



# Investor Update

## Presentation – March 2009

**Dr. Michael Becker, General Partner and Chief Financial Officer**

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All comparative figures relate to the corresponding last year's period. From 2007 the Generics business was reported in "discontinued operations" through Q3 2008. From Q4 2008, remaining business results are consolidated into Merck Serono results. With the divestiture of Electronic Chemicals in Q2 2005 this division and the remaining toll manufacturing business are allocated to Corporate & Other. Return on Sales (ROS) calculation is based on total revenues. If not otherwise stated, all outlined numbers refer to FY 2008.

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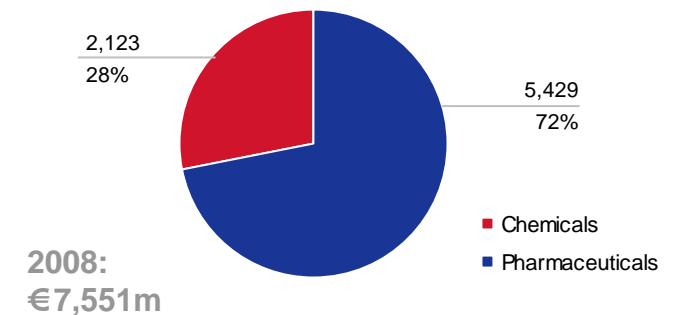
# Merck Group Company Overview



- Founded in 1668, Merck KGaA, today is a leading specialty pharmaceuticals and chemicals company:
  - Balanced portfolio of activities
  - Research & technology driven
  - Focus on specialty & niche markets
  - Consistently profitable
  - Global presence
- Organized in two business sectors and four divisions:
  - **Pharmaceuticals:**  
Merck Serono, Consumer Health Care
  - **Chemicals:**  
Liquid Crystals, Performance & Life Science Chemicals

## Total revenues by business sector<sup>1,2</sup>

€ million

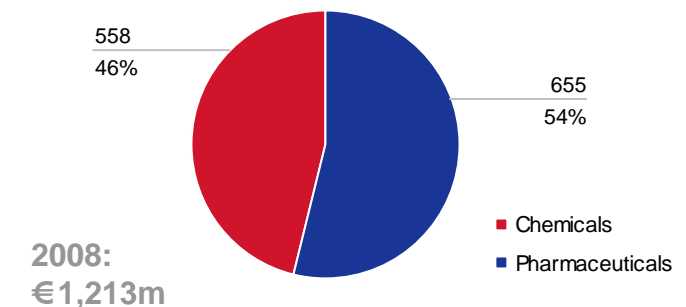


<sup>1</sup> excluding Corporate and Other

<sup>2</sup> Total Revenues = Sales including Royalty Income

## Operating result by business sector<sup>1</sup>

€ million



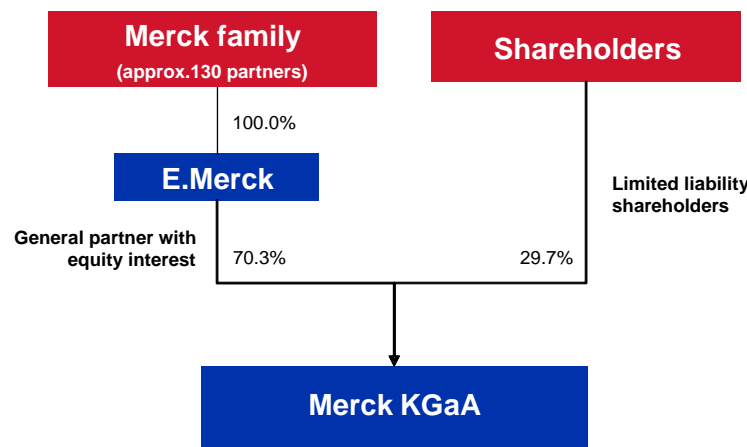
<sup>1</sup> excluding Corporate and Other

# Merck Group

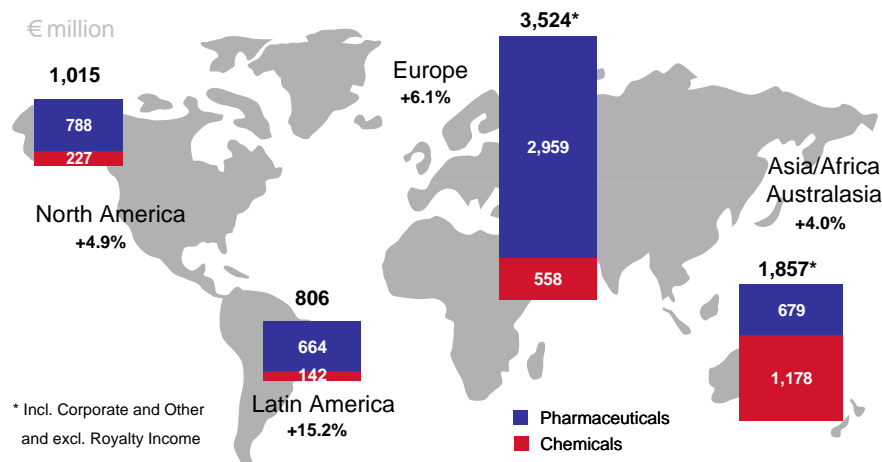
## Ownership structure and Milestones



- Stable shareholder-structure
  - Family owned
  - Strong family commitment for over 340 years
  - Free float of 29.7%
- With 9 divisions in 2003, Merck became a focused *global* group with 4 divisions:
  - Divestment of Generics business in 2007
  - Transformation of Pharmaceuticals business in 2006 through acquisition of Serono - Integration successfully completed
  - Disposal of Electronic Chemicals Business in 2005
  - Exit from laboratory distribution business in 2004



### Sales by Region

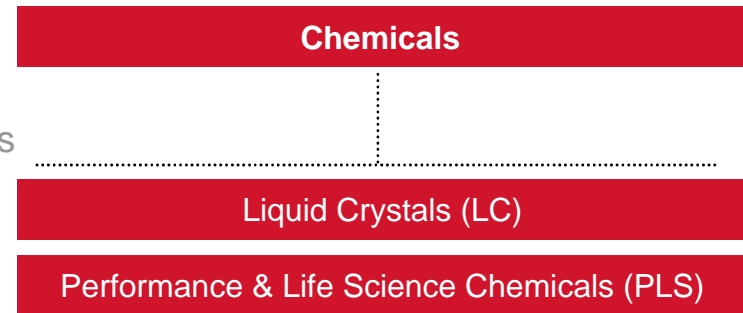
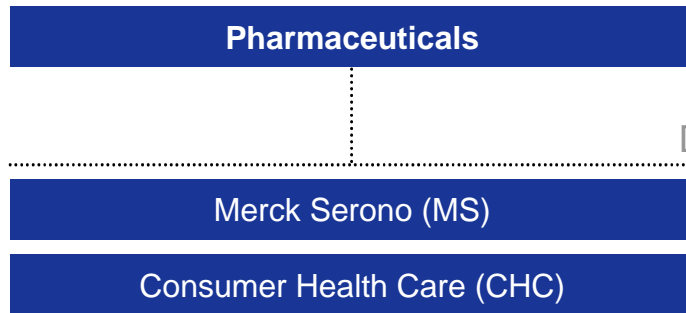


