

IM



RESPONSIBILITY

for Employees, the Environment and the Community – 2007 Report



Values

What ties today and tomorrow together.

INTEGRITY ensures our credibility

- Integrity is the cornerstone of what makes us credible to everyone.
- Integrity enables us to do what we say.
- Integrity obliges us to keep our promises.
- Integrity also means being able to say no.
- Integrity permits only those transactions and dealings that conform to our values.

RESPECT is the foundation of any partnership.

- Respect is based on the concept of humanity and human dignity.
- Respect generates an atmosphere of esteem, fairness and recognition.
- Respect requires open and honest communication.
- Respect enables us to work successfully in different cultures and with different people.
- Respect means valuing achievement – yesterday, today and tomorrow.

TRANSPARENCY makes mutual trust possible.

- Transparency is the involvement of all stakeholders through information.
- Transparency makes our actions understandable.
- Transparency supports goal-oriented behavior throughout the company.
- Transparency creates reliability.
- Transparency promotes the participation of everyone in the company prepared to accept responsibility.



COURAGE opens the door to the future.

- Courage requires trust in one's own abilities.
- Courage leads to a healthy self-perception.
- Courage supports the competence needed to execute decisions in change processes.
- Courage means: We challenge ourselves.
- Courage opens us to new ideas.

ACHIEVEMENT makes our entrepreneurial success possible.

- Achievement shapes individual and entrepreneurial ability.
- Achievement challenges and promotes our people.
- Achievement supports the personal development of our people.
- Achievement can be measured by the results achieved.
- Achievement ensures entrepreneurial independence.

RESPONSIBILITY determines our entrepreneurial actions.

- Responsibility characterizes our behavior towards customers, employees, investors and service providers.
- Responsibility for coming generations means treating our natural resources with care and becoming more respectful of the environment.
- Responsibility determines our business decisions, which we jointly endorse.
- Responsibility means setting a good example.
- Responsibility leads to recognition and acceptance of our business activities.



Switzerland

Headquarters of
Merck Serono in Geneva

About this report

www.responsibility.merck.de

This is the third Corporate Responsibility report that Merck has issued entitled "Responsibility for Employees, the Environment and the Community". The two preceding editions were published in 2003 and 2005. We published Environmental Reports in 1993, 1995 and 1997 as well as a Responsible Care Report in 2000. Our web site www.responsibility.merck.de supplements this report and provides more detailed information on the topics discussed here. As was the case with the previous editions, the intention of this report is to give our customers, employees and shareholders as well as the public at large some insights into our company. This report is an important tool that we use to make our corporate policy transparent. In addition, by reporting regularly on progress, we are meeting one of our commitments to the UN General Secretary as a member of the UN Global Compact.

www.globalcompact.org

www.globalreporting.org

The contents are organized in accordance with the modified reporting framework of the Global Reporting Initiative (GRI version 3.0 of the GRI guidelines). In addition, the members of the Corporate Responsibility committee, representatives of the business sectors as well as the companies of the Merck Group made an important contribution by identifying the company's material issues.

www.responsibility.merck.de
> GRI Index

Unless stated otherwise, the information relates to all sites and employees as of December 31 of the respective year. The reporting period ranges from July 2005 to September 2007. Consequently, the newly consolidated sites of Merck Serono are also included. An index at the end of the report indicates those areas where we apply the GRI indicators. The editorial deadline was October 31, 2007. We plan to publish our next report in 2009.

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Front inside cover	Values

Cover: Merck Serono is the world leader in infertility treatment. Our goal is to develop and commercialize innovative products to help infertile couples at every stage of the reproductive cycle, from follicular development to early pregnancy, in making their dream of having a child come true.



*Dr. Karl-Ludwig Kley
Chairman of the
Executive Board*

Introductory

Message

from the Chairman of the Executive Board

Dear Readers,

Entrepreneurial success starts with people. We want to achieve entrepreneurial success that is based upon ethical values and creates economic value. After all, our company purpose is to operate profitably. Only then can we live up to our responsibility to our stakeholders, namely the customers, providers of capital, members of the community and employees who place justified demands on our actions.

We meet these demands through successful research and development as well as by manufacturing and marketing drugs and chemical specialties. Here, size is not a value as such. What's important to us are innovative strength and technology leadership in specialty businesses such as liquid crystals or biopharmaceuticals. We offer our customers products and services that make life more interesting, longer, safer or more attractive. We live up to our responsibility for customers and employees, the environment and the community each and every day, and we reconcile fast and sustainable actions. Our ownership structure gives us this ability. Even after more than 300 years of our existence as a family company, it is still one of our most important assets and plays a crucial role in shaping our corporate culture.

The integration of Serono has shown the tremendous value of a corporate culture that is recognized and supported by employees. The converging traditions and cultures of both companies create the basis for joint success.

Our wide-ranging commitment to our employees, environmental protection and the community are further evidence of the fact that at Merck, responsibility is not simply a nice-sounding word. This report shows what we have accomplished in these areas over the past two years. I would like to make special mention of our new Social Charter, which defines the minimum labor standards that must be met worldwide and the new "Responsible Care Global Charter," which obliges us to take responsibility for products and processes throughout their entire life cycle. In addition, we've realigned and strategically positioned our charitable activities. The two core projects are the Merck-Praziquantel Donation Program, which we are using to combat the worm disease schistosomiasis, mainly in African school children, together with the World Health Organization, as well as the new Global Pharma Health Fund, which we are supporting exclusively.

Merck has expressed its commitment to the ten principles of United Nations' Global Compact. While continually developing our global structures and management systems, we always keep a focus on respecting human rights, ensuring the core labor standards of the International Labor Organization, promoting environmental protection and fighting every form of corruption. This report – which is also our "Communication on Progress" with respect to the Global Compact – documents what we've done over the past two years to make and steadily improve our contribution to global sustainable development.

Transparency is one of our core values. Therefore, this report is meant to enable you to form your own impression of how Merck is meeting this commitment. For this purpose, we have expanded the data section of the report and oriented ourselves towards the new guidelines issued by the Global Reporting Initiative.

Sincerely,

A handwritten signature in black ink, appearing to read "Karl-Ludwig Kley". The signature is fluid and cursive, with the first name "Karl" and last name "Kley" being the most prominent parts.

Dr. Karl-Ludwig Kley
Chairman of the Executive Board

Profile

Portrait of Merck

www.merck.de
www.financialreports.merck.de

Merck is a global pharmaceutical and chemical company with sales of € 6.3 billion in 2006. Around 31,000 people work for Merck in 61 countries worldwide.

Merck is pursuing a strategy of operating in two major business sectors – Pharmaceuticals and Chemicals – and has two divisions in each of them.

www.pharmaceuticals.merck.de

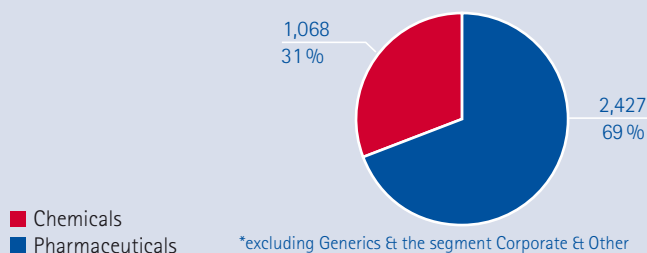
www.chemicals.merck.de

- The Pharmaceuticals business sector generates more than two-thirds of total revenues. It comprises the Merck Serono division (innovative prescription drugs, e.g. to treat cancer, neurodegenerative and growth disorders, cardiovascular diseases and infertility) and the Consumer Health Care division (over-the-counter products).
- The Chemicals business sector generates nearly one-third of total revenues. It consists of the Liquid Crystals and Performance & Life Science Chemicals (effect pigments for industry and cosmetics, analytical reagents and test kits, as well as products and services along the entire process chain of the pharmaceutical and biotech industries).

The fields of endeavor within these two sectors are specialty businesses in which Merck wants to grow organically as well as via acquisitions. Merck's core competencies are innovative strength, fast and efficient market penetration, high-quality products and processes, customer focus, excellent command of logistic processes and superior service.

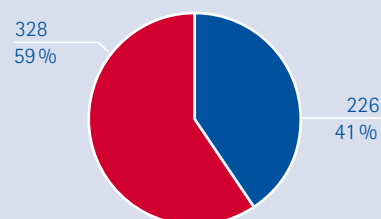
In early 2007, Merck took a significant step to strengthen itself in a highly promising sector: with the acquisition of Serono, a leading European biopharmaceutical company. Merck Serono – the combination of the former Serono with the previous ethical drugs

Total revenues | Business sector*
in € million 1st half of 2007



*excluding Generics & the segment Corporate & Other

Operating result | Business sector*
in € million 1st half of 2007



*excluding Generics & the segment Corporate & Other

business of Merck – manufactures and markets innovative chemical and biopharmaceutical drugs. Our research and development activities are focused on indications with high unmet medical needs in oncology, neurology, autoimmune diseases and fertility. In October 2007, the Generics division was sold to Mylan of the United States.

Europe is Merck's strongest region in terms of sales, followed by Asia, Africa and Australasia. With the integration of Serono, we have also considerably strengthened our presence in the North American market. In the United States and Canada, we operate under the brand name EMD – the initials stand for Emanuel Merck Darmstadt.

Merck manages its operating activities under the umbrella of Merck KGaA, which is headquartered in Darmstadt, Germany and listed on the Frankfurt Stock Exchange. Today, around 30% percent of the company's share capital is publicly traded, while the Merck family owns an interest of about 70% via the general partner E. Merck OHG. This enables us to think for the long term as a family company and to operate transparently and resolutely as a publicly traded company. In June 2007, the Deutsche Börse (Frankfurt, Germany) admitted Merck to the DAX 30 Index.

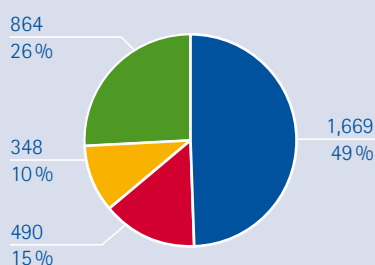
www.investors.merck.de

With roots dating back to 1668, Merck is the world's oldest pharmaceutical and chemical company. Employees who think and act entrepreneurially, a corporate culture that creates trust and makes innovation possible, a strong customer focus, responsible handling of natural resources, and social commitment have always been the keys to Merck's success.

www.history.merck.de

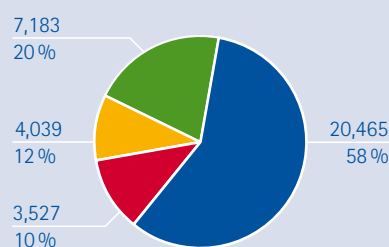
Sales by region

in € million 1st half of 2007



Number of employees*

as of June 30, 2007 35,214



*incl. 4,593 employees of the Generics division

■ Asia, Africa, Australasia
 ■ Latin America
 ■ North America
 ■ Europe



shaping

Mexico

The Merck philosophy, values and culture presented in a work of art: Based on ideas submitted by employees, artist Janitzio Escalera created the monumental mural "Merck, Man and His Time" on the rear wall of a raw materials warehouse.



Leadership and values

"We at Merck do what we say and then measure ourselves on this basis." The motto of our Mission Statement also applies to our values and defines the way in which the company is managed. In order for the Mission Statement to be reliably implemented worldwide, we have created tools and control systems and have harmonized them throughout the entire Group. This enables us to actively shape our global corporate culture and measure ourselves even better against our own principles.

www.responsibility.merck.de
> Leadership and values

At the Group Executive Conference, which took place in September 2007 and was attended by approximately 120 senior executives from around 40 countries, the Executive Board presented the corporate strategy and the updated values. The main topics of discussion were corporate responsibility as well as the opportunities and risks resulting from globalization, climate change and demographic developments.

Mission Statement, values and strategy form an integral whole

The foundation established by our values is complemented by the Mission Statement and strategy to form an integral whole. The Mission Statement shows where we want to go, while the strategy tells us how we plan to get there. Going forward, Merck intends to continue to focus on specialty businesses within Pharmaceuticals and Chemicals so as to diversify risk. Innovative strength and customer focus are Merck's core competencies. We are targeting markets that need and reward innovation. The strategy is aimed at profitable growth, while taking the interests of our stakeholders into account.

www.corporategovernance.merck.de

Good management minimizes risks

The Executive Board – five general partners – manage the business activities of Merck. The Supervisory Board of Merck comprises twelve members, six of whom are employee representatives. The six shareholder representatives are also members of the Board of Partners of E. Merck OHG and thus form an important link to the Merck family.

Since mid-2007, global corporate responsibility topics are directly decided by the Executive Board. In future, it will closely examine corporate responsibility topics twice a year and has thus assumed the tasks of the previous Corporate Responsibility Committee.

The risk management system of the Merck Group is described in detail in a guideline and reviewed regularly by Internal Auditing. Standardized risk reports harmonize risk management worldwide and are submitted to the Executive Board every six months or, in special cases, on an ad-hoc basis. The integral risk management system also covers the safety of sites, people, products and the protection of company intellectual property against abuse.

www.responsibility.merck.de
> See *Company Management and Stakeholder fact sheet*

Our business operations affect the interests of many people. These stakeholders or interest groups include, for example, our customers, the owners of the company, employees, authorities, local residents and non-governmental organizations. We maintain a continuous dialogue with many stakeholders. In this way, we aim to create trust and to jointly find solutions to issues on which there may be different views.

