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COMPANY

TO OUR SHAREHOLDERS

MANAGEMENT REPORT

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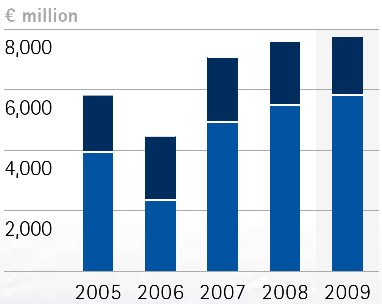
MERCK AT A GLANCE

Key figures for 2009

€ million	Pharma-ceuticals	Chemicals	Corporate and Other	Total	Change in %
Total revenues	5,812	1,935	0	7,747	2.1
Gross margin	4,805	913	0	5,718	0.6
Research and development	1,203	142	–	1,345	8.9
Operating result	403	324	–78	649	–43
Exceptional items	–40	12	–	–28	–
Earnings before interest and tax (EBIT)	363	336	–78	621	–15
EBIT before depreciation and amortization (EBITDA)	1,221	479	–75	1,625	–17
Return on sales in % (ROS: operating result/total revenues)	6.9	16.8	–	8.4	
Free cash flow	913	410	–511	812	85
Underlying free cash flow	916	432	–496	852	42
Underlying free cash flow on revenues (FCR) in %	15.8	22.3	–	11.0	

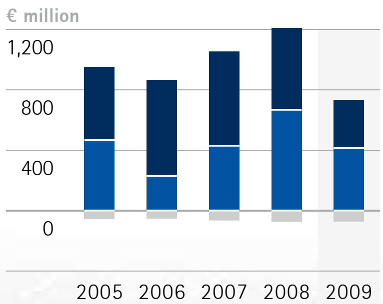
Total revenues by business sector*



* excluding Corporate and Other

Chemicals Pharmaceuticals

Operating result by business sector



Chemicals Pharmaceuticals
Corporate and Other

BUSINESS DEVELOPMENT 2000 – 2009

This overview may include historically adjusted values in order to ensure comparability with 2009.

€ million	2000	2001	2002	2003
Total revenues [2]	6,910	7,721	7,521	7,364
Pharmaceuticals	3,047	3,484	3,265	3,458
Merck Serono	1,941	2,228	1,850	1,546
Generics [3]	790	936	1,096	1,585
Consumer Health Care	299	320	319	327
Imaging [3]	17	–	–	–
Chemicals	1,679	1,729	1,791	1,707
Liquid Crystals	313	297	383	443
Performance & Life Science Chemicals	1,174	1,216	1,216	1,083
Electronic Chemicals [3]	192	216	192	181
Laboratory Distribution [3]	2,374	2,754	2,711	2,427
Intragroup sales, Laboratory	–190	–246	–246	–228
Corporate and Other	–	–	–	–
Generics [3]	–	–	–	–
Operating result	746	877	616	736
Pharmaceuticals	455	581	272	389
Chemicals	247	204	260	316
Laboratory Distribution [3]	44	92	84	79
Corporate and Other	0	0	0	–48
Generics [3]	–	–	–	–
Earnings before interest and tax (EBIT)	747	1,286	559	538
EBIT before depreciation and amortization (EBITDA)	1,184	1,694	985	1,008
Profit before tax	524	1,078	412	423
Profit after tax	262	655	215	218
Free cash flow	324	664	441	442
Capital expenditure on property, plant and equipment	427	470	377	281
Research and development	546	577	608	605
Total assets	8,235	8,255	7,511	6,982
Net equity	1,947	2,336	2,054	2,363
Employees (number as of December 31)	33,520	34,294	34,504	34,206
Return on sales in % (ROS: operating result/total revenues)	10.8	11.4	8.2	10.0
Earnings per share in €	1.44	3.66	1.18	1.15
Dividend per share in €	0.90	0.95	1.00	0.80
One-time bonus per share in €	–	–	–	–

[1] Continuing Operations (without Generics)
[2] In 2009, commission income was reclassified from marketing and selling expenses to total revenues. All figures from the previous year were also adjusted.
[3] Business was divested
[4] Including Generics

