

**ANNUAL REPORT 2000**

**Short Version**



**People with Vision**

**MERCK**

► *Merck will be number one in its core businesses through innovations created by talented, entrepreneurial employees.*

## PHARMACEUTICALS

► **Ethicals** used in the treatment of metabolic and cardiovascular diseases, **generics** and **consumer**

**health care** products are the core of our pharmaceuticals business. Sales in the Pharmaceuticals business sector rose by 2.0% to EUR 2,914 million. The Ethicals division recorded 13% sales growth. Our investments in research and development rose by 10% to EUR 453 million; in Ethicals we invested EUR 379 million or 21% of this division's sales. The operating result amounted to EUR 453 million. The return on sales was 15.5%. The Pharmaceuticals business sector contributed 43% of the Merck Group's total sales, the share of the operating result was 61%.

Sales	EUR 2,914 million
Operating result	EUR 453 million
EBIT	EUR 590 million
Return on sales	15.5%

## SPECIALTY CHEMICALS

► The Specialty Chemicals business sector consists of four divisions which supply high-tech products:

**liquid crystals** for displays, **electronic chemicals** for chip manufacture, **effect pigments** and **specialty chemicals** for the **technical industry**, as well as **active ingredients** and **chemicals** for the **cosmetic, pharmaceutical** and **food industries**. Sales rose by 28% to EUR 1,102 million. The operating result increased by 186% to EUR 216 million. The return on sales rose to 19.6%. The Specialty Chemicals business sector contributed 17% of the Merck Group's total sales and 29% of the total operating result.

Sales	EUR 1,102 million
Operating result	EUR 216 million
EBIT	EUR 101 million
Return on sales	19.6%

## LABORATORY PRODUCTS

► The Laboratory Products business sector comprises the businesses of our **Laboratory Reagents** and

**Scientific Laboratory Products** divisions. Sales increased by 9.4% to EUR 540 million. This growth was achieved with classical reagents and solvents as well as the strategic focusing on innovative products used in the life sciences industry. The operating result decreased to EUR 30 million. The return on sales amounted to 5.5%. Without intragroup sales the Laboratory Products business sector contributed 5% of the Merck Group's total sales, the share of the operating result was 4%.

Sales	EUR 540 million
Operating result	EUR 30 million
EBIT	EUR 28 million
Return on sales	5.5%

## LABORATORY DISTRIBUTION

► With its laboratory chemicals, equipment and consumables along with a comprehensive service offer-

ing, Merck is the world's leading **full-service provider** in the laboratory sector. Laboratory Distribution sales rose by 88% to EUR 2,374 million. This growth was fueled by the complete acquisition of VWR Scientific Products Corporation in the USA. The operating result amounted to EUR 44 million. Due to high investments the return on sales amounted to 1.9%. This business sector, comprising the two divisions **Merck Eurolab** and **VWR SP**, contributed 35% of the Merck Group's total sales and 6% of the total operating result.

Sales	EUR 2,374 million
Operating result	EUR 44 million
EBIT	EUR 24 million
Return on sales	1.9%



Dear shareholders,

The Merck Group has seen **significant changes in management and organization** in 2000. Prof. Dr. Hans Joachim Langmann has retired after more than 35 years of service during which Merck has developed from a predominantly German company to a successful international corporation. He will stay as chairman of E. Merck, the company pooling the interest of the Merck family. Effective July 1, 2000, I took over as chairman of Merck KGaA. At the same time and following the retirement of Dr. Harald Schröder and Mr. Wolfgang Hönn, the Executive Board was reduced from seven to five members. The new board shares responsibility according to line functions and support functions as well as on a regional basis. Merck is proud that it could not only retain key personnel but was able to gain top talent from the outside. This was most obvious in the USA but could be also observed in important management positions at our headquarters in Germany and in some larger subsidiaries. Great efforts have been undertaken to improve internal and external communications. Nowadays every employee can address me directly.

Starting from the third quarter 2000, business has been structured in **four sectors**, namely Pharmaceuticals, Specialty

Chemicals, Laboratory Products and Laboratory Distribution. For all four business sectors and for the total group clear and ambitious **profitability goals** have been established based on Return on Sales and on Return on Capital Employed. Moreover, Merck has started a process to align legal and business structures, beginning with Laboratory Distribution and Generics. Overall Merck was satisfied with the development of sales and operating result. Profit before and after tax was impacted by numerous exceptionals. Thus the proceeds originating from the divestiture of our Bracco share have been largely used to restructure part of our business, mostly within Specialty Chemicals.

Good business performance, more focus, enhanced transparency and more attention to value maximization were rewarded by financial markets with a **share price performance** which was among the very best of pharmaceutical companies listed on the German stock market. While this is appreciated, management is convinced that present valuation still does not adequately reflect the future potential of the Merck Group. A stock option program, introduced for the first time for global senior management, should further help to synchronize shareholder and management interests.

Highlights in 2000 businesswise were the outstanding performance of Glucophage and Liquid Crystals.

Within **Pharmaceuticals** we are absolutely satisfied with the performance of the antidiabetic Glucophage and the beta-blocker Concor. Our Glucophage is now the undisputed leading global product for the treatment of type 2 diabetes. With Glucovance and Glucophage XR two successor products have been introduced with improved performance. The diabetes franchise was instrumental in more than compensating for the revenue loss resulting from the Bracco divestiture. Essential for the future success of our Ethicals business was the implementation of a product portfolio management process by which we optimized our research and development pipeline. Hence we

have not only increased the research budget but also improved the allocation of resources, for example giving priority to the development of our monoclonal antibodies and fusion proteins for various types of cancer. Our R&D pipelines for both diabetes as well as oncology are now extensive. Our commitment to increase our direct presence in the USA is shown by concentrating our business activities in Research Triangle Park in North Carolina and by building a full-fledged research center near Boston.

The need for high-quality generics resulting from cost containment activities of governments contributed to the successful development of our generics business. Merck is not only one of the leading high-quality generics suppliers but also number one in several countries.

The very positive development of **Specialty Chemicals** is dominated by the striking success of liquid crystals. This holds not only for the original liquid crystal segment but also for the new glass substrate coating business serving predominantly the mobile phone market. We intend to support the flat panel display market by more than tripling our production capacity. The new pigment types Xirallic and Colorstream were well received by the car industry and other customers. The vitamin business did not meet our expectations and we are considering all strategic options.

The **Laboratory Products** business sector was newly established. While the performance of traditional reagents was good, the more innovative products did not show the expected growth rates.

The legal restructuring of **Laboratory Distribution** was completed with the establishment of US-based VWR International, Inc. The validity of our business model is demonstrated by a positive development of revenues whereas the bottom line is impacted by restructuring charges.

The **outlook for 2001** is hampered by uncertainties in currency exchange ratios and economic development in the USA and Japan. Furthermore, in spite of successful life cycle management of Glucophage it is difficult to predict the impact of generic competition. Subject to these provisions Merck aims at double-digit growth on the bottom line. We also strive to improve our balance sheet in order to widen our strategic options. For the future our **Vision** is clear:

▶ **Merck will be number one in its core businesses through innovations created by talented, entrepreneurial employees.**

We acknowledge that our Vision is ambitious but are confident that by further focus and by revising strategies and tactics in 2001 we will set the base to turn it into reality during the next decade. Besides the emphasis on Innovation and Intellectual Property Rights a steady change in our company culture to more Entrepreneurship and Customer Orientation at all levels and our ability to attract Top Talent will decide our future success.

My colleagues from the Executive Board and I are looking to the future of Merck with great confidence.

