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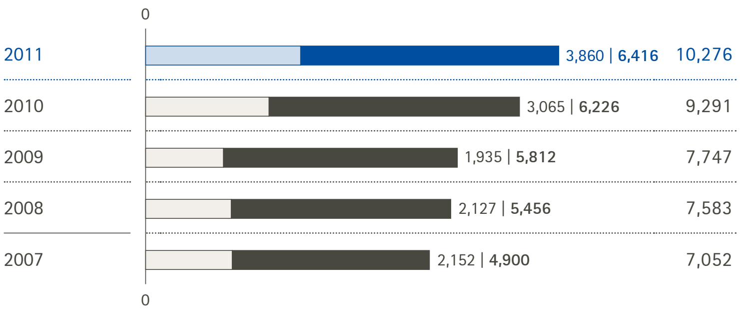
The Merck Group → In brief

Key figures of the Merck Group

€ million	Pharma-ceuticals	Chemicals	Corporate and Other	Total	Change in %
Total revenues	6,416.2	3,860.2	–	10,276.4	11
Gross margin	5,227.0	2,261.1	–	7,488.1	8.4
Research and development	1,248.3	268.8	–	1,517.1	8.6
Operating result	350.3	751.0	–116.2	985.1	–12
Exceptional items	25.1	157.1	–30.4	151.8	–
EBIT before depreciation and amortization (EBITDA)	1,571.7	1,305.1	–141.1	2,735.7	11
Earnings before interest and tax (EBIT)	375.4	908.1	–146.6	1,136.9	2.2
Return on sales in % (ROS: operating result/total revenues)	5.5	19.5	–	9.6	
Free cash flow	1,515.1	834.0	–912.7	1,436.4	–
Underlying free cash flow	1,245.0	801.3	–651.7	1,394.6	–17

Total revenues by business sector
(excluding Corporate and Other)

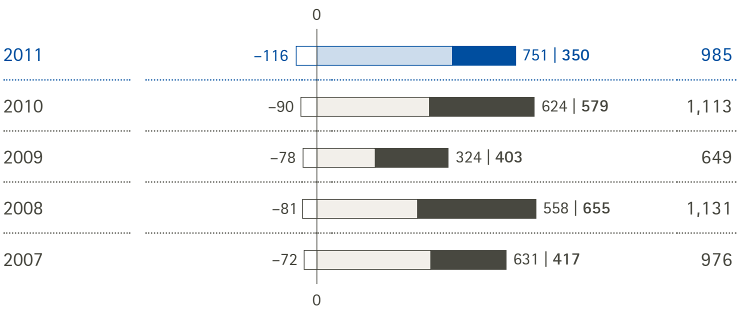
€ million



Chemicals Pharmaceuticals

Operating result by business sector

€ million



Chemicals Pharmaceuticals Corporate and Other

Letter from Karl-Ludwig Kley

»Merck has *changed significantly* in recent years.«

Darmstadt, February 2012

Dear Shareholders,

Merck performed well in 2011. Total revenues, which increased by nearly 11%, exceeded the € 10 billion mark for the first time in the company's history. The milestone we set for ourselves in 2007 has thus been achieved.

In accordance with our strategic objectives, we grew particularly in Asia and North America. We will further intensify our activities in both regions since they offer our businesses the greatest potential for growth.

The operating result amounted to € 985 million, declining by 11.5%. The main reasons for this were the one-time effects in the second quarter. These primarily included the impairment loss on our biotech production plant in Corsier-sur-Vevey (Switzerland) as well as reassessments of various pharmaceutical projects. In addition, we set up provisions for the costs of discontinuing the development of cladribine tablets. Consequently, profit after tax declined by 2% to € 629 million.

We are, of course, not satisfied with the development of this result. Our focus in 2012 will therefore be on improving the operating result.

For our shareholders, 2011 was a good year. With a price increase of 29%, Merck shares were the best-performing stock in the DAX®. We would like to underscore both this excellent development and the sharp decline in debt with a suitable dividend payment. We therefore intend to propose to the Annual General Meeting on April 20 an increase of € 0.25 in the dividend to € 1.50 per share. The basis for this proposal is the excellent business performance of Merck, the robust underlying operating result as well as the positive future prospects for the company.

Merck has changed significantly in recent years.

- By acquiring Serono, we became a leading global manufacturer of biopharmaceuticals.
- With the divestment of the Generics business, we shifted our focus to innovation-driven and higher-margin activities.
- And with the acquisition of Millipore, we established ourselves as a leading partner to the global life science industry.

With its new structure, Merck is in a good starting position to sustainably exploit the growth opportunities in the pharmaceutical, chemical and life science sectors.

We will now focus on achieving a lasting improvement in the operating result. After all, future growth must also be financed. For this purpose, we have initiated the “Fit for 2018” program, which we will be implementing in two phases.

In the first phase, which will last until 2013, we will work to enhance our efficiency and lower our costs. This also includes implementing a leaner management structure.