Social Charter enacted

In April 2007, the Executive Board enacted the Merck Social Charter, which is binding on the entire Merck Group. It reinforces our claim to treat all employees fairly and in compliance with local laws and regulations. In the following areas, we have committed ourselves to certain standards that apply to all our sites worldwide:

- Occupational health and safety
- Wages and salaries
- Working hours
- Freedom of association
- Non-discrimination and equal opportunity
- No child labor
- No forced labor
- Prevention of abuse and harassment
- Prevention of bribery and corruption

www.responsibility.merck.de
> *Leadership and values*

Detailed information on the rules that we have adopted in the individual areas can be found on our Web pages. The Social Charter also applies to our suppliers and other business associates. Appropriate systems will be introduced to ensure that the supplier chain complies with the provisions of the Social Charter.

Values and guidelines

Merck's CR commitment

- > Mission Statement
- > Values
- > Strategy
- > Code of Conduct
- > Social Charter

International CR initiatives

- > UN Global Compact
- > Responsible Care®
- > OECD guidelines for multinational companies

CR Governance at Merck: Guidelines for central functions and/or divisions

- > Principles and Strategies for Health, Safety and the Environment
- > Merck Management Principles
- > Talent Management Process
- > Export Control Guideline
- > Merck Pharmaceutical Marketing Best Practices
- > Quality Guidelines
- > other guidelines covering areas such as Controlling, Purchasing, Human Resources and Risk Management

Training compliant behavior

Published in 2005, our Code of Conduct entitled "To do what is right" (see 2005 Report) is the most important basic document on compliance for all Merck employees. It also describes the company's ethical standards. Based on the Code of Conduct, we launched a comprehensive training program in 2006. In on-site and online courses, we are firmly anchoring integrity in the corporate culture and business dealings. The training courses focus on antitrust and competition law as well as corruption prevention. In 2006, more than 8,000 employees around the world participated in these courses (primarily in Germany and the United States). This is equivalent to more than 25% of our workforce in 2006.

www.responsibility.merck.de
> 2005 Report

Complementing our Code of Conduct, an e-learning program on antitrust law is now offered in seven languages: (German, English, French, Spanish, Portuguese, Japanese and Korean). We want to expand the program to include additional modules and to make it a central Compliance learning program for the entire Merck Group.

In the reporting period, the Merck Compliance Office investigated three cases in which serious violations of our Code of Conduct were suspected. In two cases, the suspicions were unfounded. However, in the third case they were not. The affected employee was dismissed without notice.

Quality management harmonized worldwide

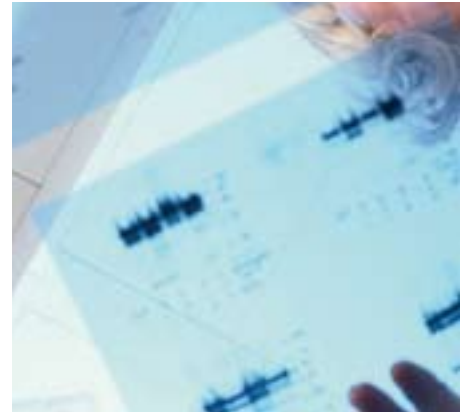
As a consequence of the integration of Serono, we reorganized the quality management system of the Merck Group in spring 2007 and set up a Corporate Quality Assurance unit. Previously organized by function, quality management is now steered centrally. This means: programs to ensure good manufacturing or laboratory practice are thus applicable throughout the entire Merck Group. This is the only way to ensure that all the businesses, functions and sites comply with the corresponding directives. The agenda of Corporate Quality Assurance, which works together with the Quality Council (see 2005 Report), includes the development of a Group-wide audit program as well as uniform measurement criteria expressed as key indicators.



discovering

Germany

*Andree Blaukat and Daniel Winter
from oncology research
in Darmstadt
discussing the results of
scientific experiments.*



Products

At Merck, product responsibility starts with research and doesn't end with sales. In order to discover new and even better solutions, we have considerably increased our spending on research and development. At the same time, we have strengthened our efforts to provide customers with training and information on the safe and responsible use of our products.

Innovation is the driving force of scientific, technical and economic progress. Innovative strength is one of our core competencies. In an industry comparison, Merck has always invested heavily in research and development. During the reporting period, we markedly increased our R&D spending once again. In 2005, it amounted to € 713 million, in 2006 to € 752 million. Around 80% of our R&D spending is attributable to the Pharmaceuticals business sector, which has an R&D budget of approximately € 1 billion following the integration of Serono.

www.innovation.merck.de
www.discover.merck.de

Our R&D activities focus on future trends and the needs of society. An increasingly important topic is improving the quality of life in fields such as health, nutrition, the environment and beauty. Merck is developing innovative, and in many cases biopharmaceutical, drugs for the treatment of cancer, neurodegenerative disorders, autoimmune and inflammatory diseases as well as infertility. Additional areas of development include cosmetics as well as products for biotechnology, protein analysis, microbiology, environmental and food analysis. Merck has also specialized in developing high-tech applications for information, communication and energy. We are working on materials for the products of tomorrow, e.g. for new display applications, for organic electronics and for photovoltaics. Additives to manufacture innovative coatings and new pigments are another area of development.

Declining a business opportunity in case of doubt

In both the Pharmaceuticals and the Chemicals business sectors, the same principle applies: Merck products are tested extensively before being launched onto the market, for example in toxicological and clinical studies (Pharmaceuticals) or toxicological and eco-toxicological studies (Chemicals). The cornerstones are quality, benefits and safety for people and the environment. The latter also encompasses the reliable storage and supply of products. We feel obliged to provide our customers and users with the highest possible degree of transparency and to inform them about the composition and effects of our pharmaceutical products and chemicals. If misuse of our products is suspected, for example to manufacture weapons, in case of doubt we would rather refrain from accepting the business.



Merck Serono

The product portfolio of this division includes leading brands such as Erbitux® for the treatment of cancer and Rebif®. With the blockbuster Rebif®, an interferon cultured in mammalian cells, Merck is the world market leader in the treatment of multiple sclerosis. Other drugs help patients suffering from infertility, psoriasis, cardiovascular disease or diabetes. The acquisition of Serono is opening up entirely new possibilities for Merck, especially the treatment of neurodegenerative disorders and infertility. Research focuses on the development of new biopharmaceuticals, in particular in oncology and neurology as well as autoimmune and inflammatory diseases. We expect major future business opportunities particularly in the market for biopharmaceuticals, which is predicted to grow by 15% in 2007. According to the estimates of experts, the market share of these active ingredients will double, accounting for one-quarter of the total pharmaceutical market by 2030. In addition, the stronger presence in the U.S. market – the world's largest pharmaceutical market – will create growth potential.

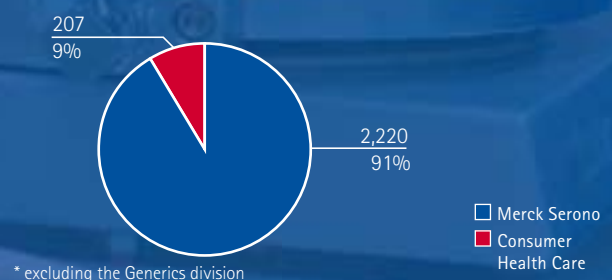
www.merckserono.net

Consumer Health Care

More and more 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 to classic cold remedies such as the well-known brand Nasivin® through to products that strengthen the joints such as Seven Seas® JointCare und Kytta®. The general wellness trend and greater patient self-responsibility within health care systems are increasing the importance of over-the-counter medicines as a way to prevent and treat minor illnesses. Experts predict that this market will grow by an average of around 4% per year.

www.consumerhealthcare.merck.de

Pharmaceuticals* | Total revenues by division
€ million 1st half of 2007



Pharmaceuticals business sector

Merck develops, manufactures and markets innovative prescription pharmaceuticals as well as over-the-counter products for consumer health care. We aim to provide treatment options, also for serious diseases, to keep people healthy and to improve the quality of life.

Investments in biopharmaceutical development

Biopharmaceuticals, or active ingredients developed and produced using biotechnology, are increasingly responsible for major improvements in the treatment of complex diseases. However, many of these diseases still cannot be treated sufficiently. Biomolecules are the research focus. They utilize biological resources to fight disease, e.g. proteins such as antibodies or interferons. By acquiring Serono, Merck has strengthened its expertise in the development of such biological active ingredients. Merck Serono is focusing on the therapeutic areas of oncology, neurodegenerative disorders, autoimmune and inflammatory diseases and fertility. In the coming years, physicians and patients will have new therapeutic options. According to forecasts, by 2011 around 50 new oncology drugs will be launched onto the market and will represent the largest drug group worldwide.

www.pharmaceuticals.merck.de

Merck is working on many new developments in the high-growth biopharmaceuticals sector. For example, in Corsier-sur-Vevey (Switzerland), near Merck Serono headquarters in Geneva, Merck is currently constructing a biopharmaceutical production plant, primarily for the latest generation of biological active ingredients for oncology. Initially, the new plant will mainly produce the monoclonal antibody Erbitux® (cetuximab) for the treatment of metastatic colorectal cancer as well as head and neck cancer – the growth driver of the pharmaceutical business.

www.oncology.merck.de
www.erbitux.de

Drugs for treating rare diseases

Merck engages in the development of orphan drugs, that is, drugs to treat rare diseases. Serostim to treat AIDS-associated wasting was the first drug in Europe to receive orphan drug status in 2000 under the new European legislation. Other orphan drugs from Merck's Pharmaceuticals business sector include cilengitide for treating brain tumors and sapropterin for treating a rare metabolic disorder. Merck applied for European marketing authorization for sapropterin in November 2007. Cyanokit and Zorbtive are approved in the U.S. with orphan drug status.

New methods reduce the number of animal studies

www.responsibility.merck.de
> see Products fact sheets

During the reporting period, five Merck scientists from our Institute for Toxicology in Darmstadt received awards for new methods to reduce the number of animal studies required in research. François Busquet and Dr. Thomas Broschard won the 2007 Animal Protection Research Prize of the German federal state of Hesse. The prizewinning test system they developed makes it possible to identify substances that could lead to deformations in embryos and makes it possible to considerably reduce the number of animal experiments required to clearly detect substances that disturb embryonic growth and development.

www.bmelv.de

Dr. Stephanie Simon and Dr. Stefan-Otto Müller were awarded the “2006 Animal Protection Research Prize” by the German Federal Ministry of Food, Agriculture and Consumer Protection. They developed in vitro systems, i.e. models that are used as screening tests and represent an alternative to animal studies.

www.eurotox.com

In 2005, Nadine Zidek had received the “Gerhard Zbinden Young Scientists Award” from Eurotox, the Federation of European Toxicologist & European Societies of Toxicology. The biotechnologist studied how gene expression can be used to determine the effect of substances on cells. The term “gene expression” describes the process in which a cell produces a particular protein as specified by the gene’s DNA sequence. The genetic information of an organism, which determines its characteristics, is encoded in the DNA of each cell. The method used by Zidek is intended to help to further reduce the need for animal testing.

Clinical trials: Safety through extensive testing

www.merck.de
>Pharmaceuticals >
Clinical Trial Information

The process from the initial ideas through to the market launch of a new drug takes an average of 10 to 12 years. After development in the laboratory, the new drug must first undergo extensive testing in clinical trials before the marketing authorization process can begin. We have set quality standards for the entire Merck Group for the clinical development of active ingredients that follow the International Conference on Harmonization (ICH) Good Clinical Practice (GCP) Guidelines. According to these guidelines, each patient must be informed in detail, both verbally and in writing, about the purpose of the clinical study, the experimental nature of the planned therapy, the potential benefits for participants of the study, as well as the possible risks and side effects. The investigator may only commence the study after receiving written consent from the patient.

Marketing guidelines updated

www.ifpma.org

When promoting its products, the Pharmaceuticals business sector must comply not only with its own Code of Conduct, but also with numerous statutory regulations. Moreover, the “IFPMA Code of Pharmaceutical Marketing Practices” of the International Federation of Pharmaceutical Manufacturers Associations (IFPMA), which was updated in 2006, also applies to us. Merck adapted its “Marketing Best Practices” to the new Code on January 1, 2007. They now define internationally binding standards, for example for product advertising and sponsoring. In order to implement the Code in all areas of our pharmaceutical business, we have set up a comprehensive program that includes training courses and eventually an e-learning program. Since July 1, 2007, all Merck events for physicians (fairs, congresses, etc.) must comply with the new internationally valid rules.



Germany

François Busquet and Thomas Broschard were awarded the 2007 Animal Protection Research Prize of the German federal state of Hesse for their development of a new test to identify teratogenic substances .

Merck complies with the Code of the "Association for the Voluntary Self-Control of the Pharmaceutical Industry"

As a member of the German Association of Research-Based Pharmaceutical Companies (VFA), Merck was one of the founders of the "Freiwillige Selbstkontrolle für die Arzneimittelindustrie e.V." (Association for the Voluntary Self-Control of the Pharmaceutical Industry) in February 2004. Initially, as a self-control body, the association only monitored cooperation between pharmaceutical companies and physicians based on a code of conduct. The code was expanded in December 2006 and since covers all advertising and promotional activities of its members, including interactions with pharmacists and other members of the medical profession. In addition, the scope of application was expanded to include product-related advertising for prescription drugs. When violations of the code are suspected, members and third parties can file complaints to an arbitration body. Once again, no complaints that related to Merck were filed during the 2005/2006 reporting period.