# Merck Group Divisional Overview



## Merck Group

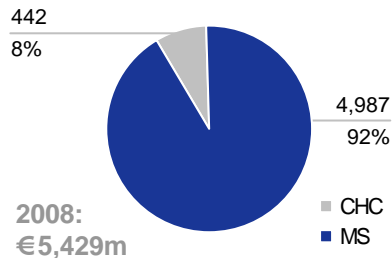
### Business Sectors



### Divisions

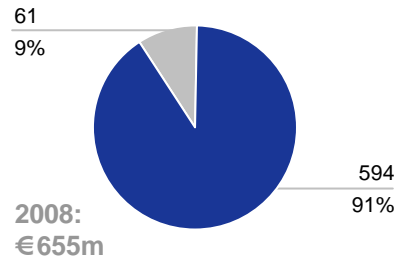
Total revenues by division<sup>1</sup>

€ million



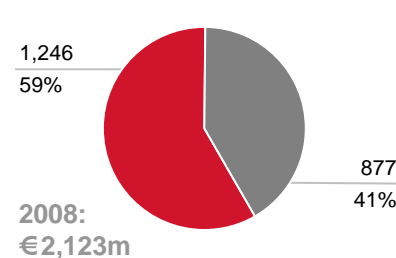
Operating result by division<sup>1</sup>

€ million



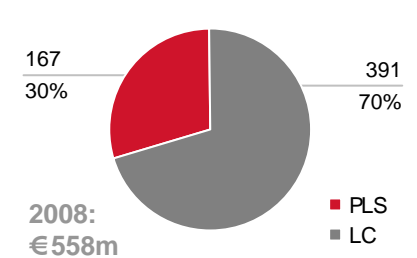
Total revenues by division<sup>1</sup>

€ million



Operating result by division<sup>1</sup>

€ million



<sup>1</sup> Deltas between sum of Pharmaceuticals and Chemicals sales and operating results, respectively, due to Corporate and Other segment (€7m of revenues and €81m of operating result)

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# Merck Group Business Strategies



## Merck Serono

- Focus on specialist and innovative drugs in prescription markets
- Grow three core therapeutic areas, backed by strong established fields
- Improve R&D efficiency and leverage biopharmaceutical expertise

## Consumer Health Care

- Focus on over-the-counter pharma products in four health themes
- Strengthen business in established markets
- Grow key brands through regional expansion

## Liquid Crystals

- Focus on innovation in display technologies to sustain market leadership
- Broaden application basis long-term with penetration into new markets
- Capitalize on excellent reputation in quality and reliability

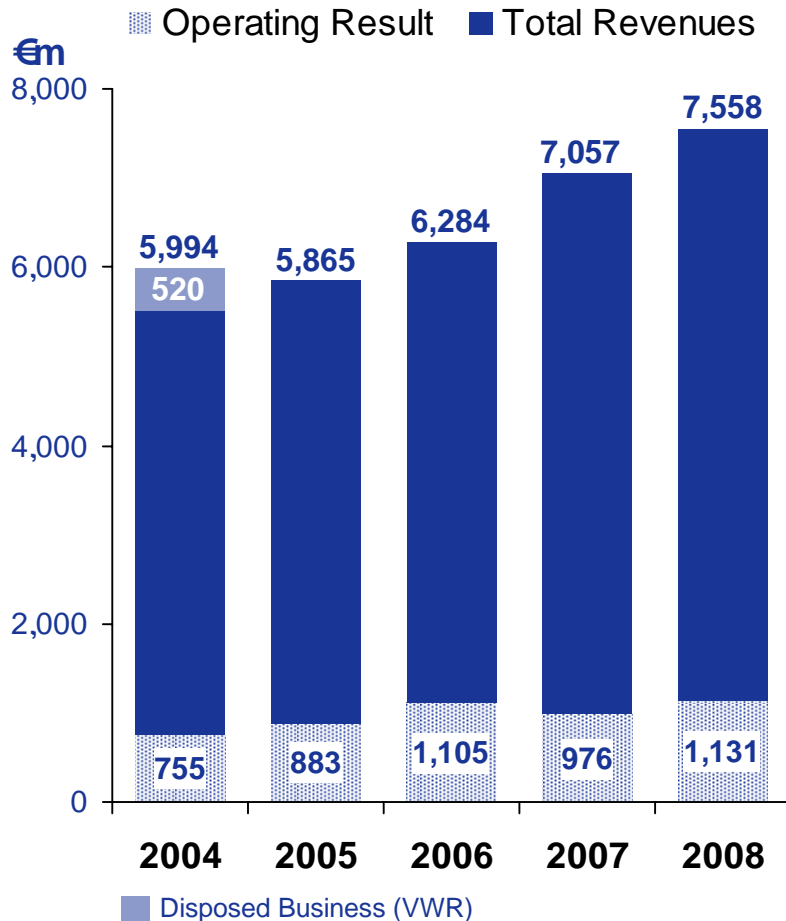
## Performance & Life Science Chemicals

- Focus on specialty chemicals solutions
- Leverage strong expertise in regulated markets with high entry barriers
- Strengthen position in growth focus regions: India and China

# Merck Group Performance Snapshot



## Total Revenues and Operating Result Development 2004 – 2008



- Successful year 2008 in a difficult business environment
- Maintaining strategic direction
- Merck Serono established as the new growth and cash machine
- Investments in innovation ongoing in both sectors
- Results vindicate our risk-diversified business model

