MERCK

2002 ANNUAL REPORT

» Focusing Our Resources –

Investing in the Future «

Merck 2002 at a Glance: Stable Performance in Difficult Times

Pharmaceuticals

__ Our pharmaceuticals business comprises prescription drugs (Ethicals, e.g. for the treatment of metabolic and cardiovascular diseases), generics, and consumer health care products. Sales in Pharmaceuticals declined 2.9%. Investments in research and development rose 4.2% to EUR 499 million; in Ethicals we spent EUR 423 million or 24% of this division's sales on R&D. The Pharmaceuticals business sector contributed 43% of the Merck Group's total sales, its share of the total operating result was 44%.

Sales	EUR 3,226 million
Operating result	EUR 272 million
Return on sales	8.4%
EBIT	EUR 272 million

Chemicals

__ The Chemicals business sector consists of five divisions which supply high-tech products: liquid crystals for displays; effect pigments and specialty chemicals for the technical industry; electronic chemicals for chip manufacture; salts, acids, alkalis, and solvents for chromatography; reagents, chemicals, and processing materials for the pharmaceutical industry. Sales rose 5.0%. The operating result increased 27%. Excluding intragroup sales with Laboratory Distribution, the Chemicals business sector contributed 21% of the Merck Group's total sales and 42% of the total operating result.

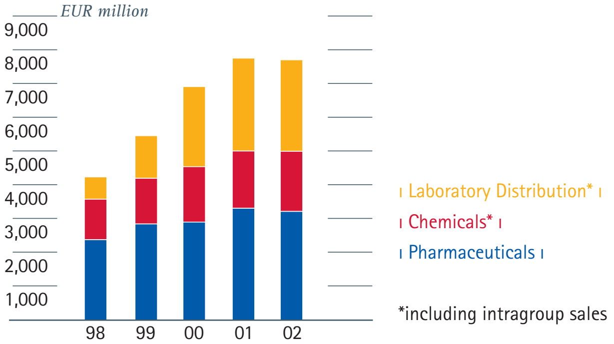
Sales	EUR 1,782 million
Operating result	EUR 260 million
Return on sales	14.6%
EBIT	EUR 208 million

Laboratory Distribution

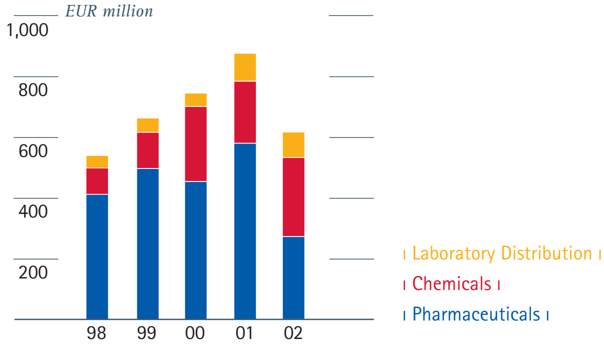
__ With its laboratory chemicals, equipment and consumables, and its comprehensive service offering, Merck is the world's leading full-service provider in the life science industry. The business sector Laboratory Distribution, operating under the name VWR International, Inc., recorded a decline in sales of 1.6%. The operating result decreased 8.2%. Laboratory Distribution contributed 36% of the Merck Group's total sales and 14% of the total operating result.

Sales	EUR 2,711 million
Operating result	EUR 84 million
Return on sales	3.1%
EBIT	EUR 79 million

Sales by Business Sector



Operating Result by Business Sector



Merck Group

__ The Merck Group's sales declined 0.7% to EUR 7,473 million compared to the record year 2001. After adjustment for currency effects and divestitures sales were up 5.0%, despite generic competition in the United States for Merck's top-selling product, the oral antidiabetic Glucophage®. Our expenditure for research and development, which has been quite substantial for a number of years, increased 5.4% to EUR 608 million in the year under review. The operating result dropped 29.7% to EUR 616 million from EUR 877 million in 2001 – the most successful year in Merck's 335-year history.

Sales	EUR 7,473 million
Operating result	EUR 616 million
Return on sales	8.2%
EBIT	EUR 559 million

Merck Business Development 1998–2002*

EUR million	1998	1999	2000	2001	Change in %	2002
Sales	4,149	5,347	6,740	7,528	–0.7	7,473
Pharmaceuticals	2,391	2,858	2,914	3,323	–2.9	3,226
Chemicals	1,201	1,354	1,642	1,697	5.0	1,782
Laboratory Distribution	660	1,262	2,374	2,754	–1.6	2,711
Intragroup sales	–127	–151	–190	–246	0.1	–246
Operating result	537	659	746	877	–29.7	616
Pharmaceuticals	413	498	455	581	–53.2	272
Chemicals	87	119	247	204	27.4	260
Laboratory Distribution	41	47	44	92	–8.2	84
Earnings before interest and tax (EBIT)	571	581	747	1,286	–56.5	559
Profit before tax	473	440	524	1,078	–61.8	412
Profit after tax	342	235	262	655	–67.1	215
Free cash flow	–173	–1,081	324	664	–33.5	441
EBITDA (EBIT before depreciation and amortization)	836	900	1,184	1,694	–41.9	985
Investments in property, plant and equipment	319	359	427	470	–19.8	377
Research and development	405	498	546	577	5.4	608
Balance sheet total	5,550	7,845	8,235	8,255	–9.0	7,511
Net equity	1,626	1,870	1,947	2,336	–12.1	2,054

		1998	1999	2000	2001	Change in %	2002
Employees (Number as of Dec. 31)		28,911	32,721	33,520	34,294	0.6	34,504
Return on sales (ROS: operating result/sales)	in %	12.9	12.3	11.1	11.6		8.2
Return on capital employed (ROCE: operating result/average operating assets)	in %	12.1	11.9	11.6	13.5		9.6
Earnings per share (for calculation see page 16)		1.94	1.32	1.44	3.66	–67.8	1.18
Dividend per share		0.82	0.85	0.90	0.95	5.3	1.00

* Due to the changed definition of the Group in 2001, the figures for 1998–2000 are presented on a comparable basis (see preliminary remarks in the notes on page 55).

Our Values

__ The true value drivers at Merck are our 34,504 employees worldwide. For *generations*, people at Merck have worked together as a team and experienced the *fascination* of cutting-edge science and technology as they improve the health and quality of life for millions of people. The *courage* needed to maintain our founders' *pioneering spirit* is an integral part of our company's unique and successful *tradition*. These corporate values are at the very heart of our identity and are the key to making our vision come true.

Michael Hanrahan | Operating an investigational cell culture bioreactor |
Merck develops proteins for cancer therapy |

Billerica, MA (United States) | August 22, 2002 | EMD Pharmaceuticals

Our Vision

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

Cover

Cover photo:
Izumi Saito and Malgorzata Rillich test a new e-book with a special LC mixture developed by Merck

Surface effect achieved with the Merck pigment Iriodin® Pearlprint Litho Blue

Headquarter Darmstadt | October 27, 2001 | Laying of the foundation stone Pharmaceuticals Service Building, in use since August 2002

Bernhard Scheuble | Chairman of the Executive Board | Born in 1953 | Ph.D. in physics from the University of Freiburg | With Merck for 21 years |

» We are holding firmly to our ambitious goals despite this difficult phase. «

A strong performance by Generics and Liquid Crystals was not enough to offset the effects of an overall negative business environment in 2002. With the strongest pharmaceutical pipeline in its history and important investments in employees and facilities, Merck aims to create long-term value.

Prof. Dr. Bernhard Scheuble

Chairman of the

Executive Board of Merck KGaA

Dear Shareholders and Friends of Merck,

"A solid performance in a difficult environment" – This is how 2002 can be summed up. Considering the weak economy and currency exchange rates that developed to our disadvantage, we are proud to report that we were able to maintain last year's record sales level of EUR 7.5 billion. Two divisions were particularly successful: Liquid Crystals and Generics – the mainstays of our business in 2002 – grew organically by 47 % and 36 %, respectively. The excellent performance by Liquid Crystals is attributable to our continually enhanced, patented liquid crystals, which enable our customers to produce even bigger and better LCDs. One example is Sharp's new three-dimensional LCD. Crucial to this mutual success is the support we provide to our customers, including on-site development expertise and service. Our customer support efforts were considerably enhanced during 2002 with the inauguration of our new Liquid Crystals center in Korea. The impressive sales growth of Generics is due to the timely launch of numerous new products, in particular omeprazole. In addition, our strategy of quickly establishing a presence in important new markets is paying off. This includes the very positive development in Portugal, as well as the acquisition of Mohan in Japan, which is already bearing fruit.

During the past year, Merck found itself in a difficult environment. This was intensified by the expiration of the product protection for our most important drug, Glucophage. Through joint efforts with our U.S. partner Bristol-Myers Squibb (BMS), we were able to limit the effects of generic competition by launching improved products – Glucovance, Glucophage XR, and Metaglip. Nevertheless, our business with BMS came to an almost complete standstill due to overstocking in U.S. sales channels. In view of the forthcoming launch of innovative drugs, we have restructured and globalized our Ethicals business with a focus on research and marketing. The reorganization of production is expected to follow. In addition, our new U.S. pharmaceutical research center and pilot plant for protein production, the Campus 2002 located near Boston, became operational.

In spite of the decline in Glucophage sales, we were able to maintain a high level of investment in research and development, allowing continued progress of the projects in our impressive drug pipeline. The encouraging growth of our Chemicals business helped make these R&D investments possible and illustrates the wisdom of our balanced business model. Diversification enables us to pursue a medium- to long-term strategy. Beyond the contribution of Chemicals, the efficiency program implemented last year also allowed us to invest in the future. We decreased inventories and also reduced the number of employees at our main sites in Darmstadt and Lyon with careful consideration and without the need for lay-offs. Our guiding principle was to avoid endangering any projects crucial to long-term success. The successful reduction of costs also helped generate a positive free cash flow – without taking into account the Bracco unit receivable that we disposed of in 2002.

Other highlights include the reorganization of VWR, our Laboratory Distribution business. This company is now very cost-efficient. The preparations for its planned IPO in the United States were completed in good time. However, primarily due to unfavorable conditions in the equity markets, we decided not to go public with VWR in 2002. The timing of the IPO is now dependent on the expectation of getting a fair market value.

We entered the year 2003 with encouraging news for Erbitux. We remain confident that we will be able to submit the documentation for marketing authorization this year and launch the product on the European market in 2004. Erbitux is an innovative monoclonal antibody that shows promise for the targeted therapy of certain types of cancer. We also plan to make important decisions this year regarding the further expansion of our successful Liquid Crystals business into related LCD components.

Despite the political and economic uncertainties, the continued progress of key R&D projects in Pharmaceuticals and the positive development of our Generics and Liquid Crystals businesses make us confident about 2003. Even in these challenging times, talented and entrepreneurial employees allow us to expect stable business development at the previous year's level, unless the euro significantly appreciates further.

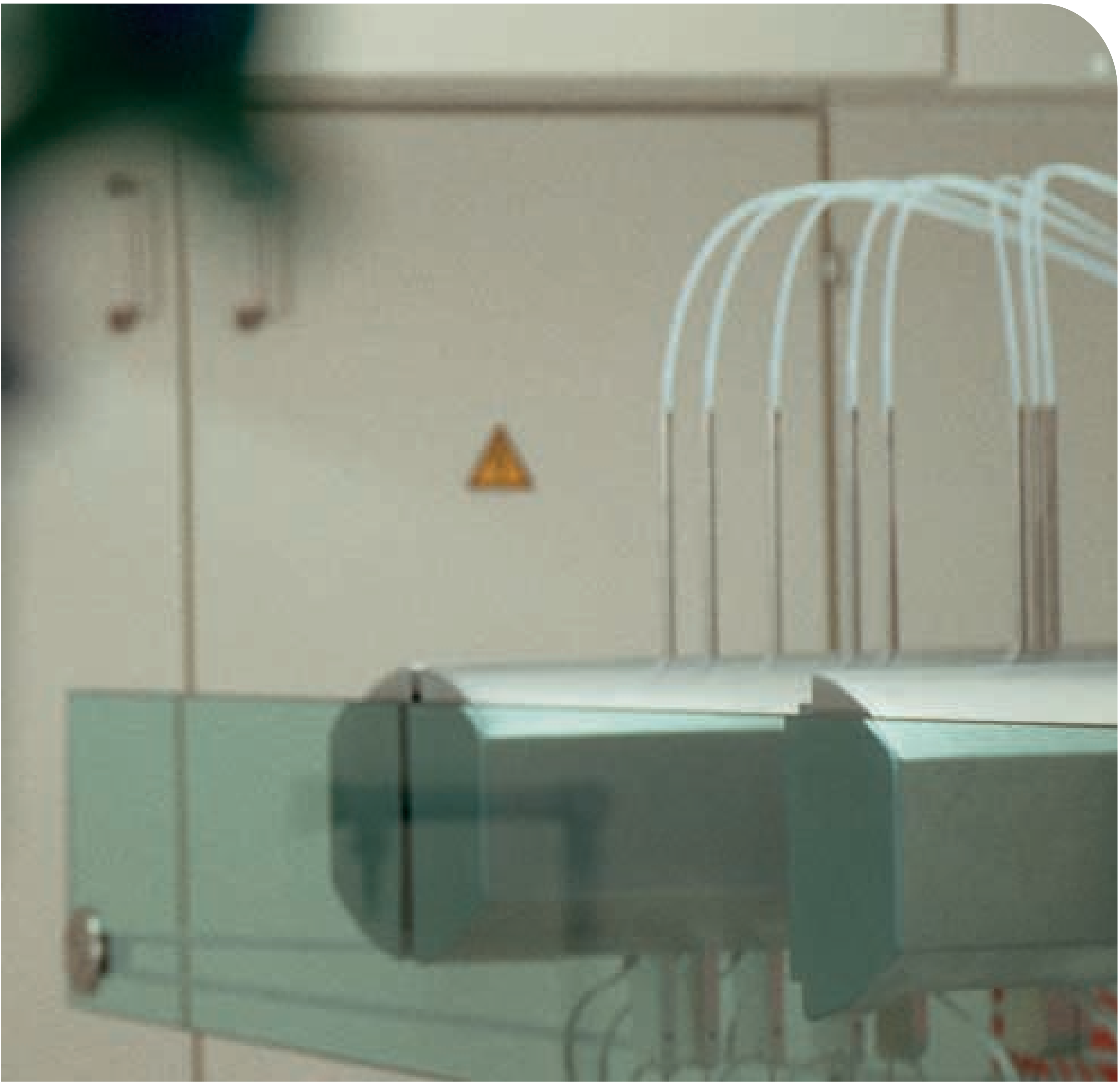
I owe the following quotation to the highly esteemed former Head of our Patent Department, the late Brigitte Naumann: "Who has a future? Those who believe in themselves and, based on this belief, are prepared to constantly challenge themselves." We – the partners, management and employees of Merck – believe in ourselves and our company, and we are prepared to transform our beliefs into actions. Despite these turbulent times, we are confident in the future of Merck – and we have good reason.

Sincerely,

Prof. Dr. Bernhard Scheuble

 | Matthew W. Emmens | Head of Ethicals | Born in 1951 | B.S. in business management from Fairleigh Dickinson University, New Jersey | With Merck for 3 years

Biotechnology laboratory, Darmstadt | December 10, 2002 | Analyzing protein expression of potential cancer genes



» Strong pipeline investments and heightened global focus in marketing will secure future success. «

Generic competition to Glucophage® led to a decline in sales and profits. Other established products developed well, and we licensed in two new drugs. Our high R&D resources have been focused to quickly move innovative drugs through the pipeline. In key markets like the United States, pre-marketing activities for new products have begun.

Proteins – potential drug targets – can be identified by gel electrophoresis and staining.

The year 2002 was a year of changes, challenges, *and* opportunities *– and our ethicals business rose to the occasion: meeting the challenges, making the changes, and taking advantage of the opportunities to better position ourselves for the future.*

The most significant change *was the complete restructuring of the Ethicals (branded prescription drugs) division. We have carefully examined the three key processes of this division – drug discovery and development, manufacturing, and marketing and sales – identified opportunities for improvement, and implemented changes to enhance our efficiency and profitability. Today, our research and development is globally integrated with greater coordination between our primary sites in Darmstadt (Germany), Lyon (France), Boston (Massachusetts), and Durham (North Carolina). We have a robust pipeline and are aggressively moving compounds through clinical development. We also initiated a major re-evaluation of our manufacturing processes, and programs are underway to rationalize our manufacturing, increasing production efficiency and reducing costs. In marketing and sales, we have created a global organization capable of launching and supporting a new product simultaneously in the world's largest markets, with an emphasis on the therapeutic areas of diabetes and oncology. Overall, these changes have improved the integration of our worldwide business and better positioned us as a global player in the growing ethical pharmaceuticals market.*

The most acute challenge *was managing the financial impact resulting from the expiration of the product protection for our antidiabetic drug Glucophage® (metformin) in the United States, where it is marketed by Bristol-Myers Squibb. We have met this challenge by introducing new products that extend the Glucophage® franchise. Glucovance® and Glucophage® XR have allowed us to maintain a share of* *about 45 percent of the metformin prescriptions in the type 2 diabetes market in the United States. Other challenges included aggressive competition for market share, which resulted in lower prices, unfavorable pricing actions by various governments, and the entry of several of our drug candidates into the later – and more expensive – stages of development.*

But the continued development of our pipeline is also one of the opportunities *Merck is presented with. In the therapeutic area of cancer, our pivotal trial for the drug candidate Erbitux™ (cetuximab, C225), our monoclonal antibody against certain types of cancer, has concluded, and we expect to submit for European registration mid-year 2003. We remain encouraged that Erbitux™ may well offer new hope for many patients with cancer, and we are working diligently to gain registration and prepare for rapid market introduction and acceptance. New trials for EMD 72000, a fully humanized anticancer antibody, are planned for 2003, and a phase III trial for Theratope®, a cancer vaccine we are co-developing with our Canadian partner Biomira, will conclude in mid-2003. We will continue our search for innovative substances for the oral treatment of type 2 diabetes to find new options for a disease that is growing at epidemic proportions.*

We also demonstrated that there are good opportunities for growth in existing markets and with existing products. Bisoprolol-containing products such as Lodoz® and ConcorCOR® are still increasingly attractive for the medical community. They are experiencing excellent growth and remain patent-protected. Our U.S. subsidiary Dey has achieved solid growth with the epinephrine autoinjector Epipen® and has effectively established DuoNeb®, a new product for the treatment of chronic obstructive pulmonary disease.

Yes, 2002 was a challenging year full of change and opportunities, but our division's 13,000 dedicated employees in 55 countries met the challenge. Today, we are even more committed and better able to bring innovative therapeutic approaches to patients in need throughout the world.

» We pay particular attention to global launch readiness for our new drugs. «

Pigment Center, Darmstadt | December 11, 2002 | Presentation of new Colorstream® pigments

Thomas Schreckenbach | Head of Chemicals business sector | Born in 1946 | Ph.D. in biochemistry from the University of Munich | With Merck for 16 years |

» Through innovation, we want to become the No. 1 for high-quality specialty chemicals. «

Innovative effect pigments and liquid crystals for flat-screen displays are our core businesses – our Liquid Crystals division had another record year. The refocusing of our chemicals business led to sustained growth in the Life Science Products division, for example.

A display sample for customers to demonstrate the various color changes of Colorstream® effect pigments.

The manufacture of chemicals has a century-old tradition at Merck: The original Merck pharmacy, which began as a producer of reagents and pure plant-based active substances, has evolved into what is now a leading global manufacturer of standard and specialty chemicals for the laboratory and industry. This experience, which has evolved over time, and our flexible product development that is close to the markets have enabled us to achieve a good result in 2002, despite a difficult economic environment and a chemical industry that was weak overall.

Our Liquid Crystals *division was particularly successful, increasing its sales from an already high level (EUR 276 million in 2001) by a further 37 % to EUR 377 million in 2002 after increase rates of 60 % (1999) and 80 % (2000) – organic sales also grew by an impressive 47 %. A decisive factor in this improvement was the increase in sales of high-quality liquid crystal mixtures for TFT displays in computer monitors, but also our sales of display glass. In the previous year, we invested in a third coating line in Taiwan for color display glass. In August 2002, we opened our new technology center for liquid crystals in South Korea. This investment, amounting to EUR 10 million, enables the preparation of more than 30 tons of liquid crystal mixtures per year in Korea. In our* Electronic Chemicals *division, we achieved organic growth of 4.2 % in our core business with process chemicals. In the course of focusing on supplying chip manufacturers, we exited from the equipment business. In the future we want to operate our restructured business in a company of its own.*

Double-digit growth was also achieved in the Pigments *division after adjustment for currency effects. Our production facilities for the mica pigments, Iriodin®, in Gernsheim (Germany), Savannah (United States), and Onahama (Japan) were well utilized. Investments in state-of-the-art facilities for the new, more high-tech pigments Colorstream® and Xirallic® ensure our market leadership for innovative effect pigments for the printing, paints, and cosmetic industry. The general color and finish trend for high-quality consumer goods, as well as new technical applications, promise huge growth potential.*

Our Optics and Cosmetics businesses were successful in niche markets: As market leader for vapor deposition chemicals, we are substantially involved in technological innovations; innovative cosmetic effect pigments and a new encapsulation technology for substances that protect the skin have future potential in the field of cosmetics.

As the market leader for analytical reagents, our products can be found in almost every chemical laboratory in the world; our Analytics & Reagents *division benefits from a business that is not very dependent on economic factors. We see growth potential in rapid tests for food analysis and industrial microbiology – our products enable our customers to meet the growing legislative demands for effective controls. Our* Life Science Products *division, whose strategic focus is on being a partner for the entire value chain of the life sciences industry, supplies research-based companies in the pharmaceutical, biotechnology, and agrochemical sector ("Life Sciences") with a full range of products and services. This division was successful with the customized synthesis of research substances and with active substances and auxiliaries for the pharmaceutical industry, but also with biochemicals and chromatography products for bioprocessing. In turn, our U.S. subsidiary, which now operates under the name EMD Biosciences, developed a particularly large number of innovative products for biomedical research. As part of our ongoing strategic process of focusing on core businesses, the Life Science Products division has parted with its rodenticide business.*

Our Laboratory Distribution company, VWR International, enables our Analytics & Reagents and Life Science Products divisions to use cutting-edge sales channels in the two key regions, Europe and North America. Companies of the Merck Group are also developing growth potential in other markets, in particular in the emerging countries of Eastern Europe and Asia.

We regard innovation as the key to further growth in our most important markets worldwide. By being innovative, we are able to consistently offer our customers the best possible solutions. Our employees face competition on the highest international level with pioneering spirit. They are supported by state-of-the-art technologies on their quest to find better and better solutions in a global network of research partnerships. Combined with improved manufacturing processes, these factors make us the partner of choice for high-tech industries in the electronics, optics, and life sciences sector. Our scientists and marketing experts work closely with customers from industry all over the world in order to develop new products for the market requirements of the future.

