

Creating trust by living our values



Responsibility for Employees, the Environment and the Community
2005 Report

About this report

www.responsibility.merck.de

In 2003, Merck KGaA published its first Corporate Responsibility (CR) Report entitled "Responsibility for Employees, the Environment and the Community." Prior to this, we published Environmental Reports in 1993, 1995 and 1997 as well as a Responsible Care Report in 2000. As was the case with the previous reports, the intention of this report is to give our customers, employers and shareholders as well as the public at large, especially at the sites where we operate, some insights into our company. This report is an important tool for us to make our corporate policy transparent.

The information contained in this report applies to all our sites and activities; the reporting period covers the past two years (Spring 2003 to Spring 2005). Our environmental and safety data relate to 100 percent of our production capacity. The employee data — insofar as not stated otherwise — relate to all employees of the Merck Group.

www.globalreporting.org
www.sam-group.com
www.oekom-research.com

While preparing this report, we geared ourselves towards the guidelines of the Global Reporting Initiative (GRI) as well as the questionnaires from sustainability-oriented rating agencies. An index at the end of the report indicates those areas where we apply the GRI indicators.

The subheadings of each chapter are excerpts from our new Code of Conduct. The photographs primarily depict employees and customers of Merck. The paper used for this report was manufactured in a plant with ISO 14001 and EMAS certification. The pulpwood was derived from sustainable forests.

More information on the Merck Group, its products and people as well as the latest Annual Report and additional publications can be found on our Web site at www.merck.de.

The next Corporate Responsibility Report of the Merck Group is planned for 2007.



Meyzieu, France | Together with their colleagues, Marguerite Salinas, Sandrine Combardo and Solange Schmitt pack pharmaceutical products in our Distribution Center for shipment to wholesalers and pharmacies.

Mission statement of the Merck Group

"We at Merck do what we say ...

- We, the management and employees, are striving for entrepreneurial success. Entrepreneurial success starts with people.
- Our goal is to operate a worldwide business that produces meaningful benefits for consumers, our market partners and our community.
- Through efficient research and development, production and marketing of pharmaceutical and chemical specialties, we want to extend opportunities to our customers. To achieve this, we focus our endeavors on business areas where we can achieve a competitive advantage through the excellent quality of our products, systems and services. Our objective is to establish permanent business relationships and not merely short-term success.
- On the basis of these principles, we operate as an independent and profit-oriented enterprise. We expect a high level of performance from each other, and reward this accordingly. We wish to secure an acceptable return on capital for our investors.
- We respect the cultural distinctions and national interests of all countries in which we operate. We strive to achieve positive recognition for our company within the community. Merck attaches particular importance to its responsibility for safety. We have an obligation to respect the environment.
- We will deal honestly and constructively with one another. We regard open communication, both internal and external, as a fundamental prerequisite for reaching an understanding of our common goals and for giving meaning to what we do. We shall not be constrained by borders between business areas or countries. All employees, male or female, have equal opportunities to develop their careers.
- All of us make a personal contribution to the company's entrepreneurial success through our mutual initiative, creativity and sense of responsibility.

... and then measure ourselves on this basis."

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Cover photo: Chiang Mai, Thailand | Somnuek Takoolpattana, Banpod Jatupornthaworakul, Akachai Anurakpanawaree and Chalerm Preechapanaprai are participating in the "Integrated Agriculture Program" at Ban Mae Cha Dormitory. This initiative, which is part of the Merck Community Caring and Action Partnership Program, is being carried out by Care Thailand/Raks Thai Foundation in cooperation with Merck Thailand.



Professor Dr. Bernhard Scheuble | Chairman of the Executive Board of Merck KGaA

Responsibility is a central element of not only our mission statement but also the set of unwritten rules that make up the corporate culture of Merck. To us, responsibility is not a fashion or a trend. Although Merck KGaA is no longer purely a family-owned company, the traditions of a family company have remained.

This does not mean that we are concerned with perpetuating long-established traditions. On the contrary: from the purchase of the Angel Pharmacy (*Engel-Apotheke*) in Darmstadt and the decision to begin large-scale production of alkaloids in 1827 up to our entry into targeted cancer therapy with the launch of Erbitux® in 2004, many milestones in our history provide strong evidence of our pioneering spirit. While willing to accept entrepreneurial risk, Merck has never put all its eggs in one basket. Achieving fast economic gain while exposing shareholders and employees to an irresponsibly high level of risk has never been desirable at Merck. We think and act beyond the next set of quarterly figures because we see ourselves responsible for what we pass on to the next generation.

While this concept has not always been popular, we are seeing how it is undergoing a renaissance. This applies in particular when perseverance meets with excellent business success, as is the case for example in our liquid crystals business.

In a word

Our good business performance in recent years convinces me that we are pursuing the right goals at Merck in order to remain successful: a long-term corporate strategy of "focused diversification," talented and entrepreneurial employees, as well as research and development of innovative products that improve the quality of life. We believe that these factors will ensure the sustainable future development of Merck. While our customers benefit from innovative products, we can offer secure jobs for our employees and solid value for our shareholders. And we can reach out to the community, in particular our neighbors, when it comes to supporting cultural, social and humanitarian initiatives.

Two years ago, we published our first report on how Merck lives up to its responsibility towards employees, the environment and the community. It was well-received by our business partners, providers of capital and — to my special delight — by the people who work for our company. With your input of constructive criticism, we ask you to accompany us as we rise to the challenges of economic, environmental and social responsibility. We cannot demand your trust, but we can earn it. And that would be a great reward.

A handwritten signature in black ink, appearing to read 'B. Scheuble', with a stylized, flowing script.

Prof. Dr. Bernhard Scheuble



Mexico City, Mexico | Scientists Héctor Cortés, Juan Alejandro Silva and Juan Ramón Ayala from the Hospital de Oncología del Centro Médico Nacional Siglo XXI (IMSS) discuss new cancer treatment options with our sales force member Aurelio B. Martínez Amparán.

About **our company**

“We focus on meeting customer needs.
We are equally committed to earning our
customers’ trust with honesty and fairness.”

■ A company shaped by tradition and innovation

With consolidated sales of EUR 5.9 billion (2004) and around 29,000 employees, Merck is a globally successful pharmaceutical and chemical company. Our roots date back to the year 1668 – Merck is thus the world’s oldest pharmaceutical and chemical company.

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

Our pharmaceutical business comprises patented prescription drugs, generic, i.e. non-patent-protected drugs, and consumer health care products. Our chemicals business includes in particular liquid crystals for flat screens, effect pigments for automotive paints, plastics or cosmetics, analytical reagents and test kits as well as products and services for the entire pharmaceutical industry process chain. Common to both business sectors is our aim to offer innovative products of the highest quality.

A long-term focus and orientation to customers, fairness and transparency, responsibility for employees, business partners, providers of capital, the environment and the community: these are the key characteristics of Merck’s strategy and culture that reflect the formative influence of a family of owners with strong traditions.



www.investors.merck.de

Since listing on the Frankfurt stock exchange in 1995, operating activities have been under the umbrella of Merck KGaA (partnership limited by shares – Kommanditgesellschaft auf Aktien) headquartered in Darmstadt, Germany. The founding family holds an interest of around 73 percent of the KGaA while the remaining 27 percent is publicly traded. Merck has a sound financial footing: a strong balance sheet, no net debt and a 50 percent increase in the share price in fiscal 2004 are clear indicators of this. Four factors are critical to our success: a long-term strategy, cutting-edge product innovations, highly motivated employees and satisfied customers.

Two business sectors, six divisions – a success

www.pharmaceuticals.merck.de

www.chemicals.merck.de

Our two business sectors Pharmaceuticals and Chemicals each consist of three divisions. In the order of their share of consolidated sales, in Pharmaceuticals these comprise Generics, Ethicals (prescription drugs) and Consumer Health Care (over-the-counter products) and in Chemicals these are Life Science & Analytics (reagents, test kits, etc.), Liquid Crystals and Pigments (effect pigments). In the course of focusing on and expanding our core businesses, we divested the laboratory distribution business sector and the electronic chemicals business in 2004/2005. More details can be found in our Annual Report and Interim Reports.

With companies in 54 countries, Merck has a presence on every continent and activities ranging from research & development to production and marketing as well as an extensive range of services. Company-owned production facilities at 53 sites in 24 countries ensure immediate proximity to our markets. Business is organized in four regions: Europe; Asia, Africa, Australasia; Latin America and North America. In the U.S. and Canada, the Group operates under the umbrella brand EMD, formed from the initials of Emanuel Merck, Darmstadt. Nevertheless, Merck KGaA – and EMD – are still often confused with the U.S. pharmaceutical company Merck & Co. (New Jersey), although this former U.S. subsidiary has been entirely independent of the Merck Group since 1917 (see box on the next page).

www.people.merck.de

Merck primarily attributes its economic success to the daily commitment of its approximately 29,000 employees. Adjusted for the disposed businesses, the number of employees in the remaining divisions increased slightly in 2004. Although today only around 10 percent of sales are generated in Merck's home country of Germany, around 30 percent of our staff are employed here.

Common values, one vision

For generations, people at Merck have been working together as a team, inspired by the desire to discover and develop products that will improve the health and quality of life of millions of people. Maintaining our founders' pioneering spirit and reaching out beyond the boundaries of the company to society are at the core of our corporate culture. This identity is also expressed in the Merck vision:

"Merck will be number one in its core business – through innovations created by talented, entrepreneurial employees."



Taoyuan, Taiwan | Merck not only produces liquid crystals but also coats display glass with transparent, conducting electrodes (indium-tin-oxide, ITO). Kelvin Hsu checks the optical quality of an ITO-coated glass panel.

2003–2005 in review

From Darmstadt to the world

Merck is the world's oldest pharmaceutical and chemical company, as scientific research has now confirmed. Commissioned by Merck, two internationally renowned pharmaceutical historians Professor Wolf-Dieter Müller-Jahncke, President of the Académie Internationale d'Histoire de la Pharmacie, and Professor Christoph Friedrich, Director of the Institute for the History of Pharmacy at the University of Marburg, researched the origins of our company on an internationally comparative basis. In their expert report presented in 2004, they proved that since August 26, 1668, when the purchase of a pharmacy in Darmstadt by Friedrich Jacob Merck was approved by the highest authority, a pharmaceutical company "that manufactures and sells drugs, with an uninterrupted tradition, exists to the present day." The German Drugs Law defines the operator of a pharmaceutical company as someone who "markets drugs to the public in its own name." And that is precisely what the Merck family has been doing since August 1668. In the 17th century, pharmacies were the sole official producers of pharmaceutical products. The commencement in 1827 of the industrial production of pharmaceuticals by Emanuel Merck laid the foundations for the global expansion of the company. The aftermath of World War I led in 1917 to the expropriation of the U.S. subsidiary Merck & Co., which has since operated as an independent company (outside of North America it operates as Merck Sharp & Dohme or MSD Sharp & Dohme).

www.history.merck.de

The expert report on the origins of Merck is another component of the reappraisal of our company's history. Incidentally, the second-oldest company in our sector is the Japanese pharmaceutical company "Tanabe Seiyaku", which is still in existence. Its history is ten years younger than that of Merck.



“Working in a business environment that often poses ethical challenges, we often need to tackle critical issues. The first step is believing that things can be changed for the better.”

Renato Senna, Compliance Officer, Rio de Janeiro, Brazil

Leadership and values

“Through our actions, we show how important Merck’s values are for us, and ultimately, how we value our stakeholders.”

Steering through guidelines and committees

The framework for how Merck perceives itself, wants to be perceived and how conduct and values are defined was set by the “Mission Statement of the Merck Group,” which was formulated in 1992. The overriding theme is the principle: “We at Merck do what we say and then measure ourselves on this basis.” The Code of Conduct, which applies to the entire Merck Group, gives all of us concrete orientation for correct behavior.