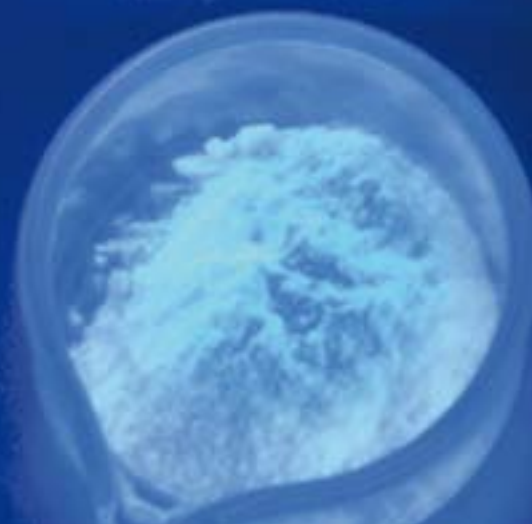
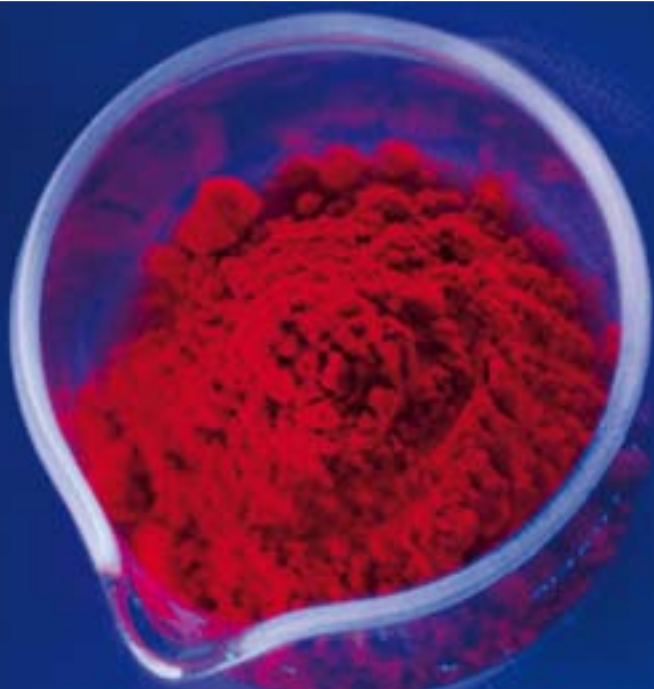
www.vfa.de

Continuing education for professionals

As the state of medical knowledge continues to evolve, the therapies based on that knowledge change as well. As a result, physicians and other medical professionals must continually update their knowledge. Merck places increasing emphasis on the use of new media for providing information and continuing education to medical professionals. Merck Serono now offers dermatologists an online possibility to deepen their expertise in the field of psoriasis. Examples of patient cases are used to explain the fundamental principles of the disease, the psychological burden, therapeutic goals and therapy management.

"Target" is the name of a training initiative for oncology nurses that Merck launched in cooperation with the "European Oncology Nursing Society" (EONS). Following successful pilot projects in 2006 at our subsidiaries in Germany, the United Kingdom and the Benelux countries, EONS has meanwhile expanded these courses supported by Merck to other European countries. To date, more than 300 participants have completed this training course.

www.cancerworld.org/EONS



Liquid Crystals

Close cooperation in development and production of liquid crystals with the world's leading display manufacturers has made Merck the number one company worldwide in this market of the future. High innovation rates, a large number of patents and proximity to the display manufacturers in the Far East secure our success. Modern life would be hard to imagine without displays based on LC technology in all formats – for example, in televisions, computer monitors, notebooks, digital cameras and mobile telephones. We are investing in research on customized LC mixtures and OLEDs, and are expanding our synthesis capacities for the innovative display industry. According to forecasts, between 2006 and 2010 the numbers of LC displays in televisions will increase by 27%, in notebooks by 17% and in monitors by 8%. The major growth driver for LCD monitors, which are becoming increasingly cheaper to buy, will be sales in emerging markets. Sales of LCD televisions are expected to already exceed those of cathode-ray televisions by 2008.

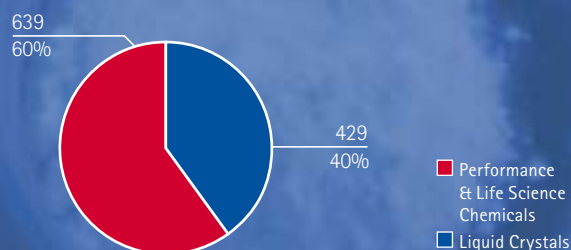
www.liquidcrystals.merck.de

Performance & Life Science Chemicals

Specialty chemicals from Merck are used in all stages of the pharmaceutical production process from development in the laboratory up to industrial-scale manufacture. They ensure reliable analysis in research and dependable production processes. Merck's expertise in chemistry, technology, quality assurance and approval processes has made the company a successful supplier not only to the pharmaceutical and cosmetics sectors but also to the food, optics, plastics, coatings and printing industries. In the field of alternative technologies, we can benefit from nanotechnology products for solar cells and biological crop-enhancing technologies. Particularly in biotechnology, annual growth rates of more than 10% are expected in the coming years. The laboratory market overall shows little fluctuation and stable single-digit growth.

www.pls.merck.de

Chemicals | Total revenues by division
€ million 1st half of 2007



Chemicals business sector

Merck offers a wide range of specialty chemicals for sophisticated applications in laboratories and industry. Many of these chemicals are contained in products that we encounter in everyday life. Top quality and a customer-centric approach to research and product development characterize the two large divisions that make up this business sector.

Conducting research for markets of the future

The future potential of our Chemicals business lies in sectors with a high need for innovation. One example is liquid crystals for flat panel displays. By investing early in research in this area, Merck is the global leader – and is also aiming to achieve this position with next-generation materials for the display and lighting industry. Therefore, we are intensively conducting research into organic light-emitting diodes (OLEDs).

Although the use of OLEDs is still comparatively limited, the displays of mobile telephones and MP3 players are already benefiting from their high brilliance and low energy consumption. The new organic materials are extremely thin, flexible layers applied by vapor deposition and open up numerous new possibilities for creating innovative products. We are also active in the nascent field of polymer electronics and are developing, for example, applications for radio frequency identification (RFID) chips or solar cells.

www.chemicals.merck.de

www.liquidcrystals.merck.de

Developing alternatives to solar silicon

Organic photovoltaics is another field with promising prospects for Merck. Here, the aim is to replace solar silicon, which is scarce and expensive, with plastic. If this breakthrough is achieved some day, the production costs for solar cells could drop drastically and they could become a mass product. Merck wants to build on its existing product range for silicon photovoltaics in order to become a leading supplier of materials for the solar industry. Therefore, together with three other industrial companies (BASF, Bosch, Schott) Merck is participating in the research initiative “Organic Photovoltaics” that was launched by the German Federal Ministry of Education and Research in June 2007. With “Organic Electronics” Merck is cooperating in interdisciplinary teams in the field of material development and thus making an important contribution to the core of photocell technology.

www.bmbf.de/en

Informing customers by holding safety seminars

Our offer of informational events on handling chemicals has met with a strong response: Over 12,000 customers have taken part in safety seminars since the beginning of 2006. Our southeast Asian subsidiaries in Indonesia, Thailand and Vietnam, for example, carried out a campaign in 2006 called "Safety with Merck: Improving Life and Environment", abbreviated SMILE. Large-scale events and in-house seminars informed Merck employees about safety in the laboratory, environmentally friendly disposal and the national legal situation. Our subsidiaries in Ecuador, Colombia, Argentina and Hungary also offer such seminars – and further will follow. We are currently working on a Group-wide framework to transfer this success model to our subsidiaries uniformly and efficiently.

Increasing food safety

www.pls.merck.de

For many years, Merck has also been producing analytical reagents for the food industry. Many food scandals have shaken the confidence of consumers and governments in product quality, which has stepped up pressure on producers in all countries. Rapid test methods in conjunction with reliable quality certificates are in more demand than ever: This business field, in which Merck is the leader, is playing an increasingly important role for food hygiene and safety.

Merck's rapid tests can even be used by end consumers, as illustrated by the example of Indonesia. Analyses carried out by the authorities in the capital Jakarta at the end of 2005 revealed residues of the carcinogenic formalin in more than 20% of the foods tested, which caused great uncertainty among the population. Consequently, the Indonesian government tightened controls to take stricter action against the illegal preservation of foods with formalin. Merck's rapid tests rendered good service in this respect: Customers in the supermarkets could find out in just a matter of minutes whether the food products were unobjectionable.

Using competitive advantages of REACH

www.responsibility.merck.de
> REACH

www.ec.europa.eu/echa

www.chemdat.info

Following many years of controversial debates, the EU chemicals legislation REACH came into force on June 1, 2007. REACH stands for Registration, Evaluation and Authorization of Chemicals. In line with the principle of reversing the burden of proof, REACH transfers responsibility for checking the safety of chemicals from the national authorities to manufacturers and importers. All substances produced in the EU or imported to the EU in volumes of one metric ton or more per year must be registered with the newly established European Chemicals Agency (ECHA) in Helsinki stepwise in the coming years. At Merck this primarily affects the Chemicals business sector and to a lesser degree the Pharmaceuticals business sector. It involves costs in the double-digit million range. Despite the tremendous bureaucratic effort required, as a supplier of specialty chemicals in regulated markets, we still significantly benefit from having started early to precisely record substance quantities and relevant substance data for all chemicals manufactured and imported by Merck in Europe. This gives us a clear advantage over competitors who have not maintained their product information to the same extent as we have done so far.



Japan

Merck is developing customized, innovative structuring concepts for the photovoltaic and display industries. The aim is to simplify processes while moving towards eco-friendly production, higher efficiency and faster production throughput.

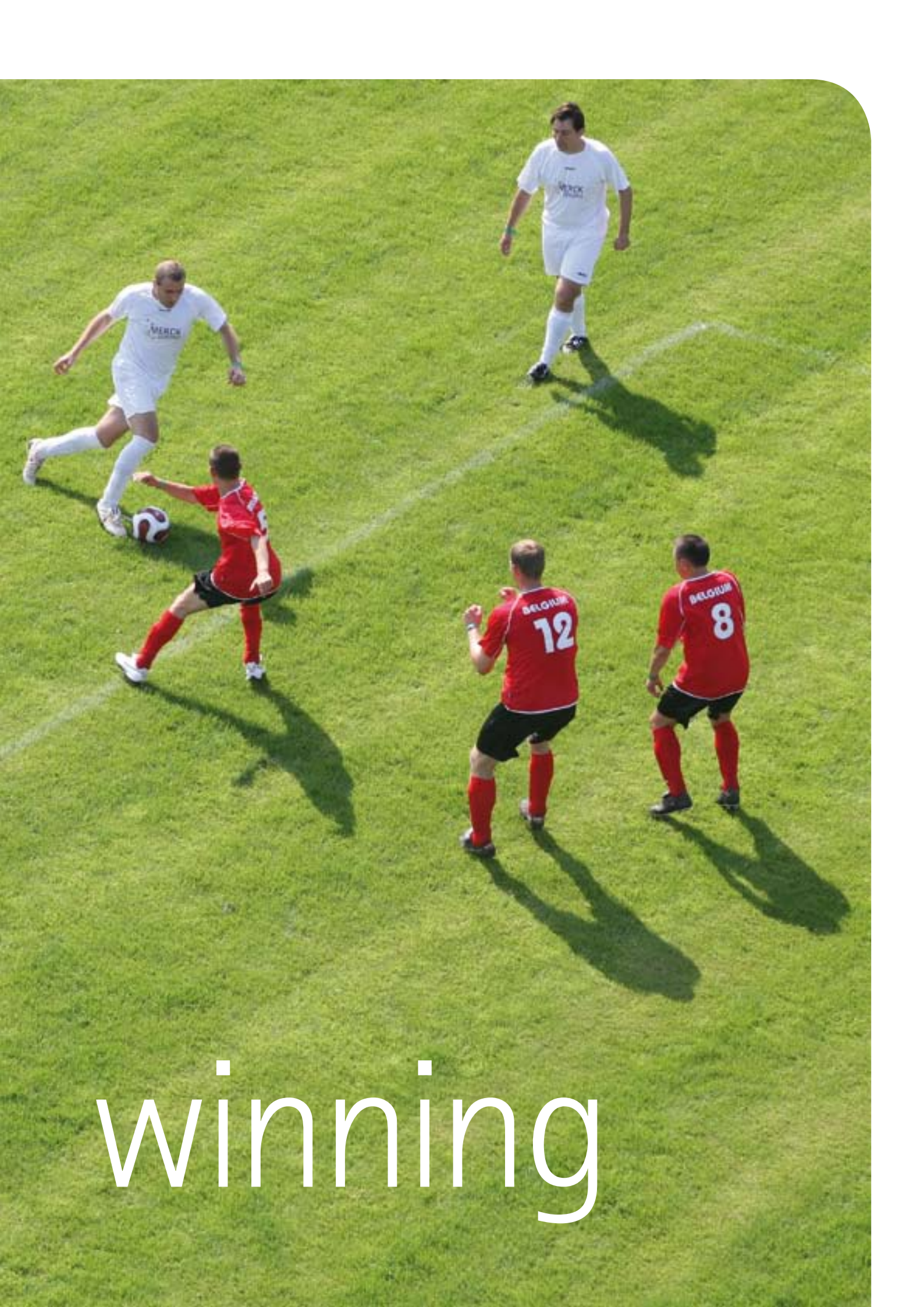
Adapting an international labeling system

Merck expressly welcomes the “GHS document” (GHS – Globally Harmonized System of Classification and Labeling of Chemicals) developed within the framework of the United Nations (UN). It goes back to a resolution of the UN Conference for Environment and Development (UNCED) adopted in Rio de Janeiro in 1992 with the goal of establishing a globally harmonized hazard classification and labeling system by 2008. This new, largely harmonized system is expected to significantly improve global communication on the safe transport and use of chemical substances and thus benefit both people and the environment. For the period after 2008 we are preparing an internal implementation program that will include the adaptation of IT systems as well as employee training and customer information events.