» The future potential of our chemicals business lies in branches of industry with a strong need for innovation. «

| Bernhard Scheuble | Chairman

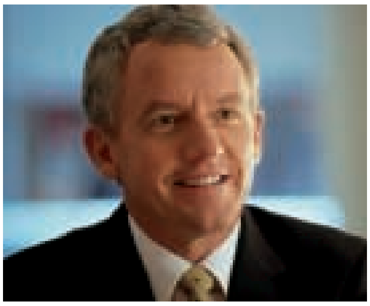
Born in 1953, Ph.D. in physics from the University of Freiburg; with Merck for 21 years

Pharmaceuticals
Laboratory Distribution (VWR)
Law, Patents, Trademarks
Corporate Auditing
Corporate Development

| Michael Römer | Vice Chairman

Born in 1946, Ph.D. in chemistry from the Technical University of Darmstadt; with Merck for 25 years

Operations, Purchasing and Logistics
Environmental Protection, Safety and Health
Central Process Development – Chemistry
Production Sites in Germany



| Matthew W. Emmens |

Born in 1951, BS in business management from Fairleigh Dickinson University, New Jersey; with Merck for 3 years

Global Ethicals
United States, France,
United Kingdom, Italy, Spain

| Thomas Schreckenbach |

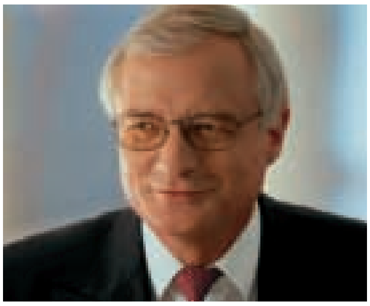
Born in 1946, Ph.D. in biochemistry from the University of Munich; with Merck for 16 years

Global Chemicals
(incl. United States and Canada)
China, Japan, Korea, Singapore,
Malaysia, Taiwan

| Michael Becker |

Born in 1948, Ph.D. in law from the University of Augsburg; with Merck for 4 years

Accounting and Controlling
Finance, Taxes, Insurance
Middle East, Africa, and some
European countries



| Jan Sombroek |

Born in 1947, Ph.D. in chemistry from the University of Cologne; with Merck for 27 years

Human Resources, Information Services
Corporate Communications
Latin America, Australia/New Zealand,
and some Asian countries

| Merck KGaA | Management as of December 31, 2002

| Executive Board |

Prof. Dr. Bernhard Scheuble, Chairman
Dr. Michael Römer, Vice Chairman
Dr. Michael Becker
Matthew W. Emmens
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. Reinhart Freudenberg
Dr. Michael Kasper*
Dr. Arend Oetker
Hans Schönhals*
Peter Zühlsdorff

* Employee representative

Business Sectors	*Divisions*	*Indications/Products*
Pharmaceuticals	Ethicals	Diabetes (Type 2 diabetes: *Glucophage®, Glucovance®, Glucophage XR®, Metaglip™* ...)
		Oncology (Developmental products against cancer: *Erbitux™, Theratope®* ...)
		Established Products (Cardiovascular: *Concor®* family of products, *Lodoz®, Nicorandil* ...; thyroid preparations: *Euthyrox®* ...; central nervous system: *Campral®* ...)
		Other Indication Areas (Developmental products, e.g. *vilazodone* (depression), *sarizotan* (Parkinson's disease) ...)
		Women's Health (Hormone replacement therapy: *Lutényl®, Fem7®* ...)
		Respiratory Diseases (Respiratory diseases and allergies: *EpiPen®, DuoNeb® ...)*
	Generics	Off-patent high-quality low-price drugs
	Consumer Health Care	Vitamins, minerals, supplements *(Multi-bionta®, Cebion®, Bion®3, Seven Seas® ...)*
Chemicals	Liquid Crystals	Components (LCs, ITO glass ...) for liquid crystal displays (LCDs) in monitors, notebooks, mobile phones ...
	Pigments	Effect pigments *(Iriodin®, Colorstream®, Xirallic® ...)*, cosmetics, optics *(Patinal® ...)*
	Electronic Chemicals	Process chemicals including supply systems for chip manufacture, functional materials
	Analytics & Reagents	Salts, acids, alkalis, solvents, special products, e.g. for chromatography *(Chromolith® ...)*
	Life Science Products	Reagents and processing materials for biosciences, pharmaceutical compounds
Laboratory Distribution	VWR International, Inc.	Distribution of laboratory chemicals and equipment in North America and in Europe

MERCK

In Europe and
the rest of the world
we are known as Merck

EMD

In North America
we operate
under the name EMD

The Merck Share
True Value Not Reflected

With stock markets declining sharply in 2002, our share price was hit exceptionally hard. While a late recovery and the company performance at the end of the year brought some consolation, we remain dissatisfied with the current price level.

www.investors.merck.de

Merck KGaA's shares have been listed on the Frankfurt Stock Exchange since October 1995. The free float is 45,000,000 shares; the holding of the general partners represents 127,000,000 theoretical shares (further information on Merck KGaA is provided on page 44). The average daily turnover during the year was 140,000 shares. We are conscious of the restrictions caused by the low liquidity of our stock. Improvements in this respect remain an important target for us. About 30% of our shares are held each in Germany, the United Kingdom, and the United States. In Germany, two thirds of the shares are in the hands of private investors. In the United Kingdom and the United States, nearly all shares are held by institutional investors.

The company's share price was strongly affected by the introduction of generic versions of Glucophage® in the United States and underperformed the German DAX for a long time. By the end of the year, however, we had caught up with the DAX. Our share price decreased 39% for the year a while the DAX dropped 44%.

Earnings per share after tax and minority interest for fiscal year 2002 were EUR 1.18 compared to EUR 3.66 in the previous year. We will propose to pay a dividend of EUR 1.00 at our Annual General Meeting on March 28, 2003. This would raise the dividend yield to a very attractive level.

It is our aim for the share price to reflect the company's true value and growth potential. In order to keep the market informed, we regularly meet and conduct telephone conferences with investors throughout Europe and the United States. In addition, we continually update and expand the information on our web site.

Share Data[1)]

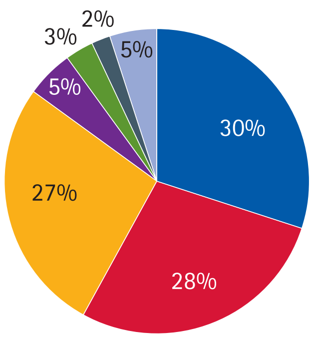
	2002	2001
Earnings per share after tax and minority interest in EUR	1.18	3.66
Dividend in EUR	1.00	0.95
Price-earnings ratio (Dec.30/Dec. 28)	21.53	11.34
High share price for the year in EUR	40.55	49.70
Low share price for the year in EUR	18.03	37.55
Year-end share price in EUR (Dec. 30/Dec. 28)	25.40	41.49
Market capitalization in millions of EUR (Dec. 30/Dec. 28)	4,369	7,136
Theoretical number[2)] of shares in millions (Dec. 30/Dec. 28)	172	172
Actual number of shares in millions	45	45

1) All figures relate to the closing price in XETRA trading on the Frankfurt Stock Exchange.

2) 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.

Shareholder Structure by Country

United States
Germany
United Kingdom
Luxembourg
Switzerland
Belgium
Others



The Merck Share Compared to DAX/MDAX in 2002

Management Report
A Solid Performance in a Difficult Environment

General Economic Conditions

The global economy in 2002 was characterized by uncertainty. The risk of war and the related oil price hike, as well as the collapse of the stock markets all had an adverse effect on the economic situation. Although the increasing demand in spring 2002, in particular in the United States, and the tax relief to American households did lead to positive economic forecasts, the mood deteriorated considerably in the summer. Contributing factors were negative business prospects, the loss in confidence resulting from financial scandals and the slump in share prices on the stock markets, as well as the looming Iraq conflict.

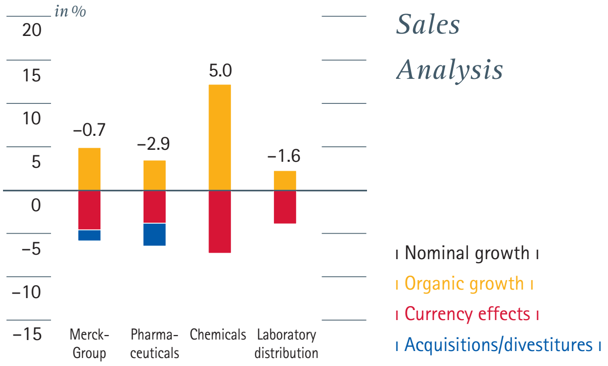
Overall growth in gross domestic product (GDP) in the United States was 2.4 %. The situation in Latin America remained precarious not only because of the crisis in Argentina and Venezuela. The previously strong growth rate in the newly industrialized countries of East Asia declined, while Japanese GDP fell by 0.3 %. The growth rate in the euro area was 0.8 %. In particular the pressure to consolidate, both in the public and private sectors, played a decisive role in Europe's poor growth rate. A further contributing factor – in addition to low consumer acceptance – was the increasing appreciation of the euro against the dollar in the course of 2002 and the effects of this on exports.

Economic recovery in Germany was not as expected: Growth in GDP in 2002 was 0.2 % and thus fell short of the European average. The global economic environment with the factors mentioned above determines the basic economic trend. The situation on the labor market deteriorated in comparison with 2001, with the unemployment rate increasing strongly from 9.0 % in 2001 to 10.1 %.

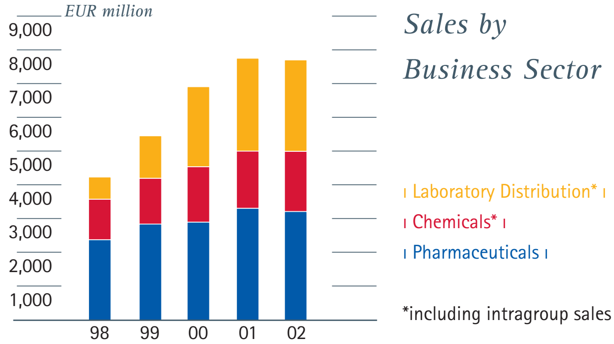
The Merck Group: Steady in Challenging Times

Compared with the record year of 2001, consolidated sales of the Merck Group decreased in 2002 by 0.7 % to EUR 7,473 million. After adjustment for negative currency effects and acquisitions/divestitures, sales growth was 5.0 %, meeting our expectations. The unfavorable exchange rates caused by the weakening of the dollar had an adverse effect on all three business sectors. The drop in sales in Pharmaceuticals to EUR 3,226 million is primarily attributable to the decline in sales of Merck's best-selling antidiabetic agent Glucophage® in the United States. The Generics division successfully increased its sales to EUR 1,138 million, despite losing sales against the previous year as a result of the sale of Pharmaceutical Resources. In spite of significant currency effects, the Chemicals business sector grew 5.0 % to EUR 1,782 million, due especially to the success of Liquid Crystals. Our Laboratory Distribution VWR International reached organic sales growth of 2.3 % to sales of EUR 2,711 million.

In all four quarters, the organic sales increased compared to the year 2001. Currency effects and divestitures, by contrast, had a negative influence on sales. Changes in exchange rates showed increasingly negative effect in the last three quarters of 2002 and were –8.2 % in the fourth quarter.



Sales Analysis



Sales by Business Sector

Components of Growth

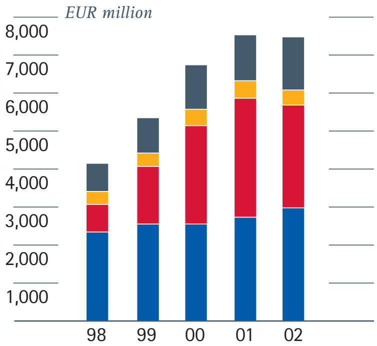
Compared to previous year's quarters in %	Quarter 1	Quarter 2	Quarter 3	Quarter 4	2002
Organic growth	6.3	3.0	3.8	7.2	5.0
Pharmaceuticals	10.5	–2.4	–1.3	8.4	3.5
Chemicals	3.2	15.7	14.0	16.2	12.3
Laboratory Distribution	2.9	1.8	3.9	0.6	2.3
Currency effects	1.4	–5.2	–6.1	–8.2	–4.6
Acquisitions/divestitures	–0.9	–1.2	–3.1	0.7	–1.2
Total	**6.8**	**–3.4**	**–5.4**	**–0.3**	**–0.7**

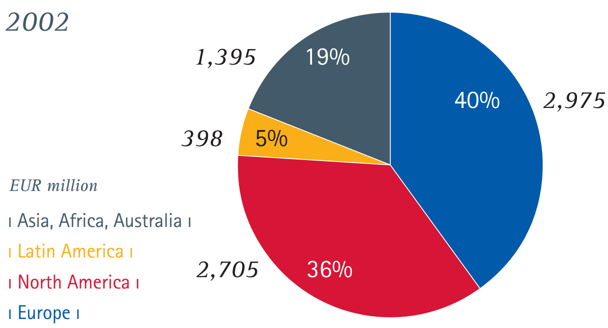
ı Team ı William de Oliveira, Paulo Cesar Pereira da Silva, and Vanderlane SM Riscado in quality control, Brazil. By pooling individual talents to create a stronger team, we aim to make our vision a reality.

Fastest Regional Growth in Asia

Europe is again the Merck Group's most important market. With sales of EUR 2,975 million, we achieved a year-on-year increase of 9.0%. Sales in the EU rose 8.6% to EUR 2,723 million, while Germany showed a decline of 5.7% to EUR 681 million. Europe's share in sales increased, contrary to the longstanding trend, from 36% in the previous year to 40% in 2002. Since sales decline by 14%, **North America** became our second largest market. Sales in this region amounted to EUR 2,705 million, corresponding to 36% of group sales, and were generated above all in Pharmaceuticals and Laboratory Distribution. In **Latin America**, sales decreased 13% to EUR 398 million, corresponding to a share of 5.3% of group sales. While sales in our largest market Mexico were maintained, sales in Brazil, Argentina and Venezuela decreased significantly. In **Asia/Africa/Australia**, we increased sales 16% to EUR 1,395 million. Sales in this region now account for 19% of Group sales, attributable in particular to strong growth of 25% in Japan and 14% in Australia.

Sales by Region





| PHARMACEUTICALS |

Market Conditions for the International Pharmaceutical Industry

In 2002, the major countries of the global pharmaceuticals market recorded a sales growth of about 7%. As in the previous years, the North American market recorded the strongest growth rate and posted a 12% growth, but was slowing down. The decreasing growth rates reflect lower new product launch activities and increasing generic prescriptions. With a market volume of USD 146 billion, the share of the United States in the sales of the 13 key pharmaceutical markets was 53%. In the key European countries, with a market share of about one fifth, sales increased 6% after adjustments for currency effects reaching USD 59 billion. The United Kingdom and Germany showed above-average growth rates of 10% and 8%, respectively.

Strong Performance of Merck's Generics Division

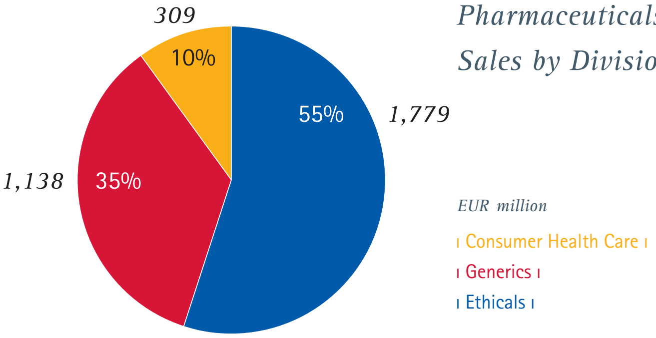
Our Pharmaceuticals business sector comprises **ethicals** (prescription drugs, e.g. for the treatment of metabolic and cardiovascular diseases), **generics**, and **consumer health care** products. The year 2002 was very successful for our Generics division, which recorded excellent growth. However, this was not enough to compensate for the expiration of the product protection on Glucophage®, our best-selling antidiabetic drug, in the United States. As expected, the resulting generic competition caused a sales decline for the Pharmaceuticals business sector of 2.9% to EUR 3,226 million – in spite of a 3.5% organic growth – and a sharp blow to the profitability of the pharmaceutical business. The operating result amounted to EUR 272 million, a 53% decrease compared to the previous, record-breaking year. The licensing fees for Glucophage® in the United States were high-margin and in their absence, the Pharmaceuticals business sector's return on sales (ROS) dropped to 8.4% and the return on capital employed (ROCE) to 9.4%, well below our ambitious target of 20% for both of these key figures. Pharmaceuticals contributed 43% of the Merck Group's total sales; its share of the total operating result was 44%.

Pharmaceuticals – Key Figures

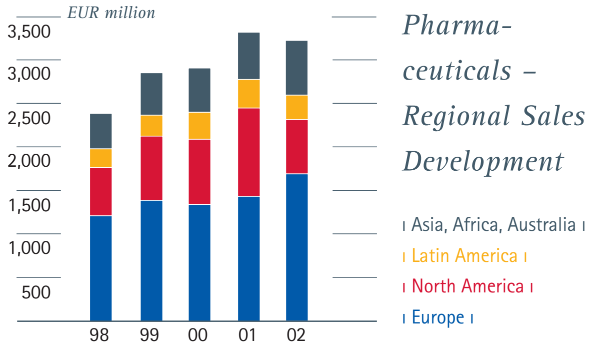
EUR million	2002	2001	Change in %	Share in %
Sales	3,226	3,323	–2.9	
Ethicals	1,779	2,084	–14.6	55
Generics	1,138	925	23.0	35
Consumer Health Care	309	314	–1.4	10
Operating result	272	581	–53.2	
Return on sales	8.4 %	17.5%		
EBIT	272	1,067	–74.5	

While the loss of exclusivity for our largest product caused sales in **North America** to drop 39% to EUR 624 million from the previous record year, sales in **Europe** jumped a healthy 18% to EUR 1,692 million while sales in **Asia, Africa, and Australia** increased 16% to EUR 628 million. Sales in **Latin America** were down 14% to EUR 282 million, largely due to currency effects.

The **Ethicals** division saw sales declining 15% to EUR 1,779 million. At an organic growth rate of 36%, sales in the **Generics** division remained strong, surpassing 2001's robust performance with an additional 23% increase to EUR 1,138 million. This was attributable in part to new generic products like the ulcer medicine omeprazole. At EUR 309 million, sales by the **Consumer Health Care** division remained almost constant (–1.4%).



Pharmaceuticals – Sales by Division



Pharmaceuticals – Regional Sales Development

| ETHICALS |

Setting the Stage for Growth

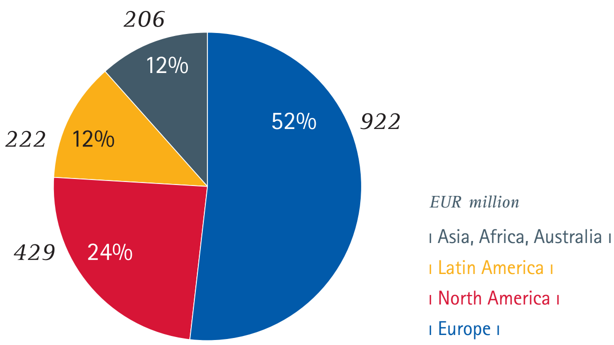
The Ethicals division could not reproduce the outstanding results of 2001. With sales of EUR 1,779 million (-15%), it still accounted for 55% of total Pharmaceuticals sales. Our sales in **North America** fell sharply by 43% to EUR 429 million, due to the reduced contribution from the Glucophage® business, but also due to strong currency effects. Sales also declined in **Latin America** to EUR 222 million (-13%), reflecting negative currency effects. On the other hand, we saw sales increase 5.1% to EUR 922 million in **Europe** and 1.5% to EUR 206 million in **Asia, Africa, and Australia.**

| **Fascination** | Manuel Ammerschläger analyzing DNA fragments in Darmstadt. For the creative researcher, fascination with science grows together with the concrete chance to improve human health.

www.cardiovascular.merck.de

The sales growth in these markets was due to strong growth for products in a number of areas, including cardiovascular, where total sales for bisoprolol, the active ingredient of our Concor® product line, increased 5.6% to EUR 242 million. Sales of all our packaged products in the Concor® family rose a strong 19%. Thus, Lodoz®, a combination product for the treatment of hypertension, increased sales 27% to EUR 30 million and sales of ConcorCOR® for the treatment of chronic heart failure more than doubled. Ranking among the top beta-blocker brands in most countries (No. 2 in Europe), together they accounted for 30% of our sales with the Concor® family. Sales of nicorandil (Dancor® and Adancor®), indicated for the treatment of stable angina, rose 21% to EUR 15 million. This increase can partly be attributed to the results of IONA (Impact of Nicorandil in Angina), a milestone study that demonstrated a cardio-protective effect for this anti-anginal drug. In late 2002, Merck expanded its cardiovascular product line by in-licensing two lipid-modifying drugs, Niaspan™ and Advicor™, from Kos Pharmaceuticals.

Ethicals – Sales by Region



Merck also successfully markets a broad line of products in other therapeutic areas in many countries. Besides cardiovascular drugs, these include diabetes treatments, thyroid preparations, drugs to treat respiratory diseases, and products for women's health. The latter two product lines are being developed and marketed by our free-standing subsidiaries Dey (United States) and Théramex (Monaco), respectively. Both these business units have active R&D programs that should provide future growth.

www.thyroid.merck.de

Dey specializes in prescription drugs used in the treatment of selected respiratory diseases and respiratory-related allergies. It had a very successful year; with sales totaling EUR 317 million (+9.1%), our subsidiary Dey maintained its leading U.S. market position with sterile unit-dose inhalation solution products. Sales of EpiPen®, a life-saving epinephrine autoinjector for the treatment of anaphylaxis, rose 6.3% to 102 million Euro. DuoNeb®, an inhalation solution for the treatment of chronic obstructive pulmonary disease, combines ipratropium and albuterol sulfate into one unit-dose vial. Launched in June 2001, DuoNeb® has already extended its market share to 6.3% in 2002 from 2.2% at the end of 2001.

www.RespiratoryDiseases.merck.de

| Pioneering Spirit | Elke Wilbert and Oliver Pöschke in Darmstadt develop assays for identifying new drug candidates with pharmacological activity. Turning the challenges of science into business success marks the 335-year history of Merck.

Théramex is a subsidiary specializing in Women's Health products, with a particularly strong menopausal product line. Théramex is the leader of the menopausal market in France with a market share of more than 20%. Totaling EUR 109 million in 2002, worldwide sales remained almost stable (-1.4%). In May 2002, Théramex received marketing approval for Naemis® (a new oral combination product for hormone replacement therapy) in France and in November 2002 approval in the United Kingdom for Fem7® Conti (a new combination patch for hormone replacement therapy).

www.WomensHealth.merck.de

We also advanced several investigational compounds further in the clinical development pipeline. A major clinical trial for Erbitux™ (cetuximab, C225), an epidermal growth factor receptor (EGFR)-specific monoclonal antibody in our oncology portfolio, was completed at the end of 2002, setting the stage for filing an initial registration application with regulatory agencies in mid-2003. We also achieved a significant milestone by filing an Investigational New Drug Application (IND) with the U.S. Food and Drug Administration (FDA) for EMD 72000, another EGFR-specific monoclonal antibody now in phase II clinical testing. In addition, in September 2002, an independent interim analysis of data from a large, multinational phase III trial of Theratope® vaccine in women with metastatic breast cancer was conducted, resulting in no safety concerns and the recommendation to continue the trial to final analysis. The final analysis is expected to commence in mid-2003.

A Solid Foundation for Our Future

www.pipeline.merck.de

We have achieved double-digit growth in key therapeutic areas and markets. Over time, we are building a foundation to support further success and setting the stage for Merck to emerge as an important player in the global ethical pharmaceuticals business. The foundation is our impressive pipeline, currently comprised of 22 products in various stages of clinical development. That is twice as many products as the average of other ethical pharmaceuticals businesses of our size.

Status of 22 Innovative Drugs

Therapeutic Area	*Compound*	*Indication*	*Status*[1]
Oncology	Erbitux™ (cetuximab, C225; EGFR-specific monoclonal antibody)[2]	EGFR-expressing tumors: colorectal, head & neck, NSCLC	Phase III
	Theratope® (cancer vaccine)[3]	Breast cancer	Phase III
	Mitumomab (BEC-2; cancer vaccine)[4]	Small-cell lung cancer	Phase III
	EMD 72000 (EGFR-specific monoclonal antibody)	EGFR-expressing tumors: cervical, gastric, ovarian	Phase II
	Cilengitide (EMD 121974; angiogenesis inhibitor)	Pancreatic cancer, NSCLC, glioblastoma	Phase II
	EMD 273066 (KS-IL2; immunocytokine)	EPCAM-expressing tumors (e.g., colorectal, NSCLC, ovarian)	Phase I/II
	BLP-25 (liposomal cancer vaccine)[3]	MUC1-expressing tumors: NSCLC, prostate cancer	Phase II
	EMD 273063 (14.18-IL2; immunocytokine)	Melanoma, neuroblastoma	Phase I
Diabetes	EML 16336 (glucose uptake stimulatory agent)	Type 2 diabetes and insulin resistance	Phase II
	EML 16257 (glucose-specific insulin secretagogue)	Type 2 diabetes and insulin resistance	Phase II
	EML 4156 (dual PPAR-α,γ activator)	Type 2 diabetes and dyslipidemia	Phase II[5]
	IDD 676 (aldose reductase inhibitor)	Diabetic microvascular complications (1st indication: peripheral neuropathy)	Phase II
Other Indication Areas	Vilazodone[6]	Depression	Phase II
	Sarizotan	Dyskinesia in Parkinson's disease	Phase II
	EMR 62203 (PDE V inhibitor)	Male erectile dysfunction	Phase II
	Asimadoline	Irritable bowel syndrome	Phase II
	EMR 62204 (oral NHE inhibitor)	Severe heart failure	Phase II
	EMR 62218 (5HT2A antagonist)	Schizophrenia	Phase I
Women's Health	EMM 210066 (E2/Nomac, oral)	Sequential HRT	Approved
	EMM 220066 (E2/Nomac, oral)	Continuous HRT	Phase III
	EMM 310066 (E2/Nomac, oral)	Contraception	Phase II
	EMM 210525 (E2/TX 525, oral)	Continuous HRT	Phase I[7]

[1] Clinical status (for most advanced indication)

[2] Co-developed with Bristol-Myers Squibb and ImClone. Erbitux is a trademark of ImClone Systems, Inc.