The Mission Statement and Code of Conduct, which set forth responsible behaviors and action inside and outside of the Merck Group, are supplemented by the “Merck Management Principles”, which were approved by the Executive Board of Merck KGaA in May 2005. They provide a standardized description of the responsibilities, information and control mechanisms, as well as risk management and employee management for the companies of the Merck Group. By joining the UN Global Compact in 2005, we underscore the fact that we have committed ourselves to fair labor relations, as well as the protection of human rights and the environment.



Darmstadt, Germany | The Corporate Responsibility Committee meets three times a year. Executive Board members Michael Römer (1st from left) and Jan Sombroek (4th from right) co-chair this committee.

Compliance management expanded

The Corporate Compliance Office is the internal coordination point for matters concerning national and international laws and regulations as well as our Code of Conduct (see box). Organizationally, the office is part of Corporate Legal & Intellectual Property. Operating not as a control body but rather as an internal service provider, the office of the Corporate Compliance Officer advises employees, the Executive Board and a network of meanwhile 30 Compliance Officers at the Merck sites (status: June 2005). In June 2004, the first Group-wide meeting of Compliance Officers was held in Darmstadt. It included the presentation of an interactive training program that uses antitrust law examples to illustrate the dangers Merck could face if it violates antitrust law. Merck uses this program, which has been meanwhile expanded to include additional topics, to train management and sales employees worldwide.

*Our Safety, Health,
and Environment policy
can be found at
www.responsibility.merck.de
> Environment*

The “Principles and Strategies for Safety, Health, and Environment,” which were updated in 1999, remain valid. They are the binding framework within which the various companies of the Merck Group can develop individualized local solutions. At Group level, “Environment, Health, Safety (EHS) – Services” is responsible for the global coordination of environmental management and ensuring that all sites contribute to the achievement of Group environmental protection and occupational health and safety goals.

By establishing the “Corporate Quality Council” in October 2003, Merck has made significant progress with the harmonization of a set of globally valid quality standards applicable to the business sectors. The divisions and sites had already introduced comprehensive quality assurance

systems. However, the formation of a globally integrated organization for Pharmaceuticals made it necessary to redefine the Group-wide standards. The Corporate Quality Council formulates guidelines and directives applicable to products, production processes and employees. The objective of regular internal audits is to continuously improve processes.

Corporate Responsibility Committee formed

In January 2004, the Corporate Responsibility Committee was formed. This interdisciplinary committee, to which the heads of key divisions and departments (Legal, Human Resources, Environmental Affairs, Risk Management, Communications, Production) belong, defines the goals and positions of Merck's Corporate Responsibility policy. The Committee is chaired by two members of the Executive Board of Merck KGaA, thereby ensuring that the topics and resolutions find their way into company policy.

Thanks to the initiative of this Committee, the Merck Group joined the United Nations Global Compact in 2005. The participants in the Global Compact, most of which are global corporate groups, commit themselves to ten principles of ethically responsible behavior (labor standards, human rights, the environment and anti-corruption). In a personal letter to the UN Secretary-General, Kofi Annan, Executive Board member Dr. Jan Sombroek wrote in March 2005, "We commit to making the Global Compact and its principles part of the strategy, culture and day-to-day operations of our company and undertake to make a clear statement of this commitment – both to our employees, partners, customers and to the public."

www.globalcompact.org

2003–2005 in review

New edition of the Merck Code of Conduct

In January 2001, the Executive Board introduced the company's first Code of Conduct. Applicable to all Merck employees worldwide, it set out the guidelines governing legally compliant and responsible behavior at Merck. It turned out that this Code was too abstract for many employees, who wanted to see more practice relevance and concrete examples in this internal ethics compass. These were important suggestions for the new edition: the revised version of the Merck Code of Conduct, which became valid on January 1, 2005, and is entitled "To do what is right" is more clearly structured and written in a more understandable way. In addition, by describing specific behaviors, it interprets the rules that must be adhered to more clearly than the first version did.

*"To do what is right" –
The Merck Code of Conduct
is available at
www.responsibility.merck.de
> Leadership and values*

Not only the form but also the contents of the Code reflect the changes that have taken place over the past four years. The Code examines the new rules governing securities trading by insiders. Another new section instructs employees to use certain forms of communication in e-mails and to avoid using informal language – something that helps avoid misunderstandings in a global company with employees from a wide variety of cultures. And the section entitled "Relationships with the community and the public" discusses contacts to non-governmental organizations (NGOs). According to the Code, which gives Merck employees standards on dealing with NGOs, "Merck aims to treat such groups fairly and reasonably, just like Merck wishes to be treated by them."



“To me, Corporate Governance primarily means managing a company properly and in line with the provisions of German company law. This also includes making the applicable rules and the necessity for compliance as transparent as possible to those who provide capital to the company.” Tilman Schmidt-Lorenz, Head of Corporate Legal & Intellectual Property, Darmstadt, Germany

Long-term management of the company

“It is our goal that the Merck way of doing things in all its activities will be seen by our stakeholders as the unique Merck culture or the worldwide Merck standard.”

Responsible and value-based company management are popular topics today. A company such as Merck, which has been successful in the market for over 300 years, has often proven its ability to recognize opportunities and to manage risk. But even for Merck, the corporate governance topic presents new challenges: our actions must be comprehensible to employees and shareholders around the world. They need to be an answer to society's faltering trust in companies while serving as a compass to guide us in a complex market environment. By providing clear insights into our structures, our principles and our behaviors, we want to maintain and strengthen the trust of our owners, shareholders and business partners.

As a family company that lives its central values of moral integrity and social responsibility, Merck has long enjoyed a great deal of trust. In 1995, we listed a 26 percent shareholding in the company on the stock exchange in order to raise funds for further investments and to reduce our borrowings. For this purpose, the family of owners chose at that time the rather seldom legal form of a partnership limited by shares (KGaA), a hybrid of a stock corporation and a limited partnership. This legal form obtains the character of the family-owned company and, due to the majority ownership, the family's influence remains. Today, 27 percent of Merck shares are in free float and 73 percent are owned by the family via E. Merck OHG.



www.corporategovernance.merck.de

www.corporate-governance-code.de

www.financialreports.merck.de

The company's capital is contributed by E. Merck as the general partner and the limited liability shareholders. The shareholders exercise their rights at the Annual General Meeting. The general partners do not have any voting rights at the AGM. In order to make it easier for shareholders to compare the situation with that at other companies, we have decided to base corporate governance on the German Corporate Governance Code and to dispense with a company-own code, which would have been possible likewise. The recommendations of the Code are largely met (for exceptions and details, please see page 57 of the Annual Report for 2004).

Management and control at Merck

Merck KGaA Articles of Association available at www.corporategovernance.merck.de

The management of the business activities of a KGaA is carried out by the general partners. The Executive Board of Merck currently consists of five members.

The Supervisory Board of Merck comprises twelve members, six of whom are employee representatives, four are representatives of the shareholders and two are delegates. These delegate Supervisory Board members along with the shareholder representatives are also members of the Board of Partners of E. Merck OHG and thus form an important link between the Merck family and Merck KGaA.

The Supervisory Board meets at least four times per year. At these meetings, it is informed by the Executive Board about current business developments and plans for the coming fiscal years. In addition, special topics of current interest are presented, which the Supervisory Board then discusses. In accordance with the German Corporate Governance Code, the Supervisory Board regularly examines the efficiency of its activities.

The risk management system of the Merck Group is described in a detailed guideline. Standardized risk reports harmonize the risk management process worldwide. Risk reports are submitted to the Executive Board at half-yearly intervals or, in special cases, on an ad-hoc basis. The Internal Auditing department reviews the risk management system. The integrated system also includes the safety of sites, employees, products and the protection of company know-how against misuse. Regular security audits are used to critically review the existing protection mechanisms and improve them continuously.

The family and the company

The interests of the Merck family are represented by the Family Board of E. Merck OHG, which also conveys the Partners' entrepreneurial will in decisions of fundamental importance. The Family Board is elected by the members of the Merck family within the scope of the Partners' Meeting. Additional executive bodies of E. Merck OHG are the Board of Partners and the Board. Annual Partners' Meetings strengthen the solidarity of the next generation of owners with the family partners. Today, members of the 10th, 11th and 12th generation of the family are among the partners and are thus securing the company's long-term development. "As a company that has a unique history in its sector, a company that has a culture influenced by the tradition of an entrepreneurial family, Merck does not think and act in quarters, Merck thinks in generations," said Bernhard Scheuble, Chairman of the Executive Board of Merck, in his speech to the 2005 Annual General Meeting.



Interview with Professor Fritz B. Simon

"Passing on the legacy to the next generation"

Almost no one knows better than Professor Fritz B. Simon from the Department of Family Companies at the German Private University at Witten-Herdecke how a family-owned company differs from other companies. In a study published in 2004 together with Torsten Groth and Rudolf Wimmer, he examined the success patterns of multi-generational family companies. Their book on this topic was published in October 2005. Although continuous family ownership is considered to be ideal by those surveyed, the study concluded that "the long-term survival of family companies over many generations represents a totally improbable case." Merck spoke with Professor Simon in July 2005 about values, sustainability and corporate governance.



Professor Simon, you have done a great deal of research on family companies. How do they differ from other companies?

Prof. Fritz B. Simon: The main difference results of course from the ownership structure. The capital markets are to a publicly traded company what the family is to a family company. And normally their demands are easier to meet than those of shareholders.

At the same time, the management of family companies can in most cases gear towards longer-term and clearer goals. Both contribute to the survival advantage that family companies have over other companies. However, the family represents not only the key success factor, but also the greatest risk. If a dispute breaks out in the family, then the company doesn't stand a chance.



"A characteristic feature of families is that they live certain values and convey these in their everyday actions."

How is it possible to keep the family and thus the company together?

Simon: In order to survive over the long term, it's necessary to get the young generation of owners involved and interested in the company. To my knowledge, Merck is a perfect example of how this is done. There are programs in place that provide information on the company and establish emotional ties so as to keep the capital in the family. This isn't so easy considering the fact that the heirs live all over the world. The same of course holds true for management: it must suit the company and the family and thus have established itself in the culture.

Multigenerational family companies seem to be geared to the principle of sustainability per se. Is this due to their values or to their strong will to survive?

Simon: I wouldn't separate the two. A characteristic feature of families is that they live certain values and convey these in their everyday actions. This also includes a long-term perspec-

tive. They want to share their legacy with the next generation and therefore they have the future in mind and not just the next financial reporting date. It also has a lot to do with the fact that there are always people in family companies who have goals, who raise issues and who will start a quarrel. This makes sustainability a tangible reality instead of an abstract idea. At the same time, there is of course a tremendous will to survive that is reflected by a pronounced degree of flexibility. It's not simply a coincidence that families are the systems most capable of survival.

In what ways do the concrete actions of the companies reflect long-term thinking?

Simon: Since they are not compelled to focus so sternly on short-term profitability goals, family companies can support the development of a product or entry into a new market over a longer period of time. At Merck, liquid crystals are a good example of how patience ultimately paid off. At the same time, like funds, family compa-

"Family companies usually favor a diversified portfolio and thus increase the likelihood of survival."



nies pay attention to spreading their risk since their owners have virtually all of their capital invested in the company. They usually favor a diversified portfolio and thus increase the likelihood of survival. Apparently, Merck is also pursuing this strategy.

To what extent are family companies affected by the current loss of trust in business?

Simon: The loss of trust is primarily due to the fact that someone feels cheated. And in most cases, those are the investors. They are the ones who are calling for greater transparency and control. For example, the German Corporate Governance Code is intended to make the management of publicly listed companies controllable in order to avoid accounting scandals such as those that occurred at Enron or Worldcom. By contrast, family companies still possess a type of personal trust today, not least because the temptation and the opportunity to exploit the system over a longer period of time are not that great.