Sincerely,



Prof. Dr. Bernhard Scheuble



**MICHAEL BECKER**

Accounting &  
Controlling  
Finance  
Law, Patents, Taxes  
Insurance  
Region Asia/Oceania

**BERNHARD SCHEUBLE**

Chairman  
Pharmaceuticals  
Laboratory Distribution

**JAN SOMBROEK**

Human Resources  
Information Services  
Corporate  
Communications  
Regions North and  
Latin America, Africa

**MICHAEL RÖMER**

Vice Chairman  
Operations  
Purchasing & Logistics  
Environmental Protection  
Safety & Health  
Region Europe

**THOMAS  
SCHRECKENBACH**

Specialty Chemicals  
Laboratory Products

▶ *Our People – The Quality  
That Makes the Difference*

Bernhard Scheuble presenting  
the Innovation Award 2000  
to Karin Cabrera, representing a team  
of twelve employees, at the summer  
festival 2000 in Darmstadt



Michael Römer talking to Thomas  
Koppe, Ralf Müller and Oliver Neeb  
about pressure reactions at the new  
Central Process Development Center  
in Darmstadt

Katja Runge, Ulrich Moebus,  
Stefan Rupp, Michael Becker and  
Hans Friedrich Geiss reviewing  
figures on the basis  
of the Online Management  
Information System



Gunter Knabe, Beatrix Wiesler and  
Federico Hernández-Meyer discussing  
the new Online Recruiting System  
with Jan Sombroek

Joachim Szebel, Jun Nakanowatari,  
Young-Kwon Song, Thomas Schreckenbach  
and Hans-Eckart Radunz celebrating  
the opening of the new R&D Center  
in Southampton, UK





Alexander Gross, PhD student from Jena in the Preclinical Research Department at Merck, is focusing on a video camera of the NST® (Nanovolume Synthesis & Testing) system. With this highly innovative technique – a patent has been taken out for some aspects of it – minute particles can be automatically dispensed into microwell arrays. These are used for the synthesis of compound libraries for ultrahigh-throughput screening in pharmaceutical research.

**A** new chairman (CEO), an ambitious vision and a clear strategy: Through **innovation** and **entrepreneurial thinking** we want to become number one in our core businesses. We are facing up to the heightened global competition and are aiming at **double-digit sales growth** for the Group as well as for each individual business.

We want to achieve this through **focusing** the Group, all business sectors and every division. For focusing our businesses we have defined **profitability goals** for the first time, both for the Group and for the business sectors: ROS (return on sales) and ROCE (return on capital employed) are aimed to exceed 15% for the Group.

Our most ambitious goal, of over 20%, has been set for **Pharmaceuticals**. In the short term ROS and ROCE will be lower here as a result of our high research and development expenses. For **Specialty Chemicals** we expect ROS and ROCE to exceed 15%. We have set slightly more modest goals for **Laboratory Products**, namely 10% for ROS and 15% for ROCE, and for **Laboratory Distribution**, namely 5% and 10%, respectively.

## FOCUS – Number One in Core Businesses

► *We focus our activities on business segments in which we achieve competitive advantages through excellent quality of our products, services and systems.*

In **Pharmaceuticals** our focusing over the past years has led to optimization of our portfolio: We have successfully disposed of our Dermatology business (Hermal) and our Contrast Media business (Bracco). Through the Biomet-Merck joint venture we have refocused our Biomaterials business. Through major investments in research and development we have prepared our access to the field of **Oncology**. With the help of major acquisitions such as Lexigen in the USA, we want to become the leading company in the area of biologic cancer therapy. Our aim is to offer patients one new therapeutic option to treat cancer every year as from 2002. Through a comprehensive portfolio we want to stay the global leader for oral therapy in **Type 2 Diabetes**.

In **Specialty Chemicals** we are currently focusing on streamlining the portfolio. To enhance our profitability we have already discontinued one large production activity. Our cutting-edge capabilities in the application of physical-technical innovations and modern chemical processes have made us the leader in **Liquid Crystals** for LC displays and in **Effect Pigments**, as well as in niche businesses such as vapor-deposition chemicals for the optics industry.

The newly formed **Laboratory Products** business sector is profiting from focusing on research-relevant specialties and the strengthened market presence in the USA. As a leading manufacturer of **Reagents** we want to become the major supplier for the biotechnology and life sciences industries with our **Scientific Laboratory Products**.

In **Laboratory Distribution** we are focusing on becoming the global leader for full-service laboratory supply. With VWR International, Inc. as a US parent company we plan to go public within the next two years.

Besides focusing on core businesses, our vision also incorporates the strategic topics of **innovation**, **employees** and social **responsibility**.



Steve Gillies and Inge Lues – two scientists, the one from a small innovative start-up biotech company located not far from the gates of Harvard in Cambridge, Massachusetts and the other from the world's oldest research-based pharmaceutical company. Two thinkers from two different research environments – Lexigen and Merck – pursuing one common goal: To find innovative therapies to fight cancer.

We see change as a chance to grow as a global company with new products for the world's most important markets. Innovation is vital to all parts of our business. In human resources we are developing compensation plans that better enable our employees to share in our success. Special training programs like Merck University prepare our people to meet the heightened competition. International teams are working together on new strategies for global purchasing. With the help of state-of-the-art technologies we are continually seeking new ways to further improve our production and distribution processes. But above all our long-term success depends on the extensive research done in all of our core businesses, especially our pharmaceutical research to develop innovative drugs.

With **major research facilities** in Darmstadt, Lyon, Chilly-Mazarin, Southampton and Barcelona in Europe, Lexington near Boston in the USA and Atsugi in Japan, the Merck Group is present in all of the world's major markets. And through strategic projects with major universities and market-oriented institutes as well as through our cooperations and the creation and acquisition of new compa-

## INNOVATION – The Creative Force for the Future

► *We believe innovation is the best way to offer our customers unique benefits, our shareholders a satisfying return and make our employees proud of the company for which they work.*

nies we continue to internationalize and strengthen all of our research activities.

With Lexigen we have significantly expanded the capabilities for our **Pharmaceuticals** research in the USA. In Biovation in Aberdeen, Scotland we have acquired an institute with an innovative approach toward antibody-based therapeutics. Our focus is on projects that address major medical needs and have the potential to be launched quickly on a global basis. Many of our new cancer products are in the late, more expensive phases of clinical trials. To make these promising innovative drugs available to the patients as soon as possible, we are currently investing a particularly large research budget in their development.

In **Specialty Chemicals** research is focused on developing further innovations in liquid crystals and effect pigments. Our research teams do not work in an ivory tower. The competitive edge of our technologies can only be achieved by working directly with the markets. We are also directing our research activities toward opening new markets for the future. Our scientists are working on new coating technologies and materials for high-temperature superconductors.

With several hundred innovations annually, for example nucleic acids for genome research, our **Scientific Laboratory Products** keep pace with the rapid developments in biotechnology. In **Laboratory Distribution** e-business is the key to meeting the needs of the dynamic global life sciences industry.

The research-driven pharmaceutical and chemical industries characteristically have a significant portion of revenue derived through licensing of patent rights. At Merck, the number of patents registered has risen sharply. This creates new chances for our patent department to successfully market the rights of our protected products.

But organizational structures and money alone are not enough. In the end it is people who determine the character and course of a company. It is their creativity and initiative that ultimately spell success. We promote a work atmosphere that fosters creativity and innovation, convinced that those who enjoy the challenge of their work today will reap the joy of its success tomorrow.



Rekha Shety is one of 1,500 employees of E. Merck (India) Ltd. More than 500 million packs of tablets and ampoules are produced annually for the Indian market at the facility near Mumbai. The entrepreneurial thinking of motivated employees worldwide is the key to our success.

**W**e are pleased that financial markets are recognizing our progress. It is our conviction that value maximization and internationalization also contribute to both job security and to creation of new jobs. A strong Merck share can help give us the strategic flexibility we need in our efforts to develop innovative pharmaceutical products and compete in new markets.