Preventing misuse of products

In order to prevent the misuse of our chemicals for weapons of mass destruction or for illegal drugs, we have set up a strict system and defined uniform rules for the Merck Group worldwide in an “export control guideline”. Our Export Control & Customs Regulations unit within the central function Environment, Health, Safety, Security and Quality (EHSQ) monitors compliance with legal and internal requirements. Every company of the Merck Group has appointed a trade and export control officer. Special training programs and regular internal audits ensure that all relevant processes run smoothly.

In 2006, Merck began the stepwise introduction of an SAP module called “Global Trade Services” at the companies of the Merck Group: This starts automatically when an import or export process is being performed electronically. It tells our employees immediately which substances are problematic or require an export license.



winning

Germany

Athletic fun, physical play, shots at goals: the Merck European Football Cup has already been held for the 17th time. A total of 19 Merck teams from 12 European countries, including for the first time an all-female team, competed for victory in challenging, yet fair matches.



Employees

Following the integration of Serono, around 31,000 people now work for Merck worldwide. As surveys indicate, employee satisfaction is high. One of our aims is to firmly anchor this positive image among the workforce as well as the general public in order to retain dedicated people and to attract winning talent.

In order to successfully execute our international business strategies, we have realigned and expanded our HR structures. Global HR responsibilities have been separated from local tasks in order to optimally align HR management with strategic goals.

www.responsibility.merck.de
> Employees

Building on shared strengths

The successful integration of Serono depends critically on our employees. Therefore, one of the most important tasks is to quickly establish new structures for the new organization. This will shorten the period of uncertainty that occurs during every change process. Continuing the business quickly and smoothly is key to the commercial success of the new division. To date, this has been possible. There are many examples of the Merck Serono team spirit in everyday business: the rapid synchronization of the research database by a team composed of Merck and former Serono staff and the preparation of complex data for a comprehensive management review of the Merck Serono portfolio are just two.

A recent survey on the corporate culture provided useful findings for the integration: We can build on shared strengths such as teamwork, valuing excellence, creativity and innovation, and customer orientation. At the same time, by embracing existing cultural differences, we can develop the company further. After all, it's only possible to learn from one another if differences exist. Utilizing existing synergies between the divisions as well as in the global organization will promote this. This requires that every unit and every employee take a broader view. Merck is by far much more than the sum of its parts.

We have a clear picture of how we will continue to successfully meld the two organizations. For instance, fast decision-making is crucial. We are therefore continually reviewing the progress made, and are quickly moving forward with the required adaptations. Efficient communication is equally important. Merck Serono has launched several communication initiatives and is using different measures, e.g. teambuilding activities, to ensure that employees are involved in the integration process.

New jobs created overall

Aside from the integration of Serono, the sale of our Generics division to Mylan Inc. of Pennsylvania (U.S.) has had a significant impact on our headcount. The divestment involved around 4,600 positions. The acquisition by Mylan offers these employees good prospects for the future. Mylan is aiming for long-term growth – an aspect that played an important role for Merck while seeking a suitable buyer for the business.

www.come2merck.com

Thanks to strong business performance, in 2006 Merck created more than 400 new positions in Europe alone. Positive sales developments of Erbitux® and liquid crystals were contributory factors. In France, the headcount declined due to the phase-out of pharmaceutical production in Lyon-Lacassagne, which was completed in mid-2006. In the United Kingdom, lower sales in the Generics division and the related closure of the manufacturing plant in Potters Bar led to a decrease in the headcount. We also had to lay off staff in the United States after discontinuing the development of sarizotan for use in the treatment of Parkinson's disease. At the same time, we created new positions in Latin America, particularly in Colombia, Mexico and Brazil. Our workforce increased substantially in Asia, with China, Indonesia and Japan accounting for most of the new staff hired.

Shared Service Center for Accounting

By establishing a European Shared Service Center for Accounting to standardize processes, we expect to achieve substantial savings through synergies and optimization. This independent German legal entity, which is based in Darmstadt, provides high quality coupled with high efficiency through experienced employees. In this way, we will be able to create new positions in Darmstadt. Merck is thus intentionally deviating from other companies that outsource these positions to low-wage countries or cut back collectively agreed benefits. Although our subsidiaries will lose some accounting positions, as in the past we will find sensible and socially responsible solutions for the affected staff.



Australia

Our Service Center in Melbourne provides customers with comprehensive information on specialty chemicals. In order to answer customer inquiries rapidly, employees like Jane Lawson and Christine Barclay often work in teams. By offering regular training, we ensure a high level of customer service.

Developing employees in a targeted manner

Promoting talented employees is a precondition for the success of Merck. In this area, we apply a globally consistent personnel development process. In 2007, we introduced target agreement discussions for all employees of Merck KGaA in Germany covered by collective agreements. The decision to do so is based on the realization that employees identify more with their tasks if they have agreed objectives. The discussions make it easier for employees to recognize the contribution they make to the attainment of corporate, divisional or departmental goals. In addition, the target agreement discussions help to deepen a culture of communication and feedback meetings as well as to optimize the required qualification measures. The discussions also serve to inform employees about common objectives and strategies. Apart from communication, we consider trust in employees and the delegation of responsibility to be essential in promoting entrepreneurial thinking.

Merck now consolidates its company-internal training offers in Germany on the learning platform known as Platon. Over 500 courses are already offered via Platon. These comprise on-site courses, e-learning offers or combinations of the two. As of mid-2007, more than 6,000 Merck employees had registered themselves on Platon.

Antidiscrimination legislation implemented

National antidiscrimination legislation has been passed throughout Europe in order to implement the corresponding EU directives. This was the case in Germany in August 2006 with the adoption of the "General Law on Equal Treatment" (Allgemeines Gleichbehandlungsgesetz - AGG). At Merck, numerous company agreements as well as our globally valid Code of Conduct have been aiming in the same direction for many years. Nonetheless, our Human Resources specialists took a closer look at the new requirements and informed the Works Council members in detail. In the course of 2007, we will launch an e-learning program on the intranet that all executives must complete. We have adapted a number of our internal guidelines to the requirements of the AGG.

Switzerland

Frederic Bollin performs research in a protein development laboratory in Geneva, one of the major research sites of the Merck Serono division.



For example, we no longer require applicants to include a photograph of themselves when submitting their application. All the German companies of the Merck Group have set up company discrimination complaint departments, which was one of the main requirements of the AGG.

Opportunities for people with disabilities

Offering professional opportunities to people with disabilities or re-integrating them into the workforce is an important goal to which Merck has committed itself (see 2005 Report). For the first time, we met our own objective of filling 4% of positions in Germany with people with disabilities in 2006. Our new goal is 5%, which also corresponds to the legal requirement. We want to strengthen our efforts to create optimum working conditions for those employees who become disabled during their career.

Demographic change – a challenge for companies

In many countries, companies must face the challenge of changing demographics in society. At the German sites of Merck, the average age of employees is 40. In 2010, this will rise to 42. These are the results of a study conducted in 2006, which presented exact figures broken down by occupation and department for Merck.

In key occupations, such as engineers and chemists, the competition for specialists will increase markedly in a few years. We have therefore been recruiting young, talented employees for several years and are endeavoring to retain older employees. Nevertheless, we must step up our efforts. This means: we must further strengthen our good image as an attractive employer. In spring 2007, we set up a “Demographic Development” working group to explore these issues.

Enabling employees to share in success

Merck's economic success is the result of cooperation between management and employees. Consequently, both should benefit from their combined efforts. Since 2003, the employees of Merck KGaA in Darmstadt receive a profit-sharing bonus that is dependent upon the return on capital employed (ROCE). In 2007, total bonus payments amounted to approximately € 44 million. For non-exempts, i.e. employees covered by collective agreements, this bonus is a voluntary company benefit. For exempts, it is a variable salary component. Many companies of the Merck Group have similar profit-sharing plans in place.

In 2005, we adapted our company social benefits to the new circumstances, e.g. by revising our company pension plan and offering additional financial assistance to employees on long-term sick leave. The aim is to adequately support our employees while encouraging them to take on more responsibility for their financial security. Secure long-term financing of the additional company benefits is a prerequisite here. The additional salary components offered by subsidiaries take into account country-specific benefit systems and are suitably comparable to local standards. Nevertheless, Merck employees continue to remain responsible for the level of benefits they receive on retirement or in the event of occupational disability.

The Serono integration: A report from the employee representatives

In order for international employee representative bodies to represent the interests of all employees, a European Works Council was established at Merck in 1996. A total of 25 employee representatives from European companies of the Merck Group make up the "Euroforum". The fact that the Swiss company Serono, which Merck acquired in 2007, had established a Serono Euroforum in 1999 was welcomed by the Works Council. Based on these structures, there will only be a single European employee representative body in the future.

Immediately after the closing in January, the Merck Euroforum took the initiative and held discussions with the Serono representatives in February. In addition, a meeting of both forums took place in Rome in 2007 during which the future approach was discussed.

By February 2008, a new works agreement will be prepared by a working group consisting of equal numbers of representatives from both forums and employer representatives. The intention is to combine the best of both current agreements as a basis for the new Euroforum. In addition, the previous Serono representatives were invited as guests to the annual meeting of the Merck Euroforum in September. In order for the employee representative bodies to converge, their members must get to know each other.

The fact that Merck operates in two major business sectors – Pharmaceuticals and Chemicals – is an aspect of the Merck strategy that is new to the colleagues from Serono. From the perspective of the Merck Euroforum representatives, Merck's strength is due to the inextricable linkage of these two pillars, which support each other in day-to-day operations. For Merck employee representatives, this is a given, but for the Serono colleagues it is a totally new realization.

Although different perspectives sometimes exist, the European employee representatives of the Merck Group do not evade them, but work jointly on solutions instead.



linking

T27

Germany

The wastewater treatment plant in Darmstadt provides optimum water protection. The plant is ideally controlled by a state-of-the-art wastewater analysis system yielding an impressive result: Water lilies grow in the maturation pond, that is, in the treated wastewater – a sign of the wastewater's good quality.



Environment

Environmental protection, occupational safety and health are closely linked at Merck. We set the trend in our industry with voluntary initiatives. During the reporting period, we substantially improved the data basis for the entire Group.

The central function Environment, Health, Safety, Security, Quality (EHSQ) steers the global activities in accordance with the international guideline "Principles and Strategies for Health, Safety and the Environment". In September 2007, 22 of our sites held a valid ISO 14001 certificate; our declared goal is to achieve certification of all production sites by 2010; another 22 sites are to follow in 2009.

Significant progress was made by our U.S. subsidiary EMD Chemicals, which obtained RC 14001 certification – the U.S. counterpart to ISO 14001 – by the end of 2006 for its major sites including Norwood, OH, Savannah, GA and Gibbstown, NJ.

www.responsibility.merck.de
> Environment and Safety

www.responsiblecare-us.org

All Merck Serono sites are meanwhile also integrated into the corporate EHSQ management system. These will be successively incorporated into internal and external audit plans.

During the reporting period, Merck systematically extended its responsibility to cover further important topics. The basis for this is the Responsible Care Global Charter adopted by the International Council of Chemical Associations (ICCA) in 2006. It puts even more emphasis than before on overall responsibility for products, supply chains and the community. Merck signed this extended version of Responsible Care for the entire Group in February 2007.

www.responsiblecare.org

United States

Diana Joe monitors an automatic filling unit in Gibbstown. The production site of our U.S. subsidiary EMD Chemicals has received RC 14001 certification.



Launch of new energy-saving program

Merck continues to pursue the goal of reducing carbon dioxide (CO₂) emissions by 10%, compared to 2002, by 2010. We achieved this already in 2003, since which time emissions have remained at an approximately constant level (see data section, page 45). A further reduction is difficult to achieve since major savings potentials have already been exploited. These include, above all, the substitution of brown and black coal by gas at our power plant in Darmstadt. Nevertheless, we are aware that further efforts are necessary, not least from an economic aspect. Energy price rises in Germany have also caused procurement costs to increase drastically – by 70% between 2002 and 2007.

Therefore, the Executive Board has set the goal of reducing energy consumption by at least another 10% for the Darmstadt site and by 5% for the Gernsheim site. A means to this end is the “enerCare” program launched in March 2007, using the new “Energy Information System” (EIS). Whereas we only used to be able to evaluate data on a monthly basis, the electronic EIS now provides real-time energy consumption data of all major points of operation and consumption. So we can now directly check the impact of individual energy-saving measures. It is now even possible to compare several energy consuming points with one another.