We have already made good progress at the organizational level. On January 1, 2012, a new global leadership organization became effective. It replaces the former country-based structure with clear leadership by our global businesses.

We will optimize processes and structures especially in those areas where our success has not yet met our expectations. This applies specifically to our Pharmaceuticals research and development organization, which we largely restructured in 2011.

In order to accelerate the ongoing transformation process and to strengthen our expertise, we made not only organizational, but also personnel changes.

With three new members, the Executive Board has been complete since mid-2011. In January, Stefan Oschmann took over responsibility for our Pharmaceuticals business sector. Kai Beckmann followed in April as Head of Group Human Resources. And Matthias Zachert has been Chief Financial Officer since June. Matthias Zachert succeeded Michael Becker, who retired after 13 successful years working for Merck. I’d like to thank Michael Becker for his tremendous commitment and achievements. He made great contributions to Merck.

We made new appointments not only to the Executive Board, but also to numerous level-two management positions. We recruited executives from well-known companies in our sectors, which has enabled us to meaningfully strengthen expertise, leadership experience and diversity at Merck.

Since early 2012, we have been working intensely to identify objectives and measures that will improve our positioning at our sites in 67 countries around the world. The changes introduced will be significant and encompass all areas of the company.

Once the first phase of the “Fit for 2018” program has been completed, from 2014 we’ll again focus more strongly on growth – which of course doesn‘t mean we‘ll have lost sight of this objective in the meantime. We will continue to seize attractive growth opportunities, either by making smaller acquisitions or in-licensing pharmaceutical development compounds. Since the speed at which the efficiency program will be completed around the world will vary greatly, individual businesses or countries could also realize their growth objectives sooner than 2014.

Changes such as the current ones are nothing new for Merck. On the contrary. One of our recipes for success, which has enabled us to remain in existence for 344 years, is the ability to change. This has been the only way for Merck to survive wars, currency reforms and changes in government systems while continuing to operate its businesses successfully.

Whenever changes take place, our employees can rely on the fact that Merck remains a community based on a shared set of values, attaches great importance to social partnership, and appropriately involves employee representatives in the individual steps of the process. This of course also applies to the implementation of our efficiency-enhancement and cost-reduction program. The aim of “Fit for 2018” is to shape Merck so that we can leverage our strong market position to achieve sustainable, profitable growth with innovative products. We will fulfill this ambition.

We sincerely thank you for the trust and support you have given us on the journey so far. And we’d be pleased if you would continue to accompany Merck in that same spirit of trust on the “road to tomorrow.”

Sincerely
Karl-Ludwig Kley

Karl-Ludwig Kley
Chairman of the Executive Board

The Executive Board

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 September 2006
- Responsibility for Group functions: Group Strategy; Group Communications; Group Legal and Compliance; Group Auditing

Kai Beckmann
Head of Group Human Resources/Chief Administration Officer

- Born in 1965, university degree in computer science
- Joined Merck in 1989, member of the Executive Board since April 2011
- Responsibility for Group functions: Group Human Resources; Group Information Services; Site Management Darmstadt and Gernsheim; Inhouse Consulting
- Regional responsibilities: EMEA (Europe, Middle East, Africa)

Stefan Oschmann
Head of the Pharmaceuticals business sector

- Born in 1957, veterinarian
- Member of the Executive Board since January 2011
- Responsibility for Group functions: Patents & Scientific Information
- Regional responsibility: North America and Latin America

Bernd Reckmann
Head of the Chemicals business sector

- Born in 1955, biochemist
- Joined Merck in 1986, member of the Executive Board since 2007
- Responsibility for Group functions: Quality Management; Logistics and Supply Chain
- Regional responsibility: Asia-Pacific

Matthias Zachert
Chief Financial Officer

- Born in 1967, university degree in business administration
- Member of the Executive Board since June 2011
- Responsibility for Group functions: Group Accounting & Subsidiaries; Group Controlling; Group Finance; Group Taxes; Group Insurance; Group Procurement; Investor Relations

→ *The Executive Board*

Stefan Oschmann
Bernd Reckmann
Karl-Ludwig Kley
Kai Beckmann
Matthias Zachert

Merck:
Key Events in 2011

01/11

China:
Expansion in biotechnology

In January, Merck acquired 100% of the share capital of Beijing Skywing Technology Co., Ltd, a leading supplier of cell culture media products, related technical services and bioreactors for the Chinese biopharmaceutical industry.

03/11

Japan:
Pigment production continues

The devastating March earthquake in Japan caused damage to Merck facilities in Onahama, resulting in a pigment production stoppage, but production resumed on May 8. Executive Board Chairman Karl-Ludwig Kley provides assurance that "Merck will continue investing in research, development and production in Japan."

06/11

Pharmaceuticals:
Cladribine tablets discontinued

In June, Merck decided to no longer pursue the global approval process for cladribine tablets as a treatment for multiple sclerosis. Merck discontinued market supply of cladribine tablets in Australia and Russia, where the product had already been approved.