Is Corporate Governance at all relevant to family companies?

Simon: This is a very debatable topic. Personally, I believe that family companies are definitely entitled to be less transparent than pub-

licly listed companies. After all, they have a totally different ownership structure. Yet total intransparency is not a good idea because a certain degree of control can be helpful when thinking over the strategy and when revising gut decisions, which are typical of family companies. At Merck KGaA, which is largely owned by the family while over one quarter is owned by outside shareholders, the situation is of course somewhat more complex. It's necessary to balance the interests of two very different groups of owners – which isn't always a very easy task for management.

Can a set of codes or rules help?

Simon: I don't trust rules that are intended to disclose something. If someone wants to hide something, they'll still be able to. I therefore think that codifying behavior as a general measure is somewhat naive. The critical question as to how transparent family companies need to be remains open. Yet when in doubt, they have less to lose through greater transparency, provided that they're not publishing company secrets on the Web. And there are definitely benefits to putting rules and values down in writing. This makes it easier to focus on them as a central theme and to create awareness thereof. ■



“Targeted therapies can help patients to live longer and improve their quality of life. A new therapeutic option from Merck gives new hope to patients with colon cancer. I am proud that French physicians believe in this drug.”

Monique Morali, Head of the Oncology Business Unit, Lyon, France

Responsibility for products

“Merck seeks to be successful through the quality of our products and services and their competitiveness in the market.”

■ Focusing on benefits and transparency

Our success and future are founded on innovative products that benefit people and the environment. Merck's product range includes pharmaceutical products and high-quality chemicals. Responsibility for these products will always be at the core of our corporate responsibility. Clinical trials for pharmaceuticals, ecotoxicological analyses for chemicals and systems for the return and environmentally friendly disposal of waste are some of the tools that we use to ensure the quality and safety of our products.

We are committed to being transparent: in the Pharmaceuticals business sector we provide physicians, pharmacists and patients – as far as legally possible – with extensive information about the effects and side-effects of our drugs, and about important ongoing studies and their findings. The customers of our Chemicals business sector receive comprehensive information on how to handle our chemicals properly and safely.

The aim of the Strategic Innovation Process (SIP), which was introduced in 2003, is to develop new product and business ideas, to expand existing businesses and to develop new areas of business. This includes marketing patents not used for strategic reasons more intensively. There are many patents and research strategies that Merck does not use itself – for example, because they are not part of the core businesses in Pharmaceuticals and Chemicals. This know-how is passed on to small companies or start-ups for further research and development via venture capitalists. Merck participates financially in the success after the market launch.



Shanghai, China | Candy Zhao, Daniel Huan, Fay Han, Tom Song, Bryan Lu, Geoffrey Li and Shelley Chen meet regularly to discuss the latest color trends. As effect pigments give luster to a variety of everyday products, the division has to react quickly to new trends.

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

Merck aims to ensure its economic success by investing substantially in research and development (R&D). Most recently, the Group has been focusing even more on highly innovative developments with strong future potential. In 2004, the Group's R&D spending totaled about 600 million euros, around 80 percent of which was attributable to pharmaceutical research for the development of new active ingredients and clinical research.

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 (Pharmaceuticals), or ecotoxicological (Chemicals) studies. The cornerstones are quality, the benefits and product safety for people and the environment. An important requirement in this respect is easily accessible information (see pages 22 and 25). For the pharmaceutical industry, however, product safety also means ensuring reliable storage and supply since the drugs have to be stored and transported at suitable temperatures and there must always be sufficient quantities of them available. Merck therefore provides its employees with targeted training, goes through worst-case scenarios that could arise along the supply chain, and maintains an early-warning system to monitor unforeseeable market changes. Merck already stated its position on the issues of animal experiments and genetic engineering in product development in its previous report (please refer to pages 11/12 of the CR Report for 2003).

Finally, product responsibility also means keeping sight of the products' intended use: the sale of so-called dual-use products – which can also be used to produce narcotics, for example – is thus regulated by international agreements. Customers ordering these products must state precisely what they intend to use them for. If there is any doubt, we would rather forego a sale than run the risk of products being misused.



Darmstadt, Germany | In our research and development center in the Consumer Health Care division Barbara Pfaff, Viktoria Gladkova and Doris Geissler test samples of the over-the-counter cold remedy Nasivin®. More and more patients are taking responsibility for treating minor ailments using the wide range of over-the-counter products available.

Pharmaceuticals business sector

Developing targeted and integrated therapies

Pharmaceutical research at Merck focuses on the therapeutic areas of oncology as well as diabetes, cardiovascular diseases and dyslipidemia – the latter three are part of the “CardioMetabolic Care” business area. Oncology research concentrates on the identification of substances that target key processes in tumor development and growth. Erbitux®, a monoclonal antibody that specifically attacks cancer cells, is the first cancer drug from Merck. With its high level of efficacy and good tolerability, there is hope that therapy with this antibody could prolong the survival time of patients with metastatic colorectal cancer and improve their quality of life. Merck received marketing authorization for this drug in the European Union in 2004 for the treatment of metastatic colorectal cancer in combination with chemotherapy. By mid-2005, Erbitux® had been approved in 39 countries worldwide, 25 of which are in the EU. Within a few months Erbitux® has established itself with doctors and patients as an effective supporting agent in cancer therapy.

www.oncology.merck.de

www.emea.eu.int

It takes an average of 10 to 12 years from the start of development to the market launch of a new drug as pharmaceuticals must undergo extensive testing in human clinical trials. Detailed information about our Group-wide standards for clinical pharmaceutical research can be found in our CR Report for 2003 (page 23).

We have combined our drugs for treating diabetes, cardiovascular diseases, thyroid disorders and dyslipidemia in the CardioMetabolic Care business area. Over the past few years, the understanding of the interrelations that exist between these disorders has improved significantly. Doctors can therefore treat the often complex symptoms – also known as metabolic syndrome – more effectively

by adopting a holistic approach. Merck also develops drugs in indications outside its core areas, for which there is a high medical need. One therapeutic innovation is sarizotan – a development compound to treat involuntary movements (dyskinesia) caused by the drug therapy of Parkinson’s disease. The launch of this drug – the first of its kind – could provide significant relief to around 800,000 patients worldwide.

www.ifpma.org

www.vfa.de

When promoting its products, Merck’s Pharmaceuticals business sector not only has to comply with numerous statutory regulations, but, as a member of the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA), it must also observe the “IFPMA Code of Pharmaceutical Marketing Practices”. This code defines detailed global standards for various areas, from product promotion, through the remuneration of the sales force, to sponsoring activities. There are also country-specific regulations: sales representatives of the German organization, for example, also have to adhere to an internal guideline for dealing with doctors and hospitals. 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), which introduced a code for fair and correct cooperation with physicians, together with a sanction mechanism for the companies of the VFA.

2003–2005 in review

Transparent pharmaceutical information

www.mercktrials.de

www.clinicaltrials.gov
www.clinicalstudyresults.org

In medicine, quick and reliable information is particularly important: it could save lives. Our information policy for pharmaceutical products is therefore inextricably linked to product responsibility and does not stop at drug package inserts. Moreover, the marketing authorization of a drug is preceded by extensive testing, the results of which are now even more transparent: information about ongoing clinical trials has been publicly accessible at an international level since July 2005 in order to gain new insights from phases II to IV. The public also has access to the study results for marketed products, as announced in January 2005 by the pharmaceutical associations of Europe, Japan and the United States, together with the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA). The basic aim is to always keep everyone concerned up to date on the current state of knowledge about a particular drug – whether it is physicians, when they are treating their patients, scientists, when they are planning their research, or patients, for their own, personal information.

Our many subject-specific, scientifically based Web sites are geared to the needs of patients, physicians and medical staff:

Merck Web sites on	for patients*	for physicians
Cancer	www.oncology.merck.de	www.oncologypartner.de
Cardiovascular diseases.....	www.cardiovascular.merck.de	www.cardiopartner.de
Heart failure	www.cme-heartfailure.net
Dyslipidemia	www.dyslipidemia.merck.de	
Type 2 diabetes	www.diabetes.merck.de	www.diabetespartner.de
Thyroid disorders	www.thyroid.merck.de	www.thyroid.net

You can find the addresses of other subject-specific and product-specific sites at www.merck.de

* for non-experts with no concrete product information in accordance with German Pharmaceutical Advertising Law and laws in other European countries



Etobicoke (Ontario), Canada | Sales force representative Martin Meller discusses generic drugs with pharmacist John Weymouth. As healthcare systems around the world grapple with rising expenditures, the importance of affordable basic patient care is increasing. Our subsidiary Genpharm is one of the leading suppliers of generic drugs in Canada and offers a wide range of products.

This expands existing regulations and aims to dispense with perks previously common in the sector when promoting products. There has also been an events guideline since mid-2004; adherence to this is monitored by a dedicated internal committee. This guideline applies to all European business areas of the Ethicals division. It stipulates, among other things, that our customers are to be offered high-quality, but not extraordinarily luxurious accommodation, and that special business dinners may only be held in conjunction with a scientific program.

Merck drugs are to help people everywhere – not just in industrialized countries. For example, Merck collaborates with the World Health Organization (WHO) in the fight against iodine-deficiency diseases: Euthyrox® is used by around seven million patients suffering from hypothyroidism. Since our product portfolio only includes a few drugs that are used frequently in the developing world, Merck does not use differentiated pricing. Generally, the Group's Generics division helps to supply affordable generics that do not have to be factored into research spending.

www.thyrolink.com

Many non-governmental organizations express very critical views of our role in the countries of the southern hemisphere. In a brochure published at the end of 2004, for example, the German “BUKO Pharma Kampagne” criticized Merck for supplying, in their opinion, “dubious” products to developing countries. In letters to Pharma-Kampagne, Merck wrote that the distribution of several of these products had already been discontinued or that the relevant products would be withdrawn from the market in the foreseeable future. Although these products are of little significance to Merck, a market withdrawal is often very complex due to local authority requirements. In certain matters, for example regarding the efficacy of vitamin products, companies and BUKO will always have differences of opinion – which does not rule out objective debate.

www.bukopharma.de



Seoul, Korea | A souvenir photo against an impressive background: Doo-Jin Kang takes a picture of his colleague Sophia K. Jeon with a digital camera. Liquid crystals from Merck make it possible to view the high-quality image on a color display.

Chemicals business sector

Investing and acting with foresight

www.pigments.merck.de

Without even realizing it, people in industrialized countries come into contact with Merck products every day: the colorful luster of many cars, for example, is due not least to Merck's effect pigments. Thanks to Solarflair™ pigments, many greenhouses offer even better conditions as these functional pigments ensure optimum lighting and ideal temperatures in the greenhouse. Most pigments are prepared from mica and titanium dioxide. A large number of tests are carried out for their application to ensure that the pigments do not contain any toxic substances and that they are harmless when disposed of. Pigments developed for cosmetic applications or foodstuffs undergo additional safety testing. Animal experiments are not carried out unless this is legally prescribed; Merck uses a large number of other, alternative methods.

www.liquidcrystals.merck.de

The company proved that it had foresight when it invested in the development of liquid crystals (LC) for decades: Merck has been active in this area for more than 100 years. The LC business has been an important sales driver with high rates of annual growth for several years now. Today, Merck is the market leader for the liquid crystals used in flat screens. In 2004, the number of monitors produced with liquid-crystal displays (LCDs) exceeded the number of cathode ray tube devices for the first time. Research conducted by the German "Institute for Future Studies and Technology Assessment" (IZT) showed that LCDs consume less electricity than cathode ray tube screens: in Germany alone, the complete substitution of cathode ray tubes with LCD technology could make a power plant with an output of 700 to 1,400 megawatts redundant. The production and disposal of LCDs are also problem-free, since they do not contain any harmful substances, have a long life and can be recycled. Merck has developed its own recycling system for LCDs,

www.izt.de

which was presented at various congresses in 2004 and met with great interest. The system enables effective and legally compliant recycling for the first time, at commercially acceptable costs. Organic light-emitting diodes (OLEDs) are expected to bring further technological advances on the way to achieving energy-efficient lighting systems: these extremely flat, organic light sources also have a low consumption of electricity. Merck sees OLEDs themselves as an attractive research topic and as a key market for the future in addition to LCDs.