The ideas and commitment of our employees on site are indispensable to energy conservation. Therefore, in spring 2007, we appointed about 30 employees at the Darmstadt site as “enerCare” officers. They are responsible for collecting ideas and implementing measures to reduce the consumption of electricity and gas, cold, steam, water and compressed air by means of technical or organizational improvements. The Engineering/Energy Resources department in Darmstadt provides the officers with training for information and advice.

Eco-prize for sustainability

At the heart of an ingenious system that helps heat and cool Merck Serono’s new headquarters in Geneva as well as other buildings in the adjacent city district is a basic renewable resource: water.

From pipes deep in nearby Lake Geneva, where the temperature remains a constant 6-9°C all year long, water is pumped into the building and circulated through a closed system. The difference between the temperature of the lake water and the ambient temperature cools buildings in summer and, in conjunction with heat pumps, helps keep them heated in winter. With this new cooling and heating system, around 70% of total energy is obtained from renewable resources. For this, the city of Geneva and Serono were honored with the “ASPAN-SO 2005” Prize.

Good start to emissions trading

With power plants at the Darmstadt and Gernsheim sites in Germany, Merck is participating in the CO₂ emissions certificate trading program launched Europe-wide in 2005. When issuing emissions certificates, the German Emissions Trading Authority (DEHSt) acknowledged our previous measures (the substitution of brown and black coal by gas) as “early actions”. In the first trading period (2005–2007), this resulted in an excess of certificates, so we were able to sell about 140,000 certificates.

www.dehst.de

Our employees actively promote climate protection when they use public transport instead of their own automobiles. Since the end of 2004, Merck in Darmstadt has been offering a job ticket for the Rhine-Main transport authority enabling employees to travel on local buses, trains and trams at half fare. By mid-2007, more than 2,900 employees had purchased the annual job ticket and are now commuting to work on environmentally friendly public transport – as opposed to only 900 before it was introduced. This traffic-friendly measure also fulfills one of the goals set by the city and surrounding areas in their annual regional planning dialogue.

www.headquarters.merck.de
> Environment > Dialog

Solution for the Seveso II Directive

There are inevitably conflicts of interests over land use policy in densely populated areas: Up until summer 2006, the city of Darmstadt aimed to designate a new residential area in the direct vicinity of our plant site. This intention contradicted the “Seveso II Directive” of the European Union, which stipulates that a “suitable” distance must be kept between industrial sites that fall under the Major Accidents Ordinance and areas of particular sensitivity.

After lengthy negotiations, Merck and the city of Darmstadt together with Darmstadt regional council finally came to an agreement in July 2006 that ensures planning security for all parties involved. According to this agreement, only buildings with low public exposure may be newly planned within the limits to be observed around the plant site; in addition, a special zone – a “planning area of mutual respect” – was agreed upon. The compromise found in Darmstadt can, last but not least, also serve as a role model for other chemical plant sites in Germany.

Active product responsibility for waste disposal

In recent years, we have established a separate collection system also for chemical waste allowing us to separate chemical flows suitable for energy generation. Up to 60% of chemical waste from the two major chemical production sites in Darmstadt and Gernsheim is now used in suitable facilities for the generation of approximately three megawatts of electric and thermal energy. This contributes to the protection of fossil fuel resources.

Through a variety of initiatives and for many years, we have been taking responsibility for what happens to our products after being used by our customers. For the return and recycling of waste such as from chemical laboratories of our customers, we have created our own system: Retrologistik® is a long-established service in Germany and is highly esteemed by customers. The system developed in Germany has been set up now also for customers in Thailand in the course of a project over several years.

www.retrologistik.com

In Chile a similar project has been launched, in Malaysia we have started testing the return and recycling of used chemical packaging with pilot customers, in the Philippines the recycling of a used Merck product is being tested in a pilot project. All these activities are being accompanied by environmental protection seminars for customers with the support of local environmental authorities.

Another impressive example is the development of a recycling process for flat panel displays. In a few years, manufacturers of liquid crystal displays (LCDs) will be facing the problem of how to dispose of used devices in an environmentally friendly way. In the EU this is an obligatory requirement laid down in the WEEE directive (WEEE – Waste Electrical and Electronic Equipment). With the appropriate foresight, in 2005 Merck developed the world's first process for the environmentally friendly disposal of LCDs: The displays are smelted in a furnace at 1300°C, where the LCD glass replaces the traditionally used silicate sand and the LCD films replace the charcoal.

Expanding water and soil protection

Since Merck has modernized its wastewater treatment facilities at many sites during recent years, there are only limited possibilities for further progress in this area. We are proud of our new state-of-the-art wastewater analysis system at the Darmstadt site, which has made us a technology pioneer: Real-time values of more than 50 substances are measured fully automatically around the clock. Thus it is possible to optimally control the wastewater treatment plant depending on the composition of the wastewater. By constantly monitoring the concentrations of the various substances, the quality of the wastewater has significantly improved even beyond the specified limits to ensure optimum water protection.

The optimization of the wastewater treatment plant at the Merck site in Jakarta, Indonesia, resulted in a dramatic reduction of water pollution. We also want to continue to exploit all possibilities for reducing water pollution, which we have defined as a parameter for research.

For the management and remediation of soil and groundwater pollution, Merck has set up a provision of € 29 million for the Darmstadt site. Since 2004, a project for investigating and remediating pollution has been running in close cooperation with the competent authorities.

At the Gernsheim site, Merck is implementing a program of measures that has been imposed by the authorities for the remediation of soil and groundwater pollution. The whole site is involved in these measures.

We are expecting the U.S. Environmental Protection Agency (EPA) to give us the go-ahead for the remediation measures at Norwood, OH (United States) this year.

Occupational safety and health continuously improved

To promote the occupational safety and health of its employees, Merck is striving for Group-wide harmonization of minimum criteria oriented to the standards of the International Labour Organization (ILO) and the Responsible Care® Program of the chemical industry.

www.ilo.org
www.vci.de

With voluntary measures we exceed the legal requirements in some cases, for example in Germany where the specifications are very stringent. At the beginning of 2007, the Gernsheim site launched an internal audit program called "Argus II" involving the whole site. This aims to holistically integrate occupational safety into operational processes and to document it in a systematic and traceable manner, e.g. by means of checklists. Worldwide, Merck has defined a new goal for occupational safety until 2010, which takes the increased requirements into account with an LTIR (Lost Time Injury Rate) of 5.0.



Germany

New limit values for active pharmaceutical ingredients protect Alexander Gambietz at the Darmstadt site. He uses fluidized-bed granulation to produce a precursor for Concor® tablets.

For numerous substances (chemicals) a commission of the German Research Foundation defines “maximum concentrations at the workplace” (MAK values), which are then legally binding as “workplace limit values” (AGW values) in the Technical Rule for Hazardous Substances (TRGS 900: AGW). The MAK or AGW value signifies the highest permissible concentration of a substance in the air at the workplace that does not affect workers’ health. So far there have been no such limits for pharmaceutical active ingredients in most cases. However, in 2006, Merck closed this gap in occupational safety and health. For tablet production at the Darmstadt site, we have defined in-house standard values based on previous measurements. In addition, we have defined and implemented measures in the event of these values being exceeded.

www.dfg.de

Environmental protection and safety integrated into production processes

In 2005, a new organic chemical production facility was commissioned at the Darmstadt site. Today, mainly liquid crystals are produced in this facility. State-of-the-art environmental protection and safety concepts were realized with this new building. Examples are exhaust air combustion with integrated energy recovery and resource-saving recycling systems. The flexible, modular facility design makes it possible to smoothly integrate even ultramodern processes based on microreaction technology. These processes have a low hold-up and are characterized by their inherent safety and high energy efficiency. Merck leads in the application of micro- and minireaction technology.

Data management improved

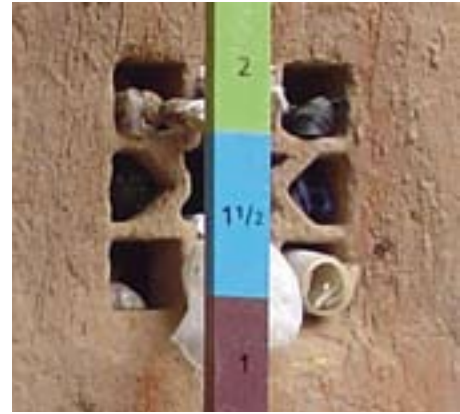
During the reporting period, we made major progress in data acquisition. The global database LION (Location Information Online System), which went live in March 2006, for the first time enables all of our nearly 100 Merck sites (production, warehousing, research and development), to constantly update data on environmental protection, occupational safety and health as well as product and site safety in a decentralized database; the Merck Serono sites have also been integrated since May 2007. On an annual basis, and for certain data on a monthly basis, there is an overall update of the data sheets that have been fed into the system. This is indispensable for efficient control and comprehensive reporting. LION made it possible to provide precise data on the whole Group for this report.



strengthening

Mali

We are combating the tropical disease schistosomiasis in African school children together with the World Health Organization (WHO). Merck has donated around 200 million tablets of Cesol® 600. The required dose of the active ingredient praziquantel depends on the child's height.



Community

As a family company, Merck can look back at a long history of social commitment. We are expanding our efforts in this area and are strategically realigning them Group-wide to reflect our core competencies. Consolidating our resources will enable us to rise to global challenges, strengthen our position as an active member of society, and reinforce our relationships with stakeholders.

In June 2007, the Executive Board decided to reorganize and strategically realign our charitable activities: We now steer our Group-wide activities centrally under the heading “Global Responsibility” and make sure that they distinctly relate to the business. By targeting our core competencies, we can leverage the impact of our social commitment. At the same time, we have combined the many charitable activities that the companies of the Merck Group undertake locally and independently under the heading “Local Responsibility (Corporate Citizenship)”. These activities will also orient towards a Group-wide framework that gives the local Merck companies guidance for their actions.

www.responsibility.merck.de
> Community

Global Responsibility

Several projects that now fall under the Global Responsibility heading already started many years ago. Others have been added as part of the strategic realignment. The core projects are:

www.who.int

Combating schistosomiasis Merck is supporting the UN Millennium Development Goals and Millennium Declaration to achieve considerable progress by the middle of the next decade (2015) in combating HIV/AIDS, malaria and other serious diseases as well in offering essential medicines at affordable prices. The Millennium Declaration commits both rich and poor nations to do everything they can to combat poverty, to promote human dignity and equal rights and to make peace, democracy and ecological sustainability a reality. In 2001, the World Health Assembly – the highest decision-making body of WHO – adopted a resolution to provide regular treatment to at least 75% of school age children who are at risk of morbidity due to helminthic (worm) infections by 2010. This campaign is aimed at school children, as they can be reached and treated repeatedly.

Merck is rising to this challenge: In April 2007, Merck entered into a partnership with the World Health Organization (WHO) to combat schistosomiasis primarily in African school children. The program is called the Merck-Praziquantel Donation Program (MPDP). Over the next ten years, Merck will provide free of charge 200 million tablets of Cesol® 600 (active ingredient praziquantel) with a value of approximately US\$ 80 million. Schistosomiasis, which is caused by worms and causes the most suffering among children, is the second-most common tropical disease in Africa after malaria. It causes anemia, stunted growth and leads to learning disabilities. Every year, around 200,000 people die of this insidious disease caused by schistosomes.

The active ingredient praziquantel is the most effective therapy to date for schistosomiasis infections – often even after just one dose – and it is well tolerated. It is therefore on the WHO list of essential drugs. Praziquantel was jointly developed by Merck and Bayer in the 1970s.

Through the Merck-WHO agreement, 27 million African school children can be treated within ten years. The tablets we are donating are produced at our facility in Mexico and administered locally by WHO to school children.

www.gphf.org

Detecting counterfeit drugs Counterfeit drugs are a serious threat to health care. The World Health Organization WHO assumes that up to 10% of the drugs offered worldwide are either counterfeit or of deficient quality. The mobile compact laboratory GPHF-Minilab® makes it possible to identify counterfeit drugs quickly and cheaply. The Global Pharma Health Fund e.V. (GPHF), which is supported exclusively by Merck and started operations on July 1, 2007, succeeds the “German Pharma Health Fund”, a pharmaceutical industry initiative that promoted numerous health projects in developing countries from 1985 to 2007, including the development and testing of the GPHF-Minilab®. Worldwide, 270 laboratory units are in use in 66 countries. They are mainly being deployed in Africa and Asia, which are especially affected by counterfeit drugs since the preconditions for effective drug control are often lacking in many of these countries.



Vietnam

The GPHF-Minilab® is capable of identifying counterfeit or low-quality drugs with simple test methods that are also reliable in tropical countries.

Mobile preventive health examinations The mobile health examinations offered or supported by Merck are also used for prevention. From 2005 to 2007, the Merck “Thyromobile” again toured numerous cities and gave people the opportunity to have their thyroids checked free of charge. Over the past 14 years, more than 45,000 people worldwide have been diagnosed with iodine deficiency in this way.

Cultural promotion The Philharmonie Merck is a musical ambassador of the company. This symphony orchestra, which gives a wide range of concerts, enjoys an excellent reputation among fans of classical music. The orchestra’s popularity extends well beyond the region. On concert tours to many European countries, Asia and South America, the Philharmonie Merck represents the culture of the company. In addition, a “Musical Autumn” is held in Darmstadt every two years. Internationally renowned orchestras, ensembles and soloists complement the concerts of the Philharmonie Merck at this highly acclaimed musical festival.