[3] Co-developed with Biomira (Canada)

[4] Co-developed with ImClone

[5] A new phase I study is necessary to confirm the maximal tolerated dose for pivotal phase II

[6] Co-developed with GlaxoSmithKline

[7] New investigation of administration route

E2 = estradiol, EGFR = epidermal growth factor receptor, EPCAM = epithelial cell adhesion molecule, HRT = hormone replacement therapy, 5HT2A = serotonin receptor 2A, MUC = mucinous adenocarcinoma of the stomach, NHE = sodium–hydrogen exchanger, Nomac = nomegestrol acetate, NSCLC = non-small-cell lung cancer, PDE V = phosphodiesterase V, PPAR = peroxisome proliferator-activator receptor, TX 525 = new progestin compound.

The potential of our pipeline is significant. The launch of a single successful global blockbuster could increase our ethical pharmaceuticals sales significantly and help meet aggressive profit expectations. To help achieve this next level of success, we realigned the Ethicals division in 2002, narrowing our focus on clinical areas most likely to see positive results. Going forward, our focus is on oncology, diabetes, and selected compounds from other indication areas.

With four compounds in phase III clinical trials and fourteen in phase II, we have good prospects for future products. Our research budget of EUR 423 million represented 24% of our sales in 2002. However, even at this level of investment, neither our R&D budget nor our internal resources can accommodate eight or ten compounds in phases III or IV of clinical development. Instead, we must focus on those products that we believe have the highest chance of commercial success and are most likely to provide a high return. Responsible management of limited resources is the prudent course of action, and we believe this targeted approach to commercialization is in the best interests of our investors and employees and of the patients.

For the other promising products in our pipeline, we will complete those trials that are currently underway and allocate some resources for starting new trials on selected ones. We have and will continue to investigate opportunities for the out-licensing of certain compounds or find co-development partners.

Global Growth

As the success of Glucophage® in the United States demonstrated, the U.S. market can mean the difference between an ethical drug with good sales and a blockbuster. Rather than being satisfied with licensing fees from partners in the United States, we have launched our own drug development and commercial presence there, EMD Pharmaceuticals, Inc. We believe this expanded access to the U.S. market – the world's largest market for ethical pharmaceuticals – will translate into global success.

ı Courage ı Erica Stone moves into new and uncharted territory in cancer research at EMD Lexigen in the United States. Merck's antibodies against cancer are an innovative biotherapeutic approach to fight this deadly disease.

Global success cannot be achieved without global coordination, and in 2002, we took significant steps to integrate Merck's ethical pharmaceuticals business on a global basis. The new global organization leverages experience from across our R&D platform – Germany, France, and the United States – to ensure that we have representative talent leading global functions. This increased integration is intended to support clinical development and simultaneous submission of new drug candidates to the FDA and EMEA (European Agency for the Evaluation of Medicinal Products) so that we can quickly bring these new products to market in Europe and the United States, thereby maximizing their potential and generating an immediate return on our investment.

Targeting Cancer

For centuries, cancer wasn't a diagnosis, it was a death sentence. Today, however, doctors and scientists are getting closer to helping turn cancer into a chronic disease. We believe that medicines can be made not only to treat tumors, but to have less side effects, reducing the negative impact on the quality of life for patients and their families.

Only in the latter half of the 20th century did doctors begin to turn the tide against cancer, using radiation, chemotherapy, and surgical approaches to check the progression of this deadly disease. But the progress was slow, and some of the side effects of these approaches can be debilitating. At Merck, one of our objectives is to develop treatments that target the cancer cells without harming the healthy cells, resulting in a better tolerated therapy.

ı Fascination ı Victor Pérez Medina Martínez in an analytical lab at Merck in Mexico follows up on a promising lead compound. Our continuing fascination with cutting-edge science results in innovation.

www.oncology.merck.de

Today, we have a greater understanding of how cancer works, of how it subverts the body's defense mechanisms, and of the role played by T-cells and antibodies. As our knowledge of cancer, of the immune system, and of the human genome grows, so do treatment options. We are exploring biological mechanisms that starve blood flow to the tumors, bind to cells and block cancer growth, or stimulate the immune system or help it recognize cancer as a foreign invader. The goal of these targeted approaches is to increase patient survival and improve the quality of life for cancer patients.

Our key developmental compounds include Erbitux™ and EMD 72000, both monoclonal antibodies that bind to cancer cells and inhibit tumor growth. Merck has worldwide rights to Erbitux™ outside of North America, where ImClone and Bristol-Myers Squibb will commercialize the compound. We have ongoing phase II/III clinical studies for the indication head & neck cancer and phase II studies for colorectal carcinoma. We plan to submit data from the latter study to the EMEA in mid-2003. This application for marketing approval is possible with the commitment to initiate phase III studies. The European market introduction of Erbitux™ is scheduled for 2004, thus making Erbitux™ our oncology product closest to launch. EMD 72000 is also progressing through the pipeline and could give doctors another weapon against cancer. The final analysis for a recently completed phase III clinical trial for Theratope® vaccine for metastatic (advanced) breast cancer is expected in mid-2003. Theratope® vaccine, which Merck is co-developing with Biomira of Edmonton, Alberta (Canada), triggers the body's own defense mechanism to attack the cancer cells. Theratope® vaccine has a Fast-Track designation with the FDA for the treatment of metastatic breast cancer and is also being tested in a phase II pilot study in colorectal cancer. Results are due in the first half of 2003.

The efforts of our clinical work in 2002 position Merck and its U.S. subsidiary EMD Pharmaceuticals, Inc. to focus on bringing our three nearest-term compounds closer to market: Erbitux™, EMD 72000, and Theratope® vaccine. Our approaches harness the power of immunology, biotechnology, and molecular biology to help the body itself combat cancer cells. We bring commitment and expertise to our work to assure that Merck is a leader in innovative cancer drugs that hold hope for patients and their families.

Targeting Diabetes and Its Complications

Diabetes is growing in epidemic proportions. As populations age and people live longer, as dietary changes sweep the developed world, the number of people with glycemic disorders and diabetic complications continues to skyrocket. Building on our expertise in treating type 2 diabetes, Merck is working on the successors to Glucophage® and Glucovance®. New oral drugs under development may help people with diabetes better manage their illness, reduce their blood glucose levels, and improve their blood lipid profiles. During 2002, four innovative compounds with novel mechanisms of action were in phase II of clinical development.

Our key investigational compounds to treat type 2 diabetes include EML 4156, which induces a decrease in glucose levels and an improvement in the lipid profile. EML 16257 has the potential to stimulate glucose-dependent insulin secretion by the pancreas and inhibit neoglucogenesis in the liver. Merck Santé in Lyon (France) is leading the effort with both these drugs, with support from the United States and Germany, and 2003 is a critical year on their developmental path. The clinical studies with the glucose-uptake-stimulating agent EML 16336 and the aldose reductase inhibitor IDD 676 are currently on hold until an interim analysis of the data is available.

www.diabetes.merck.de

Although there are also preclinical compounds that show promise, EML 4156 und EML 16257 represent the most immediate chances for Merck to extend its metabolic disorders franchise and help bring the diabetes epidemic under control.

Promising Compounds to Meet High Medical Needs

Severe heart failure. Parkinson's disease. Schizophrenia. Depression. Irritable bowel syndrome. Male erectile dysfunction. The list of diseases Merck's scientists and researchers target goes beyond oncology and diabetes to encompass other indication areas with high medical need. Although they are not in an area of immediate focus, these compounds offer the possibility of value creation: This will be based on either early out-licensing or our own continuing clinical development until a therapeutic profile is determined, which increases the prospects for a marketable product.

| GENERICS |

Another Record Year for the Generics Group

Sales of the Merck Generics Group rose 23 % to EUR 1,138 million. This increase was largely due to organic growth of 36 % and despite the disposal of our interest in Pharmaceutical Resources, Inc. (Par) in the third quarter of 2001. The Generics division contributed 35 % of total Pharmaceuticals sales. 'Merck Generics' is one of the most successful groups in the fast growing generics market.

www. generics.merck.de

A very strong performance in **Europe** boosted our sales of generics by 60 % to EUR 535 million. We achieved the highest growth in the United Kingdom, with a climb in sales of 121 % that was encouraged by new product launches of our subsidiary Generics UK, including the ulcer medicine omeprazole. In France sales increased by 42 % due to strong performance of the market leader Merck Génériques. In Germany market conditions have been difficult following the introduction of "aut idem" legislation (the forcing of low-price generic substitution) that has led to a stagnation in sales. Excellent sales were achieved by our operations in Portugal and The Netherlands, while the newer companies in Belgium and Italy continue to show impressive growth.

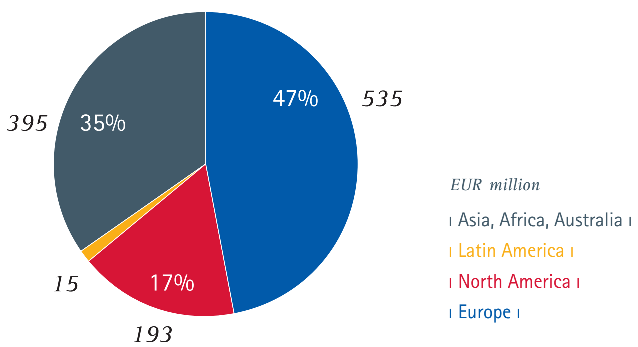
In **North America** sales declined 27 % to EUR 193 million. Taking into account the sale of our interest in the U.S. generics company Par in August 2001 we achieved sales growth of 47 %. The strong performance was due to increased market share in Canada and ongoing success in the United States through our marketing partners – helped by new products such as metformin, a generic version of Glucophage®, and the ulcer medicine nizatidine. In November 2002, for patent law reasons Merck Generics' affiliate Genpharm in Canada and Andrx, one of its U.S. partners, relinquished their 180-day marketing co-exclusivity rights to omeprazole in the United States to the company Kremers Urban Development Co. (KUDCo), Mequon, WI (USA). They subsequently signed a profit-sharing agreement and KUDCo launched its product to the U.S. market in December 2002. Also in November 2002, Genpharm received the first approval of a generic version of isotretinoin prescribed for the treatment of severe recalcitrant nodular acne. In the United States the group today holds approvals for 36 pharmaceutical products, as well as a number of tentative approvals and abbreviated new drug applications (ANDAs) awaiting approval.

In **Latin America** we increased sales to EUR 15 million, largely due to the launch of our generics business in Brazil.

Sales in the **Asia/Pacific** region increased 26 % to EUR 395 million. This was mainly due to the continued outstanding performance of our Australian subsidiary Alphapharm, together with our strengthened position in the Japanese market following the acquisition of Mohan Medicine Research Institute (Mohan). As the leading supplier of prescription medicines in Australia, Alphapharm's sales grew 20 % during the year. With the purchase of Mohan in Tokyo (January 1, 2002) enhancing our significant presence, Merck Hoei has become the third largest generics company in Japan, a market with considerable potential for growth.

The Merck Generics Group will continue to expand its portfolio of products through internal and collaborative development in order to offer the widest possible range of generic equivalents to the major brands in all therapeutic areas. With numerous launches planned in 2003, and increasing development of more technically challenging formulations that add value to its portfolio, we expect continuing strong growth in the future.

Generics – Sales by Region



Rising healthcare costs, stricter governmental cost-containment measures, and further price regulations are making generics one of the fastest growing sectors in the global pharmaceutical business. The global market for generic pharmaceutical products is expected to grow annually by 13 % during the period to 2006, considerably more than the total pharmaceutical market growth of 10 %. A reason for this strong growth is the fact that as many as 15 of the world's leading drugs – so-called blockbusters – are losing their patent protection over the next few years. In the United States alone, drugs with total annual sales of more than EUR 60 billion face patent expiry over the next ten years. In all healthcare systems generics offer products equivalent in quality to the original brands at affordable prices. Their use creates the financial margin for prescribing innovative therapeutics addressing otherwise unmet medical needs. In the United States, for example, the average price for a generic drug is under EUR 20, for a patent protected drug more than EUR 70. Generics account for approximately 45 % of all prescriptions.

In this increasingly competitive market, the Merck Generics Group ranks among the world's leaders. Merck entered the generics business with the acquisition of a small group of companies in 1994. Immediately afterwards, the group supplemented its activities with a series of start-ups – many with the help of sister companies in the ethicals business. Additional market share has been achieved by way of acquisitions in Germany and Japan. The group is now broadly represented across the globe, with leading market positions in Australia, France, New Zealand, Portugal, and the United Kingdom. Merck Generics also invests in the smaller European markets that still have a low generic substitution rate but offer high growth potential. Although its strength lies in Europe, it is also represented in North and Latin America, Asia Pacific, Eastern Europe, the Middle East, and South Africa. The group is continuously looking for further acquisitions to increase critical mass or to access viable markets, including the United States.

The R&D strategy of our Generics division is to identify all significant products worldwide with a patent expiry in the near future, to ensure the availability of our generic version for sale in all relevant territories on the date of expiry. With significant investment in research and development across multiple sites, expert skills in the sourcing and acquisition of raw materials and leading international in-house patent expertise, the Merck Generics Group is one of the few truly global players in the generics business. Additionally, it has a comprehensive and sophisticated range of manufacturing and quality-control capabilities primarily centralized in its three operating regions, with packaging localized where economically feasible. The relationship with its customers is also of paramount importance and is well serviced by the sales and commercial functions in the countries in which we operate. The Merck Generics Group employs over 3,000 highly motivated people and excels in established markets, while continuing to make important inroads in new markets.

| Kim Rasmussen | Generics |

Working as a sales representative of Alphapharm – Australia's No. 1 generics company – she gives advice to doctor Sushil Kramer in Brisbane.

» *Merck Generics* – Growing Success in a Growing Market «

| CONSUMER HEALTH CARE |

Strong International Brands in Self-Medication

Sales in the Consumer Health Care division fell 1.4% to EUR 309 million, thus accounting for 10% of total Pharmaceuticals sales. Our self-medication business has been operated by a holding company since the beginning of 2002. It occupies a mid-market position and is represented with strong brands in the key segments. Our subsidiaries are Seven Seas in the United Kingdom, Merck Médication Familiale in France, and Merck Selbstmedikation in Germany. In July 2002, we acquired the French company Laboratoires Richelet, which generated sales of around EUR 11 million in 2001 with vitamins, minerals, and dietary supplements.

www.ConsumerHealthCare.merck.de

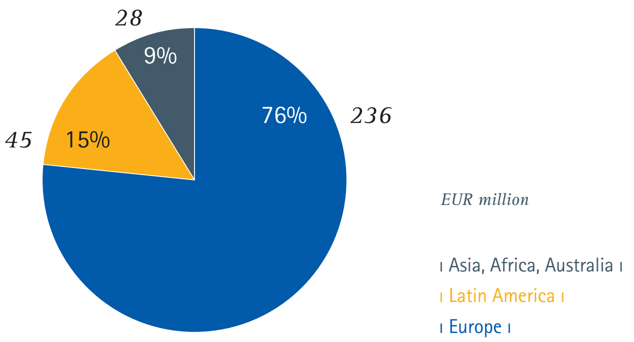
Sales in this division increased in **Europe** 4.0% to EUR 236 million. In the United Kingdom, one of our three most important sales markets, sales rose 4.4% to EUR 70 million. Sales in France, totaling EUR 72 million, were slightly above previous year's level, while in Germany there was a decrease of 5.1% to EUR 37 million. With a decline of 25% to EUR 45 million, our sales in **Latin America** remained below our expectations due to unfavorable currency effects as well as the prevailing negative trend in all vitamin C markets. We achieved encouraging growth of 4.3% to EUR 28 million in the region of **Asia, Africa, and Australia.**

Vitamins and minerals accounted for 24% of our global sales, cold remedies for 14%, preparations of plant and marine raw materials for 27%, and other self-medication products for 35%. In a pan-European brand survey (European Trusted Brand Survey 2002), Seven Seas took first place for the second time among British vitamin brands. Marketing in the United Kingdom has been targeting young, health- and fitness-conscious people since September 2002 with NeutraTaste® Sportflex™ – a combination of omega-3 fatty acids and a vitamin/mineral mixture. Merck's strong brands in vitamin and mineral preparations include Cebion®, Multibionta®, Haliborange®, Sangobion®, and Bion®3 – the world's first and, to date, only multivitamin tablet containing probiotic cultures. As part of the continual internationalization of this brand, we launched Bion®3 in Indonesia in August and in France in December. In Germany, our Femibion® pregnancy multivitamins achieved market leadership due to their new formulation containing iodine.

Merck Consumer Health Care developed two further innovative products – in addition to Bion®3 – that are geared towards today's increased sense of health-consciousness: In 2002, we launched in Mexico the new vitamin/mineral combination product Diabion®, especially for diabetics; for the elderly, our French skin specialists marketed the depigmenting preparation Iklen®. Nasivin® and Ilvico® remain our strong brands among products for combating colds; in France, Médiflor® was again the number one medicinal tea.

Our marketing activities focus on the major differences between the healthcare markets: However, in order to create more synergies between the activities of the various countries, we have established three strategic marketing teams (Vitamins/Minerals, Natural Products, Cough and Cold). International brand management guidelines for Seven Seas' NeutraTaste®, Médiflor®, Cebion®, Nasivin®, and Bion®3 aim to ensure global brand value. We are continuing to invest in our development facilities with our three sites in Dijon (France), Hull (United Kingdom), and Darmstadt (Germany). In addition to confirming the effectiveness of our preparations by means of clinical studies, we are developing innovative concepts for new products that we intend to introduce as independent brands to secure our long-term success.

Consumer Health Care – Sales by Region



| CHEMICALS |

Market Conditions for the International Chemical Industry

The downward trend of the global chemical industry was halted at the end of 2001. In the first half of 2002 the business climate showed signs of improvement. The performance in the second half of 2002 was characterized by weak industrial demand and rising crude oil prices leading to cost pressure. With one-third market share countries of the European Union remained the major producers of chemicals worldwide. The chemical production grew 2.7% worldwide and 3.0% in Europe, mainly on the basis of the continuing strong performance of pharmaceuticals. Germany holds about 25% market share in Europe and saw an increase in chemicals production of about 2.5%, whereas sales declined 1.9% due to the weak domestic demand, no stimulating exports as well as high raw material costs and the revaluation of the euro.

Good Growth Serving Innovation-Driven Industries

As of January 1, 2002, the Chemicals business sector consists of five divisions and comprises the business with chemicals for high-tech applications: liquid crystals for displays (Liquid Crystals), electronic chemicals for chip manufacture (Electronic Chemicals), effect pigments and specialty chemicals for the technical, optical, and cosmetic industry (Pigments). For analysis and chromatography in control and research laboratories, we offer reagents and test kits (Analytics & Reagents) and accompany the entire process chain of research-based pharmaceutical companies with chemicals and services (Life Science Products).

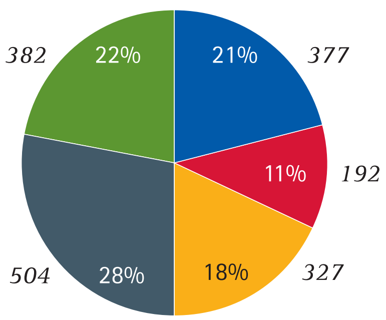
Chemicals sales rose 5.0% to EUR 1,782 million as demand for our high-tech products improved. The organic growth rate was 12%. Since Asia and the United States account for more than half of the sales, currency effects had a strong influence. The operating result increased 27% to EUR 260 million. The return on sales (ROS) of 14.6% and the return on capital employed (ROCE) of 12.3% came close to our ambitious target of 15% for these key figures. The Chemicals business sector contributed 21% of the Merck Group's total sales and 42% of the total operating result.

Chemicals – Key Figures

EUR million	2002	2001*	Change in %	Share in %
Sales	1,782	1,697	5.0	
Liquid Crystals	377	276	36.8	21
Electronic Chemicals	192	216	–11.0	11
Pigments	327	314	4.3	18
Analytics & Reagents	504	508	–0.8	28
Life Science Products	382	383	0.0	22
Operating result	260	204	27.4	
Return on sales	14.6%	12.0%		
EBIT	208	129	61.7	

*adjusted to the structure of 2002

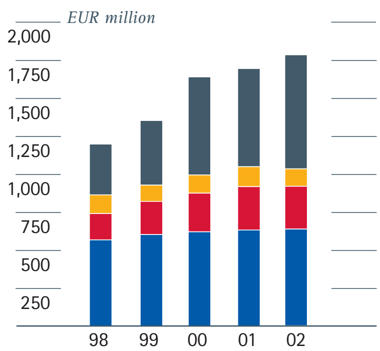
Sales of Chemicals in **Europe** and in **North America** remained at previous year's levels amounting to EUR 636 million and EUR 281 million, respectively. In **Latin America**, sales decreased 12% to EUR 115 million due to the economic situation in this region. In **Asia, Africa, and Australia** we achieved a strong growth of 16% to EUR 750 million although currency effects had a significantly negative impact.



Chemicals – Sales by Division

EUR million

Life Science Products
Analytics & Reagents
Pigments
Electronic Chemicals
Liquid Crystals



Chemicals – Regional Sales Development

Asia, Africa, Australia
Latin America
North America
Europe

The **Liquid Crystals** division was very successful, increasing sales 37 % to EUR 377 million. Sales by the **Electronic Chemicals** division decreased 11 % to EUR 192 million, **Analytics & Reagents**, contributing the largest part with 28 % of total sales of this business sector, recorded unchanged sales of EUR 504 million. The **Pigments** division maintained its growth rate with sales rising 4.3 % to EUR 327 million. The new **Life Science Products** division achieved sales of EUR 382 million.

| LIQUID CRYSTALS |

LCD Monitors Become the No. 1 Application

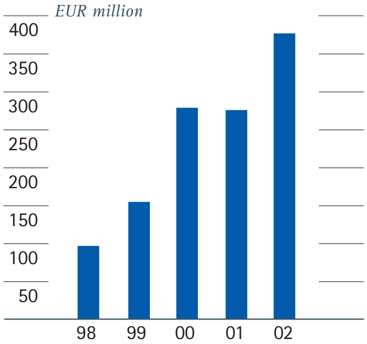
Merck is the global market leader for the liquid crystals (LCs) used in high-quality displays of LC monitors, flat-screen TVs, notebooks, mobile phones, and many other applications. After stagnation in 2001, we experienced another boom year with sales rising 37 % to EUR 377 million – the organic growth rate even reached 47 %. Sales are nearly exclusively achieved with customers in Asia.

| **Pioneering Spirit** | Thomas Mergner and Elvira Montenegro in Darmstadt controlling the automated parallel synthesis of a group of new LC test compounds– an innovative approach to the high-purity production of chemicals in the gram scale.

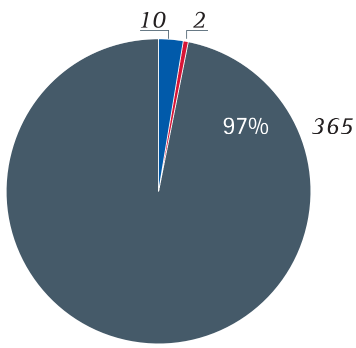
www.LiquidCrystals.merck.de

Although we could raise our market-share we saw only a small increase in the demand for small liquid crystal displays (LCDs) used in mobile phones and other telecommunication applications. Strong growth was achieved with LCs for TFT (**T**hin **F**ilm **T**ransistor) LCDs used in flat LCD monitors. More efficient production of large-area LCDs for desktop monitors resulted in lower street prices so that the market responded with a strong volume expansion. Since high-volume LCD production has moved to Korea and Taiwan, we have also invested in a new technical center, south of Seoul, which was opened in September 2002. Our **I**TO (**I**ndium **T**in **O**xide) glass production in Taiwan was running at full capacity, particularly the new coating line for the emerging color LCD glass market. The construction of our new factory for LC production in Germany, an investment totaling EUR 250 million, is nearly completed. It is expected to begin operation in 2003, which will allow us to triple production and meet the expected future market demand in a very cost-efficient way. With largely expanded capacities and our patent portfolio extending to all current LCD technologies, we are confident to widen our liquid crystals business and keep or even further improve our strong market position.