More vegetables with less fertilizer sums up the benefits of one product from the Life Science & Analytics division: test strips from Merck detect the nitrate concentration in soil so that farmers do not spread more fertilizer on their fields than necessary, which also brings financial benefits – a small product with a big reward. Merck is the global leader for such analytical reagents for the chemical, pharmaceutical and food industries.

With its Retrologistik® system for returning chemicals, Merck took a major step forward in sharing best practices within the Group: the system had only been available at European sites to date, but now the company's subsidiary in Thailand has also set up a similar system. There are many obstacles to overcome, as the infrastructure for processing and recycling chemical waste in Asia is still in its infancy. The initiative being taken by the Merck company in Thailand is helping to change this.



Lilydale (Victoria), Australia | Merck employee Shane Jordan-Hill informs Steve Pritchard and Daryl Haag about the use of environmental analysis products in the wastewater treatment facility. They are shown here measuring the pH of a sample from one of the reservoirs.

www.lifescienceanalytics.merck.de

www.retrologistics.de

2003–2005 in review

Transparent information on chemicals

In 2004, Merck's ChemDAT® database recorded around five million catalogue searches and document retrievals worldwide. Web access to this free information service, which was launched in 1999, is increasing all the time. It enables our customers to look up comprehensive, valid information about the properties of our products. There are now 11,000 data sheets in up to 20 languages available online – to date there is no other service of this kind anywhere else in the world.

www.chemdat.info

The data already currently available in ChemDAT® also forms an important basis for fulfilling the requirements of the future European chemicals policy (REACH). REACH will oblige companies to provide comprehensive information on substances and their risks (please refer to page 12 of the CR Report for 2003). Like almost all chemical companies, we have expressed explicit concerns about the bureaucratic regulations of this reform; however, we believe that we are so well prepared in this respect that our customers will continue to receive only safe products, and that we will be able to keep them very well informed.



“We operate in a constantly changing working environment with new products, new processes and new employees. In order for us to always be able to guarantee high standards in health, safety and environmental protection, it is critical for us to know exactly how to prevent errors.”

Jack Wei, EHS Manager, Taoyuan, Taiwan

Responsibility for the environment

“Merck is committed to continuously improve its performance and service with regard to natural resources and the environment.”

Combining safety and the environment

The Merck Group's “Principles and Strategies for Safety, Health and the Environment”, which were updated in 1999, implement the guidelines formulated by the national and international associations of the chemical industry in the Responsible Care® guidelines. The Group's many guidelines specify how its sites and employees are to observe the principles in their daily work.

www.responsibility.merck.de
> Environment
www.vci.de

At Merck, the principle applies that local problems must be solved locally. As the Merck Group also wants to avoid unnecessary duplication, a continuous exchange of experiences between the various site officers for health, safety and the environment is particularly important. The responsible managers from the main production sites met for discussions several times during the reporting period; further meetings are planned for 2006.

Since attention to occupational health and safety, security and environmental management matters is inextricably linked in everyday operations, these areas are part of a single organization at Merck, as is the case at most other companies in the chemical and pharmaceutical industry. The department is called Environment, Health and Safety (abbreviated: EHS).

E: Environment

The responsibilities of Merck's EHS department include environmental matters. Activities here focus on setting up and maintaining management systems for environmental protection at the company. The certification status of the environment management systems in accordance with the international standard ISO 14001 is therefore permanently on the agenda at EHS officer meetings. Merck's Colombian subsidiary in Bogota received the prestigious environmental certificate in October 2003, after the Merck Schuchardt site near Munich (Germany) received it in September 2003. As a result, 13 of our 53 production sites in 24 countries now have ISO 14001 certification (this does not include the five certified locations of the Electronic Chemicals division, which Merck sold at the beginning of 2005).

www.iso.org

www.merck.com.co

www.schuchardt.de

Energy. The member states of the European Union began emissions trading in 2005. Companies obliged to participate in emissions trading are those with large combustion plants, as well as manufacturing companies in the glass, paper and cement industry. Companies like Merck, which operate energy and steam generation plants, are allocated certificates for the emission of carbon dioxide (CO₂). Over the coming years the number of certificates allocated will be cut back. The aim is to give companies an economic incentive to reduce their emissions in the most efficient way possible (the now effective Kyoto Protocol on climate protection contains background information on this). Merck's two German production sites in Darmstadt and Gernsheim were allocated 421,525 certificates for the first trading period 2005-2007 by the responsible German Emissions Trading Agency. Emissions equivalent to 421,545 metric tons of CO₂ are thus covered for the entire period.

2003–2005 in review

“Green Partner” in Atsugi

www.merck.co.jp/eng

Merck Ltd.'s liquid crystals production site in Atsugi, Japan, was awarded a certificate by one of the world's leading electronics corporations for its impressive environmental management system. The Sony Group declared the site as its “Green Partner” in October 2003. Prior to receiving this certificate Merck had to prove its strict adherence to Sony's environmental guidelines for suppliers. These guidelines stipulate, among other things, that all products must be produced in an environmentally friendly way and that an environmental management system certified according to the international standard ISO 14001 must be in place. Sony representatives visited the site to ascertain for themselves that the Merck site meets these requirements. The “Green Partner” certificate was initially only valid until the end of June 2005; following the repeat audit by Sony in 2005, the Merck site received the certificate a second time (valid until 2007).



Gernsheim, Germany | Frank-Andreas Steinstrasser, Wolfgang Petri and Monika Zimmer discuss the results of the emission measurements from the thermal exhaust purification plant. This unit burns the off-gas from most of the site's organic production plants.

If the sites emit more CO₂, they must purchase additional certificates on the market; if they require fewer certificates, they can sell their free certificates. Merck will draw an interim balance of emissions trading in 2006. Merck has already achieved its stated goal of reducing CO₂ emissions in the Group by 10 percent by 2010 (base year 2002) in the reporting period (see “Facts and figures”, page 48). This is mainly attributable to the change in fuels used in the Darmstadt site's own power plant. Instead of brown coal (lignite) and bituminous (black) coal, the plant now uses natural gas and heating oil.

Water. As the Merck Group's largest site worldwide, Darmstadt has the greatest impact on the environmental balance sheet, not only in terms of energy consumption, but also in terms of water consumption and wastewater emissions. Specialists at the central waste-treatment plant on the Darmstadt site now receive data about the quality of the company's wastewater every ten minutes, around the clock. The laboratories have been using a fully automated system that delivers measurements for about 50 substances since 2005. The process between automatic sampling to analysis usually only takes a few minutes. If individual substances ever exceed the specified limits, computers send out an alert – technicians in Merck's wastewater laboratories can therefore take the necessary action faster than before. The laboratories will continue to do some manual sampling in future, however: better safe than sorry. Merck also plans to install similar analysis systems at other sites.



Darmstadt, Germany | At an international meeting of all production managers, Jorge Castillo from Colombia and Déoclecio N. do Carmo and Paulo Arthur Vieira Cordeiro from Brazil discuss current developments in environmental protection. Merck runs a farm in Brazil for the extraction of the active substance pilocarpine, which is used to treat glaucoma.

Waste. Waste levels rose significantly in 2004 due to the large volume of demolition waste that accumulated as planned, which was deliberately used to fill the landfill in Darmstadt. The continually growing demand for liquid crystals and the associated non-recyclable production residues also had an effect. Merck shut down its landfill in Darmstadt at the end of May 2005, thus fulfilling on time the legal specifications of the “Technical Instructions on Community Waste” in Germany, which prohibit the landfilling of untreated waste in future.

H and S: Health and Safety

Many Merck employees deal with hazardous substances on a daily basis, making health and safety particularly important. Regular internal audits by EHS and safety officers ensure that Merck is able to eliminate any deficits in its occupational health and safety procedures. These internal audits are accompanied by additional audits by third parties.

Less familiar than the environmental management standard ISO 14001 is the new standard in the U.S. chemical industry, RC 14001: this standard expands the well-known ISO certification to include health protection and site safety aspects. The Merck production site in Norwood, Ohio, received RC 14001 certification in January 2005. Our U.S. subsidiary EMD Chemicals is therefore one of the first ten companies within the American Chemistry Council to successfully achieve certification at one of its sites. When carrying out RC audits the external auditors look beyond

www.responsiblecare-us.com

www.americanchemistry.com

the factory gates: they also inspect the transport methods for raw materials and finished products, the carriers, as well as any procedures for storing dangerous goods at other companies in the vicinity. Other Merck Group sites in the United States are aiming to follow Norwood's example.

The sites in Germany are subject to a "Company Agreement on Workplace Safety and Health Protection" that was entered into by the Executive Board and the Works Council in 1997. This agreement describes, among other things, the responsibilities of the in-house safety officers, who are appointed by each department. A survey carried out at the Darmstadt and Gernsheim sites in 2004 revealed that the cooperation between the managers responsible for health and safety and the safety officers – around 360 employees in Darmstadt and Gernsheim – needs to be improved. In response to this, Merck has upgraded the position of safety officer and requested that both sides carry out more regular joint inspections and analyses of critical safety situations at their workplaces. Special attention is given to so-called "near-accidents": these must now also be reported internally at Gernsheim and Darmstadt. This measure has helped to further reduce the number of industrial accidents at both these German sites: the number of reportable industrial accidents per 1000 employees dropped 16 percent in 2004 compared to the previous year.

The number of workplace accidents for the Group as a whole also decreased in the reporting period (see "Facts and figures", page 50).

2003–2005 in review

Reduction in carbon dioxide emissions in Brazil

Significantly reducing energy-related CO₂ emissions and costs is a goal that our subsidiary Merck S.A. in Brazil has achieved. Merck runs a farm in Barra do Corda in the northeast of the country, which cultivates plants for our pharmaceutical production. The thermal energy needed to dry the plants used to be supplied by a fuel oil-fired steam generator. In 2004, our technicians in Brazil succeeded in adapting the machinery so that it can now run on biomass – which is sufficiently available on site. The result: the Merck farm in Barra do Corda reduced its CO₂ emissions by 45 percent in 2004 compared to the previous year. Positive side effect: energy costs decreased by around 112,000 euros.

New process for aqueous extraction developed

In early 2005, our Brazilian subsidiary changed the process used to extract the active substance rutin. Previously, rutin was extracted from the leaves of the Fava d'Anta tree with the help of the organic solvent methanol. In the new process, which was developed by Merck Brazil, water replaces methanol in the extraction. Methanol is now only needed for the purification steps. Another benefit for the environment: with the new process, energy consumption is lower.



“As I have always sought new challenges, I very much appreciate the systematic Talent Management process. Being nominated as a talent has opened the door to an international career for me and expanded my horizons. As a young woman working in a small subsidiary, I have become familiar with the perspectives of the Merck Group – and that’s motivating.”

Jana Rzounková, Financial Controller, Prague, Czech Republic

Responsibility for employees

“The essential basis for successful and productive work is a good working environment. The way we deal with each other as colleagues and fellow employees reflects our company culture.”