	2004	2005	2006[1]	2007[1]	2008	2009	Change vs. 2008 in %
	6,017	5,887	4,485	7,081	7,590	7,747	2.1
	3,601	3,905	2,338	4,900	5,456	5,812	6.5
	1,619	1,817	1,938	4,480	5,014	5,345	6.6
	1,625	1,712	–	–	–	–	–
	357	376	400	420	442	467	5.7
	–	–	–	–	–	–	–
	1,696	1,906	2,113	2,152	2,127	1,935	–9.0
	589	741	895	916	878	733	–17
	1,107	1,165	1,218	1,236	1,249	1,202	–3.8
	–	–	–	–	–	–	–
	582	–	–	–	–	–	–
	–62	–	–	–	–	–	–
	200	76	34	29	7	–	–
	–	–	1,825	1,398	–	–	–
	776	883	799	976	1,131	649	–43
	391	454	217	417	655	403	–39
	420	492	641	631	558	324	–42
	21	–	–	–	–	–	–
	–56	–63	–60	–72	–81	–78	–3.5
	–	–	307	189	–	–	–
	1,044	956	1,031	200	731	621	–15
	1,419	1,245	1,334	1,858	1,947	1,625	–17
	961	893	982	–111	575	486	–15
	672	673	1,001[4]	3,520[4]	379	377	–0.6
	1,889	657	–1,073[4]	–1,473[4]	438	812	85
	234	268	253[4]	283[4]	395	467	18
	599	713	615	1,028	1,234	1,345	8.9
	5,754	7,281	8,102	14,922	15,645	16,713	6.8
	2,800	3,329	3,807	8,688	9,563	9,514	–0.5
	28,877	29,133	25,531	30,968	32,800	33,062	0.8
	12.9	15.0	17.8	13.8	14.9	8.4	
	3.47	3.40	5.07[4]	16.21[4]	1.69	1.68	–0.6
	0.80	0.85	0.90	1.20	1.50	1.00	–33
	0.20	–	0.15	2.00	–	–	

ABOUT MERCK

At Merck, the Pharmaceuticals and Chemicals businesses are under one roof. We are convinced that in both sectors, the market will reward successful research and technological advances with attractive margins. We focus on specialty businesses within both Chemicals and Pharmaceuticals. We are not interested in engaging in commodity markets or businesses where competition is dictated by price alone.

THE HISTORY OF MERCK

It all started with a pharmacy in 1668. The Angel Pharmacy, which is still owned by members of the Merck family today, is where Merck originated. Like his contemporaries, the pharmacist Friedrich Jacob Merck prepared all medicinal substances himself. At that time, the "art of pharmacy" was still a manual craft.

In 1816 – several generations of pharmacists later – Emanuel Merck took over his father's pharmacy and initiated the move from a manual craft to industrial production in 1827. In his laboratory, he succeeded in extracting alkaloids, a class of highly effective plant constituents whose medicinal effect attracted interest from the scientific community. By 1860, the company already offered more than 800 organic and inorganic substances for sale, including many still used in laboratories today.

The roots of the Liquid Crystals business – one of the outstanding Merck success stories – date back to 1904. For decades, liquid crystals remained a laboratory oddity, and their sale was handled by the Laboratory business.

Serono, which was acquired by Merck in 2007, also started out by extracting active substances. In 1906, Cesare Serono founded the "Istituto Farmacologico Serono" in Rome and developed a new method of extracting lecithin from egg yolk. In 1949, the company discovered a way to successfully isolate pure gonadotropin from urine. Gonadotropin plays an important role in reproduction. The production of recombinant gonadotropin transformed Serono into a biotechnology company.

In the early 19th century, the scientific community took particular interest in the extraction of alkaloids, highly effective plant constituents with a medicinal action. Quinine, depicted here, was one such alkaloid.