Local Responsibility

“Local Responsibility (Corporate Citizenship)” also includes many projects that were started years ago. Rapid responses to emergency situations and the special requirements of local companies are especially important here. Consequently, numerous activities are carried out every year, many of which at short notice. Due to the large number, we can only present a small selection here. The following pages show a world map of our corporate citizenship activities.

*Examples from corporate headquarters at www.darmstadt.merck.de
> Social commitment*

[USA]

Donations to benefit the community:

In the United States, EMD Serono has set up a comprehensive Corporate Giving program that includes not only sponsoring activities, monetary and supply donations but also an employee program: Twice a year, EMD Serono holds a Community Service Day on which employees can volunteer during working hours at schools or charitable organizations for the benefit of the community.

[Mexico]

Help for people with dementia:

In January 2006, we opened the Merck Pavilion in Mexico City. It is part of the "Asociación de Ayuda Social de la Comunidad Alemana" (Social Outreach Association of the German Community). People suffering from dementia are offered assistance here in stopping or at least slowing down the gradual deterioration of their cognitive abilities.

[Colombia]

Constructores de Vida: The name of this project, which was launched in 2006, means "builders of life". It is aimed at improving the quality of life of people with colorectal and head and neck cancer. The prevalence of these forms of cancer is growing in Colombia. The initiative offers personal care courses as well as counseling and support.

[Chile]

Supplies for a chemistry laboratory:

Merck Chile is equipping the school "Ciudad de Barcelona", located in one of the poorest sections of Santiago, with laboratory supplies for chemistry lessons. In addition, it is donating money to local initiatives aimed at preventing drug abuse and helping underage mothers.

[Switzerland]

Daycare center in Geneva:

The new daycare center at the premises of Merck Serono can accommodate around 80 children from the ages of four months to four years. The daycare center is being financed jointly by Merck Serono and the city of Geneva. Around one-third of the places will be offered to children of Merck Serono employees, one-third to children of families living in Geneva.

[Spain]

Medical help for children:

In Spain, Merck Serono is supporting the "Programa Ciuda'm" by St. Joan de Déu hospital. This project provides children from developing countries specialized medical treatment which they need in order to survive and are unable to obtain in their home countries.

[France]

Supporting people with disabilities:

Since 1999, Merck Santé has been donating around € 12,000 a year to Handicap International – an organization that works to improve the living conditions of handicapped and disadvantaged people.

[Brazil]

Integration of handicapped children:

In Rio de Janeiro, Merck is supporting a project that integrates physically and mentally disabled children into the public school system – 200 children and their families are participating in the project.

[Germany]

Creating enthusiasm for technical subjects:

Together with the Technical University of Darmstadt, Merck initiated the Merck TUD pupils laboratory, which is to start up in 2008. It is the first laboratory of its kind in Germany run by an industrial company and a university. Up to 34 pupils of all ages and from all types of schools will be given a practice-relevant look inside the world of chemistry by professionals. Since 1964, the literary genres of criticism and essay have been sponsored with the "Johann Heinrich Merck Prize for Literary Criticism and Essay."

[Tanzania]

Hand-in-hand for Africa:

This is the name of a relief program being conducted by our German consumer health care subsidiary Merck Selbstmedikation under the Kohle Compretten brand together with the German TV magazine "Funk Uhr". This initiative made the construction of a pharmacy in Mbinga, a small city in south-west Tanzania possible in early 2007. The magazine ran ads asking its readers to donate money. Merck donated money and supplies. The pharmacy and the adjacent hospital serve around 100,000 people.



[China]

China Hope: Employees of Merck China in Shanghai, Beijing and Guangzhou are supporting the "China Hope Project" for disadvantaged children and donate blood to the Red Cross.

[South Korea]

Jacob House: In South Korea, Merck supports the Jacob House, an orphanage for children under the age of three. Once a month, employees visit the children, play with them and clean the facility.

[Japan]

A bear supports a good cause: In November 2006, several of the well-known United Buddy Bears – individually designed bears that were part of an exhibition – were sold. The auction generated proceeds of € 55,700 for the UNICEF "Schools for Africa" project. The highest price of € 10,500 was achieved by a bear whose design Merck Japan had financed in April 2005.

[Thailand]

Cooperation with CARE International: Merck in Thailand has been cooperating with the Raks Thai Foundation, the national chapter of CARE International, since 2002. Established in 2003, the Merck Young Leadership Development Program gives more than 6,000 pupils and young adults from the poorest regions of the country the opportunity to attend courses on management and communication skills. Employees can participate directly through an Employee Volunteering Program.

[India]

Merck India Charitable Trust: With this fund, which was created in 2005, Merck supports talented students whose families cannot afford to finance the costs of higher education. Every year, around 25 students receive a scholarship to pay for tuition, books or transportation costs.

[Indonesia]

Flood relief: The devastating floods that occurred in Jakarta in February 2007 led to a spontaneous willingness to help among our subsidiaries and their employees. Assistance was provided as donations of money and medicines as well as immediate financial aid to around three dozen Merck employees whose homes were flooded.

[Pakistan]

Medical care expanded: In 2007, Merck Merck contributed to medical progress in Pakistan through two projects: Merck has established a clinic and maternity hospital on Baba Bhit, two small islands with a neglected infrastructure. Merck financed the renovation of two lecture halls at Kind Edward Medical University in Lahore.

[South Africa]

AIDS hospice: In the small city of Philippi on the southern tip of Africa, 40% of the population suffers from AIDS. Within the scope of its corporate social investment program, our subsidiary in South Africa donates money and supplies to an AIDS hospice set up by a missionary.

[Australia]

House for tsunami victims: Following the tsunami of December 2004, the Executive Board and the staff of the Merck subsidiary in Australia made donations to a charitable organization in Sri Lanka that used the money to build a house for an impoverished family.

Our goals

[01] Employee-related goals

Goal	Status	Measures
Reduce workplace accidents with lost time per million working hours (Lost Time Injury Rate) for the Merck Group to 5.0 for the Merck Group by 2010.	We have already achieved our goal of reducing the lost-time injury rate (LTIR) to 12.9. The LTIR of the Merck Group was 6.2% in 2006, whereas that of Serono was 7.6.	Accidents are recorded globally every month by site. A systematic evaluation shows potential for hazards and causes. Measures to prevent similar accidents are taken with support from EHS.
In 2005, the Merck Management Principles defined the following Group-wide goals, among others:		
Implement or improve the annual performance management process (target agreements, feedback and coaching; performance evaluations)	An annual performance management process was introduced for a further 6,500 employees.	A Group-wide project to further implement and optimize the annual performance management process by 2009 has been initiated.
Implement or improve the Talent Management Process to identify and promote talented employees	The Talent & Succession Management Process deals with systematic talent management and includes the identification of key positions and succession planning for them. The expanded process started in 2007. Global implementation of the process in all divisions, central functions and at all sites is continuously underway. The process is supported by a database to which the data on talents and key positions are currently being added.	<ul style="list-style-type: none"> HR managers around the world will be trained on the expanded process and the new talent database as of late September 2007. Introduction of the Talent & Succession Management Process at Merck Serono in 2008. Continuous quality control of the process in order to recognize and implement the necessary adjustments.
Implement or improve succession planning	Succession planning has been integrated into the Talent & Succession Management Process (see above).	
Increase the proportion of women in senior management positions	Status as of Dec. 31, 2006: Merck: 24%, Serono: 21%	
For the sites in Darmstadt and Griesheim, which represent 25 % of the workforce, as of June 30, 2007, the following goals also apply:		
Make the Darmstadt and Griesheim sites more family-friendly with the help of tools such as:	Since 2005, a project group has been working to optimize the range of offers to help Merck employees reconcile the demands of a family and a career:	
<ul style="list-style-type: none"> Improve childcare possibilities 	At the Merck daycare center in Darmstadt, which looks after a total of 100 children, the number of places for infants has been doubled to 24. In Geneva Merck Serono opened a daycare center for 80 preschool children in 2007.	
<ul style="list-style-type: none"> Promote development and career opportunities for part-time employees 	As of Dec. 31, 2006, 10.6 % of our staff was part-time.	
<ul style="list-style-type: none"> Improve employee integration after family leave. Optimizing information on the "Career and Family" topic. 	The presentation of the offers on Career and Family initiatives on the intranet and on the Web has been revised and taken up as a topic of management seminars.	
Determine impact of demographic developments on Merck.	An interdisciplinary working group on Demographic Development is assessing the situation and performing benchmarking studies.	Participation in the 50+ project by the IG BCE industrial union and development of future-oriented models.

[02] Environmental goals

Goal	Status	Measures
Achieve an ISO 14001 Group certificate by the end of 2010	New goal As of September 2007, 22 sites of the Merck Group were certified to ISO 14001, a further 22 sites are to be certified.	The attainment of a Group certificate is being steered globally within the scope of a project being conducted by EHS. The Group certificate will cover all sites with ISO 14001 certification as well as the sites that still need to be certified.
Systematize Continuity Risk Management by 2010	New goal	The relevant areas (divisions, purchasing, distribution EHSQ, etc.) perform a joint assessment to systematically evaluate the Group risk, e.g. production stoppages or supply problems with requisite materials.
Reduce CO ₂ emissions by 10% (base year 2002) to no more than 150,000 t in the Merck Group by 2010	This goal was achieved for the sites of the Merck Group in 2006 with CO ₂ emissions of 149,000 metric tons. Due to the new Serono sites acquired in early 2007, a further 19,000 metric tons of CO ₂ were emitted in 2006.	Recording and evaluating the main emissions will lead to new emission reduction projects. In many cases, the emission levels are directly proportional to production output, which is why the assessment must take increasing product quantities into account. The new goal of 150,000 metric tons of CO ₂ in 2010 therefore relates only to the CO ₂ emissions of the old Merck sites. New target values based on the changes in the company are being developed.
Increase waste recycling ratio (recycled waste : total waste) by 20% to at least 57% by 2010	The recycling rate of the Merck Group was 56% in 2006, whereas that of Serono was 83% in 2006.	Higher production output also results in higher quantities of waste. By recording the quantities centrally, the recycling rate of 57% is reviewed regularly. If deviations occur, corrective action is taken.
Record the material quantities and relevant material data for all chemicals manufactured or imported by Merck in Europe	Merck has updated the data for substances > 1 metric ton to reflect the status as of 2006.	Headquarters in Darmstadt maintains a continuous dialog on material data with the Merck sites located in the EU. Material data is recorded centrally and forms the basis for the preparations to implement the REACH regulation 1907/2006/EC.
Specify and establish uniform global hazardous materials information by 2008	In Europe and North America, hazardous materials regulations exist for all transport carriers whereas this is not always the case in the rest of the world. Transport Emergency Cards exist in 30 major languages for all Merck products. Merck-specific guidelines are obligatory for the sites in Germany and are being established successively at other sites. They are available on the intranet.	As of 2009, the previous Transport Emergency Card system in Europe will be replaced by information for the vehicle operator. The new system will be made available in the required languages in good time.

[03] Community goals

Goal	Status	Measures
Combat schistosomiasis	First supply of tablets to WHO starting in spring 2008.	Over the next ten years, 200 million tablets with a value of approx. 80 million U.S. dollars will be supplied, free of charge, for treating 27 million African school children.
Combat drug counterfeiting by supplying the compact mobile laboratory GPHF-Minilab®	More than 270 GPHF-Minilabs® used in 66 countries worldwide.	Training in the use of GPHF-Minilab®

As our Stakeholders see us

Many stakeholders pay close attention to and evaluate Merck.
Here are some examples of positive evaluations by our stakeholders.

Innovation At the “Organic Electronics Conference and Exhibition” in October 2006, Merck scientists Ian McCulloch and Martin Heeney received the top award for research and development for their new semiconducting materials. This is the highest distinction awarded in the international organic electronics field.

Customer focus For the second time, Merck Ltd. of Japan received the “Best Supplier Award - Quality” from the Japanese electronics group Sharp in 2006.

Health care Merck Pharma GmbH and the BKK Merck (company health insurance fund) received the “Felix Burda Award 2006” in the “Prevention at Work” category for the colorectal cancer screening program. Around 3,000 Merck employees participated in this program in Germany in early 2006.

Family friendliness In July 2006, the Darmstadt Junior Chamber International voted us to be the “most family-friendly company in southern Hesse.” Merck Serono in Spain is one of the few companies that have received the certificate for family-friendly companies from the “Foundation + Familia” in 2007.

Attractive employer Merck Austria took first place in the 2006 “Best Employer” survey conducted by Hewitt Associates in Austria. The study conducted by the HR consultancy company measures the attractiveness of employers as seen by employees. In a similar study conducted in a neighboring country in 2005, the Merck subsidiary in Slovakia ranked third.

Integrity The South Korean Ministry of Finance and Economy granted Merck Advanced Technologies the Tax Award in March 2007. This award recognizes companies that meet their tax obligations under customs law and demonstrate exemplary business behavior.

Philanthropy In 2006, EMD Serono in the United States was the recipient of Boston Business Journal’s Corporate Philanthropy Award for exceptional charitable programs and corporate giving.