# Pharmaceuticals: Merck Serono

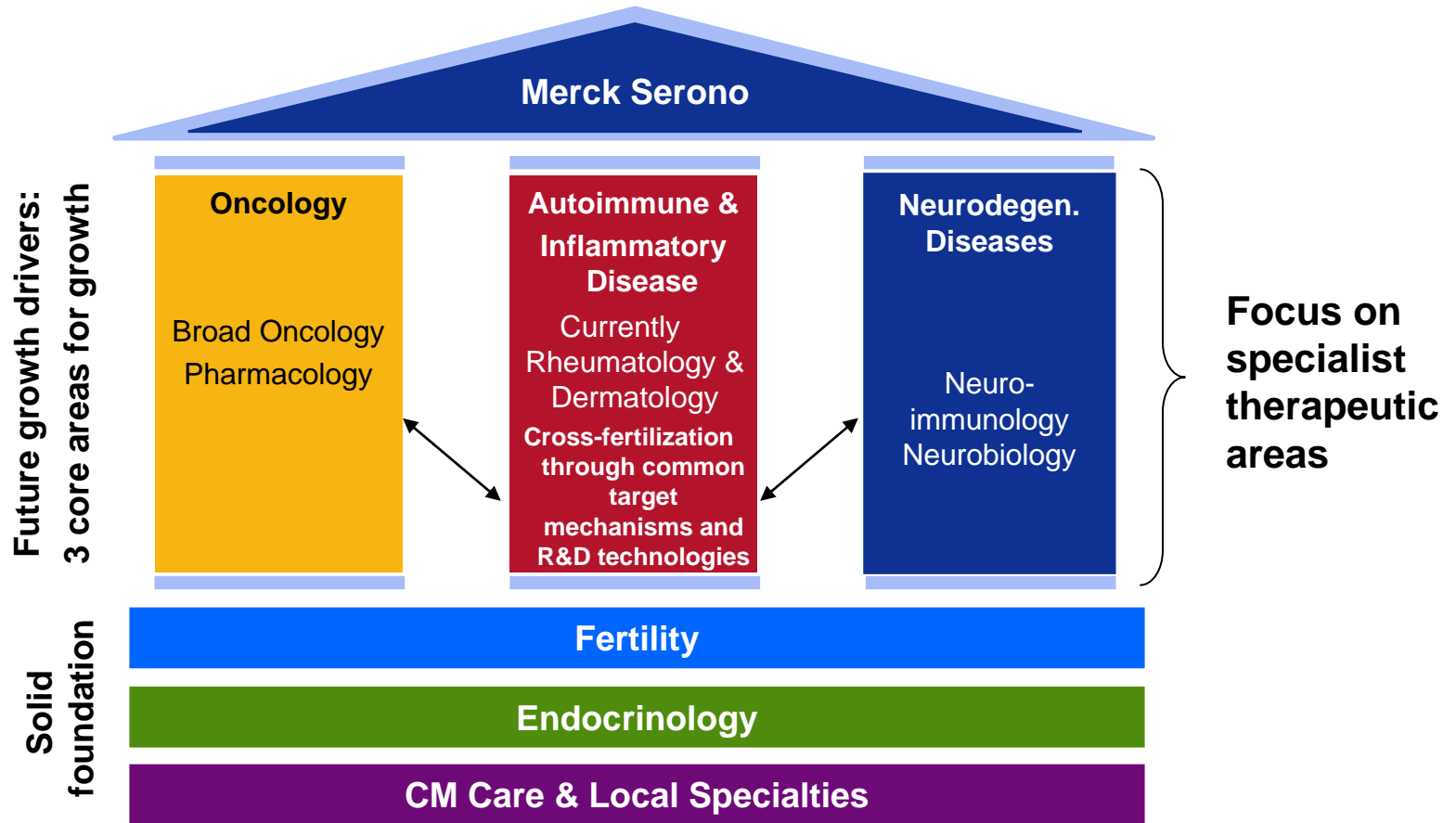
## Key Financials



€m	FY 2008	FY 2007	$\Delta$ in %
<b>Total Revenues</b>	<b>4,986.8</b>	<b>4,457.7</b>	<b>12</b>
Sales	4,649.6	4,187.0	11
<b>Selling &amp; Marketing</b>	<b>-1,572.1</b>	<b>-1,432.4</b>	<b>9.8</b>
<b>Research &amp; Development</b>	<b>-1,074.5</b>	<b>-878.6</b>	<b>22</b>
<b>Operating Result</b>	<b>593.7</b>	<b>356.9</b>	<b>66.4</b>
<b>ROS in %</b>	<b>11.9</b>	<b>8.0</b>	
<b>Free Cash Flow</b> (before acquisitions and divestitures)	<b>559.5</b>	<b>774.4</b>	<b>-28</b>

- Organic growth 15.1%
- Royalties up 25%
- Investments in Selling & Marketing for new product launches
- R&D 22% of revenues, unusually high costs in Q4
- Free Cash Flow down due to one time effects in 2008 (cash out) and 2007 (cash in)

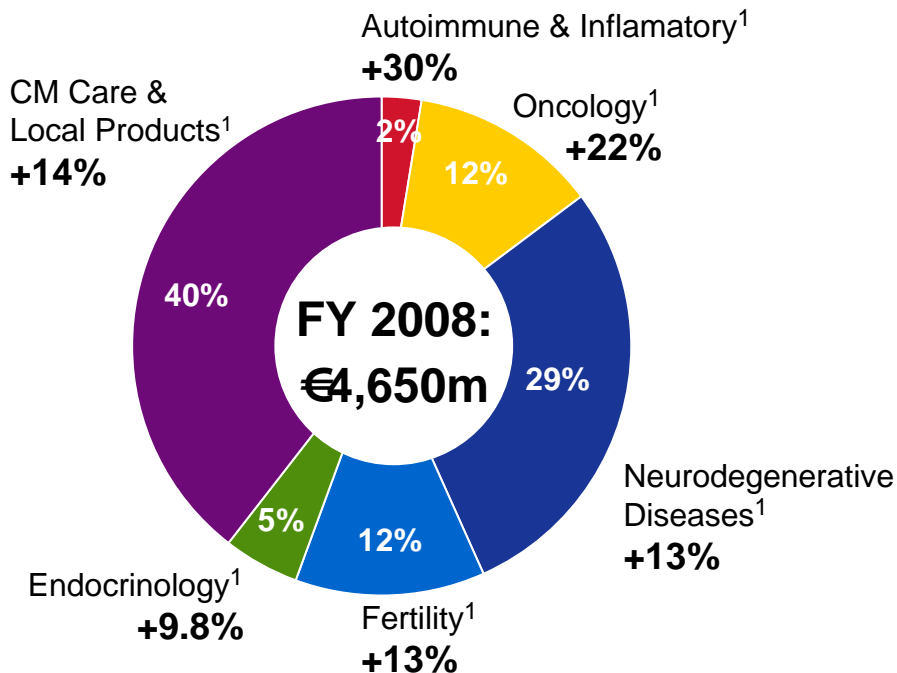
# Pharmaceuticals: Merck Serono Strategic Core Areas