Our strategy does not focus on short-term gains. Our aim is to build “intelligent alliances” that will lead to sustained long-term success. In both our cooperations and our acquisitions we look for motivated employees with the new skills that will move our company ahead. We realize our goals are ambitious. To achieve them we seek to retain our highly qualified and motivated people while at the same time attracting new top talents from outside the company.

Entrepreneurial success is not the work of individuals. It is based on the competency and responsibility of all. A total of 33,520 employees around the world are the driving force behind our strategy.

## EMPLOYEES – Entrepreneurial Success Starts with People

► *We believe that talent is a necessary prerequisite, and lifelong learning a continuous responsibility. But only the entrepreneurial thinking of our employees will make the decisive difference.*

At the beginning of 1997 we started a company-wide creative process of change to promote entrepreneurial success. Our motto is “**That’s ME – Merck Excellence**” and our goal is to encourage personal initiative and responsibility in all parts of the company worldwide.

Merck has long been well known for the responsibility it takes for its employees. The “Merck Excellence Check” is not just a tool to increase employee productivity. Within the context of our ongoing self-evaluation we also measure other crucial success factors, like employee orientation and employee satisfaction. The self-evaluation will include all businesses worldwide and has already been successfully introduced in many subsidiaries, divisions and central functions.

As we expand our activities we search for people who think internationally and who respect and welcome the cultural diversity in our company. We established English as the corporate language in 2000. We have designed a number of employee training programs to promote international networks and bring together people from different cultures. For our employees we offer an MBA program and international exchange possibilities. And for 45 managers from throughout the world Merck University offered courses in 2000 at the London Business School and the Hong Kong University for Science and Technology.

We want all of our employees to share directly in our success. At our last General Shareholders’ Meeting we approved a stock option program for managers. In many of our subsidiaries we have introduced performance-related compensation plans as a basic part of their employee motivation program. In 2001, for the first time, salaried employees in Darmstadt will receive a bonus directly related to the operating result.





The style of safety glasses may change, but safety remains a tradition at Merck – in the modern laboratories of Angela Staffa, Kristina Czerny and David Bruge as it has been in the laboratories of Merck workers in past generations. At Merck Responsible Care® is not confined just to products and work safety. It includes responsibility for employees, customers and society.

The high ethical responsibility for our pharmaceutical and laboratory products and our specialty chemicals begins early in the production process. It encompasses the safety of our employees and our neighbors as well as the safety of the environment at all of our 60 production sites in 26 countries. The principles of Responsible Care apply for all of our activities worldwide. To date we have already completed 55 audits to help us find better ways to preserve resources and protect the environment. As a company whose roots go back over 300 years we have gained experience in successfully managing change and creating a vital corporate culture – the foundation for long-term identification of our employees with the company and its goals.

Our responsibility for today's young people goes beyond simply providing a growing number of apprenticeships each year. As a major sponsor of the regional competition for young researchers "Jugend forscht" we provide important support for tomorrow's scientists. The achievements of today's leaders in science are also

## RESPONSIBILITY – Corporate Citizenship and Responsible Care®

► *We strive to be actively responsible citizens in all communities in which we operate worldwide. Merck attaches particular importance to its responsibility for safety, health and the environment.*

honored. The Canadian researcher Norman J. Dovici was the recipient of the Heinrich Emanuel Merck Award for Analytical Chemistry in 2000.

The Emanuel Merck Lecture 2000 at the Technical University in Darmstadt was awarded the Harvard professor and pioneer in pharmacological chemistry Stuart L. Schreiber. His lecture "Towards a Chemical Genetics" described the advances made in biochemistry through the dialogue between organic-chemical and cell-physiological research. We acknowledge the related ethical responsibility for all of our research and remain strictly opposed to intervening with the human genetic pathways.

Merck also assumes its social responsibility by sponsoring a number of national and international cultural events. The London Symphony Orchestra was invited to perform at the third "Musical Autumn" festival in Darmstadt. In another example, Merck supported the German government's cultural exchange program with India. As part of the German Festival in India the Merck Chamber Philharmonic Orchestra gave a total of seven concerts.

Communication is a cornerstone of our corporate culture. For us, open and constructive dialogue with the public is essential. To promote dialogue within the company we recently established with CEO-direct® various possibilities where employees can freely exchange ideas directly with the CEO. We believe that keeping employees informed about corporate strategy and results and learning from their experience is to the advantage of all.

We are proud that a regional image study in Germany recently recognized our efforts to be good neighbors. Our aim is to achieve the same recognition at all of our locations worldwide. The ability of a company to successfully compete as a global player in the future will increasingly depend on its ability to establish a relationship of mutual trust with all those with whom it has contact – employees, shareholders and society as a whole. Through the quality of our products, the spirit of our people, and the way we conduct all of our business we seek to make the name Merck a globally recognized symbol for the trust that makes good neighbors.

## Upbeat Response to Change

2000 was a mixed year for the German stock market, with the DAX falling 7.5% and the MDAX climbing 14% by the end of the year. Merck's share price jumped more than 50%, making us one of the best performers in the MDAX.

► With significant gains in the second half, 2000 put an end to years of disappointing performance of the share price. On November 14 the stock hit EUR 50 for the first time. The year ended with EUR 47, an increase of EUR 16 or 52% on the previous year.

The capital markets responded with enthusiasm to our revamped style of information and disclosure. We brought our reporting deadlines forward to the extent that we are now among the first to inform the investment community.

About 40% of our traded shares are held by German investors, 57% of them private individuals. The growing interest of foreign capital markets is evidenced by the 17% of shareholders in the USA, nearly all of them institutional investors.

Earnings per share for fiscal year 2000 were EUR 1.44 after tax and minority interest compared to EUR 1.23 in 1999. A dividend of EUR 0.90 per share will be proposed to the General Shareholders' Meeting on April 5. With this we continue our tradition of steadily rising dividends.

### Share data <sup>1)</sup>

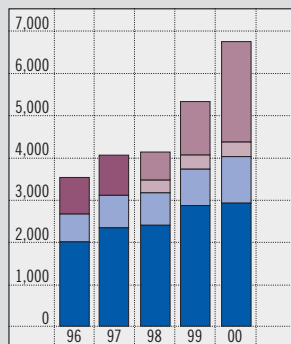
	2000	1999
Earnings after tax and minority interest per share in EUR <sup>2)</sup>	1.44	1.23
Dividend in EUR	0.90	0.85
Price/earnings (Dec. 30)	32.6	25.6
High for the year in EUR	50.00	39.10
Low for the year in EUR	26.30	29.00
Year-end closing price in EUR	47.00	31.00
Market capitalization in millions of EUR (Dec. 30)	8,084	5,332
Theoretical number <sup>3)</sup> of shares in millions (Dec. 30)	172	172
Actual number of shares in millions	45	45

<sup>1)</sup> All figures relate to the closing price in XETRA trading on the Frankfurt Stock Exchange

<sup>2)</sup> Net profit after minorities divided by the theoretical number of shares

<sup>3)</sup> The calculation of the theoretical number of shares is based on the fact that the general partner's equity capital is not represented by shares. Because the share capital of EUR 117 million is divided into 45 million shares, the corresponding calculation for the general partner's capital of EUR 330.2 million leads to 127 million theoretical shares.