Liquid Crystals – Sales Development



Sales by Region



Liquid crystals are one of the biggest success stories at Merck and an impressive example of how a pure research topic becomes a great economic success: Today, information displays contribute to improving the quality of life for all people. The dedication of our researchers and the long-term corporate strategy of investing in intensive basic LC research, extending over a period of ten years, eventually led to sales of EUR 377 million for the Group in 2002.

Decisive for this success was the close collaboration of scientists from diverse disciplines such as chemistry, physics, and electronics. The requirements of the electronics industry and their customers were and still are very important regarding both the number of innovative ideas and the speed with which they have to be realized. Although our main R&D and production facilities are located in Germany, the chance to have immediate contact to our main customers was the reason to establish research and development centers in Japan and later in Korea and Taiwan. Today, Merck is the global market leader in the liquid crystals business, and the economical perspectives remain excellent, as the LCD technology is an essential part of our information society.

Passive displays (TN- and STN-LCDs, see Merck's TopTopics brochure or *TopTopics@merck.de* for further information) can be found in all kinds of small-sized electronic devices, particularly mobile phones. By providing tailor-made LC mixtures for these display types, Merck participated in their enormous success. We also invested in the production of ITO glass for color displays and have gained a good market share. For a long time, notebooks have been the main application for large-size LCDs. Although demand for them is still growing, with more than 50 million sold pieces expected for 2006, LCD monitors for PCs became the most important market segment in 2002. TFT-LCDs are gradually replacing the bulky and more energy-consuming cathode ray tube desktop monitors. With more than 30 million flat-screen monitors sold worldwide in 2002, representing about 1/3 of the total desk top monitor market, these large displays are the strongest driving force for the total LCD market. Experts foresee a still growing trend, with more than 100 million sold pieces estimated for 2006 (>70 % share of flat-screen monitors).

In 2002, large-size LCD-TVs – up to 37 inches in size – were introduced into the market. With more than 1,3 million units sold in 2002 these flat TVs are the focus of LCD development in the coming years. Major TV manufacturers selected new display modes (for example VA, Vertical Alignment, ASV, Advanced Super View, or IPS, In-Plane Switching), which Merck had formerly developed in collaborations with the leading LCD manufacturers. We are also the main or, in some cases, exclusive suppliers of liquid crystal mixtures for these new LCD technologies and see a excellent chance to keep our position in the future. The most recent market research predicted an annual growth rate of about 60 % and a market volume of up to 16 million sold units in 2006, corresponding to 10 % of the total TV market.

Masahiro Yamamoto

Marketing & Sales, Liquid Crystals

LC displays with three-dimensional images are the latest development in Japan – Merck is inside.

» *Liquid Crystals* – We Make Bits and Bytes Visible «

| ELECTRONIC CHEMICALS |

Organic Growth with Process Chemicals

www.ElectronicChemicals.merck.de

Merck supplies the semiconductor industry with a complete set of process chemicals and various services related to supply systems. The division's sales declined 11% to EUR 192 million due to the active phase out of our equipment business and the continuously difficult situation of the semiconductor industry. In our core business with ultra-pure process chemicals, we achieved an organic growth of 4.2%. **Europe** accounts for one third of our sales and **Asia**, with sales of EUR 120 million in 2002, is the main market. Since sales declined over the last quarters, indicating an ongoing struggle in the worldwide telecommunication industry, we expect despite some positive signals from the market to face difficult times. In the future we want to operate our restructured business in a company of its own. From January 1, 2003, we combined our European activities for the semiconductor industry under the roof of Merck Electronic Chemicals Holding GmbH as a 100-percent subsidiary of the Merck KGaA.

| PIGMENTS |

Xirallic® Effect Pigments on the Road to Success

www.Pigments.merck.de

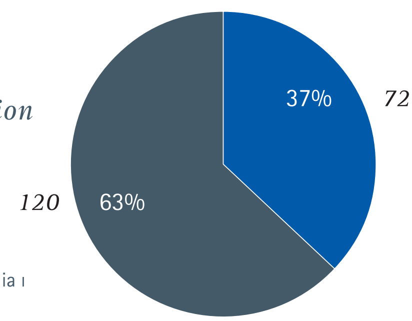
Sales in this division increased by 4.3% to EUR 327 million. Excluding currency effects, organic growth amounted to 10%. This increase in sales was primarily generated by **Coatings**, where the high demand from the varnish industry for our new high-luster effect pigments (Xirallic®) and our mica pigments (Iriodin®) led to double-digit growth rates. As regards our innovative effect pigments, we are benefiting from a color trend in automotive paints that is enhancing silver tones with color and high-luster effects, thus offering alternatives to silver metallics. Our innovative Colorstream® pigments found new applications in the United States, Japan and Europe. These high-quality pigments change color depending on the angle of vision and enable designers to create a wide range of interesting effects. After concluding our investment in the first two stages of a new pigment production center in Gernsheim, Germany, in 2002, the capacity of these major facilities is being well-utilized, especially for pigments used in printing and plastic applications. Another contributor to sales growth were sales with functional pigments, which, when used as a plastic additive, for example, allow sunlight to pass through them, but exclude heat radiation („SHR pigments", SHR = **S**olar **H**eat **R**eflection).

Sales in the **Cosmetics** business segment remained on the previous year's level, although sales of Cosmetics Actives declined due to the planned exit from unprofitable businesses. We did, however, achieve initial successes with substances for skin protection, in particular with our innovations Ectoin® (promotes cell repair and protection mechanisms) and Emblica® (skin-lightening product against liver spots). In 2002, we introduced a new microencapsulation technology for UV filter chemicals (Eusolex® UV Pearls), which enabled incompatible cosmetic constituents to be combined in a single end product. In the Optics business segment, we continued the consistent expansion of our business as the leading supplier of evaporants for optical coating (Patinal®), but had to accept declines in business with calcium fluoride for the electronics industry.

In spite of substantial negative currency effects, sales in this division increased in all regions: In **Europe**, we generated growth of 3.6% to EUR 125 million; in **North America**, 2.8% to EUR 89 million; in **Asia, Africa, and Australia**, 6.0% to EUR 91 million, and in **Latin America**, 7.0% to EUR 22 million.

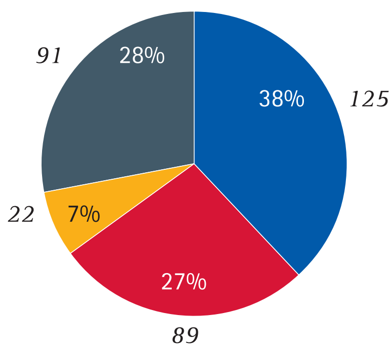
Electronic Chemicals – Sales by Region

EUR million



Pigments – Sales by Region

EUR million



| ANALYTICS & REAGENTS |

Organic Growth Above Average

The Analytics & Reagents division recorded an organic growth of 7.5%. Due to divestment activities in the clinical chemistry business as well as currency effects sales decreased 0.8% to EUR 504 million. In the strategic business fields Reagents & Chemicals we increased sales 4.9% to EUR 313 million. This is the fifth consecutive year with above-average growth rate in an attractive, non-cyclical reagents and test kits market of 3.5 billion EUR growing 3–7% each year. Strong growth was once again mainly driven by double-digit increase of high purity solvents and reference materials sales.

www.Analytics.merck.de

www.Reagents.merck.de

Our major product lines are high-purity inorganic reagents for trace analysis, solvents for chromatography, organic chemicals for medium-sized production, innovative dehydrated culture media and rapid tests for the detection of food-borne pathogens, and mobile analytical systems for the in-process control e.g. for the wine and dairy industries. Merck is recognized as the world market leader in analytical reagents for the pharmaceutical, chemical, and food industries worldwide and provider of test kits/assays for industrial microbiology and food and environmental analysis. In 2002 we were the first company to introduce 5 most important rapid tests in combination with specific enhanced culture media for detection of foodborne pathogens to the market.

The major growth region was **Asia, Africa, and Australia** with a 4.9% rise in sales to EUR 130 million. Sales in **Europe**, totaling EUR 208 million, and in **North America**, totaling EUR 87 million, reached last year's levels, while we recorded a decrease of 12% to EUR 79 million in **Latin America** due to economic drawbacks.

| LIFE SCIENCE PRODUCTS |

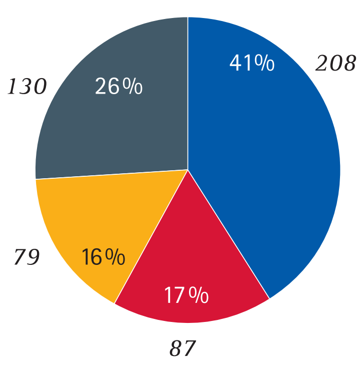
Successful Focus on Growth Markets

As part of refocusing our Chemicals business at the beginning of 2002, we established our Life Science Products division to strengthen our market orientation. This division supports the entire valued-added chain of the life science industry and provides research-driven companies in the pharmaceutical and biotechnological sector (Life Sciences) with a full range of products and services. Due to the focus on this core business, fiscal year 2002 was characterized to a great extent by portfolio streamlining. For example, we discontinued our vitamin C production and parted with our rodenticide business. Combined with negative currency effects, sales were thus on the previous year's level at EUR 381 million, while organic growth was 6.6%.

www.LifeScienceProducts.merck.de

We achieved double-digit growth in our core business areas, Bioscience and Bulk Pharmaceutical Compounds, after adjustment for exchange rate effects. The positive development in Biochemicals was given a decisive boost by EMD Biosciences. This U.S. company, which previously operated under the name CN Biosciences, supports biomedical research in around 50 countries with more than 1,000 new products every year. With growth of 27%, our Bulk Pharmaceutical Compounds business was extremely successful, where we combined our customized synthesis and purification, as well as active agents and auxiliaries for the pharmaceutical industry. At 5–8%, Merck's market growth in both these areas is above average. Our research activities focus on future applications in bioscience (proteomics), polymers as a new support matrix for the purification of biodrugs (e.g. antibodies) and customized organic synthesis.

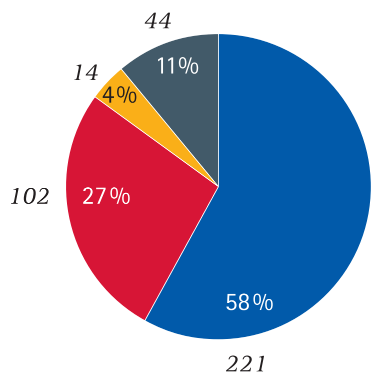
In **Europe**, we achieved an increase in sales of 4.9% to EUR 221 million with encouraging growth in Ireland, Switzerland, the Benelux countries and Eastern Europe, while sales in Germany showed a strong decline. With sales of EUR 102 million in **North America** and EUR 44 million in **Asia, Africa, and Australia,** we almost achieved the previous year's level. In **Latin America**, sales declined by 28% to EUR 14 million.



Analytics & Reagents – Regional Sales

EUR million

Asia, Africa, Australia
Latin America
North America
Europe



Life Science Products – Regional Sales

EUR million

Asia, Africa, Australia
Latin America
North America
Europe

| LABORATORY DISTRIBUTION |

Satisfying Organic Growth Offset by Currency Effects

www.vwr.com

With its laboratory chemicals, equipment, instruments, and consumables along with a comprehensive service offering, Merck is the world's leading full-service provider in the laboratory distribution business. The Laboratory Distribution business sector is identical to the worldwide operations of our wholly owned subsidiary VWR International, Inc., headquartered in West Chester, near Philadelphia. Laboratory Distribution sales slightly decreased 1.6% to EUR 2,711 million, while the operating result fell 8.2% to EUR 84 million. The free cash flow increased a gratifying 19% to EUR 81 million. The ROS amounted to 3.1%, compared to 3.3% the year before. This business sector contributed 36% of the Merck Group's total sales and 14% of the total operating result.

We recorded 69% of total sales or EUR 1,882 million in **North America**, 30% or EUR 806 million were achieved by our affiliates in **Europe**. Strong currency fluctuations between the U.S. dollar and the euro offset a positive organic growth of 2.3%. In Canada, however, we saw a growth in sales of 3.4% in 2002, and despite the difficult market conditions, many regions in both the United States and Europe met their 2002 plans.

The Laboratory Distribution business was also directly affected by the difficult economic situation our customers were facing over the year: We saw significant spending decreases across the biotech and pharmaceutical marketplace; equipment and instrument sales were flat industry-wide; chemicals and consumables grew only slightly; and budget constrictions hampered science education at the end of the year. However, while economic factors did create a tight market in 2002, we expect that R&D spending will increase again to ensure the long-term viability of drug development companies and pharmaceutical manufacturers. We will continue to evaluate opportunities for geographic as well as industry expansion. We will responsibly pursue our acquisition strategy or consider new areas that can make us more competitive.

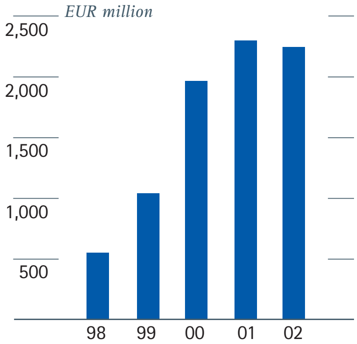
Laboratory Distribution – Key Figures

EUR million	2002	2001	Change in %
Sales	2,711	2,754	–1.6
Operating Result	84	92	–8.2
Return on Sales	3.1%	3.3%	
EBIT	79	91	–13.4

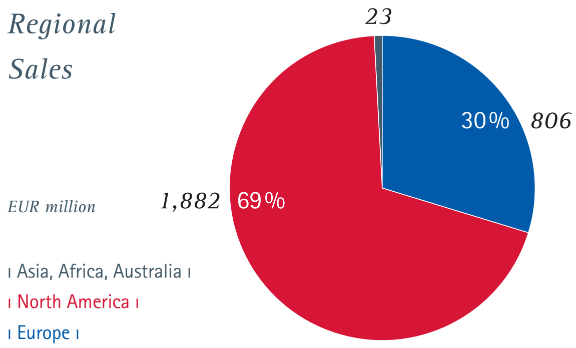
Progressing from a Local One-Man Operation …

VWR International marked a significant milestone in 2002 – its 150th anniversary. While the "international" part of VWR International is relatively new, the company's North American roots date back to 1852 when John Taylor founded a druggist and chemical glassware company in San Francisco. This local enterprise followed many paths and survived many different names and owners; however, the seed of that business is what ultimately evolved into the company known today as VWR International, the world leader in supplying the global research laboratory market. The recent growth of VWR has been fueled by the acquisitions of more

Laboratory Distribution – Sales Development



Regional Sales



than 35 science supply companies over the past ten years. In 1993, VWR established a business relationship with the Merck Group, which later became a major investor and shareholder. In 1999, Merck acquired the remaining shares of the company, becoming the sole owner and parent company of VWR International. To underscore and strengthen the position of Merck's Laboratory Distribution as a single global organization, the former Merck Eurolab companies in Europe began operating under the name VWR International in 2002.

... to the Global Market Leader in Laboratory Distribution

Today, around 6,000 employees in 18 countries strive hard to deliver excellence in the distribution of scientific supplies and offer added value by combining customer focus and excellent operating processes. VWR's business is highly diversified across a spectrum of products and services, customer groups, and geography. The company offers more than 750,000 products, from more than 5,000 manufacturers, to over 250,000 customers throughout North America and Europe. Our primary customers work in the pharmaceutical, life science, chemical, technology, food processing, and consumer product industries. Other important customers include universities and research institutes, governmental agencies, environmental testing organizations, and schools.

ı Tradition ı Lori Madar and Dominic Mesoraca ensure that customers' data at VWR International in West Chester are kept up to date. They are part of a tradition that began 150 years ago in San Francisco. VWR has since become a world leader in laboratory distribution.

We are committed to efficiently managing the entire process chain – from purchasing at the suppliers through to arrival of the laboratory products at the customer's location, including error-free, rapid dispatch and just-in-time delivery. In June 2002, our product range was expanded to include the filtration technologies of Pall Corporation, East Hills, New York, the global leader in filtration, separations, and purification. In September 2002, VWR acquired from Merck, Darmstadt, the exclusive distribution rights in North America for Merck's HPLC column and sample preparation device product lines, including the innovative Chromolith™ columns.

VWR offers innovative e-business solutions to enable cost-efficient and rapid processing of customers' inquiries and orders. Many of the products we offer can be conveniently ordered online through our network of websites. Developed centrally once for VWR International, the core site's high-level functionality is rolled out to country-based websites where it is complemented with local content in local languages. Features include expanded order history, enhanced chemical searching, parametric searching, and more robust approval routing. VWR has also developed highly sophisticated business-to-business (b2b) solutions, with the option of internal budgeting and order authorization for decentralized purchasing. We are able to seamlessly link our tailored b2b solutions to standard purchasing platforms and customers' enterprise resource planning systems. E-commerce with true "one-stop shopping" continues to be an important business channel for VWR. In 2002, 28% of all lines shipped were coming through e-business channels.

| RESULT OF THE MERCK GROUP |

High R&D Expenses and Expiry of Product Protection Impact Result

The operating result of the **Merck Group** totaled EUR 616 million, corresponding to a year-on-year decrease of 29.7 %. This result was adversely affected by currency translation effects amounting to EUR 28 million and acquisitions/divestitures of EUR 30 million. Return on sales (ROS) declined from 11.6 % to just 8.2 %. Return on capital employed (ROCE) also decreased, amounting to 9.6 % in fiscal year 2002, compared with 13.5 % the previous year.

The operating result of the **Pharmaceuticals** business sector amounted to EUR 272 million, almost halving the figure achieved in the record year 2001. The dramatic decline in operating result was due to competition in the United states from imitations (generics) of our best-selling product, the oral antidiabetic agent, Glucophage® at the beginning of the year that could only be partly compensated for by our Generics and Consumer Health Care divisions. Nevertheless, we further increased our high level of investment in research and development in order to drive our promising projects further forward, in particular the clinical studies in the indications of cancer and diabetes. This resulted, however, in a decrease in return on sales (ROS) from 17.5 % to just 8.4 %. Return on capital employed (ROCE) decreased accordingly from 20.4 % to 9.4 %. Both of these key figures thus fall substantially short of our long-term targets of 20 % in each case; in the medium term, however, we are willing to accept deviations from these targets and regard this as an investment in the future.

The **Chemicals** business sector increased its operating result by 27 % to EUR 260 million. The main driver behind this development was once again our Liquid Crystals division. Return on sales (ROS) increased from 12.0 % the previous year to 14.6 % and is therefore just under our long-term target of 15 %. Return on capital employed (ROCE) also improved, amounting to 12.3 % in fiscal year 2002, compared with 9.7 % the previous year, and therefore came close to our long-term target of 15 %.

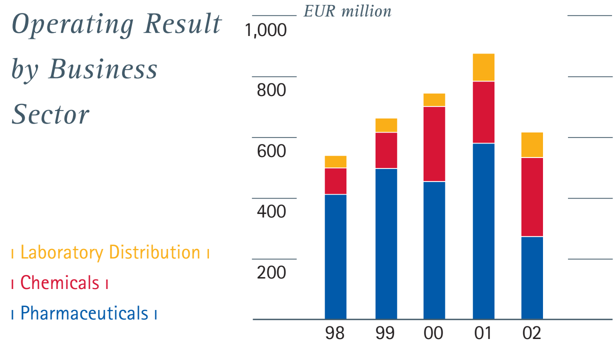
Our **Laboratory Distribution (VWR International)** business sector had to accept losses in earnings in the second half of the year due to the weak economy in the United States and Europe. In addition, the impact of the negative currency effects arising from the appreciation of the euro against the dollar has not been insubstantial. Consequently, the operating result decreased by 8.2 % to EUR 84 million. However, both return on sales (ROS) and return on capital employed (ROCE) only showed a slight decrease compared with the previous year, and therfore came close to our long-term target of 15 %.

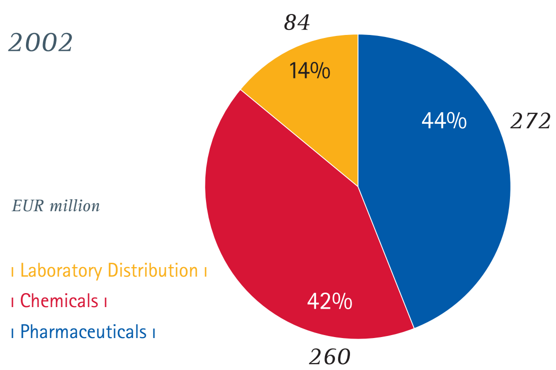
Key Figures of the Merck Group

	Operating Result *EUR million*	Exceptional items *EUR million*	EBIT *EUR million*	EBITDA *EUR million*	ROS *in %*	ROCE *in %*
Pharmaceuticals	272	–	272	479	8.4	9.4
Chemicals	260	-52	208	357	14.6	12.3
Laboratory Distribution	84	-5	79	149	3.1	5.8
Merck Group	**616**	**-57**	**559**	**985**	**8.2**	**9.6**

ROS = Return on Sales · ROCE = Return on Capital Employed

Operating Result by Business Sector





Expenses and Income from Exceptional Items

In the year under review, expenditure on exceptional items amounted to EUR 113 million, compared with income from exceptional items amounting to EUR 56 million. These earnings resulted primarily from a gain on exchange arising from the repatriation of capital of a now liquidated subsidiary in the United Kingdom. Expenses related to restructuring and to risks from the vitamin business. This resulted in net expenditure for exceptional items of EUR 57 million, compared with net income of EUR 410 million the previous year. Earnings before interest and tax (EBIT) therefore decreased from EUR 1,286 million to EUR 559 million.

Improved Financial Result

The financial result (net expenditure) increased by 29%. This is attributable to both a decrease in the interest rate compared with the previous year, as well as to a substantial reduction in the volume of financial obligations. Exchange losses from financial obligations were, however, also considerably lower than in the previous year.

Favorable Tax Rate (adjusted)

Profit before tax was EUR 412 million; profit after tax was EUR 215 million. Excluding exceptional items, profit after tax was 24.4% lower than the previous year.

Effect of Exceptional Items

EUR million	2002	2002 *Before exceptional items*	2001	2001 *Before exceptional items*
Profit before tax	412	468	1,078	669
Income tax	–196	–198	–423	–312
Profit after tax	215	270	655	357
Tax rate	**47.7%**	**42.3%**	**39.3%**	**46.6%**

Dividend Proposal

The Executive Board proposes to the Annual General Meeting the payment of a dividend of EUR 1.00 per share from the earnings of the year under review, –5.3% more than the previous year.

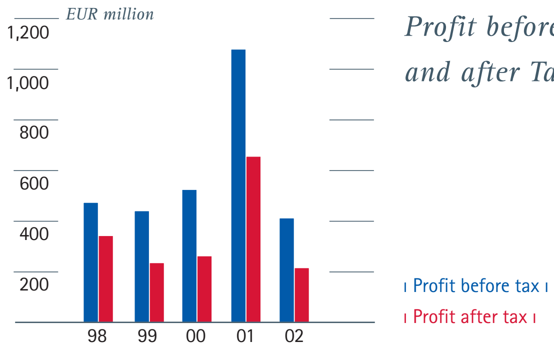
Free Cash Flow and Balance Sheet Structure

Free cash flow amounted to EUR 441 million in the year under review. It amounted to EUR 664 million the previous year due to the substantial proceeds from the sale of Pharmaceutical Resources and ImClone shares, which the figure contained.

At EUR 7,511 million in 2002, total assets were down EUR 744 million on the previous year. This was due primarily to the sale of a substantial residual claim from the disposal of our interest in Bracco in the course of the fiscal year to reduce financial debts. In addition, currency translation differences had a reducing effect on assets. This is reflected by a decrease in equity of EUR 261 million as a result of currency translation. Financial obligations decreased by EUR 422 million. At 27.3% of total assets, the equity ratio was slightly lower than that of the previous year. The gearing ratio of net equity to net financial obligations (financial obligations less cash and cash equivalents) also remained on the previous year's level at 1:0.973.

Further details on the financial position and the balance sheet are contained in the consolidated financial statements and the related explanatory notes starting on page 49.

Profit before and after Tax



| WE ARE INVESTING IN THE FUTURE |

Growing Number of Employees – an Indicator of Success

The Merck Group consists of 204 companies in 53 countries and operates 62 production sites in 28 countries. A total of 34,504 employees worldwide contributed to a stable performance in 2002 and ensure long-term entrepreneurial success. The increase in the number of employees by 0.6% compared with the previous year is attributable to a substantial increase in staff in Japan, Korea, China, and the Philippines.

Generations Vera Schuster, Stefanie Pohl, and Daniel Winter with their biology teacher Klaus Hillerich in Darmstadt. For generations, Merck has encouraged its employees to learn from entrepreneurship and achievements of our predecessors.