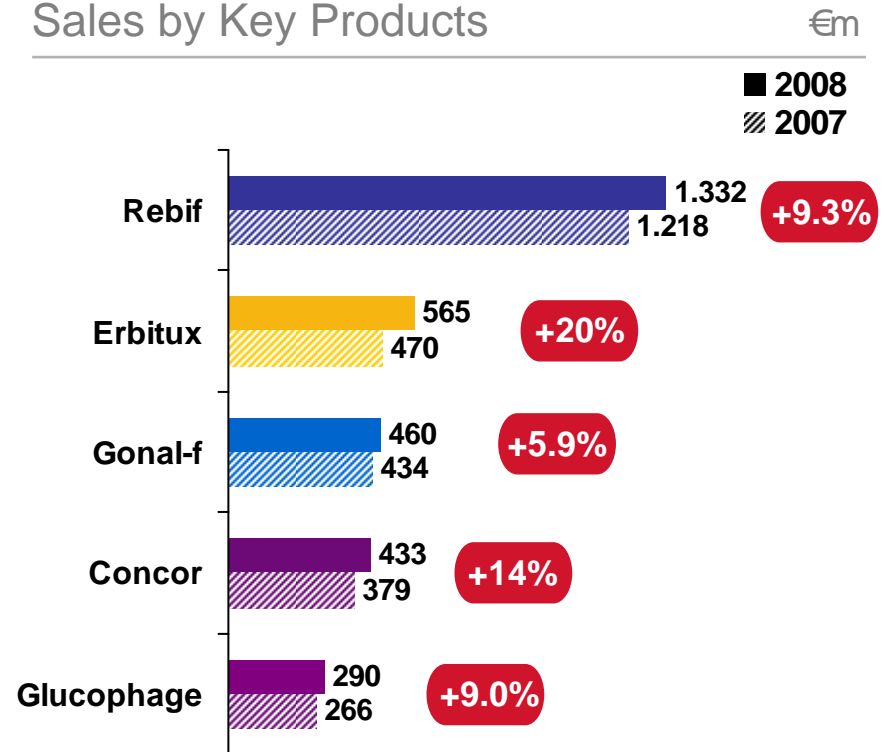
# Pharmaceuticals: Merck Serono Product Portfolio FY 2008



## Sales by Therapeutic Areas



## Sales by Key Products



- Portfolio combines strong growth biopharmaceutical drugs as well as off-patent products with high cash flows and managed bottom lines

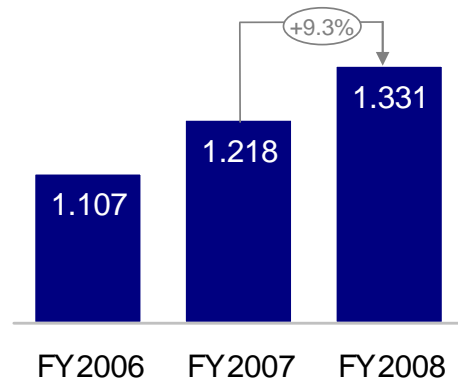
<sup>1</sup> Organic growth rates

# Pharmaceuticals: Merck Serono

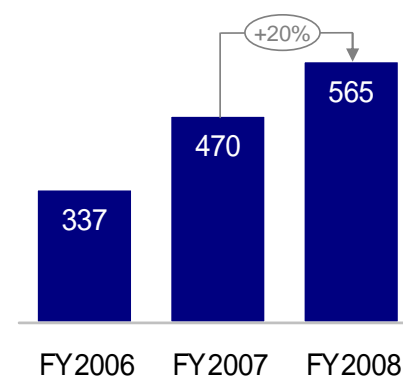
## Key drivers



Rebif Sales €m



Merck Erbitux Sales €m



- 2008 sales - 13% organic growth
  - Global sales leader ex-US
  - US organic growth 21%
  - Sales growth rate in Europe has increased after launch of new formulation
- Foundation therapy supported by active lifecycle management
- No threat of near patent expiries (Europe 2012; US 2013)
- KRAS screening and reimbursement process on track
- Non-small cell lung cancer (NSCLC) EU filing Sept 08
- Start Phase III trial EXPAND in gastric cancer in June
- Median overall survival data from Phase III trial FLEX in NSCLC: increase of median overall survival to 15 months in patients receiving Erbitux plus chemotherapy and developing early skin rash
- Erbitux now approved for mCRC in 75 countries, for SCCHN in 71 countries
- Market exclusivity until 2014

# Pharmaceuticals: Merck Serono Pipeline Improvements FY 2008



## Approvals

**Erbix®** in colorectal cancer (mCRC),  
1<sup>st</sup> line therapy  
*European Marketing Authorization*

**Erbix®** in mCRC,  
2<sup>nd</sup>/3<sup>rd</sup> line therapy  
*Japan Marketing Authorization*

**Erbix®** metastatic/recurrent SCCHN  
1<sup>st</sup> line therapy  
*European Marketing Authorization*

**Kuvan** for Hyperphenylalaninemia in  
patients with PKU or BH4 deficiency  
*European Marketing Authorization*

## Advanced

**ARX 201** for Growth hormone deficiencies  
*Started phase II in adults*

**Erbix®** in NSCLC 1<sup>st</sup> line therapy  
*EMA: Submission*

**Cilengitide** in glioblastoma  
*Started Phase III*

**Atacept** in Lupus  
*Started Phase II/III (in SLE)*

**Fibroblast Growth Factor 18** in  
Osteoarthritis  
*Started Phase I*

## Added

**Oral cladribine tablets** in CIS  
*Phase III started*

**Atacept** Multiple Sclerosis  
*Phase II Started*

**Erbix®** in gastric cancer  
*New Indication in Phase III*

**Cilengitide** in SCCHN  
*New indication in Phase II*

**Sonepcizumab (ASONEP™)** for solid  
tumors  
*New Product in-licensed (Phase I)*

**MEK Inhibitor** for solid tumors  
*Started Phase I*

**Tesamorelin** for HIV patients with  
lipodystrophy  
*New Product in-licensed (Phase III)*

- Oncology
- Neurodegenerative Diseases
- Autoimmune & Inflammatory Diseases
- Fertility
- Endocrinology
- CM Care & local products