### SALES BY BUSINESS SECTOR



EUR million

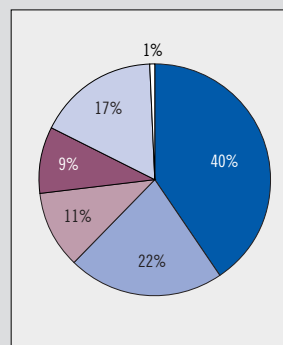
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### THE MERCK SHARE



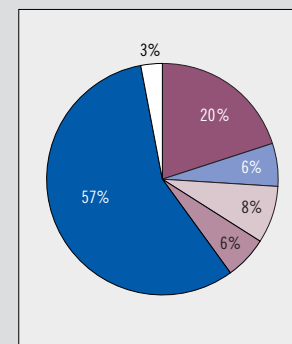
■ Merck    ■ DAX    ■ MDAX

### SHAREHOLDER STRUCTURE BY COUNTRY



■ Germany    ■ Rest of Europe  
 ■ Great Britain    ■ USA  
 ■ Switzerland    ■ Rest of World

### SHAREHOLDER STRUCTURE BY INVESTORS – GERMANY



■ Investment societies    ■ Other companies  
 ■ Asset-management companies    ■ Private investors  
 ■ Insurance companies and banks' own assets    ■ Others

## On Course for Improved Profitability

Consolidated sales of Merck rose in 2000 by 26% to EUR 6,740 million. Acquisitions contributed to this increase, especially the consolidation of VWR SP as of August 1999 and Théraxem as of January 2000. These more than compensated for the loss of sales resulting from the disposal of our stake in Bracco. The operating result increased by 15% to EUR 743 million. Earnings before interest and tax (EBIT) rose by 31% to EUR 744 million while cash flow rose to EUR 899 million. Investments in the future were further increased: Research and development expenditures were EUR 546 million (+9.6%), investments in plant, property and equipment totaled EUR 427 million (+19%). EUR 66 million was spent on acquisitions.

### Macroeconomic environment

The upturn of the global economy continued in 2000. As a result of continued growth in the USA, the gross domestic product there rose by around 5%, while in Europe it increased by around 3%, and Japan's economy seems to have recovered from the recession. The stable upward trend in Europe was fueled mainly by exports, strengthened by the low exchange rate of the euro to the US dollar and the yen. The high level of investment and private household consumption also had a positive effect on the economic climate and led to real growth of industrial output. The upward trend continued in the Asian-Pacific region. The situation was mixed in Latin America, with strong growth in Mexico, among other countries, while Brazil, for example, saw a weak development.

Like the other countries in the euro area, Germany is seeing a strong economic upturn. The increase in the gross domestic product of (an estimated) 3% was twice as high as in 1999, the unemployment rate dropped to 9.2%, and the investment ratio rose by again for the first time in ten years to over 10%. Orders and output are still growing strongly although in Germany, as in other European countries, the outlook is somewhat dampened by the drastic increase in the price of crude oil and the losses of real income associated with this.

### Market conditions in the pharmaceutical and chemical industries

The global pharmaceutical market is estimated to have grown by around 10% in 2000. The economic upswing in the chemical industry also continued in the year under review. Sales growth in the seven European producer countries in 2000 is estimated at

11% and in the USA at 6.5%. Chemical products account for about 10% of the goods traded on the world market. As the second largest export nation in the world, Germany is on a par with the USA for chemical exports, while it is by far the export leader for pharmaceutical products. With about two-thirds of all sales in the German chemical industry being generated abroad – half of these in Europe – it profited from the continuing good global economy and achieved double-digit sales growth. The number of employees stabilized at around 500,000.

The European pharmaceutical market continues to be characterized by government interventions, which took effect in the form of price regulations and allowance of parallel imports from low-price countries. The good development of business abroad over the past years continued. One fifth of German pharmaceutical exports went to the USA, and the export surplus is expected to reach another record high due to the high dollar exchange rate.

Under global price pressures there were further mergers, alliances and acquisitions in 2000. Since autumn, the high price of crude oil has put pressure on margins and the weak euro is having not only positive effects. Nevertheless, the excellent competitiveness of German chemical and pharmaceutical companies again yielded good results and high investments. Research and development expenditures rose to around EUR 8 billion in the year under review.

### Business development of the Merck Group

Our business grew impressively during 2000 with sales up 26%. Global sales amounted to EUR 6,740 million, increasing by EUR 1,393 million over the previous year's figure. Besides strong organic growth of 7.3%, acquisitions contributed a further 11% and currency effects 6.8%. In addition to consistently high organic growth during all four quarters were increases in sales during the first seven months due to VWR SP in the USA, which was consolidated in August 1999. Changes in the exchange rate of the US dollar and the yen had an especially positive effect on conversion into euro.

Components of growth					
	Q 1	Q 2	Q 3	Q 4	2000
<i>Sales growth (year-on-year) in %</i>					
Organic	7.4	8.3	7.4	6.5	7.3
Currency effects	6.2	5.7	8.2	6.8	6.8
Acquisitions	25.6	24.4	3.8	-3.5	10.7
<b>Total</b>	<b>41.2</b>	<b>40.2</b>	<b>20.3</b>	<b>10.0</b>	<b>26.1</b>

### Regions: Focus on North America

Generating sales of EUR 2,585 million (+70%), **North America** is for the first time our largest market with a share of 38% of total sales. Contributing to this extraordinary growth is the first annual consolidation of VWR SP. **Europe** is Merck's second most important market. With sales of EUR 2,542 million it did not quite reach the previous year's level overall. Due to the disposal of our stake in Bracco, sales in Italy fell by EUR 191 million. While sales in Germany declined, France and Spain had double-digit growth, Great Britain saw a 4.5% increase and Eastern Europe posted a 17% rise. Europe's share of sales dropped from 48% in the previous year to 38% in 2000; five years ago, Europe accounted for nearly two thirds of total sales.

#### Sales by region

	2000	1999	Change		Share
	EUR million	EUR million	EUR million	in %	in %
Europe	2,542	2,550	- 8	- 0.3	37.7
North America	2,585	1,517	+ 1,068	+ 70.4	38.4
Latin America	431	350	+ 81	+ 23.2	6.4
Asia, Africa, Australia	1,182	930	+ 252	+ 27.2	17.5
<b>Total</b>	<b>6,740</b>	<b>5,347</b>	<b>+ 1,393</b>	<b>+ 26.1</b>	<b>100.0</b>

In **Latin America**, sales increased by 23% to EUR 431 million, with double-digit growth being achieved especially in our largest market, Mexico, in particular with pharmaceutical products. In Asia, sales rose by 33% to EUR 877 million. This reflects mainly our success with liquid crystals and the high exchange rate of the yen. Sales growth of 14% was achieved in Australia, Oceania to EUR 239 million, and one of 9% in Africa.

### Business sectors: Strong organic growth

Sales in the Pharmaceuticals business sector rose by 2.0% to EUR 2,914 million. This business sector contributed 43% of total sales. Adjusted for changes in companies consolidated (Bracco, Théraxem) and for currency effects, sales growth amounted to 5.7%. All of the divisions contributed to this sales growth: The Ethicals division recorded an increase of 13% to EUR 1,826 million. A major contribution to this was again made by our most

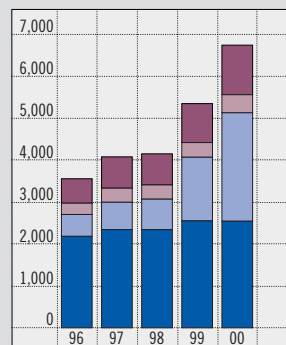
successful products, the antidiabetic Glucophage® and the beta-blocker Concor®. In Generics, the 20% increase in sales to EUR 778 million was based on strong organic growth. Sales in the Consumer Health Care division grew 12% to EUR 294 million.

The Specialty Chemicals business sector recorded sales of EUR 1,102 million. It thus accounts for 17% of the Merck Group's total sales. This 28% improvement enabled this business sector to recover the growth it experienced until before 1998, when the crisis in Asia led to stagnation. The Liquid Crystals division was particularly successful with a sales increase of 80%. The Pigments division (+16%) and the Electronic Chemicals division (+42%) were also very successful. Sales in the Cosmetics, Health and Nutrition division increased by 6.5%.