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Key economic figures

[01] Key financial figures

in € million	2002	2003	2004	2005	2006
Merck Group sales	7,400	7,202	5,859	5,768*	6,259
Sales excluding VWR**	4,935	5,003	5,339	5,768*	6,259
Pharmaceuticals sales	3,153	3,303	3,452	3,792*	4,119
Ethicals	1,779	1,467	1,504	1,717*	1,902
Generics	1,064	1,515	1,597	1,701*	1,819
Consumer Health Care	309	321	352	374*	398
Chemicals sales	1,782	1,700	1,687	1,900	2,106
Liquid Crystals	377	438	583	739	892
Performance & Life Science Chemicals	1,212	1,081	1,104	1,161	1,213
Electronic Chemicals	192	180	-	-	-
Corporate and Other	-	-	200	76	34
Profit before tax	412	423	961	893	1,273
Profit after tax	215	218	672	673	1,001
Return on capital employed (ROCE) in %	9.6	12.1	15.9	20.5	21.0

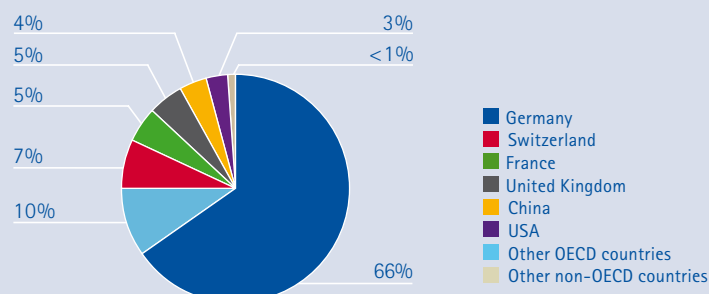
From 2002 to 2006, we increased our sales by 27% (excluding VWR). The Pharmaceuticals business sector grew by 31%, the Chemicals business sector by 18%. Profit before and after tax as well as the return on capital employed increased markedly in the five-year period.

[02] Sales by region

in € million	2002	2003	2004	2005	2006
Europe	2,959	3,017	2,666	2,709*	2,891
North America	2,648	2,358	1,142	840*	889
Latin America	398	365	381	464*	542
Asia, Africa, Australasia	1,395	1,462	1,671	1,756*	1,937

Europe is Merck's most important market. In North America, the divestment of VWR in 2004 led to a decline in sales. In recent years, the regions Latin America and Asia, Africa, Australasia have recorded strong growth rates. Growth in Asia is due primarily to our successful liquid crystals business.

[03] Purchases by German companies of the Merck Group by country



More than 95% of purchases by the German companies of the Merck Group were placed with suppliers based in OECD countries, the vast majority of which are based in Germany. The criteria used to assess suppliers include quality, price, delivery reliability, service and environmental certification. We have added the topics covered by the Merck Social Charter to our purchasing guidelines. We plan to set up a system to evaluate suppliers from non-OECD countries with respect to social aspects. This system will extend beyond the previous practice of random local visits.

* In order to harmonize accounting practices within the Merck Group, as of 2006 the way in which certain customer rebates are reported has been changed. Expenses previously included mainly under marketing and selling expenses are now deducted from sales. The previous year's figures have been presented accordingly on a comparable basis.

** The Laboratory Distribution business sector (VWR) was sold in April 2004.

[04] Net value added statement

in € million	2002	2003	2004	2005	2006
Net value added statement					
Total revenues	7,400	7,202	5,859	5,768	6,259
Other income	308	271	598	396	590
Financial income	28	13	17	31	68
Corporate result	7,736	7,486	6,474	6,196	6,916
Cost of materials	-3,069	-2,876	-1,849	-1,599	-1,633
Other purchased services/expenses	-1,842	-1,786	-1,636	-1,740	-1,890
Gross value added	2,825	2,824	2,989	2,858	3,393
Depreciation and write-downs	-425	-471	-375	-290	-303
Net value added	2,400	2,353	2,614	2,568	3,091

Value added is a measure of the economic strength of a company and indicates how the corporate result is achieved and for what it is used. The corporate result is the sum of sales, other income and financial income. The distribution of value added shows a 20% increase in net value added in 2006 over the previous year.

Distribution of net value added					
Personnel expenses	1,813	1,802	1,554	1,581	1,698
Financial expenses	176	128	99	94	119
Taxes on income	196	205	289	221	272
Net income	215	218	672	673	1,001
Net value added	2,400	2,353	2,614	2,568	3,091

The distribution of value added shows that the majority of the net value added was attributable to personnel expenses; in 2006 the proportion was 55%. Net income was also responsible for an especially large share, or 32%, due to the exceptional gain of € 378 million on the sale of Merck's shareholding in Schering AG.

[05] Non-current liabilities

in € million	2002	2003	2004	2005	2006
Pension expenses	100	109	103	88	97
Present value of all pension commitments	1,235	1,355	1,301	1,491	1,607
Financial liabilities	2,337	1,764	318	945	1,112

The fair value of our pension commitments has increased. Pension expenses for former employees in retirement have remained virtually constant.

[06] Shareholders of Merck KGaA

Geographically, our shareholder structure has changed considerably in recent years. The proportion of shareholders in North America increased from around one-third in 2003 to nearly one-half in spring 2007. Shareholders in Germany still hold around 20% of our shares in free float. As of July 2006, institutional shareholders with holdings ranging between 5 and 10% included JPMorgan Chase & Co. (New York), Capital Research and Management Company (Los Angeles) and Barclays PLC (London).

[07] Regional Aspects

Investments in infrastructure and services of overriding importance to the well-being of the community

Special mention should be made of the wastewater treatment facility at the Gernsheim site in Germany. In accordance with the wastewater agreement entered into by Merck and the town of Biebesheim in 1999, the company is responsible for the central treatment of the wastewater and precipitation water occurring in Biebesheim. The disposal services performed by Merck include in particular wastewater treatment and the provision of the required conduit system.

Another example is the outpatient and maternity clinic on Baba Bhit (Pakistan). In early 2007, Merck Marker set up a 12-bed outpatient and maternity clinic on Baba Bhit, two small islands within Karachi harbor where even basic health care facilities are lacking. The company has assumed the responsibility to finance, organize and manage the clinic. In addition, from 2005 to 2007 Merck Marker supported a health advocacy program on Pakistani national television. Experts from different medical fields spoke about diseases such as diabetes, hypertension, depression, cancer and anemia. Individual products or brand names were not advertised.

Key product figures

[01] Research and development expenses

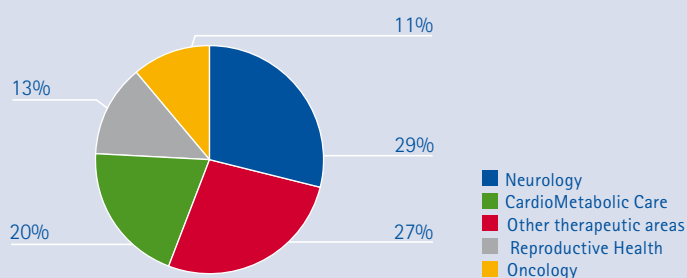
in € million	2002	2003	2004	2005	2006
Pharmaceuticals	499	506	491	579	615
Chemicals	109	99	108	132	137

Merck is a research-based company: Spending on research and development (R&D) is customarily high. From 2002 to 2006, we increased R&D spending by 24% from € 608 to € 752 million. Around 80% of our total R&D expenses are attributable to the Pharmaceuticals business sector.

[02] Key product groups

In pharmaceutical research, Merck focuses on the therapeutic areas of oncology, neurodegenerative disorders, autoimmune and inflammatory diseases, and fertility. By acquiring Serono, biopharmaceuticals are a central focus of our research efforts. Serono's leading therapeutic areas in terms of sales were neurology followed by reproductive health.

Merck Serono: Total revenues by therapeutic area (H1 2007)



In the first half of 2007, more than 50% of Merck Serono's sales were generated with six innovative biotech products. The key growth drivers are Erbitux® (oncology) and Rebif® (multiple sclerosis).

In 2006, the Consumer Health Care division launched the first patented product containing the active ingredient Metabolin® in Europe. This product prevents congenital malformations such as neural tube defects.

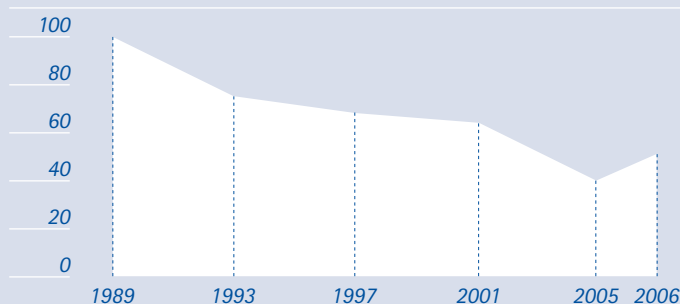
From 2002 to 2006 we significantly expanded the liquid crystals business, which recorded growth of 137%. The strong growth is being driven by LCD televisions. The LC division's share of Chemicals business sector sales therefore rose sharply, doubling from 21% in 2002 to 42% in 2006. Business with specialty chemicals and pigments continues to dominate the Chemicals business sector despite having declined in both absolute and percentage terms.

[03] Product information

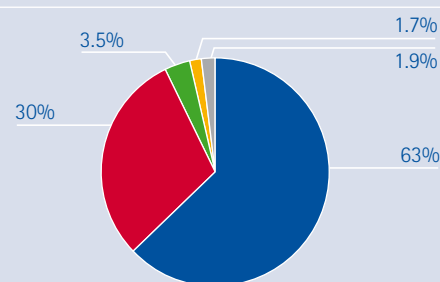
All of the products manufactured by both business sectors are supplied to customers along with detailed information on their specific application areas and side effects (Pharmaceuticals) or eco-toxicological risks (Chemicals) – including information on proper use and environmentally compatible disposal. In most cases, this information is stipulated by law, nevertheless we go beyond the legal requirements. This applies, for example, to our Safety Data Sheets for chemicals, which already exceed the requirements of the EU Directive known as REACH. The ChemDAT database on the Web contains around 11,000 data sheets in up to 20 languages.

[04] Product development

Percentage development of experimental animals used at Merck Darmstadt



Experimental animals used at Merck Darmstadt in 2006



Merck follows the 3Rs principle (reduction, replacement, refinement) for animal experiments. The prime objective is to minimize the number of experimental animals.

Since July 2005, Merck has been publishing information on and the results of all clinical trials, other than exploratory trials. This information can be found on dedicated Web pages (www.merck.de>Pharma>Clinical Trial Information). This also applies to trials initiated by the former Serono. Physicians and all interested parties can obtain insights into our principles, product development phases and the regional distribution of our studies. Presently, more than 30 projects are in clinical development.

■ Mice
■ Rats
■ Guinea pigs
■ Dogs
■ Rabbits, fish, golden hamsters

Key environmental figures

Our new global LION database represents a major advance in how we collect and record data. LION has enabled us to present in this report for the first time exact data for the entire Merck Group. Previously, slight deviations were possible, e.g. as a result of differences in definitions. As of 2007, LION also records data from the Serono sites.

[01] Energy

	2002	2003	2004	2005	2006
Energy consumption (MWh)	925,049	1,039,359	1,202,389	1,160,000	1,220,000
Fossil fuels purchased					
Brown coal (t)	14,831	0	0	0	0
Black coal (t)	0	0	0	0	0
Light heating oil (t)	3,391	2,839	3,609	5,503	5,537
Heavy heating oil (t)	4,393	3,811	4,561	2,910	3,055
Gas (million m ³)	16	72	74	53	57
Direct CO ₂ emissions (t)	166,000	149,000	148,000	146,000	149,000

The total energy consumption of the Merck Group in the five-year period from 2002 to 2006 rose by 32%. This reflects higher production output. In the same period, we reduced our carbon dioxide emissions by 10%. This is due to the conversion of the power plant at the Darmstadt site from black and brown coal to gas. In comparison with the data published in the 2005 Report, the table above includes quantities attributable to additional sites presented retroactively. In accordance with the provisions of the German Act on Renewable Energy Sources (EEG), grid operators are required to source and transmit electricity from renewable energy sources as far as possible. Since the electricity is then transmitted to end users, Merck also sources a corresponding amount of energy from renewable resources. In 2006, this share amounted to around 11%, in 2007 it is expected to already exceed 16%. For comparative purposes, we are reporting the values for Serono for 2006: energy consumption amounted to 200,000 MWh, CO₂ emissions to 19,000 t.

[02] Emissions

	2002	2003	2004	2005	2006
Dust (t)	25	25	21	27	30
VOC* (in t)	1,968	1,916	1,901	1,906	1,784
Nitrogen oxides (t)	242	231	207	272	265
Sulfur dioxide (t)	165	163	158	88	60

* Volatile organic compounds

The level of air-polluting substances emitted by the companies of the Merck Group is low. The following correction relates to the 2005 Report: The VOC emissions stated in the 2005 Report did not include one site. This has been rectified with the introduction of the new LION database. The data presented above include the share accounted for by this site. For comparative purposes, we are reporting the values for Serono for 2006: dust emissions amounted to 8 t, VOC emissions to 50 t, nitrogen oxides to 37 t and sulfur dioxide emissions to 12 t.