## Stopped

**Atacept** in Hematological malignancies  
*Stopped after Phase I*

**Matuzumab (EMD 72000)** in NSCLC  
*Stopped after Phase II*

**Matuzumab** in gastric cancer  
*Stopped after Phase II*

**Tucotuzumab celmoleukin** in ovarian  
cancer  
*Stopped in Phase II*

**IMO-2055, TLR9 immunomodulator** for  
renal cell carcinoma abandoned (Phase  
II); ongoing for solid tumors

**NI-0401** in Crohn's disease / Renal  
transplantation  
*Rights returned to NovImmune after Phase I*

**Anastrozole** for ovulation induction  
*Stopped after Phase II*

**Recombinant Growth Hormone** for  
HARS  
*Stopped after Phase III*

**DPP-IV Inhibitor** for type 2 diabetes  
*Rights returned to Glenmark*

**EMD 387008** for type 2 diabetes  
*Stopped after Phase I*

**FC EPO** for anaemia  
*Stopped after Phase I*

# Pharmaceuticals: Consumer Health Care

## Key Financials



€m	FY 2008	FY 2007	Δ in %
<b>Total Revenues</b>	<b>441.7</b>	<b>419.7</b>	<b>5.2</b>
<b>Selling &amp; Marketing</b>	<b>-193.8</b>	<b>-183.6</b>	<b>5.6</b>
<b>Research &amp; Development</b>	<b>-16.8</b>	<b>-12.0</b>	<b>40</b>
<b>Operating Result</b>	<b>61.3</b>	<b>59.6</b>	<b>2.9</b>
<i>ROS in %</i>	<i>13.9</i>	<i>14.2</i>	
<b>Free Cash Flow</b> (before acquisitions and divestitures)	<b>38.1</b>	<b>46.9</b>	<b>-19</b>

- Organic revenues up 12% driven by core brands in four health themes:

- **Mobility:**  
Joint Care, Kytta products
- **Everyday Health Protection:**  
Cebion, Bion 3
- **Women's and Children's Health:** Femibion, Kidabion
- **Cough & Cold:**  
Nasivin, Sedalmerck

- Selling & Marketing up in line with revenues and following strategy

- Investments in R&D for preparation of new product launches and market entries

- Free Cash Flow down in line with R&D and capex



# Chemicals: Liquid Crystals

## Key Financials



€m	FY 2008	FY 2007	$\Delta$ in %
<b>Total Revenues</b>	876.9	915.7	-4.2
<b>Marketing &amp; Selling</b>	-25.3	-25.9	-2.1
<b>R&amp;D</b>	-84.8	-78.7	7.7
<b>Operating Result</b>	391.2	486.6	-20
<i>ROS in %</i>	44.6	53.1	
<b>Free Cash Flow</b> <small>(before acquisitions and divestitures)</small>	406.7	424.8	-4.3

- Organic sales growth +5.6%
- Sharp order decline in Q4 2008
- Headwind from currency
- Investments into new technologies (PS-VA) and applications (OLED, lighting)
- Strong cash flow generation



# Performance & Life Science Chemicals

## Key Financials



€m	FY 2008	FY 2007	$\Delta$ in %
<b>Total Revenues</b>	<b>1,246.0</b>	<b>1,234.8</b>	<b>0.9</b>
<b>Selling &amp; Marketing</b>	<b>-303.0</b>	<b>-290.0</b>	<b>4.5</b>
<b>R&amp;D</b>	<b>-58.4</b>	<b>-58.3</b>	<b>0.0</b>
<b>Operating Result</b>	<b>166.5</b>	<b>144.4</b>	<b>15</b>
<i>ROS in %</i>	<i>13.4</i>	<i>11.7</i>	
<b>Free Cash Flow</b> (before acquisitions and divestitures)	<b>66.9</b>	<b>131.8</b>	<b>-49</b>

- Organic revenue growth 4.0%
- PLS consists of Pigments, Laboratory Business and Life Science Solutions
  - Pigments affected by economic downturn
  - Laboratory business and life science solutions steady and with limited cyclical exposure
- Focus on regulated markets
- Strong operating result
- Free Cash Flow is down due to higher capex and several one-time effects



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# Merck Group

## Financial Policy

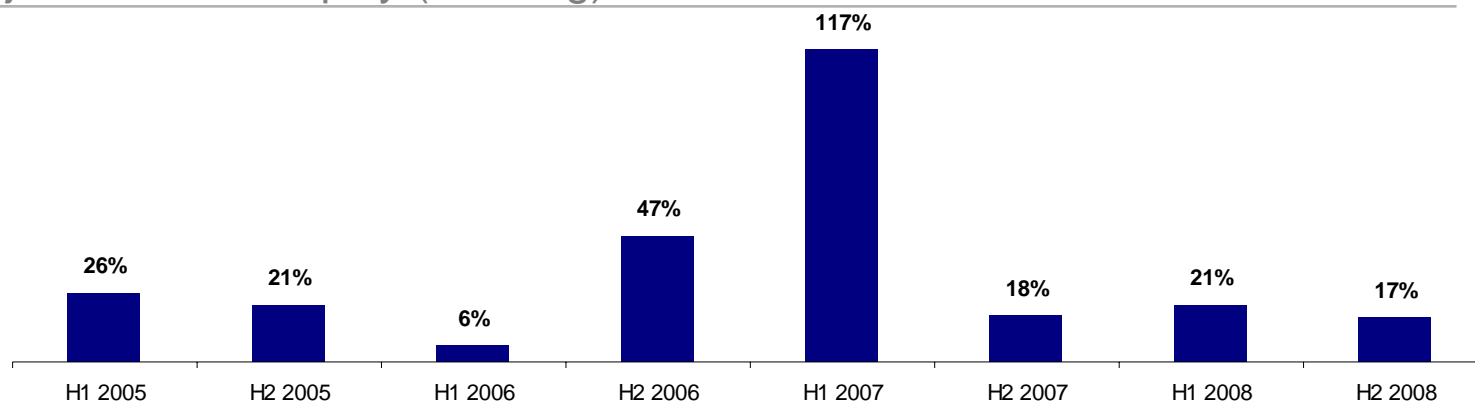


- Management pursues a conservative financial policy:
  - Strong balance sheet
  - Conservative and prudent accounting
  - Capital structure that enables financial flexibility
- Sound Financial Risk Management
- Diversification of funding sources
- International banking group well chosen in quality and size
- Track record in debt reduction as shown in Serono acquisition financing (€ 10.3 bn)
- Strong commitment to stable Investment Grade Rating