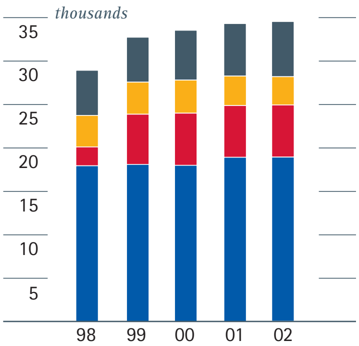
In order to be able to build on highly qualified employees, we continued and will continue to invest in numerous employee training programs, such as the Merck Online Campus, which offers a range of e-learning opportunities, and our MBA programs at the University of Pforzheim and the Ashridge Management Institute in the United Kingdom. Merck University continues to be a key building block, offering our top managers courses at renowned business schools on three continents. Our Corporate Meeting in Chicago, attended by our senior international managers in May 2002, focused on the strategic issues employees and innovation. The following human resources issues were addressed as group-wide activities: Management development and succession planning (establishment of a "top talent pool"), as well as systems for setting targets and evaluating employee performance. We started a program in Asia and Latin America in 2002 to standardize human resources management with the aim of retaining highly qualified and motivated employees and attracting new talent to the company.

Decrease in Capital Expenditure

After record investment of EUR 470 million in 2001, our investments in property, plant and equipment decreased by EUR 93 million to EUR 377 million. As a result, the investment ratio, which is based on sales, fell from 6.2% to 5.0%, thus approaching the medium-term goal of a ratio of under 5%. The high level of investment in new fixed assets over the past few years thus allows us greater scope in the future, in particular to finance our research projects. The regional breakdown shows that investment was focused on Germany: Over the past 6 years, we have invested almost EUR 1 billion in our Darmstadt and Gernsheim sites.

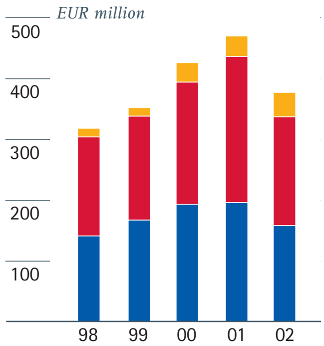
Number of Employees as of Dec. 31

Asia, Africa, Australia
Latin America
North America
Europe



Investment in Property, Plant and Equipment

Laboratory Distribution
Chemicals
Pharmaceuticals



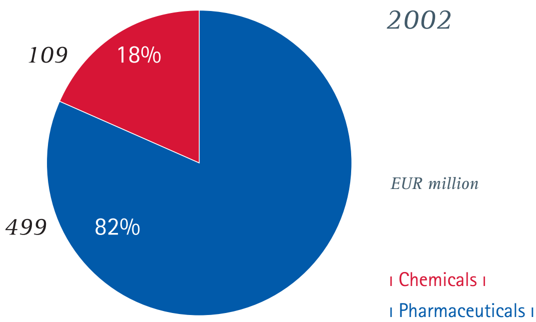
At EUR 158 million, just under half of investment worldwide was dedicated to the **Pharmaceuticals** business sector. After modernizing our production facilities for solid pharmaceutical formulations over the past few years, we began overhauling ampoule production. In addition, we are setting up special synthesis facilities for the active agent contained in the antidepressant vilazodone. With the completion and start of operations at our research center and the pilot plant for protein manufacture at EMD Lexigen in Boston, United States, Merck reached another milestone in the field of biotechnology. Our Generics subsidiary Alphapharm in Australia and Genpharm in Canada also expanded their production facilities in order to adapt to the growing market. Alphapharm also invested in new research facilities.

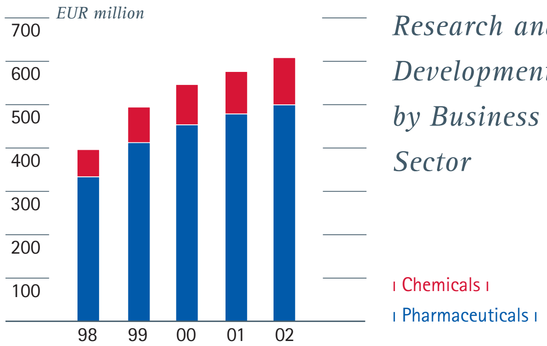
ı Tradition ı Heiko Höland and Jens Klatyk at our new magnesium chloride and calcium chloride production line in Darmstadt. Merck has a long tradition of producing this basic chemical in ever increasing purity.

The **Chemicals** business sector invested EUR 179 million in property, plant and equipment, thus continuing its program begun in 2001. These investments include the expansion of synthesis capacities for Liquid Crystals (LC) in Darmstadt and Gernsheim, as well as the expansion of mixture production in Korea to be able to meet the increasing demand for liquid crystals. In order to extend our product portfolio of displays, we established a third coating plant in Taiwan that can also coat temperature-sensitive substrates such as color filters. In addition, it is planned to invest in production facilities for color filters, a further component of displays. The investments in production plants in Darmstadt for ultrapure calcium fluoride (CaF_2) and its precursor, ultrapure calcium chloride ($CaCl_2$) were concluded successfully. The global production facilities for our effect pigments were expanded as planned. Laboratory Distribution, which has merged with VWR International, invested EUR 40 million mainly in its service structure.

Research and Development Further Increased at a High Level

Our expenditure for research and development, which has been quite substantial for a number of years, increased 5.4% to EUR 608 million in the year under review. The research-spending ratio, defined as a relation between research expenses and sales, based on Group sales less the Laboratory Distribution business, increased to 13%. Approximately one half of research funding was spent in research & development facilities in Darmstadt, Germany, central home in particular to the infrastructure for full preclinical and clinical development, as well as many other departments including drug-regulatory and patent departments necessary for pharmaceutical research. Other major competence centers are located in Lyon and Chilly-Mazarin





Research and Development by Business Sector

(France), Aberdeen (United Kingdom), Barcelona (Spain), and Billerica, MA (United States). The most important chemical research locations besides Darmstadt are Southampton (United Kingdom), San Diego (United States), and Onahama and Atsugi, both in Japan.

With a total of EUR 499 million, some 82% of all research expenditure was allocated to **Pharmaceuticals**, as in the previous year. In relation to sales of Pharmaceuticals the research-spending ratio was 15%. In the Ethicals division, which is particularly research-intensive, R&D expenses were EUR 423 million, the research-spending ratio was 24%. Our commitment to R&D – which is comparatively strong for this sector of industry – was focused mainly on driving forward our oncology projects, since there is a strong medical demand for our innovative substances in the field of cancer therapy. In total, we have 20 compounds in our pipeline; all are innovative with unique selling points that will differentiate them in the market. In our core areas oncology and diabetes we have brought six projects into the late stages of development. Our biologically based oncology product Erbitux™ is on track for submission in Europe in 2003. Compared to the previous year, the **Generics** division increased its spending on development and regulatory activities by 4.5% to EUR 69 million; the **Consumer Health Care** division increased its investment in the development of new products to EUR 6.9 million.

We increased our R&D expenditure in the **Chemicals** business sector by 11% to EUR 109 million. The greatest share of this was allocated to research in the **Liquid Crystals** division, which increased by 48% to EUR 34 million. In this core business, we are constantly orienting ourselves to the changing demands made on our mixtures for use in displays for notebooks, PC monitors, projection systems, and television sets. Our R&D activities extend also to color filters and glasses, and are carried out at several locations around the globe. We opened a new liquid crystals center in Korea in 2002.

At EUR 29 million, our **Pigments** division's research efforts focused on novel color and luster effects for attractive pigments, and a number of promising projects for the Technical Industries business. The **Life Science Products** division accounted for EUR 21 million R&D expenses. With its focus on customized synthesis of pharmaceuticals actives and intermediates, technical development plays a major role. Our U.S. subsidiary EMD Biosciences in San Diego extended its portfolio of reagents for biochemical use in protein purification for life sciences research. With EUR 10 million the **Analytics & Reagents** division expanded the chromatography range for the successfully launched Chromolith® columns, as well as the number of analytical rapid test kits. Our R&D expenditure in **Electronic Chemicals** and New Business Chemicals amounted to EUR 15 million, while negligible in the Laboratory Distribution business sector. Further information on research and development is provided in the section on the business sectors starting on page 19.

Increased Global IT Activities

As part of an intensified network of our international businesses, we spent around EUR 200 million on our centrally coordinated IT and communication activities in fiscal year 2002. We further expanded our customer service with respect to detailed product information and our e-business applications. Using innovative information technology, we increased both process efficiency – for example by providing our Chemicals customers with safety data sheets and certificates of analysis via the Internet – and the speed at which customers can selectively access comprehensive information themselves from *www.chemdat.info*. At the same time, we improved the quality and efficiency of our planning and control processes, e.g. by way of globally accessible database systems. In addition to our own expertise, we also utilize the know-how of leading providers to implement standard and special software at the Merck Group cost-effectively – in 2002, for example, we introduced SAP™/R3 in two more subsidiaries in India and Japan. As regards telecommunication, we cooperate with reliable, global service providers in order to, for example, broadcast our Financials Press Conference live on the Internet or on the Intranet of the Merck Group. All of the Group's larger companies have had access to the company-wide Intranet, "MerckNet", since 2002.

Branding of Merck and EMD Continued

As part of our Corporate Identity Project begun in 2002 to strengthen the company brands, Merck and EMD, we adapted the names of various Chemicals subsidiaries in the United States at the beginning of 2003 (EM Industries, Inc., headquartered in Hawthorne, New York, became EMD Chemicals; CN Biosciences, Inc. in San Diego was renamed EMD Biosciences). As we are not permitted to use the name Merck in North America (the rights to the name are held by the pharmaceutical company Merck & Co. which was founded by Merck in 1891 as a U.S. subsidiary, but which has been an independent enterprise since 1917 with no relation to us in terms of company law), we had already combined our American pharmaceutical activities in 2001 under the name EMD Pharmaceuticals, headquartered in Durham, North Carolina, and EMD Lexigen Research Center, which is situated in Billerica near Boston, Massachusetts. The logo and new corporate design reflect not only our common identity and the values that bind us together (see front cover pages), rather, above all, they signalize to our customers that – despite the different names – there is a common symbol, a brand promise for excellent, high-quality products.

Purchasing Synergies for the Merck Group

In 1999, we began our process of global strategic purchasing, which, with a volume of around EUR 420 million, currently accounts for more than one fifth of the Group's purchasing to be reviewed, excluding Laboratory Distribution. Since 1999, the annual contribution to earnings in the form of savings made on the procurement of goods and services has increased sixfold worldwide. In 2002, this contribution amounted to around EUR 31 million for the Group and totaled EUR 73 million for the period from 1999 to 2002.

In addition, savings made in 2002 on purchases for our major production plants in Darmstadt and Gernsheim totaled EUR 22 million. Around EUR 7 million of this figure was attributable to the purchase of raw materials and packaging, the cost of which we were able to reduce by around 3% in 2002 compared with the previous year. A further EUR 15 million resulted from savings on investments and technical costs.

High Level of Environmental Protection and Safety

Expenses for environmental protection and safety equipment amounted to around EUR 95 million in 2002. We perform environmental audits at all production sites – 62 sites in 28 countries worldwide. As part of ongoing development, we evaluate the results obtained from these audits, take preventive action and save on costs in the medium-term, e.g. in the form of lower insurance contributions. We publish our environmental protection and safety targets in detail in our Responsible Care® report on the Internet. Several more of our plants were certified according to the environmental management standard ISO 14001 in 2002, with the result that this environmental standard applies to more than 80% of our global production capacities. In order to ensure process efficiency, quality management systems are combined with environmental management systems and audited. There were no significant interruptions of operations or extraordinary occurrences anywhere in the world.

| RISK REPORT OF THE MERCK GROUP |

Established Risk Management System

As a company that operates on a global level, Merck is inevitably exposed to a large number of risks. By way of a central Controlling department, among other things, Merck has monitored the business development of all its companies for a long time. For several years now, this reporting system has made the development reports available to the Management online. In addition, Merck uses a database-assisted procedure developed especially for risk management. This early-warning system is being further developed on an ongoing basis. It is used to integrate the risk reports of all companies and central functions into the regular reports made to Senior Management. Any new, significant risks that arise are reported immediately, irrespective of specified reporting dates. The risk reports are finely categorized by risk type, level of damage and probability of occurrence. The implementation of countermeasures is monitored.

Risks for the Merck Group

__ *Business- and product-related risks*

In the Pharmaceuticals business sector there is the risk of research projects having to be cancelled before any profit is made due to unsatisfactory results of preclinical and clinical studies. There is also the risk of the limited resources not being invested mainly in the R&D projects that hold the most economic potential. These risks are monitored by a project management system that was set up especially for this purpose. Other risks and the economic consequences thereof to which Merck was also exposed in fiscal year 2002 had been known to the Management for some time and were expected.

__ Risks from general legal conditions
The crisis that healthcare systems are facing all over the world also presents risks for Merck. Changes in legislation in this respect are not predictable for the sector as a whole and are thus difficult to calculate.

__ Legal risks with no significant impact
In view of the extensive business activities of an international group of companies, there is always the risk of becoming involved in litigation. Several companies of the Merck Group are currently engaged in legal proceedings whose outcomes cannot be predicted in each case due to the uncertainties naturally inherent in litigation. This especially applies to the risks related to the vitamin antitrust proceedings. Based on our current state of knowledge, however, we are assuming that none of these proceedings will have a significant effect on the financial position of the Merck Group due to the provisions set up for this purpose

In fall 2002, we appointed a Compliance Officer, who will ensure our compliance with national and international laws, in particular those relating to high-risk sectors of law, such as antitrust, anti-corruption, capital market and commercial law. This Compliance Officer will also pursue compliance with the Merck Code of Conduct and will be involved in all important litigation proceedings, advising the Management and employees concerned during the preliminary stages.

__ Secured financial risks
Financial risks, such as fluctuations in interest and exchange rates, are being countered by the targeted use of derivative financial instruments. These are explained in the notes to the consolidated financial statements (page 77 f.).

__ Protection against damage risks
Insofar as possible, property damage and liability risks are covered by insurance policies.

__ Limited overall risk
There are currently no identifiable risks that threaten the existence of the company.

| OUTLOOK 2003 |

Confidence in the Future

In view of political uncertainties, an outlook for the Merck Group as a company operating globally can only be given with some reservations. The prospects for the global economy in 2003 are viewed with skepticism, especially in connection with the possibilities of escalation of hostilities in the Middle East and increasing oil prices. Yet relatively positive forecasts prevail: The World Bank, for instance, is predicting a global economic growth rate of 2.5%. Assuming a sustained recovery of the global economy and a revival of the U.S. economy, as well as stable central bank interest rates and euro exchange rates, economic growth of between 1.6% (European Central Bank) and 2.0% (German Institute for Economic Research – DIW) is forecasted for the euro area. In terms of German economic development in 2003, the Kiel Institute for World Economics is predicting growth of 1.0% and an inflation rate of 0.9%. The German Institute for Economic Research assumes an economic growth rate of just 0.6%.

Against this background, we expect the Merck Group to perform on the level of the previous year, unless the euro significantly appreciates further. The strategic orientation of our businesses, the commitment of our employees, and the high level of investment in research and production facilities over the past few years will secure us competitive advantages despite the difficult environment.

In general, the pharmaceutical industry is less sensitive to economic cycles than other industries. On the other hand, the effects of governmental intervention in some health care systems cannot be foreseen. We expect our Generics division to at least maintain the record sales level it established in 2002 while Consumer Health Care should increase its sales in 2003. In Ethicals, we anticipate a bottoming out followed by a slight sales increase. What makes us confident are the still high number of prescriptions for Glucophage® XR in the United States, the number of new prescriptions for Glucovance®, and the market position of established drugs such as Concor®. The contribution to the Group's operating result will, however, decrease. In 2003, we expect to increase R&D spending disproportionate to sales. We can realize our clear strategic goals through the successful business model we have developed with solid foundations in both Pharmaceuticals and Chemicals.

In the Chemicals business sector, the focus on our core competencies, the growing number of innovative products and the expansion of our market leadership in businesses with a long Merck tradition promise sustained stable business development. Ongoing cost-containment measures lead us to expect reasonable profit contributions from the Chemicals and Laboratory Distribution business sectors. The timing of the IPO for VWR International is dependent on when a fair market value can be expected.

ı Pioneering Spirit ı Worthy Chen and Andy Chang at our new coating line for display glass in Taiwan. Ideas and talent provide the competitive edge as a new technology for the production of glass for color LCDs opens the way for the next generation of mobile phones.

In order to reduce expenses, we launched a program at our Darmstadt and Gernsheim sites in Germany in September 2002 to increase efficiency that will enable us to save EUR 30 million each year as of 2004 through process optimization. This will be combined with a reduction of 300 employment positions by the end of 2003. We will utilize cash flow from our business sectors mainly for clinical studies and pre-marketing related to our promising new drugs.

We are not expecting any new business risks beyond the generally assumed risks – particularly those relating to Pharmaceuticals. We remain confident that we will grow by virtue of our own efforts and through innovations created by talented, entrepreneurial employees.

Corporate Governance

Joint Report of the Executive Board and the Supervisory Board according to section 3.10 of the German Corporate Governance Code

The German Corporate Governance Code, which is also to be applied to Merck as a *"Kommanditgesellschaft auf Aktien"* (partnership limited by shares), entered into effect in 2002. Since this Code is geared exclusively towards the conditions at an *Aktiengesellschaft* (German Stock Corporation), Merck KGaA had to independently examine and decide how it can be applied logically to serve the interests of the shareholders.

The Executive Board and Supervisory Board of Merck KGaA, as well as the company's general partner, E. Merck, have discussed the Code in detail and are striving to implement the Code's recommendations at Merck KGaA as fully as possible.

In order to enable the shareholders to compare the situation at other companies more easily, we have decided to base corporate governance on the conduct recommendations made by the Code Commission relating to management and supervision (governance) and to forego having our own code, which is also permissible. In the following, we explain the legal conditions of a partnership limited by shares in general and of Merck KGaA in particular. On this basis, we will determine our compliance with the recommendations of the Code and ascertain any remaining exceptions.

The Foreword of the German Corporate Governance Code states that: "The Code clarifies the rights of shareholders, who provide the company with the required equity capital and who carry the entrepreneurial risk." The following gives a general explanation – in accordance with this foreword – of the KGaA company form followed by the specific situation at Merck.

Kommanditgesellschaft auf Aktien

"The Kommanditgesellschaft auf Aktien (KGaA – partnership limited by shares) is a company with its own legal personality, at which at least one partner has unlimited liability for the company's creditors (general partner) and the others hold an interest in the share capital without any personal liability for the company's debts (limited liability shareholders)" (section 278 (1) AktG). It is therefore a hybrid of an *Aktiengesellschaft* (German Stock Corporation) and a *Kommanditgesellschaft* with a focus on stock corporation law. Striking differences to the *Aktiengesellschaft* include the presence of general partners, who essentially also manage the company's business activities, the lack of a board of directors, and the restriction of rights and obligations of the supervisory board. In particular, the supervisory board is not responsible for appointing general partners or for regulating the terms and conditions of contracts, while at the *Aktiengesellschaft* it appoints the board; it also does not have the authority to issue rules of procedure for the general partners or a catalog of business transactions requiring approval. The KGaA also has some peculiarities with regard to the Annual General Meeting; for example, many of the resolutions made require the approval of the general partners (section 285 (2) AktG), including the adoption of the annual financial statements (section 286 (1) AktG).

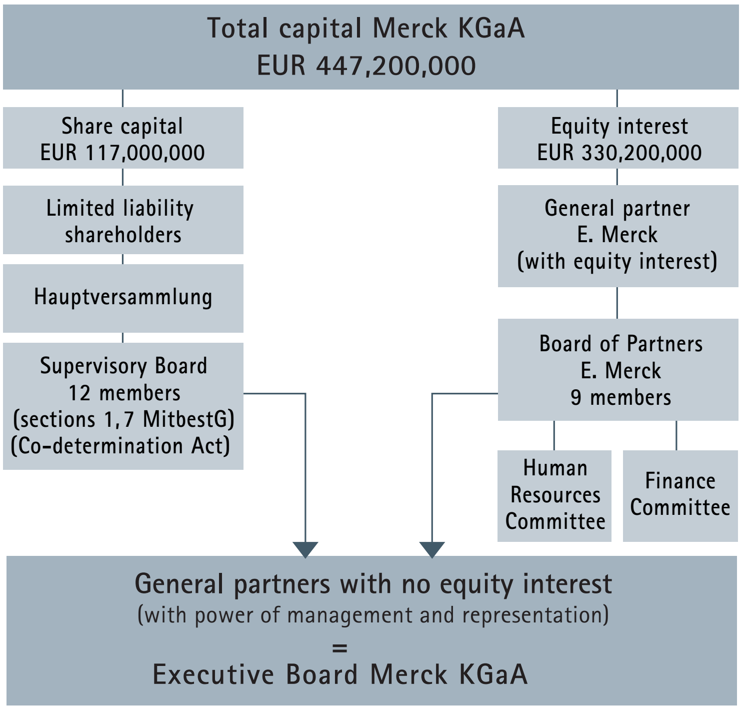
Merck KGaA

The general partner E. Merck OHG holds 73.8% of the total capital of Merck KGaA (equity interest), the limited liability shareholders hold the remainder, which is divided into shares (share capital). Both groups together thus provide – in accordance with the Foreword to the Code – "the company with the required equity capital and... carry the entrepreneurial risk". E. Merck is excluded from the management of business activities. The general partners with no equity interest (Executive Board), on the other hand, manage business activities. Due to its substantial capital investment and unlimited personal liability, E. Merck is an influential authority with a strong interest in compliance with procedures and efficiency of business operations at Merck KGaA. E. Merck appoints and dismisses the Executive Board. E. Merck created the tools necessary – in addition to the expertise and activities of the Supervisory Board – to ensure that the Executive Board is monitored and advised. This applies primarily to the Board of Partners of E. Merck.

This is illustrated by the chart opposite.

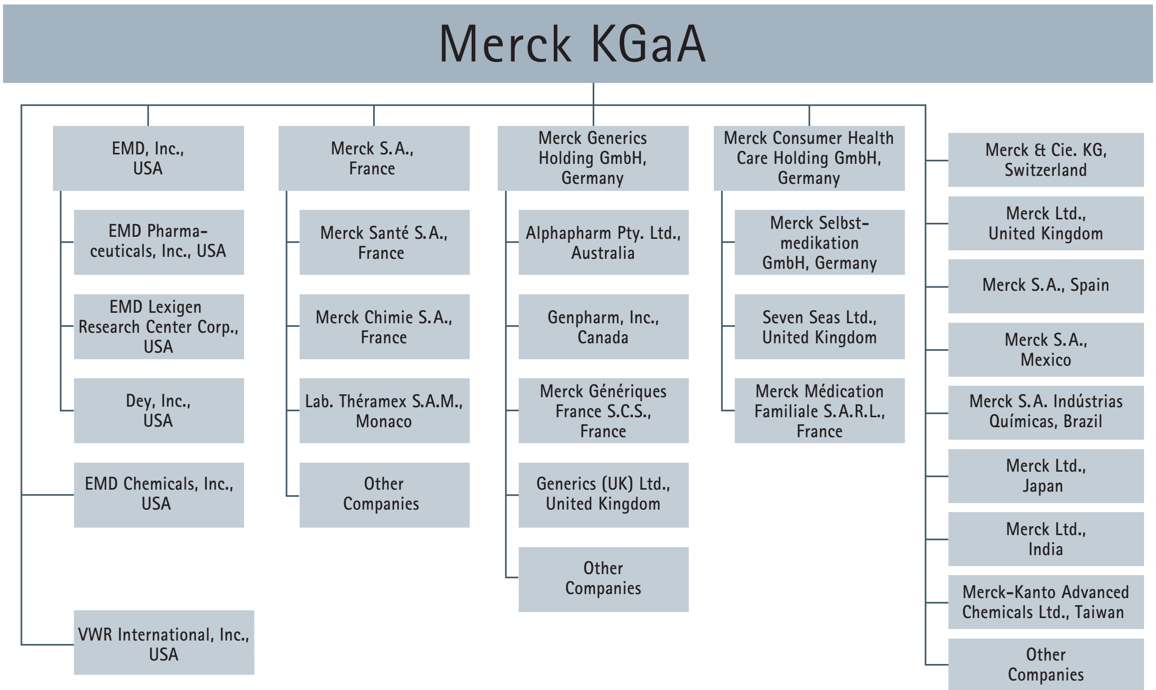
A large number of the conduct recommendations contained in the Code, which is geared towards *Aktiengesellschaften*, can generally only be applied to a KGaA as appropriate.