Challenging and promoting people

Our employees must show commitment on the job each and every day and behave responsibly at all times towards colleagues and customers, the community and the environment. The Executive Board expects and demands this of them. The other side of the coin is that Merck is aware of its responsibility for employees. An attractive working environment, good advancement opportunities, excellent social benefits and a high level of investment in advanced training and continuing education at all levels reflect this.

www.people.merck.de

Over the past two years we have considerably expanded our armamentarium of strategic personnel development tools, which are applicable globally.

We view the low level of staff turnover within the Merck Group as proof of employee satisfaction. We have repeatedly been named best employer at different sites.

www.come2merck.com



Napa (CA), USA | Rosy Veliz, Mike Rinehart, Michelle Carpenter and Gina Capioux discuss a Phase III clinical trial for a respiratory medicine. Our subsidiary Dey, which is part of the Generics division, develops innovative patented dosing forms and drug delivery systems for generic active ingredients.

Around 29,000 men and women work for the companies that comprise the Merck Group around the world. For business reasons, Merck will be closing a site by 2006: the research and production location Lacassagne near Lyon, France. In February 2004, a delegation from Lyon demonstrated against the site closure in front of the company gates in Darmstadt. The company informed the public and the workforce about this event in a press release and in the employee newspaper “pro”. The Executive Board knows that this is a difficult situation for the 320 affected employees. However they saw no economic alternative to this decision. Internal job offers and a redundancy plan that clearly exceeds the statutory and collectively agreed rules will cushion the impact of the closure.

■ Demonstrating our internationality

Merck has become more international in recent years. This can be seen not only in the regional distribution of sales, with customers in Germany generating only around ten percent of Group sales, but also in the structure of the workforce. Our division heads are the most notable example: The six divisions of the Merck Group, three in Pharmaceuticals and three in Chemicals, are each headed up by natives of Canada (Generics), Switzerland (Ethicals), the United Kingdom (Consumer Health Care), the Netherlands (Liquid Crystals) and Germany (Life Science & Analytics and Pigments). The human resources policy objectives of Merck include increasing not only our internationality but also the proportion of women in executive management positions. While women represent around 40 percent of the Merck Group’s global workforce, they hold a much smaller proportion of executive management positions (see “Facts and figures”, page 51). Cross-mentoring programs are a human resources policy tool that Merck is using to promote female executives.

2003–2005 in review

A forum for employees

Europe is integrating, at Merck as well: The Merck Euroforum, which comprises employee representatives from our sites in the European Union and was established in 1996, continues to grow. In the meantime, it has 25 delegates from ten EU member states: Austria, Belgium, France, Germany, Ireland, Italy, Poland, Portugal, Spain and the UK. The Chairman of the Euroforum, Frieder Kaufmann, describes the committee's mission: "We want to be the contact for the entire European workforce and management and intervene in matters that don't just have a local impact, but affect Merck in Europe."

In 2004, the Euroforum presented the results of a survey started in 2003 on the social standards at Merck's European locations (please refer to the CR Report for 2003). The survey confirmed that collective agreements, laws and rules differ widely in the individual countries. Europe is still a long way from uniform site conditions. At the Euroforum meeting in April 2005 in Darmstadt, Bernhard Scheuble, Chairman of the Executive Board, stressed that he would always welcome proposals and suggestions from the committee.

The Human Resources departments of the companies of the Merck Group help bridge the family-career gap with a variety of offers, including part-time working models. Around ten percent of the workforce at the German sites now work part-time, with men having long taken up the offer as well. The declared aim is to increase this proportion further. In order to have an external auditor assess the status quo with respect to a family-friendly human resources policy, and also to uncover previously unexploited possibilities, in 2005 Merck in Germany participated in the "Career & Family" Audit conducted by the charitable Hertie Foundation and designed to meet these objectives. Merck received the basic certificate confirming the company's status as a family-friendly company.



Our subsidiary Merck Química in Buenos Aires (Argentina) is a good example of equal opportunity in practice: Women hold four out of the eight management positions reporting directly to the executive management in a country that is very male-dominated. This was one of the factors that led to the Argentine business magazine "Apertura" naming Merck as one of the three best employers (in the category medium-sized enterprises) in the country in its ranking at the end of 2004. Speaking of the best employer: The Financial Times also ranked our British subsidiary Merck Pharma as such in April 2004. Merck immediately came in 49th place among the 1,000 companies that were reviewed. In 2005, we improved



Middlesex, UK | Members of the Human Resources team Jim Golby, Maggie Pearton, John McIlree and Shirley Rothwell are visibly pleased by Merck's high rankings among Britain's best employers.



Quetta, Pakistan | Merck looks after the health of its employees and their families. A walk-in clinic at the company's premises offers comprehensive medical care free of charge. The physician Nasarullah Mengal and his assistant Imamdin examine Merck employee Kamran Shah.

www.merck.com.ar
www.merck-pharmaceuticals.co.uk

www.researchfoundation.com

our ranking to 37th place. This ranking is particularly meaningful and credible as it was also based on a confidential survey of Merck employees in Great Britain. Merck ranked 19th out of a total of 90 of "Britain's Top Employers 2005" in a similar competition by the daily newspaper "The Guardian" in May 2005. The competition itself was conducted by the international "Corporate Research Foundation." The criteria for the selection of the best employers also included the extent to which the company shows responsibility for the environment and the community. We also received awards in Germany, Austria, the Czech Republic, Slovakia and Chile.

Offering opportunities

In order to attach greater importance to the integration and promotion of employees with disabilities, the Merck Executive Board concluded an integration agreement in Germany in August 2002 with the Central Representative Council of Employees with Disabilities and the Central Works Council. It applies to the sites in Darmstadt and Gernsheim. In Germany, large companies are required by law to fill four percent of their positions with people with disabilities. Comparable quotas do not exist in other countries. Merck is getting close to meeting its goal: in 2004, the share of employees with disabilities at the sites in Darmstadt and Gernsheim was 3.7 percent or 272 people (2003: 3 percent).

Today, many young people are having a hard time getting into the job market. In Germany, vocational training positions are an important business policy topic every year. Merck is meeting its obligation to offer young people solid vocational training beyond the company's own requirements. At the end of 2004, 6.1 percent of the workforce in Germany were trainees (2003: 5.7 percent), working students and interns are not included in this figure. Because the German dual training system, which links theoretical training in vocational training schools with practical training at companies, is something very unique, Merck cannot report comparable data for the entire Group.

Developing talent

As announced in the CR Report for 2003, over the past two years Merck has successively been introducing uniform principles and procedures for the development of talented employees and managers. Since 2005, the Talent Management Process has been uniform worldwide. It is a clear expression of Merck's human resources policy. Developing talent systematically is a core element of our efforts to successfully position the Merck Group in competition with other pharmaceutical and chemical companies. It is therefore closely tied to our strategic direction, for which the identification and promotion of talented employees is a key to economic success.

Those who are nominated and confirmed for the talent pool by the Talent Management Process are promoted in a specific and individualized way in order to systematically prepare for a management position. The aspiring young managers also learn how to interact with their teams when they themselves become supervisors. Regular discussions between supervisors and their teams about the agreed goals are a focal point of performance management. All senior managers at Merck are expected to spend at least 20 percent of their working hours on individual employee management tasks.

In line with its efforts to internationalize management development, one of the Merck Group's near-term goals is to expand its training programs to cover all employees and sites and harmonize the tools used. This includes expanding the "Platon – Merck Learning Center" training catalogue recently added to the MerckNet.

2003–2005 in review

A compass for managers

Our managers must not only excel in their professional area of expertise, their personal traits and character are just as important. They must be constructive and efficient, fair and honest in dealing with their staff and think and act strategically. Identifying those among our staff and external applicants who possess these abilities and promoting them systematically are among the primary challenges of human resources development at Merck. The Merck Leadership Compass, which was introduced in 2004, is a tool to help our managers reach this goal by pointing them in the right direction. It presents the seven competences that define a good management style in accordance with our corporate culture. Teamwork, Relationship Management: Customer and Supplier Focus, Leading People, Developing People, Strategic Orientation, Results Orientation and Change & Innovation. This Compass, which has been documented as a guideline, applies to the entire Merck Group.

For basic and advanced training of managers, in 2004 we likewise introduced the Merck Leadership Curriculum, which also applies to the entire Merck Group. It is a teaching plan used to train managers and to promote the competences defined by the Leadership Compass.



“The way that Merck promotes the education of impoverished children in the poorest regions of my country is very motivating. Helping the community above and beyond economic interests makes me proud to be part of Merck.”

Natcha Teinwutichai, Import Manager, Bangkok, Thailand

Responsibility for the community

“We aim to support community and other programs that are committed to protect the environment, welfare and the social stability of our community and the countries where we are present.”

Improving education and health

Remembering that we have a responsibility to the community is part of our corporate culture. Volunteering to provide for a better future at all our sites around the world is thus one of Merck's guiding principles.

www.responsibility.merck.de
> community

With our social and cultural commitment, we are also working towards the implementation of the UN Millennium Development Goals and the principles defined by the UN Global Compact. Our activities focus on areas that we understand well, namely the promotion of education and health.

www.globalcompact.org

In accordance with our corporate values, employees at all Merck sites are called upon to support the communities in which we operate. The executive bodies of the Merck Group need not mandate this by decree: Worldwide, the companies of the Merck Group take the initiative and demonstrate in many ways how social commitment is translated into action.

Education and health are the main areas of Merck's voluntary contributions to the community. We also support a wide variety of cultural initiatives and organizations, for example through the Merck Company for Art and Science (please refer to the CR Report for 2003), which is backed by the Merck family.

Commitment to education

In Germany, Merck is focusing its education projects on schools and universities. The range of projects is mainly centered on scientific programs as these are directly related to our activities and enable us to make a lasting contribution to society.

In Germany, Merck has been supporting the "Jugend forscht" competition for young researchers for more than 20 years. We also have partnerships and cooperation agreements with 35 schools within the scope of which the Merck sites in Darmstadt and Gernsheim are off-campus learning centers offering classes, experiments and hands-on learning experiences. Since 2004, the sites have been participating in "Girls' Day," an annual event in Germany designed to enable girls to inform themselves about technical and scientific occupations. The aim is to encourage them to pursue occupations so far dominated by men.

Merck subsidiaries are creative when it comes to finding ways to support their local communities, as a number of good examples from the 2003–2005 reporting period illustrate.

www.merck.co.in

Example India: With its own fund, the "Merck India Charitable Trust," our Indian subsidiary Merck Ltd. has been supporting talented school students from low-income families who are unable to pursue higher education for economic reasons alone. Scholarships enable the students to attend secondary school and subsequently enroll at university.

2003–2005 in review

Helping the victims of the tsunami in Southeast Asia

As of mid-2005, Merck had donated over one million euros to ease the suffering of the victims of the tsunami that devastated southern Asia in December 2004. In Thailand, Indonesia, Malaysia, Sri Lanka and India, Merck is supporting numerous and mostly long-term projects, for example the reconstruction of demolished schools and hospitals. Support has been given in the form of material and monetary donations from the Group and its subsidiaries as well as countless employee donations. In January, we donated urgently needed pharmaceuticals worth 250,000 euros to the German Red Cross. The donation included antibiotics, cortisone products and cardiovascular drugs. On the suggestion of the Merck subsidiary in Indonesia, in May 2005 the Group approved the purchase of four ambulances intended to improve the medical infrastructure in Aceh province.

In its relief efforts, Merck benefited from the well-established ties between its subsidiaries in the affected countries and local charitable organizations, for example the Thailand chapter of CARE. This made it possible to identify both quickly and unbureaucratically those areas where the company could help most. And it ensured that the efforts would really reach those in need. This catastrophe showed how willing all Merck companies and employees are to help. Nearly every site made its own contribution to help the hundreds of thousands of flood victims. For us, it was impressive evidence of how our values and culture are lived throughout the Group — irrespective of business sector or role in the company, nationality or other conditions.