The Laboratory Products business sector increased its sales by 9.4% to EUR 540 million. Without intragroup sales (EUR 190 million) it now accounts for 5% of the Merck Group's total sales. Laboratory Reagents increased its sales mainly with a classic range of laboratory products by 9.9%. The Scientific Laboratory Products division added more than 1,800 new products to its portfolio and achieved an 8.8% sales increase.

In Laboratory Distribution we generated sales of EUR 2,374 million and established our position as the global market leader. The

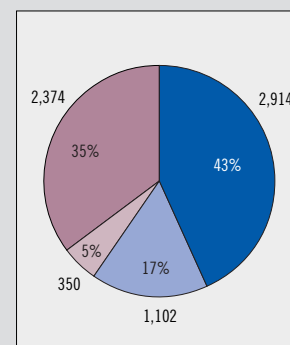
SALES BY REGION



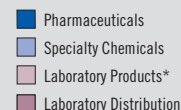
EUR million



SALES BY BUSINESS SECTOR



EUR million



\*without intragroup sales of EUR 190 million

sales growth of 88% or EUR 1,112 million was primarily the result of the initial consolidation of VWR Scientific Products as of August 1999. VWR SP is a leading distributor of laboratory products in North America and increased sales by 7.4%, while sales of its European counterpart, Merck Eurolab, rose by 7.7%.

**Good earnings – high return on sales in the business sectors**

The operating result of the Pharmaceuticals business sector amounted to EUR 453 million and was slightly below that of the previous year. We compensated almost fully for the loss of Bracco's contribution to the result related to the disposal of our stake in that company, despite our substantial investments during 2000 for building up our US subsidiary EMD Pharmaceuticals and the further increase in our R&D expenditure. The return on sales (ROS) amounted to 15.5% and was thus slightly below that of the previous year.

The Specialty Chemicals business sector achieved an outstanding operating result of EUR 216 million, representing an increase of 186% over the previous year. The extraordinary success achieved by our Liquid Crystals division, in particular, contributed to this strong increase. The return on sales (ROS) rose to 19.6% and thus more than doubled.

The operating result declined in the Laboratory Products business sector, amounting to EUR 30 million (-22%). This was attributable to many new product launches and costs to open up the markets in Japan and in the USA. The return on sales (ROS) dropped accordingly to 5.5%.

The Laboratory Distribution business sector recorded an operating result of EUR 44 million, a decrease of 6.5% over the previous year. The results were burdened by high costs for restructuring, the creation of a common infrastructure with an integrated logistics network, and a standardized information system. As a consequence, the return on sales (ROS) amounted to only 1.9%.

**15% increase in operating result of the Merck Group**

The operating result of the Merck Group overall totaled EUR 743 million, which is an increase of 15% over the previous year. Excluding the effects of currency translation and of acquisitions, a 9.6% growth rate was achieved, which reflects the good business development overall.

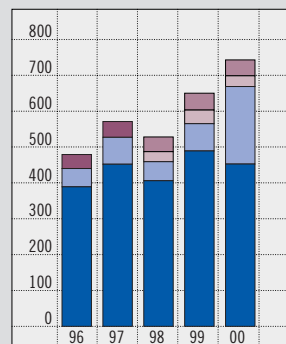
**Key figures of the business sectors**

	ROS	ROCE	EBIT
	<i>in %</i>	<i>in %</i>	<i>EUR million</i>
Pharmaceuticals	15.5	15.6	590
Specialty Chemicals	19.6	16.2	101
Laboratory Products	5.5	4.7	28
Laboratory Distribution	1.9	2.8	24
<b>Merck Group</b>	<b>11.0</b>	<b>11.5</b>	<b>744</b>

ROS = Return on Sales  
 ROCE = Return on Capital Employed  
 EBIT = Earnings before Interest and Tax

Earnings before interest and tax (EBIT) were almost at the same level as the operating result, since the net amount for exceptional items in fiscal year 2000 was minimal (EUR 0.8 million). The high level of income from disposals of companies was almost completely balanced by the high expenditure for restructuring, write-downs, amortization and other items. A breakdown of exceptional items is given under (25) in the notes to the consolidated financial statements. EBIT rose by 31% compared to the previous year. The

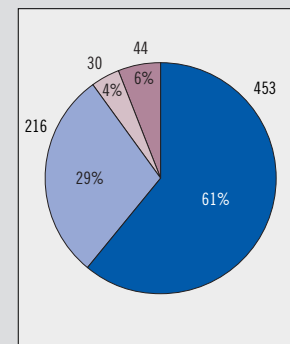
**OPERATING RESULT BY BUSINESS SECTOR**



EUR million

- Pharmaceuticals
- Specialty Chemicals
- Laboratory Products
- Laboratory Distribution
- in 96/97 Laboratory

**OPERATING RESULT BY BUSINESS SECTOR**



EUR million

- Pharmaceuticals
- Specialty Chemicals
- Laboratory Products
- Laboratory Distribution

### Earnings of the Merck Group

EUR million	Operating result	Exceptional items	EBIT	EBIT DA
Pharmaceuticals	453	138	590	784
Spezialty Chemicals	216	- 115	101	232
Laboratory Products	30	- 2	28	65
Laboratory Distribution	44	- 20	24	100
<b>Merck Group</b>	<b>743</b>	<b>1</b>	<b>744</b>	<b>1,181</b>

increase in the financial indicator EBITDA (EBIT before depreciation and amortization) was even greater, namely 33%, due to the higher amortization of goodwill from acquisitions.

The increase in the financial result was mainly attributable to additional capital requirements for acquisitions in the previous year and a rise in interest rates. High exchange differences on foreign currency loans also led, however, to increased expenses.

The profit before tax rose by 23% over the previous year to EUR 524 million. There was a significantly stronger increase in income tax, however, with a tax rate of 50%. Expenditure for exceptional items contributed substantially to this, since a large part of these were not tax-deductible and resulted in tax expenses of altogether EUR 45 million. Excluding this effect, the underlying tax rate is 42%. The profit after tax of EUR 262 million was therefore 19% above the previous year's figure.

The Executive Board will propose to the General Shareholders' meeting of Merck KGaA a dividend of EUR 0.90 per share from these earnings.

### Improved financial position and increased cash flow

Capital requirements in 2000 were significantly lower than in the previous year, when we financed the acquisition of shares in VWR SP and of Théramex. As shown in the cash flow statement contained in the consolidated financial statements, net cash flows from investing activities totaled EUR 277 million. These could be covered completely by the cash flows from operating activities amounting to EUR 598 million. In addition, the cash inflow from the disposal of our stake in Bracco improved our liquidity, although a substantial part of the proceeds from this will only be paid within the next five years.

### Balance sheet structure and equity ratio unchanged

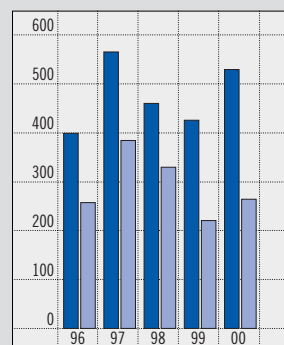
There was a further rise in total assets against the previous year. The initial consolidation of Théramex and the deconsolidation of Bracco have resulted in changes of many items on the consolidated balance sheet, nevertheless the structure of the balance sheet has remained largely the same.

Noncurrent assets accounted for 58% of total assets, representing only a slight increase over the previous year. A large part of this was goodwill. Long-term investments included the deferred payment of the purchase price resulting from the disposal of our interests in Bracco. The equity ratio of total assets amounted again to 26%.

The ratio of net equity to net financial obligations (financial obligations less cash and cash equivalents) remained at 1 : 1.3.

More details on the financial position and on the balance sheet are provided in the consolidated financial statements and the relevant explanatory notes in the Annual Report.