Based on the provisions of the German Stock Corporation Act, the Articles of Incorporation of Merck KGaA and the rules of procedure of the various committees, Merck KGaA has a set of regulations for the Executive Board and its supervision that meet the requirements of the Code. The investors, who carry the entrepreneurial risk, are protected as foreseen by the Code.



Deviations from the Corporate Governance Code:

1. Contrary to section 3.8 (2), the Directors & Officers insurance policy, which Merck KGaA maintains for its committee members, does not include self-retention.
2. Contrary to section 5.4.5 (1), the committee members are not remunerated separately



Structure of the Merck Group by Major Companies

This simplified structure shows only the major companies of the Merck Group. 204 companies in 53 countries are fully consolidated in the financial statements of the Merck Group.

Report of the Supervisory Board

During fiscal year 2002, the Executive Board provided the Supervisory Board with regular written and verbal reports on the business development of Merck KGaA and the Merck Group. In particular, the Supervisory Board was informed about the market and sales situation of the company against the background of the macroeconomic environment, about the financial position of the company and its subsidiaries, their earnings development and company planning. Important business policy matters were discussed in four joint meetings with the Executive Board. Together with the Executive Board and the company's general partner E. Merck, the Supervisory Board worked on the implementation of the recommendations of the German Corporate Governance Code. The joint report of the Executive Board and the Supervisory Board contains more details on this.

The annual financial statements of Merck KGaA, the consolidated financial statements of the Merck Group, and the management reports for Merck KGaA and the Merck Group, including the accounting, were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The auditors issued an unqualified audit certificate on the annual financial statements and management report for Merck KGaA in accordance with German Auditing Standards. The auditors issued the auditor's certificate, reproduced in the Annual Report of the Merck Group, in accordance with International Financial Reporting Standards as well as German Auditing Standards, for the consolidated financial statements prepared in accordance with International Accounting Standards. In addition, the auditors audited the calculation of Merck KGaA's participation in the profits of E. Merck in accordance with Art. 27 (3) of the Articles of Incorporation. The annual financial statements of Merck KGaA, the consolidated financial statements of the Merck Group, the management reports for Merck KGaA and the Merck Group, and the proposal by the Executive Board for the appropriation of net retained profits were presented and distributed to the Supervisory Board, together with the audit reports of the auditors.

In accordance with Art. 14 (2) of the Articles of Incorporation, the Supervisory Board also examined the annual financial statements of Merck KGaA, the management report for Merck KGaA, the proposal for the appropriation of net retained profits, and the auditor's report presented in accordance with Art. 27 (3) of the Articles of Incorporation. It also examined the consolidated financial statements of the Merck Group, the management report for the Merck Group, and took note of the auditor's reports of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

The discussion of the relevant item on the agenda at the Supervisory Board's meeting to approve the financial statements was also attended by the auditors signing the audit opinion on the annual financial statements of Merck KGaA as well as on the consolidated financial statements of the Merck Group, who reported on their audit. The Supervisory Board took note of and approved the results of the audit. On completion of its examination, the Supervisory Board found no objections and thus approves the annual financial statements and management report for Merck KGaA, the consolidated financial statements of the Merck Group and the management report of the Merck Group, prepared by the Executive Board, as well as the report presented by the auditors in accordance with Art. 27 (3) of the Articles of Incorporation. The Supervisory Board gives its consent to the proposal for the appropriation of net retained profits.

Darmstadt, February 14, 2003

The Supervisory Board of Merck KGaA

Dr. Heinrich Hornef
Chairman

Merck Group *Consolidated Financial Statements*

as of December 31, 2002

Balance Sheet

Assets

EUR million	Note	Dec. 31, 2002	Dec. 31, 2001
Noncurrent assets			
Intangible assets	|1|	1,839.0	2,036.2
Property, plant and equipment	|2|	2,133.7	2,151.4
Long-term investments	|3|	196.7	638.7
		4,169.4	**4,826.3**
Current assets			
Inventories	|4|	1,194.1	1,269.5
Trade accounts receivable	|5|	1,193.5	1,157.8
Other receivables and other assets	|6|	421.3	366.3
Cash and cash equivalents	|7|	339.4	464.2
		3,148.3	**3,257.8**
Deferred tax assets	|8|	193.2	171.3
		7,510.9	**8,255.4**

Equity and liabilities

EUR million	Note	Dec. 31, 2002	Dec. 31, 2001
Net equity	|9|		
Equity capital		447.2	447.2
Reserves		1,566.0	1,848.5
Minority interest		40.4	40.8
		2,053.6	**2,336.5**
Provisions			
Provisions for pensions and other post-employment benefits	|10|	963.8	934.2
Other provisions	|11|	659.7	657.4
		1,623.5	**1,591.6**
Liabilities	|12|		
Financial obligations	|13|	2,336.9	2,759.3
Trade accounts payable	|14|	504.8	525.2
Other liabilities	|15|	866.6	900.7
		3,708.3	**4,185.2**
Deferred tax liabilities	|16|	125.5	142.1
		7,510.9	**8,255.4**

Income Statement

EUR million	Note	Dec. 31, 2002	Dec. 31, 2001
Sales	|17|	**7,473.1**	**7,528.4**
Cost of sales	|18|	-3,794.5	-3,682.1
Gross margin		**3,678.6**	**3,846.3**
Marketing and selling expenses	|19|	-1,843.7	-1,778.9
Administration expenses	|20|	-468.0	-515.5
Other operating income and expenses	|21|	-143.3	-163.6
Research and development	|22|	-608.2	-577.3
Patent and license revenues	|23|	97.7	169.3
Investment result	|24|	23.5	10.9
Amortization of goodwill	|25|	-120.6	-114.6
Operating result		**616.0**	**876.6**
Exceptional items	|26|	-56.7	409.6
Earnings before interest and tax (EBIT)		**559.3**	**1,286.2**
Financial result	|27|	-147.7	-208.0
Profit before tax		**411.6**	**1,078.2**
Income tax	|28|	-196.4	-423.2
Profit after tax		**215.2**	**655.0**
Minority interest	|29|	-12.2	-25.8
Net profit after minority interest		**203.0**	**629.2**
Earnings per share	|30|	1.18	3.66

EUR million	Pharmaceuticals 2002	Pharmaceuticals 2001	Pharmaceuticals Change in %	Chemicals [1] 2002	Chemicals [1] 2001	Chemicals [1] Change in %	Laboratory Distribution 2002	Laboratory Distribution 2001	Laboratory Distribution Change in %
External sales	3,226.0	3,322.7	-2.9	1,782.5	1,696.9	5.0	2,710.8	2,753.5	-1.6
Operating result	272.1	581.1	-53.2	259.6	203.7	27.4	84.3	91.8	-8.2
Exceptional items	0.2	485.3	-100.0	-51.5	-75.0	-31.4	-5.4	-0.7	–
Earnings before interest and tax (EBIT)	272.3	1,066.5	-74.5	208.1	128.7	61.7	78.9	91.1	-13.4
Operating assets	2,911.9	2,858.0	1.9	2,033.6	2,176.1	-6.5	1,345.0	1,537.6	-12.5
Trade accounts payable	272.5	244.9	11.3	69.7	94.0	-25.8	162.6	186.3	-12.7
Investments in property, plant and equipment	158.0	195.8	-19.3	178.9	240.1	-25.5	40.1	34.4	16.7
Free cash flow	254.8	639.0	-60.1	105.5	-43.2	–	81.2	68.2	19.1
Research and development	498.7	478.5	4.2	109.5	98.4	11.3	0.0	0.4	-91.8

EUR million	Germany 2002	Germany 2001	Germany Change in %	France 2002	France 2001	France Change in %	Rest of Europe 2002	Rest of Europe 2001	Rest of Europe Change in %	North America 2002	North America 2001	North America Change in %
External sales by customer location	681.0	722.5	-5.7	791.7	738.4	7.2	1,502.7	1,268.6	18.5	2,704.8	3,131.7	-13.6
External sales by company location	868.1	901.7	-3.7	1,010.3	1,280.1	-21.1	1,373.6	1,159.3	18.5	2,589.1	2,688.2	-3.7
Intragroup sales with other regions	756.0	627.3	20.5	86.1	101.6	-15.3	114.1	122.8	-7.1	47.2	47.3	-0.1
Operating result	0.3	-31.3	–	160.5	489.8	-67.2	152.3	116.6	30.6	114.1	109.7	4.1
Exceptional items	-40.8	98.2	–	–	–	–	-0.6	–	–	-4.1	311.4	–
Earnings before interest and tax (EBIT)	-40.5	67.0	–	160.5	489.8	-67.2	151.7	116.5	30.2	110.0	421.1	-73.9
Operating assets	1,974.8	1,996.6	-1.1	758.4	722.1	5.0	1,053.2	1,055.4	-0.2	1,591.9	1,790.7	-11.1
Investments in property, plant and equipment	177.4	207.1	-14.3	31.5	33.5	-5.9	42.6	64.8	-34.2	77.8	83.7	-7.1
Research and development	311.0	274.4	13.4	137.6	133.0	3.5	45.1	36.9	22.0	86.3	110.2	-21.6
Number of employees	9,644	9,703	-0.6	3,817	3,928	-2.8	5,434	5,265	3.2	6,003	5,959	0.7

[1] Previous year's figures are presented according to new structure on a comparable basis.

Segment Reporting

	Intragroup sales			Group		
	2002	2001	Change in %	2002	2001	Change in %
	-246.2	-244.7	–	7,473.1	7,528.4	-0.7
				616.0	876.6	-29.7
				-56.7	409.6	–
				559.3	1,286.2	-56.5
				6,290.5	6,571.7	-4.3
				504.8	525.2	-3.9
				377.0	470.3	-19.8
				441.5	664.0	-33.5
				608.2	577.3	5.4

	Latin America			Asia			Rest of World			Group		
	2002	2001	Change in %	2002	2001	Change in %	2002	2001	Change in %	2002	2001	Change in %
	398.3	459.7	-13.4	1,037.2	882.8	17.5	357.4	324.7	10.1	7,473.1	7,528.4	-0.7
	374.8	434.2	-13.7	923.1	777.2	18.8	334.1	287.7	16.1	7,473.1	7,528.4	-0.7
	5.9	8.4	-29.2	20.4	24.5	-16.9	19.8	12.9	52.6	1,049.5	944.8	11.1
	42.4	39.1	8.5	106.8	117.6	-9.2	39.6	35.1	12.7	616.0	876.6	-29.7
	–	–	–	-11.2	–	–	–	–	–	-56.7	409.6	–
	42.4	39.1	8.5	95.6	117.6	-18.7	39.6	35.1	12.7	559.3	1,286.2	-56.5
	216.3	327.3	-33.9	573.2	558.2	2.7	122.7	121.4	1.0	6,290.5	6,571.7	-4.3
	7.6	15.6	-51.6	33.0	51.5	-35.4	7.1	14.5	-51.0	377.0	470.3	-19.8
	2.5	3.4	-27.6	20.5	13.9	47.2	5.2	5.5	-4.4	608.2	577.3	5.4
	3,253	3,395	-4.2	5,148	4,918	4.7	1,205	1,126	7.0	34,504	34,294	0.6

Cash Flow Statement

EUR million	Note	2002	2001
Profit after tax		**215.2**	**655.0**
Depreciation and amortization (noncurrent assets)		425.2	408.1
Changes in inventories		-41.2	-73.7
Changes in trade receivables		-135.5	-70.1
Changes in trade payables		10.8	80.5
Changes in provisions		70.0	84.9
Changes in other receivables and payables from operating activities		-89.4	-27.6
Gains/Losses on disposal of assets		-9.5	-480.0
Other non-cash income and expenses		-23.9	-14.9
Net cash flows from operating activities	[31]	**421.7**	**562.2**
Purchase of intangible assets		-34.8	-53.0
Purchase of property, plant and equipment		-377.0	-470.3
Purchase of long-term investments/Changes in companies consolidated		-29.9	-95.9
Disposal of assets		461.5	721.0
Net cash flows from investing activities	[32]	**19.8**	**101.8**
Free cash flow		**441.5**	**664.0**
Dividend payments		-49.5	-50.4
Profit transferred to E. Merck		-188.9	-154.5
Other changes in net equity		–	3.3
Changes in liabilities to E. Merck		0.2	56.5
Changes in financial obligations		-286.3	-563.0
Changes in other debt from financing activities		7.4	-4.1
Net cash flows from financing activities	[33]	**-517.1**	**-712.1**
Changes in cash and cash equivalents		**-75.6**	**-48.1**
Changes in cash and cash equivalents due to currency translation		-49.5	8.7
Changes in cash and cash equivalents due to changes in companies consolidated		0.3	1.0
Cash and cash equivalents as of January 1		464.2	502.5
Cash and cash equivalents as of December 31	[34]	**339.4**	**464.2**

Statement of Changes in Noncurrent Assets

EUR million	Intangible assets	Property, plant and equipment	Long-term investments	Total
Accumulated acquisition cost as of Jan. 1, 2002	**2,689.4**	**4,146.0**	**691.6**	**7,527.0**
Currency translation	-127.6	-221.6	-11.3	-360.5
Changes in companies consolidated	4.2	12.1	-12.1	4.2
Additions	34.8	377.0	30.9	442.7
Disposals	-38.1	-110.9	-470.5	-619.5
Transfers	12.6	-12.6	–	–
Accumulated acquisition cost as of Dec. 31, 2002	**2,575.3**	**4,190.0**	**228.6**	**6,993.9**
Accumulated depreciation, amortization, write-downs and fair value adjustments as of Jan. 1, 2002	**-653.2**	**-1,994.6**	**-52.9**	**-2,700.7**
Currency translation	37.4	98.7	7.1	143.2
Changes in companies consolidated	1.5	-0.8	0.3	1.0
Depreciation, amortization and write-downs	-158.2	-246.7	-20.3	-425.2
Disposals	36.2	80.7	50.8	167.7
Transfers	-3.2	3.2	–	–
Write-ups	3.2	3.2	3.8	10.2
Fair value adjustments of financial instruments taken directly to equity	–	–	-20.7	-20.7
Accumulated depreciation, amortization, write-downs and fair value adjustments as of Dec. 31, 2002	**-736.3**	**-2,056.3**	**-31.9**	**-2,824.5**
Net carrying amount as of Dec. 31, 2002	**1,839.0**	**2,133.7**	**196.7**	**4,169.4**

Statement of Changes in Net Equity

– including minority interest –

	Equity capital		Reserves				
EUR million	General partner's equity Merck KGaA	Subscribed capital Merck KGaA	Capital reserves (share premium) Merck KGaA	Retained earnings/ Net retained profits/Consolidated items	Recognition of financial instruments at fair value	Minority interest	Total
Balance as of Jan. 1, 2001	**330.2**	**117.0**	**1,407.0**	**16.9**	**–**	**75.7**	**1,946.8**
Profit after tax	–	–	–	629.2	–	25.8	655.0
Dividend payments to shareholders of Merck KGaA	–	–	–	–40.5	–	–	–40.5
Dividend payments to other minority shareholders in the Merck Group	–	–	–	–	–	-9.9	-9.9
Profits transferred by Merck & Cie to E. Merck	–	–	–	-71.5	–	–	-71.5
Profits transferred by E. Merck to Merck KGaA	–	–	–	13.3	–	–	13.3
Profits transferred by Merck KGaA to E. Merck	–	–	–	-329.6	–	–	-329.6
Appropriation to retained earnings/ profit brought forward by E. Merck	–	–	–	233.3	–	–	233.3
Currency translation difference	–	–	–	0.1	–	–	0.1
Adjustment from the fair market valuation of financial instruments taken directly to equity	–	–	–	-34.1	25.1	–	-9.0
Changes in companies consolidated/Other	–	–	–	-0.7	–	-50.8	-51.5
Balance as of Dec. 31, 2001	**330.2**	**117.0**	**1,407.0**	**416.4**	**25.1**	**40.8**	**2,336.5**
Balance as of Jan. 1, 2002	**330.2**	**117.0**	**1,407.0**	**416.4**	**25.1**	**40.8**	**2,336.5**
Profit after tax	–	–	–	203.0	–	12.2	215.2
Dividend payments to shareholders of Merck KGaA	–	–	–	-42.8	–	–	-42.8
Dividend payments to other minority shareholders in the Merck Group	–	–	–	–	–	-6.8	-6.8
Profits transferred by Merck & Cie to E. Merck	–	–	–	-64.5	–	–	-64.5
Profits transferred by E. Merck to Merck KGaA	–	–	–	11.6	–	–	11.6
Profits transferred by Merck KGaA to E. Merck	–	–	–	-149.3	–	–	-149.3
Appropriation to retained earnings/ profit brought forward by E. Merck	–	–	–	13.4	–	–	13.4
Currency translation difference	–	–	–	-260.7	-0.7	–	-261.4
Adjustment from the fair market valuation of financial instruments taken directly to equity	–	–	–	–	-15.7	–	-15.7
Changes in companies consolidated/Other	–	–	–	23.2	–	-5.8	17.4
Balance as of Dec. 31, 2002	**330.2**	**117.0**	**1,407.0**	**150.3**	**8.7**	**40.4**	**2,053.6**

Notes

Preliminary remarks

The accompanying consolidated financial statements have been prepared with Merck KGaA – which manages the operations of the Merck Group – as parent company. In addition, in accordance with the provisions of the Publizitätsgesetz (German Disclosure Act), consolidated financial statements have also been prepared for E. Merck – the general partner in Merck KGaA with a 73.8% share in equity, including Merck KGaA and its subsidiaries are prepared for E. Merck as before, published in the Bundesanzeiger (Federal Gazette) and filed with the commercial register under the number HR A 3614.

Application of International Financial Reporting Standards (IRFS)

The consolidated financial statements of the Merck Group for 2002 – with Merck KGaA as parent company – have been prepared in accordance with consistent accounting policies using the International Accounting Standards published by the International Accounting Standards Board (IASB) applicable as of the balance sheet date.

The following differences as against the accounting and valuation policies of the Handelsgesetzbuch ("HGB" – German Commercial Code) apply to the Merck Group's consolidated financial statements:

- Monetary items in foreign currencies which are carried in the single-entity financial statements of the companies consolidated prepared in local currencies are valued at closing rates in accordance with IAS 21; the HGB requires application of the imparity principle for long-term receivables and liabilities.
- The concept of temporary differences for which deferred taxes must be recognized is interpreted more broadly under IFRS than the HGB. In addition, IFRS requires the recognition of deferred tax assets arising from tax loss carryforwards, in contrast to the HGB.
- Under IAS 39 (rev. 2000), financial instruments originated by the company and classified as available for sale must be carried at their fair value, whereas the HGB requires these to be carried at acquisition cost. IAS 39 (rev. 2000) also states that derivative financial instruments must be carried as an asset or a liability at their fair value. The HGB does not permit the recognition of the fair values derivatives.

Companies consolidated

Including the parent company, Merck KGaA, Darmstadt, 204 companies are fully consolidated in the financial statements of the Merck Group. A further 5 associates are included using the equity method. A total of 62 investments are not consolidated as a result of either their minor importance or a lack of financial control, and are carried under long-term investments in the consolidated financial statements. During the current fiscal year, 11 companies were included in the consolidated financial statements for the first time; 13 companies were deconsolidated in 2002, primarily as a result of mergers.

The Japanese generic products company Mohan Medicine Research Institute Co. Ltd., Tokyo, 100% of whose shares were acquired by Merck Hoei, Osaka, has been included in consolidation as of January 1, 2002. The total translated acquisition costs including capital measures for Mohan amounted to EUR 17.1 million.

At the beginning of July, Merck acquired 100% of the shares in the French pharmaceuticals company Laboratoires Richelet S.A., Paris, at a purchase price of EUR 9.3 million. This acquisition strengthens our position in our Pharmaceuticals division Consumer Health Care.

Overall, the changes in the companies consolidated due to acquisitions and disposals of companies had the following effects on the consolidated balance sheet:

EUR million	Acquisitions/ First-time consolidations	Disposals/ Deconsolidations
Intangible assets	5.5	-
Property, plant and equipment	10.4	-
Long-term investments	0.1	-
Current assets	16.7	-
Liabilities/Provisions	21.0	-

Including acquisitions that were only recorded ratably in the previous year's financial statements as well as intraperiod disposals, sales and earnings during the fiscal year were impacted by the following effects on the consolidated financial statements caused by changes in companies consolidated:

EUR million	Acquisitions/ First-time consolidations	Disposals/ Deconsolidations
Sales	46.5	–134.2
Operating result	3.9	–33.7

Changes due to acquisitions relate to the new companies Mohan Medicine Research Institute Co. Ltd., Tokyo and Laboratoires Richelet S.A., Paris, France. The effects due to company disposals result primarily from the disposal of the interest in Pharmaceutical Resources Inc., United States, in September 2001.

Consolidation methods

The consolidated financial statements are based on the single-entity financial statements of the consolidated companies as of December 31, 2002, which were prepared using consistent accounting polices in accordance with IFRS, and audited by certified auditors.

Capital consolidation used the purchase method in accordance with IAS 22 (Business Combinations). The carrying values at the time of acquisition were applied for subsidiaries consolidated for the first time in the year under review, on the basis of corresponding interim financial statements. Resulting differences are taken to assets and liabilities to the extent that the fair values differ from the values actually carried in the financial statements. Any remaining difference is taken to goodwill in the noncurrent assets and written down by regular straight-line amortization over the expected useful life in accordance with IAS 22.

Intragroup sales, expenses and income, as well as all receivables and payables between the consolidated companies, were eliminated. The carrying value of assets from intragroup deliveries carried under noncurrent assets and inventories was adjusted by eliminating any intragroup profits.

Currency translation

The functional currency concept applies to the translation of financial statements of consolidated companies prepared in foreign currencies. As the companies of the Merck Group conduct their business operations independently, they are treated as “foreign entities” as defined by IAS 21. This standard requires that assets and liabilities are translated at the closing rate, and income and expenses at the average rate for the year. Any resulting difference is not recognized in income and is taken to equity. If Group companies are deconsolidated, existing currency differences are reversed and recognized in income.

Foreign currency monetary items (cash and cash equivalents, receivables and payables) in the single-entity financial statements of the consolidated companies prepared in the local currency are translated at the closing rates in accordance with IAS 21. Hedged items are also valued at the closing rates in accordance with IAS 21. The resulting unrealized gains or losses are eliminated against offsetting amounts from the fair value recognition of derivatives in the income statement. Non-monetary items denominated in foreign currencies are carried at their historical values. Exchange differences from the translation of monetary items are recognized in income.

The income statement contains exchange rate losses from financing activities involving foreign exchange transactions totaling EUR 11.8 million; these are primarily due to CHF and dollar loans (previous year: EUR 18.9 million exchange losses). These are reported in the financial result. Exchange rate losses from operating activities amounted to EUR 10.4 million, and primarily related to Latin America (Brazilian real and Argentinian peso) (previous year: EUR 4.4 million exchange rate gains). These exchange differences are included in other operating expenses.

Notes to the Balance Sheet

|1| *Intangible assets*

EUR million	Acquired concessions, patents, licenses and similar rights	Goodwill	Advance payments	Total
Accumulated acquistion cost as of Jan. 1, 2002	**305.3**	**2,378.4**	**5.7**	**2,689.4**
Currency translation	-6.1	-121.3	-0.2	-127.6
Changes in companies consolidated	-0.4	4.6	-	4.2
Additions	26.6	0.9	7.3	34.8
Disposals	-34.4	-2.9	-0.8	-38.1
Transfers	16.7	-0.2	-3.9	12.6
Accumulated acquisition cost as of Dec. 31, 2002	**307.7**	**2,259.5**	**8.1**	**2,575.3**
Accumulated depreciation, amortization and write-downs as of Jan. 1, 2002	**-198.4**	**-454.8**	**-**	**-653.2**
Currency translation	4.4	33.0	-	37.4
Changes in companies consolidated	1.1	0.4	-	1.5
Amortization and write-downs	-37.0	-121.2	-	-158.2
Disposals	33.8	2.4	-	36.2
Transfers	-3.4	0.2	-	-3.2
Write-ups	2.6	0.6	-	3.2
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2002	**-196.9**	**-539.4**	**-**	**-736.3**
Net carrying amount as of Dec. 31, 2002	**110.8**	**1,720.1**	**8.1**	**1,839.0**

Acquired intangible assets are carried at cost less regular straight-line amortization over their useful lives. The useful lives of acquired concessions, property rights, licenses, patents and software are between 3 and 10 years. Special write-downs are charged where required, and these are subsequently reversed if the original grounds for the write-down no longer apply. As a rule, goodwill is amortized over a 20-year period in accordance with IAS 22.