08/11

Merck Millipore:
New microbiology business

The microbiology business of Biotest AG became an official part of Merck on August 1. 300 new employees celebrated "Day 1".

10/11

Merck Serono: Important collaboration agreements

Merck and Ono Pharmaceutical agreed to co-develop an oral multiple sclerosis drug as well as a cancer immunotherapy in Japan, signing two collaboration agreements in October.

11/11

Liquid crystals:
First application lab in China

In November, Merck opened its first liquid crystals application laboratory in China, which is intended to provide flat panel display manufacturers in the Chinese market with compre-hensive technological support and customer services.

Merck: Financial Calendar 2012

03/12
Annual Press Conference
Tuesday, 03/06/2012

04/12
Annual General Meeting
Friday, 04/20/2012

05/12
Report on the First Quarter
Tuesday, 05/15/2012

08/12
Report on the First Half
Wednesday, 08/15/2012

11/12
Autumn Press Conference and Report on the Third Quarter
Thursday, 11/15/2012

Business Development 2002 – 2011

This overview may include historically adjusted values in order to ensure comparability with 2011.

€ million	2002	2003	2004
Total revenues by division	7,521	7,364	6,017
Pharmaceuticals	3,265	3,458	3,601
Merck Serono	1,850	1,546	1,619
Generics [1]	1,096	1,585	1,625
Consumer Health Care	319	327	357
Chemicals	1,791	1,707	1,696
Merck Millipore	–	–	–
Performance Materials	–	–	–
Liquid Crystals [2]	383	443	589
Performance & Life Science Chemicals [2]	1,216	1,083	1,107
Electronic Chemicals [1]	192	181	–
Laboratory Distribution [1]	2,711	2,427	582
Intragroup sales, Laboratory	–246	–228	–62
Corporate and Other	–	–	200
Operating result by business sector	616	736	776
Pharmaceuticals	272	389	391
Chemicals	260	316	420
Laboratory Distribution [1]	84	79	21
Corporate and Other	–	–48	–56
Earnings before income and taxes (EBIT)	559	538	1,044
EBIT before depreciation and amortization (EBITDA)	985	1,008	1,419
Profit before tax	412	423	961
Profit after tax	215	218	672
Free cash flow	441	442	1,889
Capital expenditure on property, plant and equipment	377	281	234
Research and development	608	605	599
Total assets	7,511	6,982	5,754
Net equity	2,054	2,363	2,800
Employees (number as of December 31)	34,504	34,206	28,877
Return on sales in % (ROS: Operating result / total revenues)	8.2	10.0	12.9
Earnings per share in €	1.18	1.15	3.47
Dividend per share in €	1.00	0.80	0.80
One-time bonus per share in €	–	–	0.20

[1] Business was divested.
[2] As a result of the acquistion of Millipore in 2010, the Chemicals business sector was reorganized.
[3] Including the divested Generics division (along with the gain on divestment).
[4] As of 2011, the Cosmetic Actives business field is reported under the Performance Materials division (previously it was reported under the Merck Millipore division). The figures for 2010 have been adjusted accordingly.

2005	2006	2007	2008	2009	2010	2011	Change in %
5,887	6,310	7,081	7,590	7,747	9.291	10,276	11
3,905	4,163	4,900	5,456	5,812	6,226	6,416	3.1
1,817	1,938	4,480	5,014	5,345	5,754	5,920	2.9
1,712	1,825	–	–	–	–	–	–
376	400	420	442	467	472	496	5.1
1,906	2,113	2,152	2,127	1,935	3,065	3,860	26
–	–	–	–	–	1.613[4]	2,393	48
–	–	–	–	–	1.452[4]	1,467	1.0
741	895	916	878	733	–	–	–
1,165	1,218	1,236	1,249	1,202	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
76	34	29	7	–	–	–	–
883	1,105	976	1,131	649	1,113	985	−12
454	524	417	655	403	579	350	−40
492	641	631	558	324	624	751	20
–	–	–	–	–	–	–	–
−63	−60	−72	−81	−78	−90	−116	30
956	1,325	200	731	621	1,113	1,137	2.2
1,245	1,628	1,858	1,947	1,625	2,457	2,736	11
893	1,273	−111	575	486	861	851	−1.2
673	1,001	3,520[3]	379	377	642	629	−2.0
657	−1,073	−1,473[3]	438	812	−3,522	1,436	–
268	253	283[3]	395	467	396	372	−6.1
713	752	1,028	1,234	1,345	1,397	1,517	8.6
7,281	8,102	14,922	15,645	16,713	22,388	22,120	−1.2
3,329	3,807	8,688	9,563	9,514	10,372	10,493	1.2
29,133	29,999	30,968	32,800	33,062	40,562	40,676	0.3
15.0	17.5	13.8	14.9	8.4	12.0	9.6	
3.40	5.07	16.21[3]	1.69	1.68	2.91	2.84	−2.4
0.85	0.90	1.20	1.50	1.00	1.25	1.50	20
–	0.15	2.00	–	–	–	–	–