investors by region

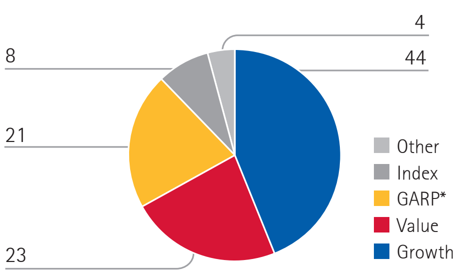
in %



Source: Company data

Identified investors by type

in %



Source: Company data
*Growth at reasonable price

12 Overall economic situation
14 Economic development of Merck
15 Financial position and results of operations
24 Responsibility
26 Merck shares
30 Pharmaceuticals business sector
50 Chemicals business sector
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As of December 31, 2008, the following shareholders reported their holdings in Merck shares to the company in accordance with the German Securities Trading Act:
– Barclays Bank PLC, London (United Kingdom): 5% – 10%
– Capital Group Companies Inc. Los Angeles (United States): 5% – 10%
– Sun Life Financial Inc. Toronto (Canada): 5% – 10%
– Fidelity International Ltd., Hamilton (Bermuda): 3% – 5%
– Templeton Investment Counsel LLC, Fort Lauderdale (United States): 3% – 5%
Merck continues to aim for a more balanced regional distribution of shareholders with a targeted Investor Relations program, concentrating primarily on long-term focused investors.

Information on capital and shares

As of the balance sheet date, the company's subscribed capital is divided into 64,621,125 no par value bearer shares plus one registered share. The holder of the registered share is E. Merck Beteiligungen KG (until and including December 31, 2008 E. Merck Beteiligungen OHG). It is entitled and obliged to appoint one-third of the members of the Supervisory Board representing the limited liability shareholders. If the holder of the registered share is a general partner, he or she has no such right of appointment. The transfer of the registered share requires the company's approval. The approval is granted at the sole discretion of the personally liable general partner with an equity interest, namely E. Merck KG (until and including December 31, 2008 E. Merck OHG). As of the balance sheet date, there were no holdings in the company's share capital exceeding 10% of the voting rights.

According to the Articles of Association of the company, the general partners not holding an equity interest who form the Executive Board are admitted by E. Merck KG with the consent of a simply majority of the other general partners. A person may only be a general partner not holding an equity interest if he or she is also a general partner of E. Merck KG. In addition, at the proposal of E. Merck KG and with the approval of all general partners not holding an equity interest, further persons may be appointed to the Executive Board who are not general partners not holding an equity interest.

The Articles of Association of the company can be amended by a resolution of the Annual Meeting that requires the approval of the general partners. The resolutions of the General Meeting are, notwithstanding any statutory provisions to the contrary, adopted by a simple majority of the votes cast. Where the law requires a capital majority in addition to the voting majority, resolutions are adopted by a simple majority of the share capital represented in the vote.

The Articles of Association of the company specify the authorized share capital. The Executive Board is authorized, with the approval of the Supervisory Board and of E. Merck KG, to increase the share capital on one or several occasions until March 31, 2010 by up to a total of € 29,824,787.20 by issuing new shares against cash or contributions in kind. The company is not authorized to acquire its own shares.

The company has not entered into any material agreements subject to a change of control pursuant to a takeover offer nor has it concluded any compensation agreements with the members of the Executive Board or employees in the event of a takeover offer.