The first-time consolidation of the Japanese generic products company acquired in the fiscal year, Mohan Medicine Research Institute Co. Ltd., Tokyo, 100% of whose shares are held by Merck Hoei, Osaka, resulted in a deficit of EUR 3.6 million. This deficit will be recovered according to plan over a period of 7 years (disclosed in the income statement under amortization of goodwill). The acquisition of 100% of shares in the French pharmaceuticals company Laboratoires Richelet S.A., Paris, (Pharmaceuticals/Consumer Health Care business sector) generated goodwill of EUR 8.3 million.

Due to sustained impairment, special write-downs mainly on goodwill (Chemicals business sector) in the amount of EUR 7.9 million were performed in the fiscal year.

|2| *Property, plant and equipment*

EUR million	Land, land rights and buildings including buildings on third-party land	Plant and machinery	Other facilities, operating and office equipment	Construction in progress and advance payments to vendors and contractors	Total
Accumulated acquisition cost as of Jan. 1, 2002	**1,223.7**	**1,920.1**	**659.3**	**342.9**	**4,146.0**
Currency translation	-80.8	-101.0	-27.9	-11.9	-221.6
Changes in companies consolidated	9.2	-3.7	6.7	-0.1	12.1
Additions	63.0	82.5	53.3	178.2	377.0
Disposals	-21.3	-41.9	-43.8	-3.9	-110.9
Transfers	85.6	130.3	36.3	-264.8	-12.6
Accumulated acquisition cost as of Dec. 31, 2002	**1,279.4**	**1,986.3**	**683.9**	**240.4**	**4,190.0**
Accumulated depreciation, amortization and write-downs as of Jan. 1, 2002	**-432.9**	**-1,142.8**	**-410.0**	**-8.9**	**-1,994.6**
Currency translation	22.9	57.7	18.2	-0.1	98.7
Changes in companies consolidated	-0.5	5.4	-5.7	–	-0.8
Depreciation and write-downs	-44.7	-134.2	-65.8	-2.0	-246.7
Disposals	6.3	36.1	38.3	–	80.7
Transfers	2.9	-3.2	3.5	–	3.2
Write-ups	1.0	2.1	0.1	–	3.2
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2002	**-445.0**	**-1,178.9**	**-421.4**	**-11.0**	**-2,056.3**
Net carrying amount as of Dec. 31, 2002	**834.4**	**807.4**	**262.5**	**229.4**	**2,133.7**

Property, plant and equipment is carried at acquisition or manufacturing cost, less depreciation and write-downs. Subsequent acquisition costs are capitalized. The manufacturing cost of self-constructed property, plant and equipment is calculated on the basis of the directly attributable unit costs as well as an appropriate share of overheads, including depreciation and write-downs. Financing costs are not capitalized. In the case of acquisitions denominated in foreign currencies, subsequent exchange rate movements do not affect recognition of the asset at the original acquisition or manufacturing cost.

In accordance with IAS 20, acquisition or manufacturing costs are reduced by the amount of government grants or subsidies in those cases where such grants or subsidies have been paid for the acquisition or manufacture of assets (investment grants). Grants related to income that will no longer be offset by future expenses are taken to income. Total government grants and subsidies during the fiscal year amounted to EUR 3.8 million (previous year: EUR 4.0 million).

Property, plant and equipment is written down by straight-line depreciation over the useful life of the asset concerned. In the fiscal year, the useful lives of buildings were shortened, since this better reflects the economic conditions. The previous useful life of production buildings of up to 50 years was thus reduced to a maximum of 33 years. Administration buildings will be depreciated over a maximum of 40 years instead of the previous 50 years. No adjustment was made in the case of buildings whose remaining actual useful lives fall short of the limits above. The overall effects of this on the consolidated financial statements are negligible. For technical equipment the depreciation period is between 8 and 20 years, and 4 to 10 years for other facilities, operating and office equipment. Special write-downs are charged where required in accordance with IAS 36, and these are subsequently reversed if the original grounds for the write-down no longer apply. In the year under review, special write-downs in the amount of EUR 16.7 million (previous year: EUR 3.5 million) were charged on property, plant and equipment. These are primarily due to the closure of production units in the Chemicals business sector. The lion's share of this (EUR 6.3 million) relates to buildings and equipment for EC business in Singapore. The recoverable amount (net selling price) is EUR 2.7 million. The write-downs are disclosed in the income statement under exceptional items as a component of the costs of EC business in Singapore. In the year under review, special write-downs in the amount of EUR 3.2 million charged in previous years were reversed. Largely, these relate to reversals on special write-downs on infrastructure facilities at Merck KGaA (EUR 2.9 million). As is the case with previous write-downs, these are disclosed in the income statement under exceptional items.

Where assets are rented or leased and economic ownership lies with the respective Group company (finance leases), they are recognized as assets at the present value of the lease payments or at a lower fair value in accordance with IAS 17 (revised 1997) and written down over the useful life of the asset. The corresponding payment obligations from future lease payments are recorded as liabilities. The total value of capitalized leased assets amounts to EUR 23.6 million and the corresponding obligations amount to EUR 11.6 million (please refer to the explanatory notes to section (13) 'Financial obligations').

The capitalized leased assets are as follows:

EUR million	Dec. 31, 2002	Dec. 31, 2001
Capitalized leased land	2.1	3.0
Capitalized leased buildings	17.1	13.0
Capitalized leased facilities	3.0	1.1
Capitalized leased vehicles	1.4	2.3
Other capitalized leased property, plant and equipment	–	0.1
	23.6	**19.5**

|3| *Long-term investments*

	Investments in:			Other securities		Loans to:			
EUR million	asso-ciates	companies classified as a "available-for-sale"	other affiliates	classified as a "available-for-sale"	classi-fied as "held-to-maturity"	asso-ciates	other affiliates	other com-panies	Total
Accumulated acquisition cost as of Jan. 1, 2002	**158.6**	**78.5**	**15.4**	**6.3**	**1.1**	**–**	**0.2**	**431.5**	**691.6**
Currency translation	-3.9	-6.6	-0.1	-0.2	-0.1	–	–	-0.4	-11.3
Changes in companies consolidated	-0.3	–	-11.9	–	0.1	–	–	–	-12.1
Additions	16.8	0.2	13.1	0.1	–	–	–	0.7	30.9
Disposals	-3.8	-36.6	-9.0	–	-0.1	–	-0.1	-420.9	-470.5
Accumulated acquisition cost as of Dec. 31, 2002	**167.4**	**35.5**	**7.5**	**6.2**	**1.0**	**–**	**0.1**	**10.9**	**228.6**
Accumulated depreciation, amortization, write-downs and fair value adjust-ments as of Jan. 1, 2002	**-8.7**	**-25.0**	**-4.8**	**-4.3**	**–**	**–**	**–**	**-10.1**	**-52.9**
Currency translation	0.4	6.6	–	–	–	–	–	0.1	7.1
Changes in companies consolidated	0.3	–	–	–	–	–	–	–	0.3
Amortization and write-downs/discounts	-1.7	-18.6	–	–	–	–	–	–	-20.3
Disposals	–	36.6	4.5	–	–	–	–	9.7	50.8
Write-ups	3.8	–	–	–	–	–	–	–	3.8
Fair value adjustments of long-term investments taken directly to equity	–	-20.7	–	–	–	–	–	–	-20.7
Accumulated depreciation, amortization, write-downs and fair value adjust-ments as of Dec. 31, 2002	**-5.9**	**-21.1**	**-0.3**	**-4.3**	**–**	**–**	**–**	**-0.3**	**-31.9**
Net carrying amount as of Dec. 31, 2002	**161.5**	**14.4**	**7.2**	**1.9**	**1.0**	**–**	**0.1**	**10.6**	**196.7**

Long-term investments classified as available-for-sale are usually carried at fair value. Changes in fair value are generally taken directly to equity. If there are signs of a decrease in value, an impairment test is performed in accordance with IAS 39. If the fair value cannot be reliably estimated, investments are valued at acquisition cost less write-downs if necessary. For this reason, long-term investments were valued at cost with a carrying amount of EUR 4.2 million as of December 31, 2002. For the same reason, the interests in subsidiaries disclosed under other investments, which are not consolidated as they are of minor importance, are valued at acquisition cost. Interests in associates are adjusted at equity unless they are of minor importance. All other long-term investments are carried at (amortized) acquisition cost less write-downs if necessary.

No reclassification of long-term investments were performed across the individual categories of financial instruments during the fiscal year. The following amounts arising from long-term investments classified as available-for-sale were recognized in equity as of the balance sheet date:

EUR million	Available-for-sale investments	Available-for-sale securities	Total Dec. 31, 2002
Fair values	14.4	1.9	16.3
Amortized acquisition cost	–13.5	–1.9	–15.4
Unrealized gains/losses	0.9	–	**0.9**

Primarily as a result of the decline in fair values, write-downs on investments amounting to EUR 20.3 million were charged in the fiscal year. The decrease in value amounting to EUR 16.4 million – recognized in equity in previous financial statements based on the recognition of investments – were recognized in income. The write-downs charged in previous fiscal years in connection with the capital-like loan to the joint venture KGS Ketogulonsäure Produktionsgesellschaft mbh was reversed in the fiscal year as a result of payments amounting to EUR 3.8 million received in the meantime.

As of the previous year's balance sheet date, loans included outstanding payments arising from the sale of our shares in Bracco, Italy, in 2002. A further repayment was received from Bracco in the year under review. The remaining receivable amounting to EUR 320.0 million was sold to a bank.

Liability risks or capital commitments in relation to joint ventures are of minor importance as of balance sheet date.

A statement of Merck KGaA's equity interests is filed with the commercial register of the Darmstadt Local Court under the number HR B6164. Major companies of the Merck Group as of December 31, 2002 are presented in the following table:

	Direct equity interest in %	Sales [1] *EUR million*	Profit after tax [1] *EUR million*	Net equity [1] *EUR million*	Employees [1]
Major companies of the Merck Group:					
Germany/Europe					
Merck KGaA, Darmstadt, Germany	Parent Company	1,302.5	49.7	2,357.1	8,414
VWR Companies Europe	100.00	862.0	13.6 [2]	176.3 [3]	2,771
Merck Santé S.A.S., Lyon, France	100.00	401.2	68.1	319.2	1,537
Merck Lipha Santé S.A.S., Lyon, France	100.00	247.4	14.0	42.1	489
Generics (UK) Ltd., Potters Bar, United Kingdom	100.00	227.5	8.9	30.3	483
Merck Spain Group, Mollet del Valles, Spain	100.00	136.3	9.2	60.7	734
Laboratoire Théramex S.A.M., Monaco	100.00	112.5	9.3	39.1	529
Seven Seas Group, Hull, United Kingdom	100.00	94.0	7.7	20.6	424
Merck & Cie KG, Altdorf, Switzerland	99.84	89.4	62.4	46.3	81
Merck Chimie S.A.S., Fontenay s/Bois, France	99.99	84.4	7.7	31.2	107
Merck Médication Familiale S.A.S., Lyon, France	100.00	72.8	1.7	22.6	163
Merck N.V.-S.A., Overijse, Belgium	100.00	48.4	0.5	1.5	128
Merck Austria Group, Vienna, Austria	100.00	44.0	3.5	13.8	88
Merck UK, Poole, United Kingdom	100.00	43.8	3.2	32.5	230
Merck (Schweiz) AG, Dietikon, Switzerland	100.00	24.3	2.0	11.2	66
Merck BV, Amsterdam, Netherlands	100.00	23.1	9.4	16.9	67
Merck Pharma S.p.A., Milan, Italy	80.17	21.4	-2.2	1.0	121
Merck AG, Zug, Switzerland and Darmstadt, Germany	100.00	0.0	70.7	407.5	5
North America					
VWR NA Group, West Chester, United States	100.00	1,885.5	40.4	519.8	3,203
Dey, Inc., Napa, United States	100.00	318.7	39.7	56.4	978
EMD Chemicals, Inc., Gibbstown, United States	100.00	227.5	9.8	430.7	660
Genpharm, Inc., Etobicoke, Canada	100.00	183.9	15.1	59.5	514
EMD Biosciences Group, San Diego, United States	100.00	76.3	-1.2	29.3	352
EMD Pharmaceuticals, Inc., Durham, United States	100.00	0.0	-36.0	-78.1	152
Latin America					
Merck S.A. de C.V., Estado de México, Mexico	100.00	142.8	13.4	60.3	877
Merck S.A., Rio de Janeiro, Brazil	100.00	92.7	-5.7	24.8	993
Merck S.A., Bogota, Colombia	100.00	37.0	1.0	17.1	406
Asia/Rest of World					
Merck Ltd., Tokyo, Japan	100.00	402.9	24.2	73.3	348
Alphapharm Pty. Ltd., Sydney, Australia	100.00	281.1	23.4	75.1	649
Merck Hoei Ltd., Osaka, Japan	93.50	98.1	3.0	19.3	220
Merck Kanto Advanced Chem. Ltd., Taoyuan, Taiwan	79.00	97.9	15.2	46.2	193
Merck Ltd., Mumbai, India	51.00	75.8	6.6	36.5	1,337
Merck Marker (Pvt.) Ltd., Karachi, Pakistan	75.00	33.0	4.0	11.1	829
Merck Ltd., Taipei, Taiwan	99.00	30.7	2.4	8.5	142
P.T. Merck Tbk., Jakarta, Indonesia	73.99	25.1	4.3	16.0	500

1) Figures for the entire company unconsolidated, irrespective of the equity interest

2) Consolidated figures of the individual companies

3) Net equity of the European holding company

|4| *Inventories*

EUR million	Dec. 31, 2002	Dec. 31, 2001
Raw materials and production supplies	230.0	228.0
Work in progress, finished goods and goods purchased for resale	962.4	1,040.0
Advance payments	1.7	1.5
	1,194.1	**1,269.5**

Inventories are carried at cost. In addition to directly attributable unit costs, manufacturing costs also include overheads attributable to the production process, including an appropriate share of depreciation charges on production facilities, in accordance with IAS 2. Financing costs are not recognized. The lower realizable net selling price (recoverable amount) is applied if required. Write-downs on inventories as of the balance sheet date amount to EUR 114.3 million (previous year: EUR 121.4 million); the carrying amount of inventories that have been written down amounts to EUR 307.4 million (previous year: EUR 299.3 million). As of the balance sheet date, inventories were not used to secure liabilities (previous year: EUR 0.2 million). There were no significant contracts to be accounted for in accordance with IAS 11 (Construction Contracts) as of the balance sheet date.

|5| *Trade accounts receivable*

EUR million	thereof due in less than 1 year	thereof due after more than 1 year	Total Dec. 31, 2002	thereof due in less than 1 year	thereof due after more than 1 year	Total Dec. 31, 2001
from associates	1.0	–	1.0	2.9	–	2.9
from other affiliates	3.3	–	3.3	1.1	–	1.1
from other companies	1,180.6	8.6	1,189.2	1,144.1	9.7	1,153.8
	1,184.9	**8.6**	**1,193.5**	**1,148.1**	**9.7**	**1,157.8**

Trade accounts receivable are carried at their principal amount. Unless they are covered by insurance policies, adequate write-downs are charged for default risks.

|6| *Other receivables and other assets*

EUR million	thereof due in less than 1 year	thereof due after more than 1 year	Total Dec. 31, 2002	thereof due in less than 1 year	thereof due after more than 1 year	Total Dec. 31, 2001
from associates	0.3	–	0.3	0.4	–	0.4
from other affiliates	7.6	–	7.6	12.5	–	12.5
Tax receivables	158.3	1.3	159.6	79.9	4.1	84.0
Derivative financial instruments	13.4	–	13.4	3.6	–	3.6
Receivables from related parties	5.7	–	5.7	13.0	–	13.0
Other receivables from other companies	80.7	1.3	82.0	77.3	2.2	79.5
Prepaid expenses	52.9	2.9	55.8	45.0	–	45.0
Other assets	64.4	32.5	96.9	128.3	–	128.3
	383.3	**38.0**	**421.3**	**360.0**	**6.3**	**366.3**

Other receivables and other assets are reported at par and carried at their principal amount, less adequate write-downs for any default or other risks. Other assets primarily include assets arising from the valuation of pension funds and interest deferrals.

|7| *Cash and cash equivalents*

EUR million	Dec. 31, 2002	Dec. 31, 2001
Cheques, cash and bank balances	280.9	387.0
Held-to-maturity securities	48.0	59.5
Available-for-sale securities	10.5	17.7
	339.4	**464.2**

Changes in cash and cash equivalents as defined by IAS 7 are presented in the attached cash flow statement.

Cash and bank balances are carried at their principal amount. Securities comprise marketable short-term securities. Held-to-maturity securities are valued at acquisition cost. These are short-term investments. Available-for-sale securities are carried at fair value, and changes associated with the normal volatility of fair values are recognized directly in net equity. In the fiscal year, the recognition of securities held as "available-for-sale" at fair value did not generate any significant changes in equity. Gains from the disposal of securities in the amount of EUR 2.8 million, previously carried straight to equity, were recognized in income.

As of the balance sheet date, the following total gains were taken directly to equity as a result of the recognition of available-for-sale securities at fair value:

EUR million	Dec. 31, 2002
Fair value	10.6
Amortized acquisition cost	-8.4
Unrealized gains/losses	**2.2**

No reclassifications of securities were performed across the individual categories during the fiscal year.

|8| *Deferred tax assets*

Deferred tax assets result from differences in the carrying amounts in the financial and tax accounts of Group companies as well as from consolidation measures, in so far as these differences reverse over time. Deferred tax assets are recognized in accordance with IAS 12 (rev. 2000). In accordance with the liability method, the tax rates that are applicable or enacted as of the balance sheet date are applied. Additional explanatory notes on deferred tax assets are contained in section (28) 'Income tax.'

|9| *Net equity*

A separate statement of changes in net equity is attached (see page 56). The subscribed capital of Merck KGaA is composed of 45,000,000 no-par value shares. In addition to the reserves of Merck KGaA, the reserves contain the retained earnings of the consolidated subsidiaries and the effects of consolidation measures. The disclosure of minority interest is based on the stated equity of the subsidiaries concerned after any adjustment required to ensure compliance with the accounting and reporting policies of the Merck Group, as well as proportionate consolidation entries.

In addition to the dividend payments to the shareholders of Merck KGaA and to minority shareholders in subsidiary companies of the Merck Group, the appropriation of profits includes the transfer of profits from Merck & Cie KG to E. Merck in accordance with the company agreements and the reciprocal transfer of profits between E. Merck and Merck KGaA, also in accordance with the Articles of Incorporation. In accordance with capitalization, E. Merck participates in EUR 149.3 million (73.8%) of the profits of Merck KGaA, and Merck KGaA participates in EUR 11.6 million (26.2%) of the profits of E. Merck. Merck KGaA's profit from ordinary activities, on which the appropriation of its profits is based, amounts to EUR 202.2 million. E. Merck's result, on which the appropriation of its profits is based, amounts to EUR 44.1 million, and is composed of expenses totaling EUR 29.3 million and earnings of EUR 73.4 million (primarily investment income of Merck & Cie KG).

The following table shows the development of changes taken directly to equity as a result of recognizing financial instruments at fair value in accordance with IAS 39. In the previous year, decreases in value of financial instruments amounting to EUR 34.1 million were disclosed under reserves for the fair value recognition of financial instruments following the first application of IAS 39. These amounts should, however, be appropriated to retained earnings. The values carried forward were adjusted accordingly.

EUR million	Available-for-sale long-term investments	Available-for-sale marketable securities	Derivatitve financial instruments	Total
Balance as of Jan. 1, 2002	**21.7**	**3.8**	**–0.4**	**25.1**
Fair value adjustments	-37.2	1.2	6.5	-29.5
Deferred taxes recognized in equity	–	0.7	-0.5	0.2
Reclassification to income statement	16.4	-2.8	–	13.6
Total subsequent measurement in fiscal year	**–20.7**	**–0.9**	**6.0**	**–15.7**
Currency translation difference	–	-0.7	–	-0.7
Balance as of Dec. 31, 2002	**0.9**	**2.2**	**5.6**	**8.7**

Over recent years, the employees of Merck KGaA and its German subsidiaries were offered the opportunity to acquire employee shares, for which Merck KGaA granted a tax-free subsidy of DM 300. No additional employee shares have been issued since the end of the last fiscal year. Therefore, as of the balance sheet date, the number of shares that have been issued to employees (438,495) remains unchanged as against the previous year.

As part of the stock option program for senior executives resolved by the Annual General Meeting 2000, the creation of EUR 5,720,000 contingent capital for issuing stock rights was approved. A maximum of 2,200,000 stock options may be issued from the approved contingent capital. To date, 2,153,500 options have been granted in two tranches. The term of the program for both tranches is six years. Both tranches have a minimum vesting period of 25 months. Stock rights may only be exercised after the minimum vesting period has expired, if the closing date price is at least 30% higher than the exercise price. The exercise price is the mean value of Merck's stocks in the Frankfurt Xetra trading system, commencing 30 days before the date of issue of the stock rights. When granted, the first tranche included 766,500 options, of which 58,000 have expired as of the balance sheet date. As of October of the year under report, options from the first tranche may be exercised at the exercise price of EUR 37.41, provided that the other exercise conditions have been met. No options had been issued as of the balance sheet date as the exercise conditions had not been met. When granted, the second tranche included 1,387,000 options, of which 41,000 have expired as of the balance sheet date. These stock options may be exercised as of May 2004, at an exercise price of EUR 34.35, provided that the other exercise conditions are met. The stock options have not been recognized in the income statement or the balance sheet in these financial statements.

|10| *Provisions for pensions and other post-employment benefits*

Depending on the legal, economic and fiscal circumstances prevailing in each country, different retirement benefit systems are provided for the employees of the Merck Group. As a rule, these systems are based on length of service and salary of the employees. Pension obligations in the Merck Group relate to both defined benefit and defined contribution plans.

In the Merck Group, defined benefit plans are funded and unfunded. The bulk of obligations from current pensions and accrued benefits for pensions payable in the future is covered by the (unfunded) provisions disclosed here, while the smaller portion is secured by funded benefit obligations. The provisions also contain other post-employment benefits, such as accrued future healthcare costs for pensioners (United States) and accrued severance payments. The obligations of our domestic German companies, which account for 87.0% of total pension provisions, are measured using the projected unit credit method in compliance with IAS 19 (revised 2000). Annual actuarial opinions are prepared for this purpose. The calculation is based on assumed trends for salary growth of 2.5% to 3.0%, for pension increases of 1.5%, for fluctuation of 2.0% as well as a discount rate of 6.0%. Actuarial gains and losses are recognized using the 10% corridor rule. In the case of our foreign companies, obligations covered by provisions for pensions are calculated using comparable procedures.