[03] Water

	2002	2003	2004	2005	2006
Water consumption (million m³)	14.5	14.7	15.1	15.3	15.3
Surface water (rivers, lakes)	not recorded	not recorded	not recorded	not recorded	5.4
Groundwater	not recorded	not recorded	not recorded	not recorded	7.1
Drinking water supply	not recorded	not recorded	not recorded	not recorded	2.8
Wastewater volume (million m³)	8.9	8.7	8.8	8.1	7.8
Chemical oxygen demand (COD in t of oxygen)	2,346	2,229	2,231	2,372	1,789
Biological oxygen demand (BOD in t of oxygen)	1,168	1,166	1,171	1,195	990
Phosphorus (kg)	6,119	5,572	7,217	6,920	7,581
Nitrogen (kg)	67,952	68,693	70,499	64,573	55,199
Zinc (kg)	966	383	554	496	652
Chromium (kg)	52	39	76	19	33
Copper (kg)	79	75	71	51	42
Nickel (kg)	95	83	64	63	60
Lead (kg)	102	54	83	37	52
Cadmium (kg)	8	5	5	9	9
Mercury (kg)	3	1	1	1	1
Arsenic (kg)	4	3	4	5	5

As a result of higher production levels, Group water consumption increased by around 5% from 2002 to 2006. The figures published earlier for 2001–2004 did not include the water quantities of around 5 million m³ to irrigate the fields on the Barra de Corda farm in Brazil and for safety measures at the Gernsheim site, which are fed directly back into natural circulation. Since switching over to our new LION system in 2005, we also include this water consumption volume. The data for the previous years have therefore been corrected in this report (this relates also to chemical and biological oxygen demand). The quantities of phosphorus and nitrogen published in the 2005 Report were erroneously stated in metric tons instead of kilograms. For comparative purposes, we are reporting the wastewater values for Serono for 2006: they amounted to 0.5 million m³. Serono's water requirements in 2006 were largely covered by the public water supply.

[04] Soil and landscape protection

Merck has numerous production, sales and administrative locations that are also the natural habitat of a large number of plants and animals. Protected areas are not included, nor are areas that were protected and then directly used afterwards by Merck. The cultivation of medicinal plants at our farm in Barra de Corda in Brazil follows ecological principles.

[05] Waste

	2002	2003	2004	2005	2006
Total waste (t)	112,422	127,456	171,977	170,506	167,813
Recycled waste (t)	53,724	51,770	83,176	89,332	93,936
Hazardous waste disposed (t)	38,651	48,713	60,351	33,731	43,273
Non-hazardous waste disposed (t)	20,048	26,973	28,450	47,443	30,603
Recycling rate (in % of total waste)	48	41	48	52	56

From 2002 to 2006, total waste quantities increased by 37%. This reflects non-recurring demolition and excavation waste resulting from work performed at the Darmstadt site. During the same period, we increased the recycling rate by 8 percentage points. For comparative purposes, we are reporting the values for Serono for 2006: The amount of total waste was 1,459 t, the amount of hazardous waste disposed was 100 t and the recycling rate was 83% of total waste.

Key personnel figures

The tables (02, 04, 05, 06) relating to data that are comparable only to a limited extent for 2005 and 2006 are marked with an asterisk (*). The reasons for this are (a) divestments and acquisitions of businesses that influence the reference base as well as (b) a data basis that does not yet include all employees (82% in both 2005 and 2006). As a result, the ability to analyze a trend is limited. The tables can, however, be used to interpret the situation in the respective year. The newly consolidated sites of Merck Serono are not included in the tables. However, the texts provide the relevant information.

[01] Structure of the workforce

	2002	2003	2004	2005	2006
Employees (no. of people on Dec. 31)	34,504	34,206	28,877	29,133	29,999
Number of full-time employees (in %)	-/-	-/-	-/-	95	94
Number of part-time employees (in %)	-/-	-/-	-/-	5	6

Employees by region

Europe	18,895	18,771	16,120	16,696	17,167
North America	6,003	5,998	2,901	2,745	2,703
Latin America	3,253	3,264	3,331	3,504	3,767
Asia, Africa, Australasia	6,353	6,173	6,525	6,188	6,362

Age structure (Germany)

under 21	382	376	412	420	429
21 to 30	1,343	1,241	1,197	1,284	1,438
31 to 40	2,971	2,826	2,654	2,486	2,493
41 to 50	2,295	2,401	2,358	2,537	2,703
51 to 60	1,549	1,534	1,305	1,351	1,413
over 60	183	179	98	90	72
Average age (years)	40.6	40.2	39.7	39.7	39.6

Demographic change will lead to an aging population structure particularly in Germany, where it will impact the availability of trained professionals. A balanced age structure in the company is advantageous because it combines the creativity and ambition of young employees with the experience and certainty of older staff. The age structure of the Merck workforce in Germany is still balanced and the average age is constant at around 40. In the short term, this value will increase only slightly. However, in 15 to 20 years, we expect it to rise sharply.

[02] ILO labor standards*

	June 30, 2005	Dec. 31, 2006
Percentage of full-time employees (standard contract, excluding exempts) with contractually agreed working hours of maximally 48 hours per week ¹	100	95
Percentage of full-time employees (standard contract) with at least 15 vacation days/year ²	93	87
Percentage of women with access to maternity programs ³	98	92
Percentage of employees covered by collective agreements ⁴	61	84
Percentage of sites that rule out child labor as defined by ILO Convention 138	99	100
Age of the youngest employee (excluding apprentices)	17	18

*see explanation on p. 47; 1) ILO: Hours of Work (Commerce and Offices) Convention, 1930 (No. 30); 2) ILO: Holidays with Pay Convention (Revised), 1970 (No. 132); 3) ILO: Maternity Protection Convention (Revised), 1952 (No. 103); 4) ILO: Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)

The basic principles of the International Labour Organization (ILO) relate to employees' freedom of association and the right to negotiate collectively, the eradication of forced and child labor as well the ban on discrimination in respect of employment and occupation. The international community has laid down these fundamental rights in eight core labor standards. The relevant governments have implemented them into national law. Without exception, Merck complies with core labor standards wherever they are national law. The aim of our social charter, which we enacted in 2007, is to ensure compliance with the core labor standards at all sites. Information on the known current status is provided in the table above. With regards to the former Serono, it should be noted that in 2006, around 85% of the company's employees were based in countries where social minimum standards, such as maternity leave, are required by law. More than two-thirds of all employees were also covered by national regulations on employee information and consultation.

[03] Number of lost work days and lost-time injuries

	2002	2003	2004	2005	2006
LWDR (per 1 million working hours)	138	153	131	114	72
LTIR (per 1 million working hours)	14.9	9.6	7.1	8.0	6.2
Number of deaths	0	0	0	1	0

The abbreviations LWDR and LTIR stand for Lost Work Day Rate and Lost Time Injury Rate, respectively. Since 2002, both values have declined markedly by around half. The declining number of workplace accidents indicates the progress we have made in workplace safety management. A fatal accident occurred in 2005. A member of the sales force was a fatal victim of the tsunami. For comparative purposes, we are reporting the values for Serono for 2006: The LWDR was 55, the LTIR was 7.6. There were no fatal accidents at Serono.

[04] Benefits in the event of illness*

	2005	2006
Percentage of employees with company accident insurance	91	94
Percentage of employees with statutory health insurance	71	72
Percentage of employees with employer-funded health insurance	86	94
Percentage of employees with company medical care	77	82

*see explanation on p. 47

Since 2005, we have been recording for over 80% of our workforce the benefits paid to employees in the event of illness. More than two-thirds can rely on statutory health insurance. Merck offers company benefits exceeding the statutory benefit to more than 90% of its employees. In 2006, around 85% of the former Serono's employees were based in countries where minimum social standards, such as employment injury insurance are required by law.

[05] Benefits in the event of a loss of pay and minimum salary*

	2005	2006
Percentage of employees whose dependents are entitled to a survivor's pension	62	46
Percentage of employees who are obliged to contribute to the statutory pension system	79	71
Percentage of employees on company pension scheme (also in addition to the statutory pension scheme)	74	80
Percentage of sites guaranteeing a minimum salary above the local minimum salary	93	99

*see explanation on p. 47

Employee benefits not only increase Merck's attractiveness as an employer. They also help the company to motivate employees and to retain them. Apart from government social security systems, Merck therefore offers its employees additional benefits. The most important ones are listed here. With regards to the former Serono, it should be noted that in 2006, around 85% of the company's employees were based in countries where minimum social standards, such as employment injury insurance are required by law.

[06] Diversity and equal opportunity*

	2005	2006
Percentage of women	41	41
Percentage of women in top management (managing director of a Merck company and next management level)	21	24
Percentage of employees with flexible working hours	67	91
Advanced training costs per employee in EUR	771	1103
Turnover rate ¹	1.07	1.33

*see explanation on p. 47; 1) Relates only to Germany and has been calculated using the BDA formula: staff leaving x 100/average workforce size in %, adjusted, i.e. excluding staff leaving due to retirement, death, employment relationship as well as transfers to subsidiaries (BDA: German National Association of German Employers Associations).

Diversity and equal opportunity in the workplace have an inspiring and motivating effect. At the same time, we can only defend our international leadership positions if we succeed in attracting the best people to work for our company. At 13.5 in 2006, the average number of years of service at the German sites is evidence of our attractiveness as an employer. Nevertheless, a lot remains to be done, for example in increasing the percentage of women in top management. As regards compensation at Merck: the compensation received by all employees orients exclusively toward the degree of responsibility, competence and performance. For comparative purposes, we are reporting the values for Serono for 2006: Women made up 51% of the entire workforce and 21% of senior executives.

Key social figures

[01] Human rights

"Merck does not tolerate discrimination based on gender, race, color, nationality, age, religion, sexual orientation, disability or on any other basis prohibited by law." This is stipulated in the Code of Conduct and the Social Charter of the Merck Group. Employees are recruited, trained and promoted based on this principle. The Charter also stipulates that the Merck Group does not tolerate child or forced labor. Serono had similar requirements regarding human rights in its business relations with suppliers.

[02] Corruption

In accordance with the Code of Conduct and Social Charter of the Merck Group, no employee or member of his or her family may demand or accept from suppliers, customers or governmental authorities money or a gift for personal gain that is connected with Merck's business relationship with that customer/supplier. The rules also state: "If regular social interaction between business partners requires invitations or small gifts, then giving or receiving such benefits is permitted, to the extent and as long as the legal requirements are met, and such benefit does not cast any doubt on the employee's or recipient's motives." As part of its annual audit program, Corporate Auditing and Risk Management conducts audits at Group sites outside Germany and company headquarters.

Parts of these audits are aimed at detecting potential cases of corruption. In 2006, 68 audits were conducted, 31 of which also involved checks for corruption. From January to July 2007, 19 out of 42 audits included corruption as a special area of focus. There were no indications of potential cases of corruption.

Within the scope of the Compliance Program, in 2006 around 8,000 employees participated in Code of Conduct training sessions, which also dealt with corruption. Some training sessions focused on corruption prevention measures and antitrust law.

The former Serono had set comparable internal regulations in its Worldwide Code of Business Conduct, published in 2005. The code has meanwhile been replaced by the globally valid Merck Group regulations, i.e. the Code of Conduct, Social Charter and Corporate Guidelines.

[03] Social commitment

To date, we have not recorded spending on social responsibility projects for the Merck Group as these were the responsibility of the local Merck companies.

As part of the realignment of our charitable activities (see "Responsibility for the Community"), a Group-wide reporting system will be set up. Among other things, this will provide greater transparency on spending and the social impact of our activities.

Global Compact

Communication on progress in implementing the ten principles of the Global Compact

Merck supports the United Nations Global Compact with the aim of supporting global implementation of human and labor rights as well as environmental protection. By introducing a global Social Charter, we have created an important precondition for concrete measures that will follow in the coming years, especially with respect to the management of our suppliers. The following table indicates which Merck guidelines, programs and management systems (Systems) support the ten principles of the Global Compact. It also makes clear which practical measures were taken in the reporting period and where concrete results (achievements) can be seen. Information on the Global Compact is available at www.unglobalcompact.org.

	Systems	Measures
Principle 1: Protecting human rights	Social Charter (p. 8)	Enactment of the Group-wide Social Charter (p. 8)
Principle 2: Ruling out human rights abuses	Social Charter (p. 8)	
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Principle 4: Elimination of all forms of forced and compulsory labor	Social Charter (p. 8)	
Principle 5: Abolition of child labor	Social Charter (p. 8)	
Principle 6: Elimination of discrimination	Social Charter (p. 8) Employee-related goals (p. 38)	Initiation of training for managers (p. 24) Setting up company complaint departments in Germany (p. 24)
Principle 7: Precautionary approach to environmental challenges	Responsible Care Global Charter (p. 27) EHS management systems (p. 27) Environmental goals (p. 39)	Toxicological and clinical studies of products prior to market launch (p. 11) Certification to ISO 14001 (p. 27) Launch of the "enerCare" program to lower energy consumption (p. 28) Training more than 12,000 customers in safety seminars in eco-friendly disposal (p. 18) RC 14001 certifications of the largest sites of EMD Chemicals (p. 27)
Principle 8: Initiatives to promote greater environmental responsibility	Environmental goals (p. 39) "Retrologistic" to recover and dispose of water (p. 29)	New recycling concept for LCD screens for eco-friendly disposal (p. 30). Optimized water protection by modernizing the wastewater treatment plant at the Darmstadt site (p. 30)
Principle 9: Diffusion of environmentally friendly technologies	Research area within the Liquid Crystals division (p. 17)	Research into energy-efficient technologies (p. 17)
Principle 10: Anti-corruption measures	Social Charter (p. 8) Code of Conduct (p. 9)	Training program (p. 50) Annual audits to identify potential corruption (p. 50)

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