BECOMING A GLOBAL, PUBLICLY LISTED COMPANY

Initial business relationships with European neighbors were established in the 1820s. Since 1900, Merck has had business relationships on all continents.
In the United States, Georg (later on "George") Merck, a grandson of Emanuel Merck, founded a trading company called Merck & Co. in 1891. As a result of World War I, Merck in Darmstadt lost its entire stake in this company under the "Trading with the Enemy Act" of 1917. George Merck succeeded in reacquiring his interest and became president of the public company Merck & Co. Today, the two companies are no longer linked to one another. The U.S. company Merck & Co. owns the rights to the name within North America, while Merck in Darmstadt holds the rights in the rest of the world. In the United States and Canada, the company operates under the name EMD, the abbreviation for Emanuel Merck, Darmstadt.
Acquisitions and divestments have always played an important role at Merck. A decisive step in Merck's expansion was the acquisition of a 50% interest in the Bracco Group of Italy in 1972. Aside from commercializing contrast agents and its own pharmaceutical specialties, Bracco served as Merck's representative in Italy for the entire Merck product range, helping to significantly boost Merck's earning power.
In 1991, Merck acquired Société Lyonnaise Industrielle Pharmaceutique (Lipha), which employed around 2,700 people and generated sales of DM 723 million. In the mid-1990s, Merck expanded its consumer health care business by acquiring Seven Seas in the United Kingdom and Monot in France. At the same time, with the acquisition of Amerpharm of the United Kingdom, Merck achieved a critical mass in the generic drugs business. The takeover of a large number of laboratory distribution businesses was rounded off by the purchase of VWR Scientific Products, a U.S. laboratory distributor, in 1999.
In order to secure the financing of these acquisitions, Merck went public in 1995. A 26% interest in Merck KGaA was sold to shareholders. Thereafter, the Merck family held the remaining 74% via the general partner E. Merck. Following a capital increase in 2007, ownership shifted slightly to its current 30:70 ratio.
The first half of the decade just ended saw a significant number of disposals and divestments. In 2000, Merck divested its interests in Bracco and vitamin chemicals. In 2004, the company exited from the laboratory distribution and electronic chemicals businesses. In 2006, Merck was debt-free. In 2007, Merck succeeded with the transformational acquisition of Serono. Involving a purchase price of € 10.3 billion, this was by far the largest acquisition ever made by Merck. As the generics business was sold in the same year for € 4.9 billion, the company lowered its debt to less than € 1 billion by year-end.

MERCK TODAY

Merck runs its operating business in four divisions: Merck Serono, Consumer Health Care, Liquid Crystals, and Performance & Life Science Chemicals.

The Merck Serono division markets prescription medicines. It discovers, develops and manufactures both chemical and biological molecules. Merck holds strong positions in neurodegenerative diseases and oncology. In addition, the division markets fertility treatments, a field in which we are the market leader, growth hormones, as well as a broad portfolio of classic products, especially for cardiovascular diseases and metabolic disorders.

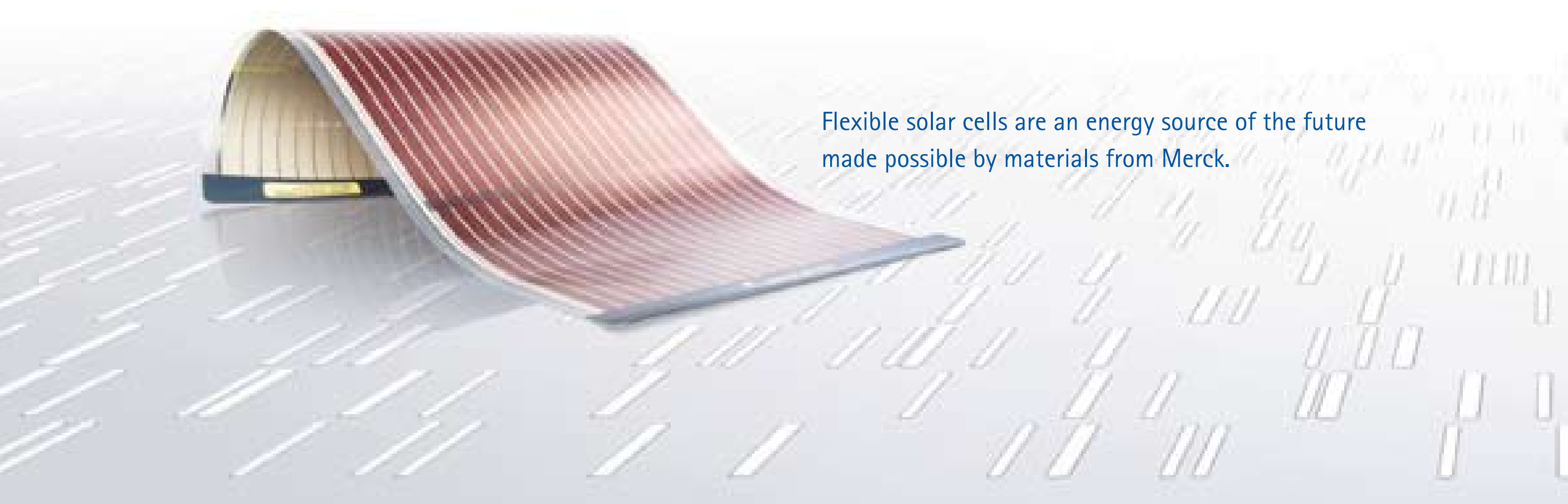
The Consumer Health Care division offers over-the-counter products for preventive health care and the self-treatment of minor ailments.