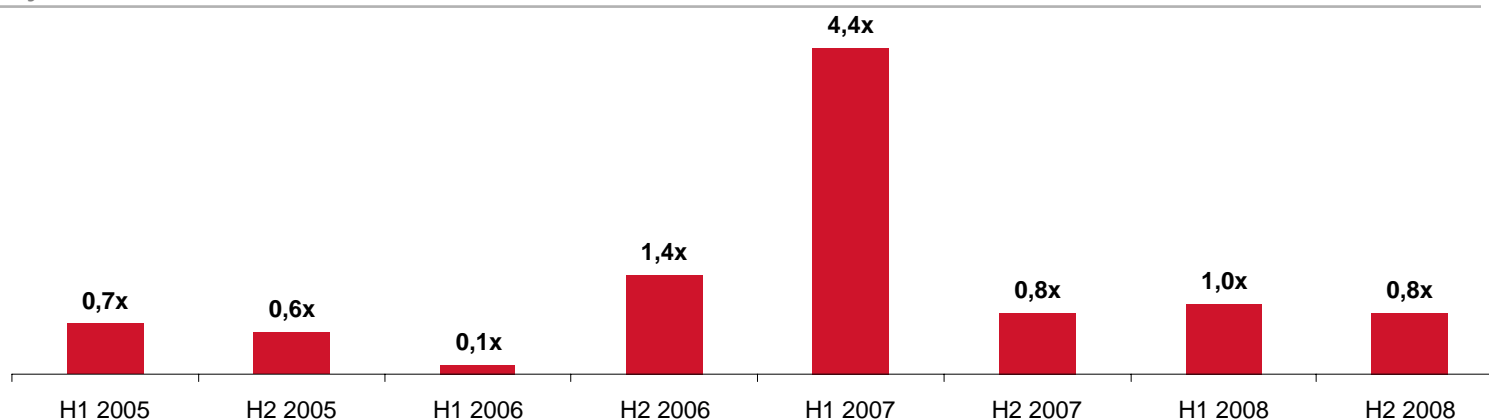
# Merck Group Key Credit Statistics



## Adj. Net Debt<sup>1</sup> / Equity (Gearing)



## Adj. Net Debt<sup>1</sup> / EBITDA<sup>2</sup>



<sup>1</sup> Adj. net debt includes provisions for pensions (adj. net debt = current/non-current financial liabilities - cash - marketable securities + pension provisions of Merck)

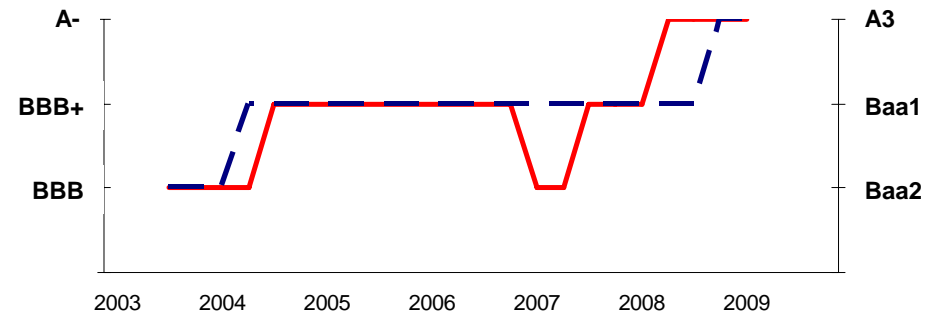
<sup>2</sup> H1 EBITDA figures annualized and calculated as follows: EBIT + Depreciation + Amortization (for 2007 also + Amortization inventories Serono from Purchase Price Allocation). From H2 2006 on excl. Generics. Annualized H1 2005 incl. disposed business VWR 2004.

Sources (also for calculations): Merck annual reports for 2008, 2007, 2006, 2005 and 2004; Investor Relations presentations for quarterly results in 2008, 2007, 2006, 2005

# Merck Group Rating Development



- Ratings are a key cornerstone within Merck's Financial Policy
- Management is clearly committed to a stable Investment Grade Rating
- Merck pursues an open communication to the agencies
- Moody's upgrade to A3 rating category in Q4 2008 – currently best rating ever from both Rating Agencies
- Merck has demonstrated ability to de-lever rapidly following significant acquisition of Serono € 10.3 bn
- Sustainable cash flow generation

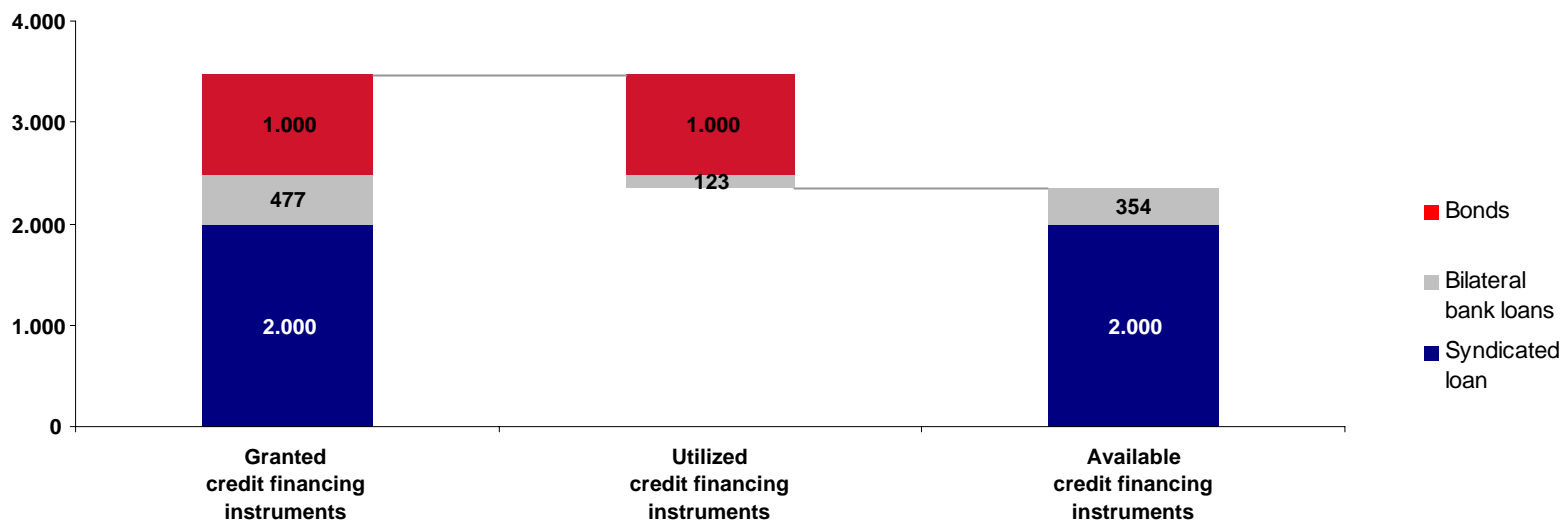


	Standard & Poor's			Moody's		
	Long-term Rating	Outlook	Short-term Rating	Long-term Rating	Outlook	Short-term Rating
2008	A- (30.06.)	Stable	A-2	A3 (16.12.)	Stable	P-2
	BBB+ (20.05.)	Watch pos.	A-2	Baa1 (20.02.)	Positive	P-2
2007	BBB+ (19.10.)	Stable	A-2	Baa1 (06.06.)	Stable	P-2
	BBB (09.01.)	Stable	A-2			
2006	BBB+ (21.09.)	Watch neg.	A-2	Baa1 (21.09.)	under review	P-2
	BBB+ (31.03.)	Stable	A-2	Baa1 (31.03.)	stable	P-2
	BBB+ (13.03.)	Watch neg.	A-2	Baa1 (14.03.)	under review	P-2
2005				Baa1 (21.11.)	Positive	P-2
2004	BBB+ (07.07.)	Stable	A-2	Baa1 (04.06.)	Stable	P-2
2003	BBB (19.09.)	Stable	A-2	Baa2 (19.09.)	Stable	P-2