Boong Kra, Nong Kai, Thailand | Education is one of the foremost future tasks of society. Within the scope of a Merck employee volunteering program, Sarawin Kissanawonghong and Satayu Sengsomwong teach children how to use computers.

Example Pakistan: In cooperation with the Rotary Club of Karachi, Merck Marker (Pvt.) Ltd. is supporting a contest, bringing together students from Karachi's leading high schools to debate a particular topic. The winners of the competition are chosen for their outstanding argumentation and public speaking skills.

www.merck.com.pk

Example Thailand: In 2002 Merck Ltd. in Thailand initiated a cooperation with the Raks Thai Foundation, the local chapter of CARE International. In 2003, the partnership launched the "Merck Young Leadership Development Program" in the most impoverished regions of the country. The objective is to develop the leadership qualities and communication skills of school children and adolescents. Merck Ltd. Thailand has also documented its activities its own Corporate Social Responsibility Report, which was published in 2004.

www.merck.co.th

Example Korea: To support the people affected by typhoon Maemi, which wreaked havoc in Korea in the summer of 2003, Merck awarded scholarships to 33 high school graduates. The scholarships were funded not only by the company itself, but also by donations from Merck employees.

www.merck.co.kr

Example Japan: Merck Ltd. in Japan is donating supplies to a company founded by students to tutor high school students in biochemistry. Merck is, for example, supplying the required reagents.

www.merck.co.jp



Sydney, Australia | By providing a specially equipped bus, Merck subsidiary Alphapharm is supporting the "House With No Steps" project of The Wheelchair and Disabled Association of Australia to provide quality support services for people with disabilities.

Commitment to health

For a pharmaceutical company, focusing corporate citizenship activities on healthcare suggests itself. The German Pharma Health Fund (GPHF), which Merck co-founded in 1985, plays an important mediator role. The association promotes the provision of basic health care in developing countries and emerging economies. With the Minilab®, a small mobile laboratory, the GPHF wants to stop drug counterfeiters. As counterfeit drugs can be life-threatening, the problem cannot be ignored. According to the World Health Organization, an estimated 25 percent of the drugs offered for sale in Africa alone are counterfeit; worldwide the share of counterfeit drugs is estimated to range up to ten percent.

www.gphf.org

Apart from Merck's involvement in the GPHF and the multifarious activities of the divisions, special mention should also be made of the contributions of our subsidiaries:
Here are some examples:

www.eprova.com

Example Switzerland: Since 2002, Merck Eprova AG of Schaffhausen has refrained from sending annual Christmas cards to its customers and suppliers. Instead, the company invests the money for the long term by supporting "Clean Water Worldwide," a project set up by a local company in Schaffhausen that is giving people access to clean drinking water. Contaminated drinking water is the most frequent cause of disease in developing and emerging countries. Improving sustainable access to safe drinking water is therefore one of the United Nations Millennium Development Goals.

www.alphapharm.com.au

Example Australia: The participation of Merck subsidiary Alphapharm Pty. Ltd. (Australia) in a Christmas card program which supports UNICEF serves the same goal. UNICEF supports countless health projects around the world designed to help children in developing countries.

www.unicef.org

2003–2005 in review

Business of the Year

Supporting the common good is a matter of course for our employees in Napa, California, where our subsidiary Dey, Inc. is headquartered. The Chamber of Commerce of the City of Napa named Dey "2004 Business of the Year" for the company's social responsibility and its commitment to the local community. The award honored Dey for the many actions with which the company and its employees support numerous charitable organizations in the region. Such initiatives include, for example, a donation of 100,000 U.S. dollars that the company made to the local chapter of the Red Cross in Napa in early 2005 to help the victims of the tsunami in Southeast Asia (see box on page 40).

www.dey.com

Example South Africa: Since 1996, Merck South Africa has been supporting the Child Abuse Treatment and Training Services (CATTS), an organization that cares for children who live on the street. At its semi-annual golf tournament, Merck collects money for CATTS and then matches the donations. This initiative is benefiting CATTS, which is a unit of the Johannesburg Child Welfare Society and is dedicated to caring for abused and HIV-infected children as well as AIDS prevention programs.

www.merck.co.za
www.jhbchildwelfare.org.za

Example Chile: Building houses for impoverished people is the aim of an independent initiative called "A Roof for Chile" (Un Techo para Chile). Almost all 250 employees of Merck Chile participated in this initiative in 2004. For a period of three months, they sacrificed every weekend to build simple wood houses that would give 28 families a place to live. With this initiative, health-care and the fight against poverty go hand in hand.

www.merck.cl

Example Indonesia: The Merck Indonesia Group, headquartered in Jakarta, offers citizens glucose tests free of charge and – if necessary – medical consultations. This is a way to improve early diagnosis of Type 2 diabetes, which is also widespread in Indonesia. To date, Merck has tested the blood sugar levels of over one million people in Indonesia.

The voluntary healthcare promotion activities of Merck and its employees have a different emphasis in industrialized countries. Their efforts are primarily focusing on preventing the diseases of civilization (please refer to the CR Report for 2003). Whether diabetes, cardiovascular disease or cancer, the desire to promote health unites Merck employees on every continent and even outside their normal working hours.



Billerica (MA), USA | Roseann Waterhouse at the EMD Lexigen Research Center shows students from Ditson Elementary School and their teacher Mary Ellen Hughes how quickly bacteria can multiply. The "Bacteria Around You" program, which was introduced in 2003, combines the promotion of education and healthcare.

Facts and figures

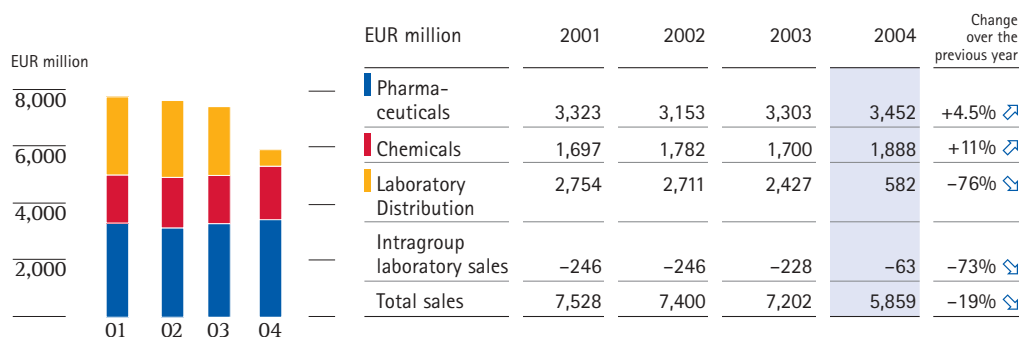
Key economic figures

In addition to the key sales and profit figures by business sector and region, the following figures also include R&D spending, which is of considerable importance for a chemical and pharmaceutical company. The company prepares a value-added statement within an economic context. An overview of the shareholder structure in respect of the shares in free float is also provided.

Sales development

In 2004, Merck Group sales decreased on a year-on-year basis as a result of the divestment of the Laboratory Distribution business sector (VWR International) in the second quarter of 2004. Adjusted for this divestment, sales increased by 6.7% to EUR 5,339 million.

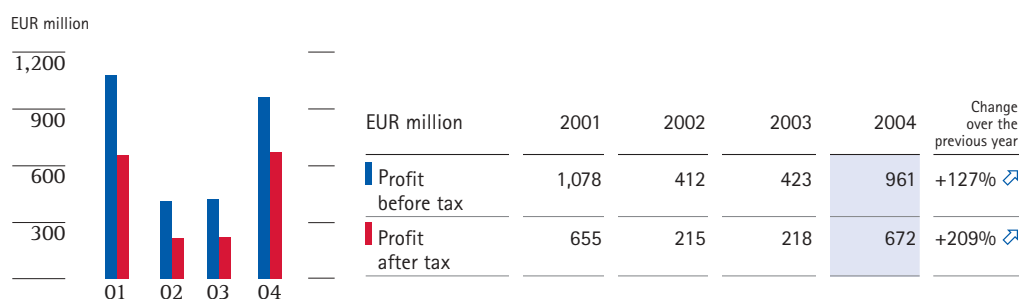
The increase in sales in the Pharmaceuticals business sector in 2004 was due primarily to the Generics division, which continued to grow, albeit at a slower rate. The Chemicals business sector achieved a strong increase in sales, which was due once again to the success of liquid crystals for displays.



Profit development

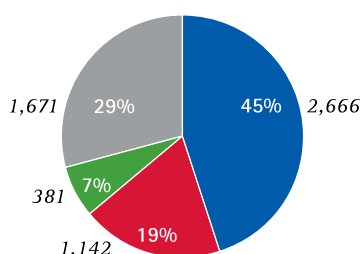
Profit before and after tax

Profit after tax tripled in 2004, thereby even exceeding the record result of 2001.



The key economic, environmental and personnel figures can be found on the following eight pages. They are presented in summarized form in one chapter and are far more detailed than in the Corporate Responsibility Report for 2003.

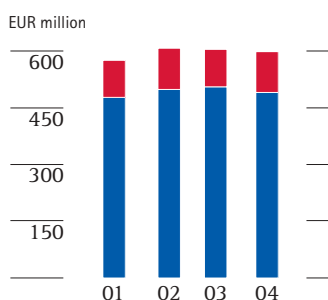
Sales by region 2004



EUR million	2001	2002	2003	2004	Change over the previous year
Europe	2,729	2,959	3,017	2,666	-12% ↗
North America	3,132	2,648	2,358	1,142	-52% ↗
Latin America	460	398	365	381	+4.5% ↗
Asia, Africa, Australasia	1,207	1,395	1,462	1,671	+14% ↗

Europe is Merck's most important market where—as in North America, the recent divestment of VWR and the weak U.S. dollar have led to a decline in sales. The region Asia, Africa and Australasia achieved strong growth rates, also thanks to the successful liquid crystals business.

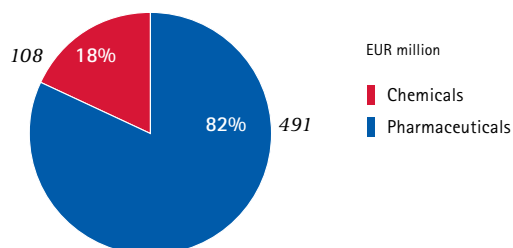
R&D spending by business sector



EUR million	2001	2002	2003	2004	Change over the previous year
Pharmaceuticals	478	499	506	491	-2.9% ↗
Chemicals	99	109	99	108	+9.0% ↗
Total	577	608	605	599	-0.9% ↗

We have maintained our high R&D spending at a constant level in recent years. Approximately 80% is accounted for by the Pharmaceuticals business sector, where the ratio of research spending to sales was 14% in 2004. In the Ethicals division, which is particularly research-intensive, this ratio was 25%.

Research and Development 2004



The corporate result, i.e., the sum of sales, other income and financial income, declined in 2004 because of divestments. The net value added statement shows an 11% increase in net value added in 2004.