Merck is the global leader in the liquid crystals market. Besides the display materials business, the Liquid Crystals division focuses on the development of molecules for printable organic electronics, on the use of alternative energy, as well as on lighting materials for energy-saving LEDs (light-emitting diodes) and OLEDs (organic LEDs).

Performance & Life Science Chemicals, the second division within the Chemicals business sector, mainly supplies specialty chemicals to regulated markets, for example the pharmaceutical, cosmetics and food industries. Analytical and scientific laboratories use our reagents and test kits. Moreover, the division is the market leader for pearl luster effect pigments – a highly specialized niche within the pigment market.

THE FUTURE

Merck will continue to operate in both Pharmaceuticals and Chemicals and to focus on specialty products. We will also continue to invest significantly in research and development. We want to grow both organically and through acquisitions. We will adhere to our conservative finance policy.



Flexible solar cells are an energy source of the future made possible by materials from Merck.

EXECUTIVE BOARD

Elmar Schnee

Head of the Pharmaceuticals business sector

born in 1959, business graduate

joined Merck in 2003,
Member of the Executive Board since November 2005

Responsibility for Group-wide functions:
Pharmaceuticals business sector

Regional responsibilities: Europe; United States (Pharmaceuticals); Canada; Latin and Central America; Africa; Middle East

Elmar Schnee

Dr. Karl-Ludwig Kley

Chairman of the Executive Board

born in 1951, lawyer

Member of the Supervisory Board and Board of Partners of Merck from March 2004 to June 2006, Member of the Executive Board since joining Merck in September 2006

Responsibility for Group-wide functions:
Information Services; Human Resources (global); Legal and Compliance; Patents; Auditing and Risk Management; Strategic Planning; Inhouse Consulting; Corporate Communications; Environment, Health and Safety

Dr. Michael Becker

Chief Financial Officer

born in 1948, lawyer

joined Merck in 1998, Member of the Executive Board since January 2000

Responsibility for Group-wide functions:
Accounting and Controlling, Finance; Taxes; Insurance; Mergers and Acquisitions; Investor Relations; Purchasing

Dr. Bernd Reckmann

Head of the Chemicals business sector

Born in 1955, biochemist

joined Merck in 1986, Member of the Executive Board since January 2007

Responsibility for Group-wide functions:
Chemicals business sector

Regional responsibilities:
Germany (including HR);
Site Management Darmstadt and Gernsheim; Asia; United States (Chemicals); Russia, Australia; New Zealand

Dr. Karl-Ludwig Kley

Dr. Michael Becker

Dr. Bernd Reckmann

FINANCIAL CALENDAR FOR 2010

Annual press conference: Tuesday, February 23

Annual General Meeting: Friday, April 9

Report on the first quarter: Wednesday, April 28

Report on the first half: Thursday, July 29

Autumn press conference and Report on the third quarter: Tuesday, October 26

MORE INFORMATION

The Merck Annual Report for 2009 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.merck.de/annualreport2009.
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.merck.de/publications).

Responsibility – 2009 Corporate Resonsibility Report
Merck – Facts & Figures (also available in French and Spanish)

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