Financial Instrument	Volume	Utilization
Debt Issuance Program*	€5,000 m	0
ECP-Program	€2,000 m	0
Syndicated Loan	€2,000 m	0
Various Bank Facilities	€ 477 m	€ 123 m
Bonds	€1,000 m	€1,000 m

\*established in March 2009

### Utilization of Financial Instruments (€m)

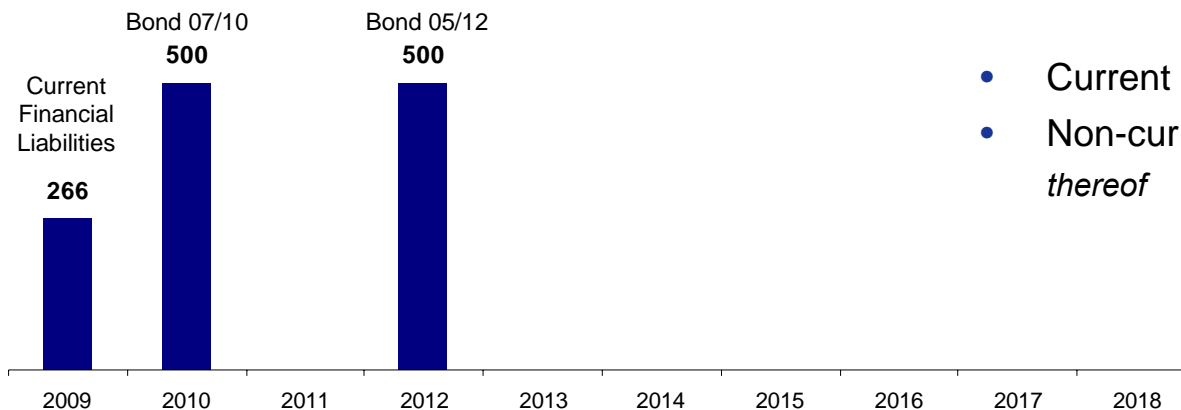


# Merck Group

## Debt Profile (as of December 31, 2008)

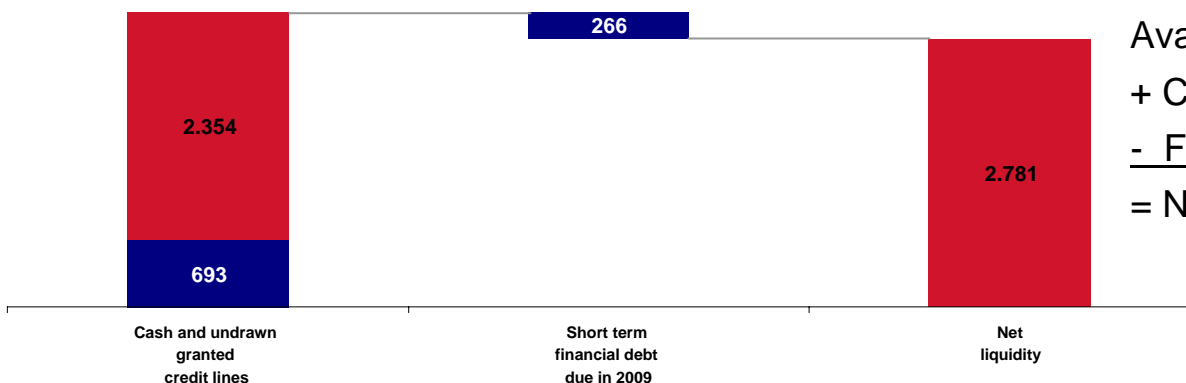


### Maturity Profile of Main Group Financial Liabilities (€m)



• Current Fin. Liabilities	€m	266
• Non-current Fin. Liabilities	€m	1,080
<i>thereof</i> Bond 07/10	€m	500
Bond 05/12	€m	500

### Liquidity Analysis (€m)



Available facilities	€m	2,354
+ Cash and Cash Equiv.	€m	693
- Fin. Debt due 2009	€m	266
<b>= Net Liquidity</b>	<b>€m</b>	<b>2,781</b>

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# Merck Group

## FY 2008 – Group Key Financials



€m	FY 2008	FY 2007	<i>Δ in %</i>
<b>Total Revenues</b>	<b>7,558.0</b>	<b>7,057.1</b>	<b>7.1</b>
Research & Development	1,234.4	1,027.7	20
<b>Operating Result</b>	<b>1,131.4</b>	<b>976.0</b>	<b>15.9</b>
<b>Free Cash Flow</b> (before acquisitions and divestitures)	<b>601.3</b>	<b>977.7</b>	<b>-38</b>
<b>Net Debt</b>	<b>477</b>	<b>355</b>	<b>34</b>
<b>Dividend Proposal (per share in €)</b>	<b>1.50</b>	<b>1.20</b>	<b>25</b>
<b>Underlying tax rate</b>	<b>25.8%</b>	<b>28.2%</b>	<b>-</b>

# Merck Group Group Balance Sheet



€m	12/31/2008	12/31/2007	12/31/2008 % of total	12/31/2007 % of total
<b>Assets</b>	<b>15,645</b>	<b>14,922</b>	<b>100</b>	<b>100</b>
Current assets	4,359	3,826	28	26
thereof: Cash & Cash equ./Fin. Investments	869	992	6	7
Non-current assets	11,286	11,097	72	74
thereof: - Intangible assets	8,203	8,165	52	55
thereof: Goodwill	1,929	1,792	12	12
- Property, plant and equipment	2,440	2,275	16	15
<b>Equity and liabilities</b>	<b>15,645</b>	<b>14,922</b>	<b>100</b>	<b>100</b>
Current liabilities	2,378	2,571	15	17
thereof: Financial liabilities	266	300	2	2
Non-Current liabilities	3,703	3,664	24	25
thereof: Financial liabilities	1,080	1,047	7	7
Pension and other post-emp. Benef.	1,144	1,185	7	8
Equity	9,563	8,688	61	58
Net financial debt	477	355		