Net value added statement

EUR million	2001	2002	2003	2004
Net sales	7,528	7,400	7,202	5,859
Other income	782	308	271	598
Financial income	63	28	13	17
Corporate result	8,373	7,736	7,486	6,474
Cost of materials	-3,014	-3,069	-2,876	-1,849
Other purchased services/expenses	-1,845	-1,842	-1,786	-1,636
Gross value added	3,514	2,825	2,824	2,989
Depreciation and write-downs	-408	-425	-471	-375
Net value added	3,106	2,400	2,353	2,614

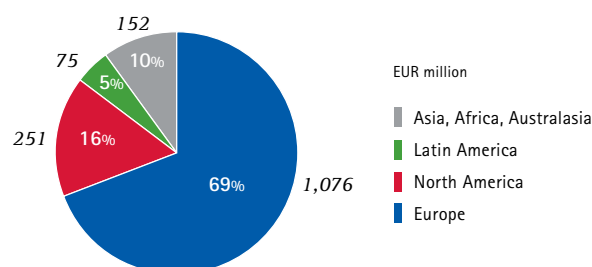
Distribution of net value added

EUR million	2001	2002	2003	2004
Personnel expenses	1,757	1,813	1,802	1,554
Financial expenses	271	176	128	99
Taxes on income	423	196	205	289
Net income	655	215	218	672
Net value added	3,106	2,400	2,353	2,614

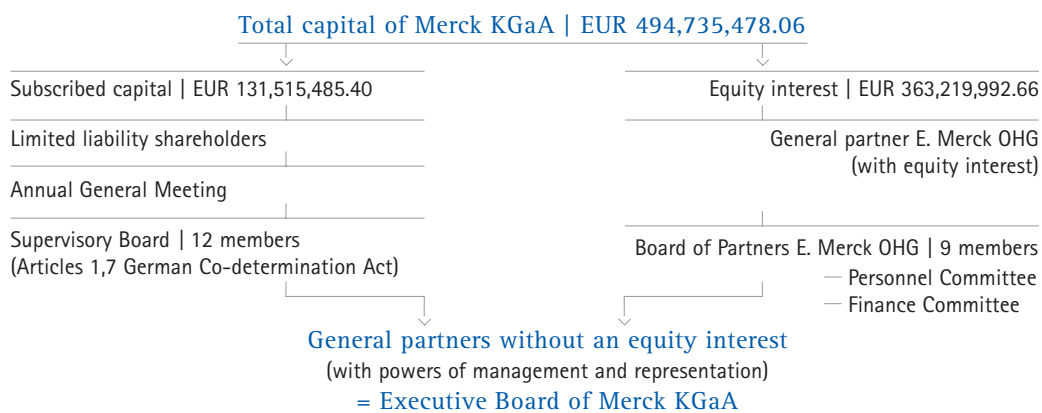
The distribution of value added shows that the majority of the net value added was attributable to personnel expenses. Net income for 2004 accounted for a particularly high percentage due to the proceeds from the sale of VWR.

Personnel expenses in the form of salaries, social contributions and retirement pension expenses are highest in Europe — in accordance with the headcount and labor costs.

Personnel expenses by region 2004

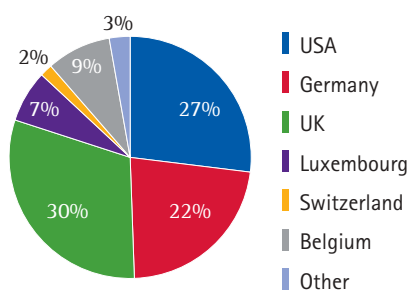


Ownership structure of Merck KGaA (on December 31, 2004)



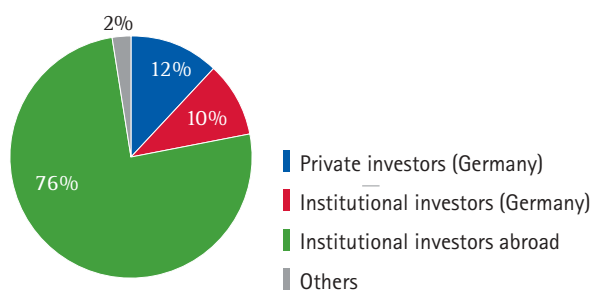
Merck KGaA shares have been listed on the Frankfurt Stock Exchange since 1995. The number of shares in free float amounted to 50.6 million in 2004; this corresponds to an equity share of 27%. The interest of E. Merck OHG (general partner) corresponded to 139.7 million theoretical shares or an equity share of 73%.

Shareholder structure by country*



*Status July 2004

Shareholder structure by investor*

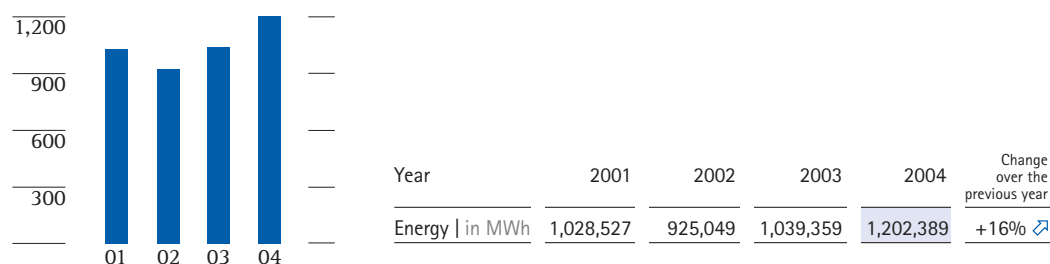


Key environmental figures

The key environmental figures in this report relate to all the production sites of the Merck Group and several locations where warehouses are maintained. The 2003 Corporate Responsibility Report and the Responsible Care Report for 2000 presented the data for 29 sites that are of particular relevance with respect to environmental protection and safety. Since 2001, the data have been recorded and evaluated using a Merck EDP system.

Energy consumption

Energy consumption MWh (in thousands)



The energy consumption of the Merck Group has increased continuously in recent years due to changes in the product portfolio.

Among the fossil fuels purchased, brown and bituminous (black) coal were only used to generate energy at the Darmstadt site. After the conversion of the power plant at the Darmstadt site from bituminous to brown coal in early 2001 and from brown coal to gas in 2002, these raw materials were no longer needed.

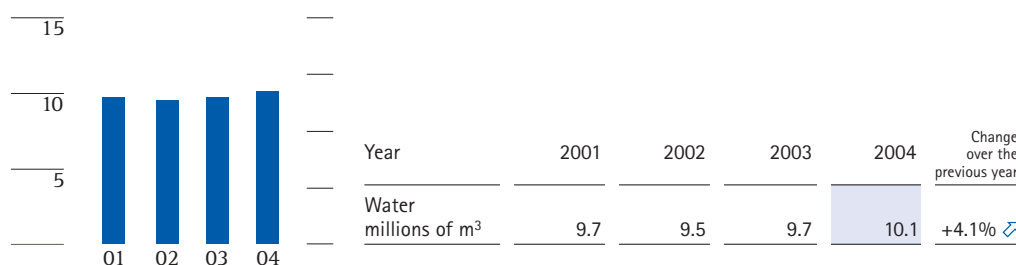
Quantity of fuels purchased

Year	2001	2002	2003	2004	Change over the previous year
Brown coal t	35,210	14,831	0	0	----
Bituminous coal t	5	0	0	0	----
Light heating oil t	3,827	3,391	2,839	3,609	+27% ↗
Heavy heating oil t	4,603	4,393	3,811	4,561	+20% ↗
Gas millions of m ³	16.1	16.0	72.2	73.5	+1.8% ↗

The quantities presented do not include approx. 4–5 million m³ of water per year. These volumes are immediately recycled and used by a farm in Brazil and for safety measures at the Gernsheim site.

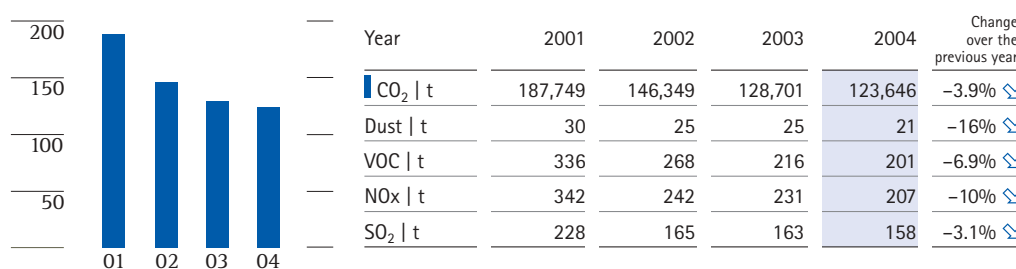
Water consumption

Water consumption in millions of m³



Air emissions

CO₂ emissions in thousands of metric tons



Through the use of filter systems and power plant changeovers, air emissions have continuously declined.

Waste

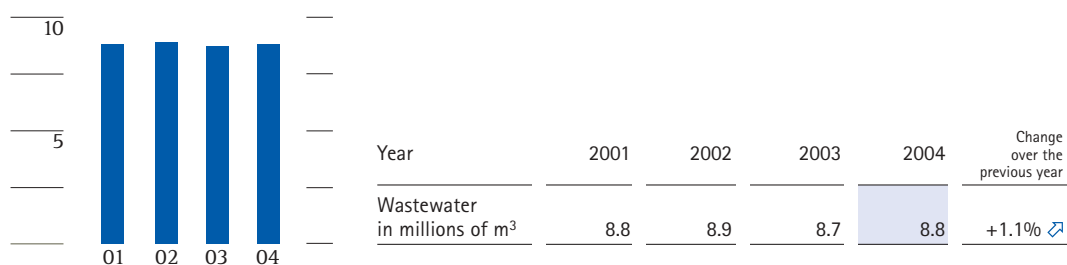
Waste in thousands of metric tons



The quantity of waste has increased significantly as a result of around 32,000 metric tons of demolition and excavation waste that accumulated at the Darmstadt site in 2004. A large number of older buildings were demolished and the waste was disposed of at the Merck landfill. In accordance with statutory regulations, this landfill was closed in 2005.

Wastewater

Wastewater in millions of m³



Wastewater parameters

Year	2001	2002	2003	2004
Chemical oxygen demand (COD) t	729	646	529	531
Biological oxygen demand (BOD) t	89	68	66	71
Phosphorus t	9,634	6,119	5,572	7,217
Nitrogen t	58,584	67,916	68,693	70,397
Zinc kg	560	966	383	554
Chromium kg	96	52	39	76
Copper kg	76	79	75	71
Nickel kg	63	95	83	64
Lead kg	96	102	54	83
Cadmium kg	9	8	5	5
Mercury kg	3	3	1	1
Arsenic kg	3	4	3	4

The sharp headcount decline in 2004 was due to the divestment of the laboratory distribution business VWR International.

Overall, 75% of Merck Group employees work in OECD countries. This proportion has declined since 2003 as the vast majority of the VWR International workforce was in North America.

Lost-time days as well as lost-time injuries relate to accidents with at least one lost-time work day, standardized to 1 million working hours. Both figures were sharply lower in 2004 thanks to various programs. There were no fatal accidents.

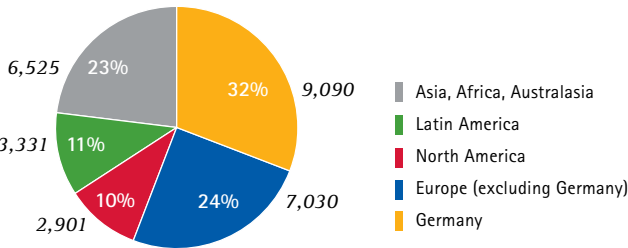
Key personnel figures

With the exception of the graphs on the structure of the workforce and staff turnover, the key personnel figures relate to the total workforce of the Merck Group. For 2005, the scope of the information collected has been expanded to include additional data on social security systems.