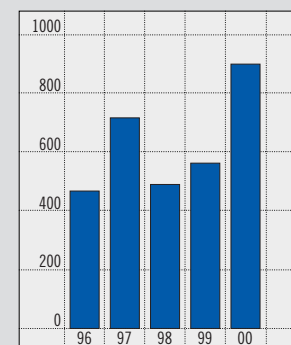
PROFIT BEFORE AND AFTER TAX



EUR million

■ Profit before tax  
■ Profit after tax

CASH FLOW



EUR million

### Entrepreneurial success starts with people

A total of 33,520 employees around the world are the driving force behind our success. The number of employees increased in 2000 by 2.4%. The increase related to the acquisition of VWR SP had already been taken into account in the previous year whereas sales were not fully consolidated until the year 2000. Since the increase in staff costs was less than the increase in sales, the staff cost ratio dropped to 24%.

### Investments in property, plant and equipment

The Merck Group invested a total of EUR 427 million in property, plant and equipment worldwide during 2000. This is EUR 68 million, or 19%, more than in 1999, and gives an investment ratio of 6.3% in relation to the sales of EUR 6,740 million.

The regional breakdown shows that our investments in property, plant and equipment are focused mainly in Germany, France, the USA and Southeast Asia. Group headquarters in Darmstadt and the branch location Gernsheim are the Merck Group's major R&D and production sites. In Germany EUR 173 million or 41% of total investments worldwide were spent in the year under review.

The Pharmaceuticals business sector was again the main focus of our investment activities, at EUR 193 million. In Darmstadt the production facility for solid pharmaceuticals went into operation, resulting in a 50% capacity increase. In the USA we invested at Lexigen, Boston, in a new research building and in production facilities for protein manufacture. Merck-Lipha in France is constructing new production facilities for the launches of Glucovance® and Starlix®. Dey in California expanded its capacities for manufacturing drugs to treat respiratory diseases; Merck Generics invested at locations in Australia and South Africa.

We spent EUR 154 million on investments in the Specialty Chemicals business sector. At the Darmstadt and Gernsheim locations EUR 200 million is being spent on expanding synthesis capacities for liquid crystal production as part of our modernization efforts for organic polyproduction. Merck Display Technologies in Taiwan increased its capacities for coating special glass used in LC displays by 50%. To secure our businesses in supplying the semiconductor industry with ultrapure electronic chemicals we invested at locations in Malaysia, Singapore and Taiwan. In addition to permanently expanding capacities for effect pigments in Gernsheim and in Savannah, USA, new production facilities for the innovative crystal-luster pigments Xirallic® went into operation in Japan in the autumn.

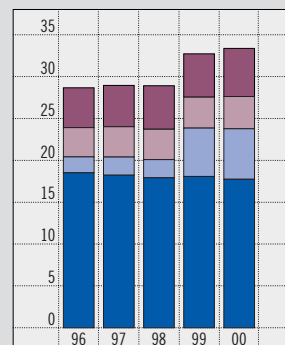
To achieve even quicker and lower-cost operations in the Laboratory Distribution business sector, we plan to operate on the basis of a two-stage concept from European and regional distribution centers. Therefore we will close down warehouses and increase the efficiency of the remaining five warehouses. By investing in an online purchasing solution more than 200,000 laboratory products can be ordered from Merck Eurolab on the Internet marketplace for laboratory materials. Through the experience of our new subsidiary VWR SP in the USA, we are able to increase the efficiency of our supply chain management and reduce purchasing costs significantly at the same time.

### Research and development

Research and development expenses increased by 9.6% to EUR 546 million in the year under review. The research-spending ratio, in relation to sales less the sales of the Laboratory Distribution business sector, amounted to 12%. A total of 51% of all research funding was spent in Germany. There are further major research locations in Lyon, Chilly-Mazarin, Aberdeen, Southampton and Barcelona, as well as Boston, USA and Atsugi, Japan.

A sum of EUR 453 million, or approximately 83%, of research and development expenses was spent in the Pharmaceuticals business sector. This amounts to 16% of total sales in that business sector.

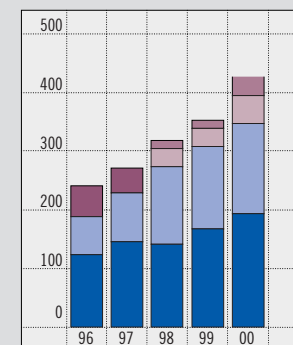
**NUMBER OF EMPLOYEES  
AS OF DEC. 31**



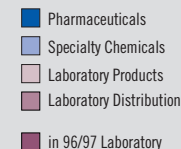
thousands



**INVESTMENTS IN PROPERTY,  
PLANT AND EQUIPMENT**



EUR million



The research-spending ratio was 21% in the Ethicals division, which is particularly research-intensive.

As planned, we have used this high research commitment, which is well above the industry average, mainly to force the pace of our development projects in the field of oncology. We have a total of 25 projects in various phases of clinical development. Over the next years we want to be successful with innovative drugs that have a high medical benefit. There is a particularly strong medical need in the field of cancer treatment. Our strategic goal is to become one of the market leaders with biological therapeutics. We have made a critical review of our projects in this field and, as a result of this, we are focusing on projects enabling us to introduce to the market one new therapeutic option for the treatment of cancer every year from 2002 onward.

In our focal area of type 2 diabetes, we received FDA approval in August 2000 for the combination preparation Glucovance®, the most successful start of a product launch in USA. We applied for European marketing authorization for this antidiabetic in April. Starlix®, which will be co-promoted in the future with Novartis AG, received Swiss marketing approval. Following the relevant studies, it was also approved for combination therapy with Glucophage®. Three further substances for treatment of this metabolic disease are currently undergoing phase I clinical trials.

In the area of central nervous system research, we are working on promising drugs for treatment of depression, and dyskinesia in Parkinson's disease. In cardiovascular research, we are concentrating on innovative therapeutic approaches and on prevention of acute and chronic cardiac diseases. Our beta-blocker Concor®COR for the new indication of chronic heart failure is already on the market. Two clinical studies with eniporide and gantofiban, which were conducted in collaboration with Yamanouchi Pharmaceuticals, were discontinued, while some preclinical studies are still ongoing.

Before the end of 2002, three out of six studies in the area of hormone replacement therapy are planned to be concluded with applications for marketing authorization. A further promising project in the area of women's health comprises a new hormone as a contraceptive.

Research and development expenses in the Specialty Chemicals business sector amounted to EUR 71 million. Research in the Pigments division at our research sites Darmstadt, Gernsheim and Onahama, Japan focused on innovative pigments, which produce particularly attractive color effects. This division is also working on a number of promising projects in the business field of Technical Industries. In the Liquid Crystals division, we oriented our-

selves to the constantly changing requirements needing to be met by our mixtures for use in displays of notebooks, monitors, projection systems and televisions. Here, research and development concentrates on reduced switching times and on coating technologies for color displays of mobile phones.

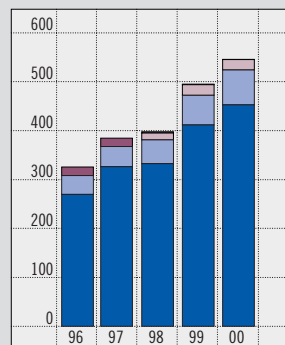
We spent EUR 21 million on research and development projects in the Laboratory Products business sector. This enabled us to develop new biochemical reagents for life sciences research at CN Biosciences, to expand our chromatography range with the newly launched Chromolith®, and to increase the number of our bioprocessing products for biotechnology-based manufacture and purification of pharmaceutical active ingredients.

More detailed information on research and development is provided in the Annual Report (and in a separate research report).