# Merck Group Operating Result



€m	FY 2008	FY 2007	Δ in %	Q4 2008	Q4 2007	Δ in %
Sales	7,201.6	6,775.1	6.3	1,799.1	1,731.9	3.9
Royalty income	356.4	282.0	26	104.8	73.8	42
Total revenues	7,558.0	7,057.1	7.1	1,903.9	1,805.7	5.4
Gross Margin	5,652.0	5,277.3	7.1	1,410.3	1,349.0	4.5
SG&A	-2,712.9	-2,717.1	-0.2	-729.6	-819.4	-11
R&D	-1,234.4	-1,027.7	20	-385.7	-226.9	70
Amortization of intangibles	-573.4	-556.7	3.0	-152.3	-136.2	12
Operating result	1,131.4	976.0	16	141.9	166.1	-15

# Merck Group

## Group Free Cash Flow



€m	FY 2008	FY 2007
<b>Profit after tax (from continued operations)</b>	<b>379.1</b>	<b>-87.8</b>
Depreciation	278.1	287.5
Amortization	937.3	636.1
Stock write-downs	–	734.0
<b>Cash Flow</b>	<b>1,594.5</b>	<b>1,569.8</b>
Working capital changes	–304.3	–191.9
Capital expenditures	–394.7	–282.8
Others	–294.2	–117.4
<b>Free cash flow (before acquisitions &amp; divestitures)</b>	<b>601.3</b>	<b>977.7</b>

# Merck Group Profit after Tax



€m	FY 2008	FY 2007	Δ in %	Q4 2008	Q4 2007	Δ in %
Operating result	1,131.4	976.0	16	141.9	166.1	-15
Exceptionals	-400.0	-775.6	-48	-400.0	-213.6	87
EBIT	731.4	200.4	...	-258.0	-47.5	...
Financial result	-156.5	-311.3	-50	-56.7	-57.6	-1.6
Profit before tax	574.9	-110.9	...	-314.7	-105.1	199
Income tax	-195.9	23.1	...	38.4	-0.8	...
Profit after tax continuing operations	379.1	-87.8	...	-276.4	-105.9	-161
Profit after tax discontinued operations	-	3,608.0	...	-1.2	3,501.0	...
Minorities	-12.0	-20.2	-40	-2.0	-8.4	-77
Net income	<b>367.1</b>	<b>3,500.1</b>	<b>-90</b>	<b>-279.5</b>	<b>3,386.7</b>	...
Underlying tax rate	25.8%	28.2%		20.0%	53.2%	

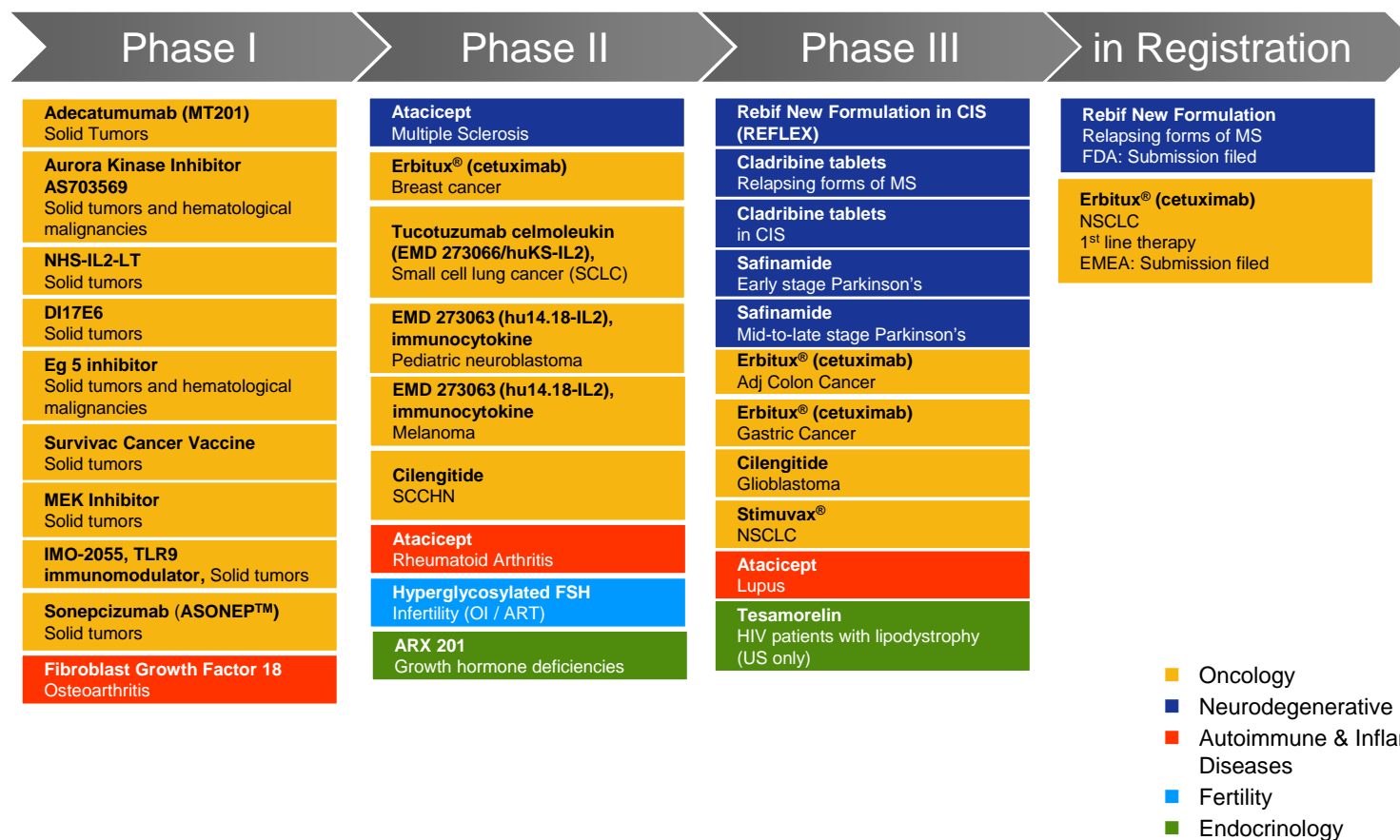
# Merck Group Exceptionals



€m	FY 2008
Impairment on product technology (Raptiva)	-194.5
Impairment on licences (Enbrel)	-42.9
Impairment on goodwill (Lexigen)	-41.7
Impairment on development technology (high-dose human recombinant growth hormone)	-20.2
Impairment of financial assets	-29.2
Restructurings Merck Serono GP Sales Force	-25.6
Restructurings in USA and Brazil	-45.9
<b>Total</b>	<b>-400.0</b>

# Pharmaceuticals: Merck Serono

## Pipeline Portfolio (18 February 2009)




DATE	EVENT
Apr 3, 2009	Annual General Meeting, Frankfurt
Apr 27, 2009	Publication of Q1 2009 results Conference Call
Jul 24, 2009	Publication of Q2 2009 results Conference Call
Oct 26, 2009	Publication of Q3 2009 results Conference Call


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