Personnel figures

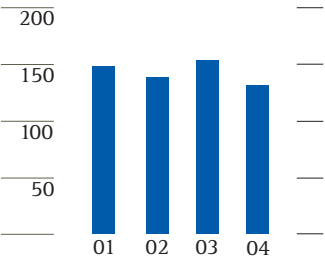
Year	2001	2002	2003	2004
No. of employees (on December 31)	34,294	34,504	34,206	28,877

Personnel by region 2004



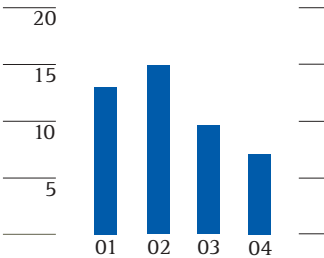
Number of lost-time days

(per 1 million working hours)



Number of lost-time injuries

(per 1 million working hours)



Year	2001	2002	2003	2004	Change over the previous year
Days	148	138	153	131	-25%

Year	2001	2002	2003	2004	Change over the previous year
Accidents	13.0	14.9	9.6	7.1	-26%

Social security systems for Merck employees

The figures presented in the Corporate Responsibility Report for 2003 related to 86% of the 34,504 people employed by the Merck Group at that time. The headcount of the Merck Group has meanwhile declined to 28,606 employees as a result of the divestments of the laboratory distribution business VWR and the electronic chemicals business (Status: June 30, 2005). The data for 2005 related to 82% of these 28,606 employees.

Year	2005
Number of full-time employees	95%
Number of part-time employees	5%
Number of full-time employees (standard contract, excluding exempts) with contractually agreed working hours of maximally 48 hours per week ¹⁾	100%
Percentage of employees with at least 15 vacation days/year ²⁾	93%
Percentage of sites guaranteeing a minimum salary above the local minimum salary	93%
Percentage of employees with flexible working hours	67%
Percentage of employees with company accident insurance	91%
Percentage of employees whose dependents are entitled to a survivor's pension.	62%
Percentage of employees with statutory health insurance	71%
Percentage of employees with employer-funded health insurance	86%
Percentage of employees with company medical care	77%
Percentage of employees who are obliged to contribute to the statutory pension system	79%
Percentage of employees on company pension scheme (also in addition to the statutory pension scheme)	74%
Percentage of women with access to maternity protection ³⁾	98%
Percentage of employees represented by trade unions ⁴⁾	61%
Advanced training costs per employee	USD 930
Composition of upper management (Managing Directors of the Merck companies and next management level)	♂ 79% ♀ 21%
Age of the youngest employee (excluding apprentices)	17
Number of sites that rule out child labor as defined by ILO Convention 138	99%

¹⁾ ILO: Hours of Work (Commerce and Offices) Convention, 1930 (No. 30)

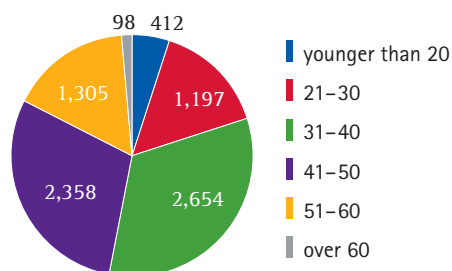
²⁾ ILO: Holidays with Pay Convention (Revised), 1970 (No. 132)

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 following key figures are only available for the workforce at the German sites in Darmstadt, Gernsheim and Hohenbrunn (Merck Schuchardt OHG), which represents approx. 26% of the total workforce.

Workforce structure 2004



Staff turnover rate

Calculated according to the BDA* formula:
staff departures x 100/average workforce in %

Year	2001	2002	2003	2004	Change over the previous year
Turnover rate**	2.66	2.40	1.83	1.45	-21%

* German Federation of Employers' Associations

** Adjusted, i.e. excluding departures due to retirement, death, limited contracts and transfers to subsidiaries.

Owing to the different reference bases used in the survey in comparison with 2003, this table can only provide a snapshot. It cannot be used to analyze a trend.

In 2004, the average number of years of service for Merck employees was 13.9 (2003: 13.7 years).

Our goals

Economic goals (Basis year 2001)

In the course of focusing the company on its core businesses, the company's key profitability indicators increased to such an extent that the mid-term goals have been raised. The previous financial targets, established in 2001, were 15% for both ROS and ROCE. At that time, these indicators were 11.9% for ROS and 12.8% for ROCE. By the first quarter of 2005, Merck's ROCE far surpassed the goal with 18.4% while the ROS came near to it at 14.3%. The sale of the laboratory distribution business VWR International as well as the electronics chemicals business, both of which had high sales volumes with relatively low profit margins, was part of the effort to focus on innovations with potentially high margins. In June 2005, the Executive Board redefined the mid-term goals as follows:

- Achieve a return on sales (ROS) of 20%
- Increase return on capital employed (ROCE) to 25%

Environmental goals (Basis year 2002)

- Reduce workplace accidents with lost time per million working hours (Lost Time Injury Rate) for the Merck Group by 20% to no more than 12.9 for the Merck Group

→ *Goal already achieved*

- Reduce CO₂ emissions by 10% to no more than 131,714 metric tons in the Merck Group by 2010.

→ *Goal already achieved*

- Increase waste recycling ratio (recycled waste : total waste) by 20% to at least 57% by 2010.

→ *Initially, the waste recycling ratio declined slightly from 2002 to 2003 since larger quantities of demolition waste accumulated at the Darmstadt site in 2003. In 2004, we increased the recycling ratio slightly to approx. 48% and continue to work on waste recycling concepts.*

- Record the material quantities and relevant material data for all chemicals manufactured or imported within the Merck Group in Europe by 2010.

→ *The German Chemical Industry Association (VCI) has committed itself to recording material data for those products that are sold in annual quantities of more than one metric ton. By 2004, Merck had produced the material data for nearly 100% of self-manufactured products. For purchased products, approx. 95% of the material data is available.*

- Specify and establish uniform global hazardous materials information by 2008.
→ In Europe and North America, hazardous materials regulations exist for all transport carriers whereas on other continents this is not always the case. 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.
- Conduct audits at 10 locations per year, thereof three focusing on security
→ In 2003, 19 and in 2004 a total of 27 audits focusing on the environment, health and safety were conducted at more than 10 sites worldwide. Due to the growing importance of Security, these audits are being conducted separately. In the first two years, seven such audits were performed.

Employee-related goals

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)
- Implement or improve the Talent Management Process to identify and promote talented employees
- Implement or improve succession planning

Additional goal:

- Increase the proportion of women in senior management positions

For the sites in Darmstadt and Gernsheim, which represent 27% of the workforce, the following goals also apply:

- Make the company more family-friendly
Selection of proposed actions:
 - Improving daycare possibilities for children under the age of 3
 - Promoting development and career opportunities for part-time employees
 - Improving employee integration after family leave
 - Optimizing information provision and communication on the “Career and Family” topic within and outside of the company.

Evaluations

www.standardandpoors.com

www.moody.com

“Raised to BBB+ and Baa1.” These are the credit ratings of the financial and economic prospects of the company as published in summer 2004 by Standard & Poor’s Ratings Services (S&P) and Moody’s Investors Services, the world’s two leading credit rating agencies. They rate companies with respect to their ability to meet their debt security or financial liabilities on time. The ratings enable investors to make international comparisons in order to evaluate the potential risks of a securities investment.

Thanks to its exemplary risk management system, Merck received the “Successful Practice Award” of the University of St. Gallen (Switzerland) in 2005. A total of 120 companies were invited to participate in the competition, 50 of them were evaluated more closely and ultimately five were distinguished with an award. The award confirms that the company’s risk management system meets international standards and is fully developed.

Our initiatives to increase the speed and transparency with which we inform all target groups were acknowledged in evaluations of our financial reporting practices: In the German ranking by Manager Magazin, we came in 11th among the M-DAX companies in 2004. We have received international distinctions for our annual reports from the League of American Communications Professionals and from e.com Report Watch.

www.vigeo.com

Merck also scored well in two ratings of the company’s environmental and social performance, yet the analysts also identified weak points. In September 2004, the French agency Vigeo issued a Corporate Social Responsibility (CSR) rating of the Merck Group. The agency certified Merck’s above-average commitment in the area of “Customer and Supplier Relationships”. Vigeo saw weaknesses primarily in Merck’s corporate governance. This criticism has prompted us to examine this aspect in more detail in this report (see “Long term management of the company”).



Darmstadt, Germany | Having a good time and raising money for a good cause — that's what the Merck Benefit is all about. This annual employee celebration was introduced in 1999. One attraction of the 2004 event was the puppet theater, which captivated the youngest among the 3,500 visitors.

In 2005, the German rating agency “oekom research” included Merck for the second time in its “Corporate Responsibility Rating” (see Corporate Responsibility Report for 2003). The result: out of a group of 27 of the world’s largest pharmaceutical and biotech companies, oekom research ranked Merck eighth.

www.oekom-research.com
www.sustainable-investment.org

External evaluations such as these are an important indicator for us in making comparative assessments with other companies and setting priorities. They also point out those areas to which we may not be paying enough attention in our daily operations.

A committed company

Merck sees itself as a “citizen” of the communities in which it operates and endeavors to live up to its responsibility to be a good neighbor. Not only the company, but also employees take the initiative. An example from Germany: In October 2004, the government of the German federal state of Hesse held a “Committed Company” competition entitled “Active together – commitment to communities in Hesse”. Merck won second prize in the large companies category for the “Merck Benefit”. Employees and friends of the company attending the company’s third summer benefit donated EUR 37,500 to local social and charitable institutions. “The fact that your entry was won of the winners is evidence of the highly exceptional quality of your commitment,” said Alois Rhiel, jury foreman and Economics Minister of Hesse.

2003–2005 in review

Closing remarks from the Works Council on the Corporate Responsibility Report for 2005

by Flavio Battisti (Chairman of the Group and site works council of Merck KGaA)
and Frieder Kaufmann (Chairman of the Merck Euroforum)


As the world's oldest pharmaceutical and chemical company, Merck is different from other companies. Finding new solutions together is a firm part of a corporate culture that has developed over decades. Yet from time to time, this calls for constructive conflict. Treating others with respect and believing that good common sense is a better basis for decisions than a rigid focus on statute books and court decisions are fundamental to this process.

As employee representatives, we pay close attention to whether Merck stands by its values or if these are merely platitudes that sound nice in a company brochure. The publication of the second Corporate Responsibility Report once again makes it clear that Merck does indeed wish to firmly establish the topic in the company.

The fact that Merck has been able to emphasize certain areas of Corporate Responsibility in this report is due not least to our activities. Employee representatives have been instrumental in securing jobs at their own sites, preventing the transfer of production abroad, as well as maintaining and creating new vocational training positions.

A good example of our sense of responsibility toward the workforce is our unique German-wide agreement covering employees with long-term illnesses. Innovative solutions, which we have put into place in agreement with the company management, help to finance jobs to reintegrate employees, to prevent sickness, and to compensate for pay lost on account of long-term sick leave.

The personal dialogue between European employees and the Group's management has always been one of the Euroforum's most important functions. In view of the enlargement of the European Union, it is particularly important to examine employment conditions and social systems in the companies of the Merck Group. We support compliance with a common set of rules at Group level.



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More extensive information about the company Merck is available on our Web site at www.merck.de in German, English, French and Spanish. You can also download the following publications from the Web site:

- Merck Annual Report for 2004
- Merck transparent – Commitment to quality of life. Company portrait 2005
- “Responsibility for Employees, the Environment and the Community” – Report 2003
- “To do what is right” – The Merck Code of Conduct (2005 edition)
- “Was der Mensch thun kann ...” – History of Merck
The World's Oldest Pharmaceutical and Chemical Company
- TopTopics Oncology “Merck breaks new ground in cancer therapy”
- TopTopics CardioMetabolic Care
“Integrated Management of Cardiovascular and Metabolic Diseases”
- “Chemistry with a Future” A Glimpse of Research at Merck

If you would like to receive the printed versions of any of the above brochures, please let us know. Merck has developed numerous Web sites that offer scientific and product-related information. Please see the relevant references in this report.

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Printing | Colordruck, Leimen

Paper | Finesse by Nordland, Dörpen

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