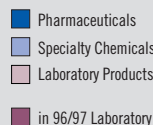
### Acquisitions and divestments

We spent EUR 66 million on acquisitions in the year under review. At the end of 2000, we acquired a majority interest in Molteni Pharma S.p.A. in Florence. Following the divestment of Bracco, we can now independently operate our business in the third largest pharmaceutical market in Europe under the name of Merck Pharma S.p.A. As an addition to our technology platforms for

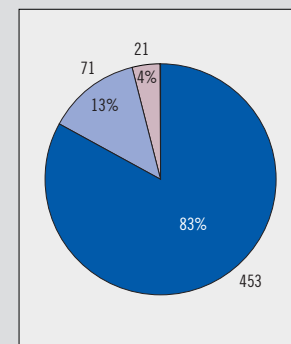
RESEARCH AND DEVELOPMENT BY BUSINESS SECTOR



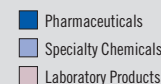
EUR million



RESEARCH AND DEVELOPMENT BY BUSINESS SECTOR IN 2000



EUR million





developing new biotherapeutics, we acquired Biovation Ltd. in Aberdeen, Scotland, a biotech company founded in 1994. With the acquisition of Chemische Fabrik Lehrte Dr. Andreas Kossel GmbH (CFL) we have broadened our portfolio. We terminated our 50:50 joint venture with Bracco as of January 1, 2000. We have discontinued our business with thioglycolic acid for technical applications (PVC stabilizers) as well as the production of biotin.

### **Purchasing**

The purchasing volume of the Merck Group without Laboratory Distribution amounted to approximately EUR 1.8 billion in the year 2000. In cross-functional and cross-divisional, international teams we utilized the savings potentials of global purchasing for the Merck Group. We were able to secure better conditions in 2000 for the purchasing of active ingredients, packaging materials and vehicles, as well as for contract manufacturing. Our Strategic Sourcing Project has been running for three years and now comprises 18 individual projects with an overall volume of EUR 394 million, which is more than one fifth of the considerable total purchasing volume. Savings of EUR 36 million have been identified and contractually specified. These relate mainly to the Pharmaceuticals business sector with its global operations.

In 2001, Japan, Taiwan and Australia will join the group of countries so far included in our cross-border, regional purchasing initiatives. Internet-based purchasing (e-procurement) of consumables and services will be expanded. A knowledge management system will help us to optimally manage our purchasing portfolio of strategic products.

### **Risk management and existing risks**

As a globally operating company, Merck finds itself faced with a wide variety of public interests and political framework conditions. For that reason, we have introduced a code of practice as binding rules in order to act legally and responsibly. The key to success is not only competence but also responsibility on the part of employees. Both of these qualities evolve from the basis of legal fidelity and ethical conduct.

Doing business means identifying and exploiting opportunities in the interests of the shareholders, employees and society. It is necessary to recognize and manage the risks involved with this. We take certain risks in order to create an appropriate added value and to be successful in the competitive setting. Against this background we have elaborated our risk management system even further in the year 2000.

The nature and scope of risks has hardly changed compared with the previous year, apart from the turn of the millennium, which we mastered free from loss or damage. An overall risk analysis shows that these concern business risks for the most part, followed by environment risks, casualty risks, financial risks and legal risks. There are no identifiable risks threatening our company's continued existence.

Our management is constantly kept informed about major risks and deals with these. Identified risks, the monitoring thereof and the risk management system have become a permanent part of the audits conducted by our company's auditing department. The key risks are:

#### *Business risks*

We see substantial business risks in any erosion of margins as a result of patent expiries or a European harmonization of prices at the lowest level. For any pharmaceutical company engaged in research there is the risk that, due to the results of preclinical and clinical trials, research projects will have to be discontinued before the expected return can be generated. We have an effective project management and controlling in place to cope with these risks. Such risks are offset by opportunities which we see for Merck particularly in the upcoming launch of our first products in the field of oncology. The intensive dealing with risks can also open up new business options.

#### *Operating environment risks*

These include macroeconomic risks as well as risks of the industrial sector resulting from, for example, the respective country's legal framework conditions. The research-based pharmaceutical industry finds itself confronted, in particular, by an ever-growing number of regulations worldwide, which continue to impact earnings. We counter these risks by continuously observing the overall economic environment and by seeking dialog with different interest groups in order to create a productive environment. Via industrial associations and in direct contact, we provide parties concerned, authorities and decision-makers with relevant information.

#### *Casualty risks*

Casualty risks include risks of fire, explosion and damage to the environment. In our corporate Mission and Vision we have formulated statements of responsibility for environmental protection, safety and health, and have communicated globally binding principles and strategies. Also in the year 2000, we sought to minimize casualty risks through preventive maintenance, systematic monitoring of our plants, and site audits. In addition to taking out appropriate insurance, we have drawn up contingency plans to deal with potential incidents, and regularly review these plans and

practice their implementation. We take account of the growing importance of product stewardship already at the stage of process developments under the aspects of Responsible Care® and we are collecting safety-relevant data on intermediates in a substance database.

#### Financial risks

Financial risks mainly comprise interest rate and currency exchange risks, and we take appropriate measures to safeguard against them. These measures are explained in detail in the notes to the consolidated financial statements in the Annual Report. Additionally special risks exist, in certain countries, which can impair our plans in the growth markets of Southeast Asia or Latin America. We keep these risks in appropriate perspective.

#### Legal risks

To counter potential risks arising from the wide spectrum of existing fiscal, competitive, patent, antitrust and environmental regulations and laws, we support our decisions with intensive legal advice. We form the necessary balance-sheet reserves for risks arising on the basis of jurisdictional amendments or new legislation.

#### Outlook

The prospects for the world economy in 2001 are rated positively by many observers. In their forecasts most of the economic institutes anticipate global growth of around 3%. This would be approximately the same level as in the past year, while the situation on the world oil market is expected to relax slightly.

The upswing in Germany will continue in the coming year; however, the leading economic research institutes expect growth to slow to an estimated 2.7%, not least as a consequence of the increased oil price and the increased interest rates in Europe. Nevertheless, only 15% of companies expect their situation to deteriorate, while one quarter of all companies intend to step up their investments, and one sixth even plan to create new jobs.

There is a widespread view that the US economy after 10 years of uninterrupted growth, faces a turning point. But latest figures have tempered some of the fears about a US crash landing. Speculation has already shifted to the question of what kind of recovery the US economy will make in the months ahead.

On this basis, we see a good business development for the Merck Group in 2001. We are encouraged by the strong organic growth in 2000.

<i>ASSETS</i>	Dec. 31, 2000	Dec. 31, 1999
<i>EUR million</i>		
<b>Noncurrent assets</b>		
Intangible assets	2,052.4	1,882.5
Property, plant and equipment	1,967.9	1,893.7
Long-term investment	790.6	626.0
	<b>4,810.9</b>	<b>4,402.2</b>
<b>Current assets</b>		
Inventories	1,204.9	1,171.4
Trade accounts receivable	1,161.3	1,170.4
Other receivables and other assets	433.1	563.4
Cash and cash equivalents	502.5	472.1
	3,301.8	3,377.3
<b>Deferred tax assets</b>	<b>134.3</b>	<b>85.0</b>
	<b>8,247.0</b>	<b>7,864.5</b>
 <i>EQUITY AND LIABILITIES</i>		
<b>Net equity</b>		
Equity capital	442.0	441.7
Reserves	1,655.4	1,533.0
	2,097.4	1,974.7
Minority interest	75.7	85.6
	2,173.1	2,060.3
<b>Provisions</b>		
Provisions for pensions and other post-employment benefits	937.4	923.9
Other provisions	612.9	465.7
	1,550.3	1,389.6
<b>Current liabilities</b>		
Financial obligations	3,313.3	3,241.0
Trade accounts payable	477.6	547.2
Other liabilities	640.5	539.6
	<b>4,431.4</b>	<b>4,327.8</b>
<b>Deferred tax liabilities</b>	<b>92.2</b>	<b>86.8</b>
	<b>8,247.0</b>	<b>7,864.5</b>

	2000	1999
<i>EUR million</i>		
<b>Sales</b>	<b>6,740.4</b>	<b>5,346.9</b>
Cost of sales	-3,332.6	-2,435.2
<b>Cross margin</b>	<b>3,407.8</b>	<b>2,911.7</b>
Marketing and selling expenses	-1,587.2	-1,329.4
Administration and other operating income and expenses	-583.9	-494.0
Research and development expenses	-546.0	-498.3
Patent and license revenues	155.5	85.7
Investment result	10.7	38.0
Amortization of goodwill	-114.1	-68.3
<b>Operating result</b>	<b>742.8</b>	<b>645.4</b>
Exceptional items	0.8	-77.6
<b>Earnings before interest and tax (EBIT)</b>	<b>743.6</b>	<b>567.8</b>
Financial result	-220.0	-143.0
<b>Profit before tax</b>	<b>523.6</b>	<b>424.8</b>
Income tax	-261.9	-204.7
<b>Profit after tax</b>	<b>261.7</b>	<b>220.1</b>
Minority interest	-14.6	-8.4
<b>Net profit after minority interest</b>	<b>247.1</b>	<b>211.7</b>

### Statements of Changes in Net Equity

	2000	1999
<i>EUR million</i>		
<b>Balance as of Jan. 1</b>	<b>2,060.3</b>	<b>1,713.0</b>
Profit after tax	261.7	220.1
Dividend distributions	-158.1	-151.3
Appropriation to special reserves by E. Merck partners	-	102.3
Capital increase	0.3	-
Currency translation	28.9	148.7
Changes in companies consolidated/Others	-20.0	27.5
<b>Balance as of Dec. 31</b>	<b>2,173.1</b>	<b>2,060.3</b>

	2000	1999
<i>EUR million</i>		
<b>Profit after tax</b>	<b>261.7</b>	<b>220.1</b>
Change in long-term provisions	39.0	35.2
Depreciation and amortization (noncurrent assets)	437.3	318.6
Tax claims written down (tax credit)	155.4	-
Other non-cash income and expenses	5.6	-11.7
<b>Cash flow</b>	<b>899.0</b>	<b>562.2</b>
Gains/Losses on disposal of assets	-330.7	-10.8
Changes in inventories	-84.5	-77.1
Changes in receivables	-157.9	-176.0
Changes in other provisions	130.9	132.8
Changes in other debt from operating activities	111.2	-159.9
Miscellaneous	30.3	-5.9
<b>Net cash flows from operating activities</b>	<b>598.3</b>	<b>265.3</b>
Purchase of intangible assets	-44.5	-45.8
Purchase of property, plant and equipment	-426.8	-359.5
Purchase of long-term investments/ Changes in companies consolidated	-89.4	-1,032.9
Disposal of assets	284.1	79.6
<b>Net cash flows from investing activities</b>	<b>-276.6</b>	<b>-1,358.6</b>
Dividend payments	-158.1	-151.3
Other changes in net equity	1.3	103.2
Changes in financial obligations	41.6	1,084.3
Changes in other debt from financing activities	-99.2	105.2
<b>Net cash flows from financing activities</b>	<b>-214.4</b>	<b>1,141.4</b>
<b>Changes in cash and cash equivalents</b>	<b>107.3</b>	<b>48.1</b>
Changes in cash and cash equivalents due to currency translation	7.8	22.4
Changes in cash and cash equivalents due to changes in companies consolidated	-84.7	19.9
Cash and cash equivalents as of January 1	472.1	381.7
<b>Cash and cash equivalents as of December 31</b>	<b>502.5</b>	<b>472.1</b>

## Merck KGaA

### Executive Board\*

(also General Partners)

Prof. Dr. Bernhard Scheuble,  
*Chairman*

Dr. Michael Römer,  
*Vice Chairman*

Dr. Michael Becker

Prof. Dr. Thomas Schreckenbach

Dr. Jan Sombroek

### Supervisory Board\*

Dr. Heinrich Hornef,  
*Chairman*

Flavio Battisti\*\*,  
*Vice Chairman*

Jon Baumhauer

Klaus Brauer\*\*

Prof. Dr. Christoph Clemm

Claudia Flauaus\*\*

Michael Fletterich\*\*

Dr. Michael Kasper\*\*

Dr. Arend Oetker

Hans Schönhals\*\*

Dr. Gerhard Ziener

Peter Zühlsdorff

\*\*Employee representative

February 15, 2001:	Annual Report 2000
April 5, 2001:	General Shareholders' Meeting
May 3, 2001:	Interim Report, 1 <sup>st</sup> Quarter 2001
July 26, 2001:	Interim Report, 2 <sup>nd</sup> Quarter 2001
October 25, 2001:	Interim Report, 3 <sup>rd</sup> Quarter 2001
February 14, 2002:	Annual Report 2001
March 22, 2002:	General Shareholders' Meeting

The Annual Report as well as a short version are available on the Internet at [www.merck.de](http://www.merck.de)

Both versions of this report can also be requested, free of charge, from Corporate Communications, Merck KGaA, D-64271 Darmstadt, Germany (or [corpcom@merck.de](mailto:corpcom@merck.de)).

## E. Merck

### Executive Board\*

(also General Partners)

Prof. Dr. Hans Joachim Langmann,  
*Chairman*

Prof. Dr. Bernhard Scheuble,  
*Vice Chairman*

Dr. Michael Römer

Dr. Michael Becker

Prof. Dr. Thomas Schreckenbach

Dr. Jan Sombroek

### Board of Partners\*

Jon Baumhauer,  
*Chairman*

Dr. Frank Stangenberg-Haverkamp,  
*Vice Chairman*

Prof. Dr. Christoph Clemm

Dr. Heinrich Hornef

Dipl.-Landwirt Karl-Heinrich Kraft

Albrecht Merck

Dr. Arend Oetker

Dr. Gerhard Ziener

Peter Zühlsdorff

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Marco Moog, Hamburg  
Oliver Rütther, Wiesbaden (page 4)  
Peter Henrich, Darmstadt (page 9)

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\*As of Dec. 31, 2000

## Merck Business Development

	2000	1999	change in %
<i>EUR million</i>			
<b>Sales</b>	<b>6,740</b>	<b>5,347</b>	<b>26.1</b>
Pharmaceuticals	2,914	2,858	2.0
Specialty Chemicals	1,102	861	28.1
Laboratory Products	540	493	9.4
Laboratory Distribution	2,374	1,262	88.1
Intragroup sales	-190	-151	25.4
<b>Operating result</b>	<b>743</b>	<b>645</b>	<b>15.1</b>
Pharmaceuticals	453	489	-7.5
Specialty Chemicals	216	76	186.0
Laboratory Products	30	38	-21.9
Laboratory Distribution	44	47	-6.5
Earnings before interest and tax (EBIT)	744	568	31.0
Profit before tax	524	425	23.3
Profit after tax	262	220	18.9
Cash flow	899	562	59.9
Free cash flow	322	-1,093	-
EBITDA	1,181	886	33.2
Investments in property, plant and equipment	427	359	18.7
Research and development	546	498 *	9.6
Balance sheet total	8,247	7,864	4.9
Net equity	2,173	2,060	5.5
Employees (No. as of Dec. 31)	33,520	32,721	2.4
Return on sales <i>(ROS: operating result/sales)</i>	% 11.0	12.1	-
Return on capital employed <i>(ROCE: operating result / average operating assets)</i>	% 11.5	11.6	-
Earnings per share (see page 18)	EUR 1.44	1.23	17.1
Dividend per share	EUR 0.90	0.85	5.9

\* adjusted to the structure in 2000