Defined benefit plans resulted in a total expense of EUR 77,7 million during the year under review (previous year: EUR 76.1 million), consisting of the following components:

	EUR million	2002	2001
	Current service cost	48.5	53.7
+	Past service cost	0.5	0.3
+	Interest component	47.1	46.0
–	Expected return on plan assets	-20.6	-23.2
+/–	Net amortized actuarial losses/gains	2.2	-0.7
+/–	Effects of curtailments or settlements	–	–
=	Total amounts recognized	**77.7**	**76.1**

The actual return on plan assets amounted to EUR 3.6 million (previous year: EUR 19.4 million income). In the consolidated balance sheet, obligations from defined benefit plans are recorded in 'Provisions for pensions and other post-employment benefits.' Where pension funds are overfunded, the corresponding assets are recorded in 'Other receivables and other assets.' The net value of these balance sheet items is derived as follows:

	EUR million	Dec. 31, 2002	Dec. 31, 2001
	Present value of unfunded benefit obligations	961.2	932.9
+	Present value of funded benefit obligations	274.0	261.0
=	Present value of benefit obligations	1,235.2	1,193.9
–	Fair value of plan assets	-250,4	-268.9
=	Present value of benefit obligations (after deduction of plan assets)	984.8	925.0
+/–	Net unrecognized actuarial gains/losses	-76.8	-54.4
+	Unrecognized past service cost	–	-0.5
=	Net amounts recognized in balance sheet as of Dec. 31	**908.0**	**870.1**

During the period under review, the net amounts recognized in the balance sheet at Group level changed as follows:

EUR million		2002	2001
	Net amounts recognized in balance sheet as of Jan. 1	870.1	857.1
+/–	Currency translation/Changes in companies consolidated	6.7	-1.8
+	Total amounts recognized	77.7	76.1
–	Pension payments during the period	-43.2	-42.1
+/–	Transfers	-3.3	-19.2
=	Net amounts recognized in balance sheet as of Dec. 31	**908.0**	**870.1**

The cost of current contribution payments during the year under review for defined contribution plans that are funded exclusively by external funds amounted to EUR 4.7 million (previous year: EUR 8.0 million) Apart from the interest component, which is disclosed in the financial result, the relevant costs of defined benefit and defined contribution plans are contained in the operating result of the business sectors.

|11| *Other provisions*

EUR million	Balance as of Jan. 1, 2002	Currency translation	Utilizations	Additions	Reversals	Changes in companies consolidated/Other	Balance as of Dec. 31, 2002
Provisions for taxes	48.9	-2.6	-27.9	52.7	-1.8	-4.0	65.3
Provisions for vitamin business risks	73.2	–	-73.2	74.5	–	–	74.5
Provisions for litigation risks	26.8	-4.0	-2.9	7.1	-3.7	–	23.3
Provisions for pending invoices	58.7	-1.2	-45.6	37.3	-4.6	3.0	47.6
Obligations relating to staff costs	255.7	-9.4	-165.8	158.5	-6.2	0.5	233.3
Provisions for commissions and rebates	18.8	-1.0	-10.8	16.5	-3.1	–	20.4
Other provisions	175.3	-16.6	-56.0	100.2	-12.9	5.3	195.3
Total	**657.4**	**-34.8**	**-382.2**	**446.8**	**-32.3**	**4.8**	**659.7**

In accordance with IAS 37, legal or de facto obligation provisions are reported in the balance sheet, if the net cash used for the payment of liabilities can be reliably estimated. The carrying value of provisions is based on the amounts used to cover future payment obligations, recognizable risks and uncertain obligations of the Group. Provisions are discounted, where required. In contrast to the annual financial statements for the previous year, provisions relating to risks from the vitamin business have been reported separately. The opening balances in the statement of changes in provisions have therefore been reclassified correspondingly. These provisions relate to the risks from the antitrust proceedings and from possible claims arising from breaches of purchase obligations. Other provisions include uncertain obligations associated with environmental, restructuring and closure measures. Also included in other provisions are levies, contributions and fees, as well as expenses connected with legal advice.

|12| *Liabilities*

The Merck Group's current liabilities are generally carried at their repayment amount. Any difference between the amount paid out and the amount recoverable at final maturity is amortized. Foreign currency liabilities are translated at their closing rates. Hedged items in foreign currencies are also valued at the closing rate in accordance with IAS 21.

The following liabilities were collateralized as of the balance sheet date:

	secured by real property liens		secured by other liens	
EUR million	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
Debt securities	–	–	–	–
Bank loans and overdrafts	24.6	27.5	20.8	18.3
Other liabilities	0.6	–	–	0.9
	25.2	**27.5**	**20.8**	**19.2**

|13| *Financial obligations*

EUR million	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2002	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2001
Bank loans and overdrafts	1,009.5	1,260.8	2,270.3	1,157.4	1,206.8	2,364.2
Commercial paper obligations	55.0	–	55.0	112.5	–	112.5
Liabilities from finance lease obligations	2.3	9.3	11.6	1.5	7.9	9.4
Debt securities	–	–	–	273.2	–	273.2
	1,066.8	**1,270.1**	**2,336.9**	**1,544.6**	**1,214.7**	**2,759.3**

Bank loans and overdrafts:
Financing commitments from banks to Merck Group are composed as follows:

EUR million	Financing commitments from banks	Utilization as of Dec. 31, 2002	Interest	Due
Syndicated loan 1998	639.1	548.1	variable	2005
Syndicated loan 2001	300.0	150.0	variable	2004
Bilateral credit facilities with banks	10.0	8.4	fixed	2004
Bilateral credit facilities with banks	202.6	194.5	fixed/variable	2005
Bilateral credit facilities with banks	560.0	279.0	fixed/variable	2006
Bilateral credit facilities with banks	55.1	54.4	fixed	2007
Bilateral credit facilities with banks	19.2	19.2	fixed	2008
Bilateral credit facilities with banks	7.2	7.2	fixed	2009
Various credit facilities	2,088.4	1,009.5	variable	mostly < 1 Jahr
	3,881.6	**2,270.3**		

Syndicated loans and bilateral credit facilities are generally utilized on a revolving basis with maturities of between 1 and 3 months. Interest charges are based on a variable, currency-dependent base rate with an agreed margin. Due to the long-term financing commitments, the utilization of the aforementioned syndicated loans and bilateral credit facilities due in 2003 or afterwards is disclosed under bank loans and overdrafts with a time to maturity of over 1 year. Comparative figures for the prior year are provided.

The current and non-current liabilities of the Merck Group to banks are denominated in the following currencies:

	Dec. 31, 2002	Dec. 31, 2001
Euros	47.7 %	35.1 %
U.S. dollars	24.6 %	38.2 %
Pounds sterling	9.2 %	1.1 %
Swiss francs	6.8 %	13.5 %
Yen	5.7 %	4.5 %
Other currencies	6.0 %	7.6 %
	100.0 %	**100.0 %**

Commercial paper program:
In order to meet short-term capital requirements, Merck KGaA employed a commercial paper program with a volume of EUR 500.0 million in the year under review. At the reporting date, utilization of the program amounted to EUR 55 million.

Leases:
Liabilities from finance lease obligations represent the discounted amount of future payments arising from finance leases. This position primarily relates to liabilities from finance leases for land, buildings and vehicles.

|14| *Trade accounts payable*

EUR million	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2002	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2001
to associates	5.8	–	5.8	6.3	–	6.3
to other affiliates	1.7	–	1.7	2.7	–	2.7
to other companies	495.3	2.0	497.3	513.9	2.3	516.2
	502.8	**2.0**	**504.8**	**522.9**	**2.3**	**525.2**

|15| *Other liabilities*

EUR million	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2002	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2001
to associates	–	–	–	2.2	–	2.2
to other affiliates	8.9	–	8.9	16.9	–	16.9
Advances received from customers	12.4	0.2	12.6	7.6	0.1	7.7
Payroll liabilities	63.6	–	63.6	66.1	0.6	66.7
Tax liabilities	137.2	0.2	137.4	144.2	–	144.2
Derivative financial instruments	0.6	–	0.6	4.4	–	4.4
Liabilities to general partner E. Merck	313.4	–	313.4	313.2	–	313.2
Loans received from third parties	16.4	85.9	102.3	17.9	62.7	80.6
Deferred income	54.2	43.1	97.3	136.4	–	136.4
Miscellaneous	129.5	1.0	130.5	127.4	1.0	128.4
	736.2	**130.4**	**866.6**	**836.3**	**64.4**	**900.7**

As of the balance sheet date, deferred income includes EUR 86.2 million relating to the payments made in 2000 by Bracco for licenses and contractual restraint of competition. These payments are deferred over a remaining period of two years. Miscellaneous liabilities primarily include interest liabilities.

|16| *Deferred tax liabilities*

Deferred tax liabilities result from differences in the carrying amounts in the financial and tax accounts of Group companies as well as from consolidation measures, in so far as these differences reverse over time. Deferred tax liabilities are recognized in accordance with IAS 12 (rev. 2000). In accordance with the liability method, the tax rates that are applicable or enacted as of the balance sheet date are applied. Additional explanatory notes on deferred tax liabilities are contained in section (28) 'Income tax'.

Notes to the Income Statement

|17| *Sales*

Sales are considered realized when the trade and services owed have been rendered. Sales also include revenue from services, but the volume involved is insignificant. Sales are presented by business sector and region in the enclosed 'Segment Reporting' section.

|18| *Cost of sales*

The cost of sales also includes the cost of goods purchased for resale. In accordance with IAS 2, the cost comprises overheads, including depreciation charges on production facilities, in addition to directly attributable costs, such as the cost of materials, staff and energy costs.

|19| *Marketing and selling expenses*

In addition to the cost of sales and marketing departments and of the field sales force, marketing and selling expenses include advertising, logistics and license costs. Suspense items for oncharged freight expenses amounting to EUR 48.9 million have been deducted from marketing and selling expenses (previous year: EUR 40.4 million). In addition, the balance from commissions paid amounting to EUR 30.5 million (previous year: EUR 32.9 million) and commission earnings amounting to EUR 24.2 million (previous year: EUR 22.9 million) are also included in this item.

|20| *Administration expenses*

Staff costs and material expenses of management and administration functions are disclosed under this item unless they have been charged to other cost centers as internal services.

|21| *Other operating income and expenses*

Other operating income and expenses can be broken down as follows:

EUR million	2002	2001
Inventory adjustments	-58.2	-86.9
Exchange differences from operating activities	-10.4	4.4
Losses from disposal of assets/special write-downs	-18.6	-41.7
Write-downs on receivables	-7.4	-10.0
Project costs	-19.9	-21.6
Premiums, fees and contributions	-33.4	-15.2
Other operating expenses	-112.1	-87.6
Gains from disposal of assets	51.4	38.3
Other operating income	65.3	56.7
	-143.3	**-163.6**

Other operating expenses primarily include expenses arising from the formation of provisions, including for restructuring projects. The also include expenses relating to environmental protection, insurance claims and expenses arising in connection with the partial early retirement program. Other operating income primarily includes gains from the release of provisions, prior period income and remuneration from the settlement of insurance claims.

|22| *Research and development*

The breakdown of research and development by business sectors and regions is disclosed under 'Segment Reporting'. In addition to the costs of research departments and process development, this item also includes the cost of purchased services and the cost of clinical trials. The costs of research and development are expensed in full in the period in which they are incurred. Development expenses in the Pharmaceuticals business sector cannot be capitalized since the high level of risk up to the time that pharmaceutical products are marketed means that the requirements of IAS 38 are not satisfied in full. Costs incurred after regulatory approval are insignificant. In the same way, the risks involved until products are marketed means that development expenses in the Chemicals business sector and Laboratory Distribution cannot be capitalized. Refunds are eliminated against research costs for research and development of EUR 13.0 million (previous year: EUR 9.9 million).

|23| *Patent and license revenues*

The amounts reported as patent and license revenues relate principally to income for the pharmaceutical active substances metformin, omeprazole and bisoprolol as well as to licensing income from the license agreement with Bracco.

|24| *Investment result*

EUR million	2002	2001
Dividend income from associates	17.2	9.2
Other investment income	6.3	1.7
	23.5	**10.9**

|25 *Amortization of goodwill*

EUR million	2002	2001
Pharmaceuticals	-61.7	-61.3
Chemicals	-15.6	-8.1
Laboratory Distribution	-43.3	-45.2
	-120.6	**-114.6**

|26| *Exceptional items*

Exceptional items are composed as follows:

EUR million	2002	2001
Expenses for vitamin business risks	-93.0	-50.7
Cost of restructuring EC business, Singapore	-11.2	-
Cost of planned VWR IPO International	-5.4	-
Gain from capital retransfer (liquidation of a subsidiary in the United Kingdom)	50.0	-
Write-up to reinstate original value on Merck KGaA infrastructure	2.9	-
Income from company disposals	-	488.4
Provisions for environmental risks	-	-28.1
	-56.7	**409.6**

Expenses relating to the vitamin business include risks from antitrust proceedings and possible claims arising from breaches of purchase obligations.

|27| *Financial result*

EUR million	2002	2001
Interest income from loans	5.8	6.0
Other interest and similar income	22.4	56.7
Interest and similar expenses	-114.3	-200.1
	-86.1	**-137.4**
Interest component of the addition to pension provisions and other provisions for staff costs	-53.2	-51.7
Measurement of interest rate derivatives	3.4	
Exchange rate differences from financing activities	-11.8	-18.9
	-147.7	**-208.0**

|28| *Income tax*

EUR million	2002	2001
Taxes in the period under review on operating activities	-219.0	-314.0
Taxes in the period under review on exceptional items	1.6	-118.9
Taxes for other periods	2.7	-1.2
Deferred taxes on operating activities	18.1	3.9
Deferred taxes on exceptional items	0.2	7.0
	-196.4	**-423.2**
Tax rate	48%	39%
Tax rate before exceptional items	42%	47%

The tax expense consists of corporation and trade income taxes for the companies domiciled in Germany as well as comparable income taxes for foreign companies. Other than income taxes are contained in the other operating income and expenses. The deferred taxes relate to temporary differences between the carrying values in the companies' tax bases and the carrying values in the consolidated financial statements using the liability method. Overall, changes in tax rates in individual countries did not have any material effect on deferred taxes.

The reconciliation between deferred tax assets and liabilities shown in the balance sheet and deferred taxes in the income statement is presented below:

EUR million	2002	2001
Change in deferred tax assets (balance sheet)	21.9	37.0
Change in deferred tax liabilities (balance sheet)	16.6	-49.9
Deferred taxes credited/debited to equity	-19.3	9.3
Changes in companies consolidated/Currency translation	-0.9	14.5
Deferred taxes (income statement)	**18.3**	**10.9**

As of the balance sheet date, corporation tax losses and tax loss carry forwards at Merck KGaA amount to EUR 40 million; trade tax losses in 2002 amount to EUR 110 million. Income tax loss carryforwards at subsidiaries amount to EUR 156.8 million. In 2002, the income tax burden was reduced by EUR 6.4 million due to the utilization of tax loss carryforwards and tax credits. Deferred tax assets are recognized for tax loss carryforwards only if realization of the related tax benefit is probable. This resulted in total deferred tax assets of EUR 22.8 million (previous year: EUR 26.6 million). The major part of these tax loss carryforwards either have no expiry date or can be carried forward for up to 20 years. Deferred tax assets were not recognized for losses or loss carryforwards totaling EUR 203 million at Merck KGaA and its subsidiaries, since future realization of the related tax benefits is currently not expected. Deferred tax assets amounting to EUR 170.4 million were carried for other deductible temporary differences.

In accordance with IAS 12.81, the current tax expense must be compared with the tax expense which would theoretically be incurred by applying the applicable tax rates to the disclosed consolidated profit before tax. Tax is calculated using the tax rates valid for the relevant legal forms of all German and foreign companies in their respective countries.

As the following reconciliation shows, the current tax expense in the Group in the year under review is EUR 49.3 million higher than the tax expense which would be incurred by merely using the tax rates applicable to the German and foreign Group companies:

EUR million	2002	2001
Consolidated profit before tax	**411.6**	**1,078.2**
Tax expense using the relevant tax rates applicable to all German and foreign companies	-147.1	-374.4
Theoretical tax rate	36%	35%
Tax effect by non-deductible amortization of goodwill	-30.2	-28.9
Tax effect by Group companies with a negative consolidated contribution	-28.8	-25.1
Taxes for other periods	2.7	-1.2
Tax effect by non-deductible expenses and tax-free income/Miscellaneous	7.0	6.4
Effective tax expense according to income statement	**-196.4**	**-423.2**
Effective tax rate	48%	39%

|29| *Minority interest*

Minority interest in net profit principally includes the minority interests in the companies Merck Kanto Advanced Chem., Taiwan, Merck Génériques France, as well as the listed subsidiary Merck Ltd., India.

|30| *Earnings per share*

Earnings per share are calculated by dividing the net profit after minority interest by the theoretical number of shares (172 million). The use of a theoretical number of shares is due to the fact that the general partner's capital is not evidenced by certificates. As the share capital amounting to EUR 117 million is composed of 45 million shares, the general partner's capital in the amount of EUR 330.2 million is composed of 127 million theoretical shares. Calculated this way, earnings per share amount to EUR 1.18 (previous year: EUR 3.66).

Notes to the Segment Reporting

The classification of asset and income figures as well as of other key figures by business sector or by region in accordance with IAS 14 (rev. 1997) is presented in 'Segment Reporting.' Segmentation was performed in accordance with the internal reporting of the Merck Group. The operating segments of the business sectors are described in detail in the business sector sections in the Annual Report. In order to optimize business structures, the divisions managed in the previous year within the Specialty Chemicals and Laboratory Products business sectors were restructured and combined to form the new Chemicals business sector. Segment reporting in 2002 follows this new structure; the previous year's figures are shown for comparison purposes. Transfer prices for intragroup sales are determined on an arm's-length basis. There were no substantial internal relationships between the business sectors, with the exception of intragroup sales between the Chemicals and Laboratory Distribution business sectors reported in segment reporting. In the Segment Reporting, the United States and Canada are combined to form a single region 'North America,' as the two countries are managed as a single territory in the Merck Group's internal reporting.

Operating assets included in 'Segment Reporting' were as follows:

EUR million	Dec. 31, 2002	Dec. 31, 2001
Total assets of the Merck Group	7,510.9	8,255.4
Monetary assets (cash and cash equivalents, loans, securities)	–353.1	–888.9
Non-operating receivables from related parties and tax receivables	–362.5	–269.6
Trade accounts payable	–504.8	–525.2
Operating assets	**6,290.5**	**6,571.7**

Notes to the Cash Flow Statement

We define free cash flow as the total net cash flows from operating and investing activities. It is used as an internal control parameter for measuring the liquidity contributed by our business sectors.

|31| *Net cash flows from operating activities*

Net cash flows from operating activities include payments for taxes amounting to EUR 275.2 million (previous year: EUR 499.8 million) as well as interest expenses of EUR 97.7 million (previous year: EUR 181.7 million) and interest income of EUR 36.7 million (previous year: EUR 55.4 million).

|32| *Net cash flows from investing activities*

The acquisition of Mohan Medicine Research Institute Co. Ltd., in Tokyo, led to net cash flows from investing activities, including necessary capitalization, totaling EUR 17.1 million. The acquisition costs for the purchase of Laboratoires Richelet S.A., Paris, amounted to EUR 9.3 million. Revenues from the disposal of assets take into account the proceeds from a repayment made on the loans to Bracco (EUR 76.7 million) and revenue from the disposal of EUR 322.1 million for the remaining receivable.

|33| *Net cash flows from financing activities*

Net cash flows from financing activities include the dividends paid by Merck KGaA to its shareholders totaling EUR 42.8 million and dividends paid to minority shareholders of subsidiaries (EUR 6.7 million). The transfer of profit from Merck & Cie to E. Merck in the amount of EUR 64.5 million and the reciprocal transfers between Merck KGaA and E. Merck in accordance with the Articles of Incorporation, in the amount of EUR 124.4 million, are also included. The reduction in financial debt is, for the most part, due to revenue from the disposal of the remaining purchase price receivable from Bracco.

|34| *Cash and cash equivalents*

The composition of cash and cash equivalents is presented under ‘Notes to the Balance Sheet’.

Other Disclosures

|35| *Financial instruments*

We use derivative financial instruments exclusively to hedge currency and interest rate positions, and thereby minimize currency risks and financing costs caused by exchange rate or interest rate fluctuations. The instruments used are marketable forward exchange contracts and interest rate swaps. The use of such derivatives contracts is governed by internal regulations, and derivative transactions are subject to continuous risk management procedures. Trading, settlement and control functions are strictly separated, and this separation is monitored by our internal audit department. Derivatives contracts are only concluded with prime-rated banks and are restricted to the hedging of our business operations and related financing transactions.

The following derivative financial positions were held as of the balance sheet date:

EUR million	Nominal volume Dec. 31, 2002	Dec. 31, 2001	Fair value Dec. 31, 2002	Dec. 31, 2001
Forward exchange contracts	198.5	100.5	13.4	-0.2
Interest rate swaps	24.1	402.4	-0.6	-0.6
	222.6	**502.9**	**12.8**	**-0.8**

The nominal volume is the aggregate of all buy and sell amounts relating to derivatives contracts. The fair values result from the valuation of open positions at market prices, ignoring any opposite movements in the value of the underlyings. They correspond to the income or expenses which would result if the derivatives contracts were closed out as of balance sheet date. The fair values are calculated on the basis of the figures provided by the respective banks.

Derivative financial instruments are recognized at fair values in the balance sheet under other receivables and other assets or under other liabilities. Gains and losses on the fair value of derivatives and underlyings are usually recognized directly in the income statement. If, in the case of future cash flows being hedged, the provisions for hedge accounting in accordance with IAS 39.158 are fulfilled, gains and losses on the fair value of derivatives are recognized in equity until the underlying transaction occurs. These values are only reclassified from equity and carried to the income statement after accounting for the underlying transaction. Hedged items carried in the income statement are either recognized in the operating result or in the financial result depending on the type of hedging transaction performed.

The maturity structure of the hedging transactions (nominal volume) is as follows as of the balance sheet date:

EUR million	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2002	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2001
Forward exchange contracts	198.5	-	198.5	100.5	-	100.5
Interest rate swaps	-	24.1	24.1	393.7	8.7	402.4
	198.5	**24.1**	**222.6**	**494.2**	**8.7**	**502.9**

The forward exchange contracts that are entered into to reduce the exchange rate risk have a total nominal volume of EUR 198.5 million and primarily serve to hedge fluctuations in the exchange rates to the EUR of the JPY (EUR 148.6 million) and USD (EUR 28.0 million). Forecast transactions are only hedged if the occurrence can be assumed to be highly probable. The occurrence of hedged items is expected within the next 12 months. In the fiscal year, a gain of EUR 6.7 million on the fair value of derivatives was taken directly to equity for forward exchange contracts with a nominal volume of EUR 99.7 million (primarily from hedging future sales in Yen).

EUR million	Nominal volume Dec. 31, 2002	Dec. 31, 2001	Fair value Dec. 31, 2002	Dec., 31, 2001
Hedging of forecast transactions	99.7	27.7	6.7	-0.2
Hedging of recognized transactions	98.8	72.8	6.7	-
Total forward exchange contracts	**198.5**	**100.5**	**13.4**	**-0.2**

EUR 24.1 million of JPY financial liabilities was changed from floating to fixed rates to hedge short-term interest rate risks. Overall, the interest rate structure of the Merck Group's assets and liabilities is presented in the following table. The financial obligations secured by interest rate swaps are recognized according to the effect of the swaps:

EUR million	Fixed-rate	Floating-rate	Non-interest-bearing	Total Dec. 31, 2002	Fixed-rate	Floating-rate	Non-interest-bearing	Total Dec. 31, 2001
Loans granted	10.6	–	–	**10.6**	421.6	–	–	**421.6**
Cash and cash equivalents	96.4	177.2	65.8	**339.4**	180.8	216.2	67.2	**464.2**
Other receivables/assets	11.3	9.3	400.7	**421.3**	13.0	25.7	327.6	**366.3**
Financial obligations	145.0	2,191.9	–	**2,336.9**	1,018.1	1,741.2	–	**2,759.3**
Other liabilities	107.7	330.6	428.3	**866.6**	88.9	333.5	478.3	**900.7**

The trade accounts receivable and payable not included in the table are for the most part non-interest-bearing.

A theoretical credit risk for the existing derivative instruments only applies to the amount of the positive fair values. As of the balance sheet date, these amount to EUR 13.4 million (previous year: EUR 3.6 million) and result exclusively from forward exchange contracts. As the underlying contracts are only concluded with prime-rated banks, we do not believe that these financial instruments involve any actual credit risk. For financial instruments carried on the face of the balance sheet, the fair values correspond to the carrying values unless stated otherwise in the notes to the individual balance sheet items. Specific write-downs are charged to cover existing credit risks of financial instruments originated by the company. In addition, the broad-based business structure of the Merck Group means that there is no particular concentration of credit risks as regards either customers or specific countries.

|36| *Contingent liabilities*

EUR million	Dec. 31, 2002	thereof subsidiaries	Dec. 31, 2001	thereof subsidiaries
Issuance and endorsement of bills	0.4	–	–	–
Guarantees	3.8	–	1.8	–
Warranties	371.4	–	5.2	–
Other contingent liabilities	13.3	–	13.5	–

In 2000, Merck sold its interest in Bracco, Italy. It was agreed that a portion of the purchase price could be paid in installments. These outstanding payments have been secured by way of a bank guarantee in favor of Merck. In the current fiscal year, Merck KGaA sold the residual claim from Bracco amounting to EUR 322.1 million to a financial institute. In this connection, Merck KGaA assumed an guarantee to hedge against the respective residual claim, which amounted to EUR 366.5 million as of December 31, 2002 and is carried under warranties.

|37| *Other financial obligations*

EUR million	Dec. 31, 2002	thereof subsidiaries	Dec. 31, 2001	thereof subsidiaries
Orders for capital spending on property, plant and equipment	75.4	–	95.6	–
Future rental and operating lease payments	184.6	–	204.4	–
Long-term purchase commitments	–	–	35.4	–
Other financial obligations	25.6	7.4	10.8	8.1
	285.6	**7.4**	**346.2**	**8.1**

Other financial commitments are carried at nominal value. Liabilities from lease agreements are composed as follows:

EUR million	Remaining maturity less than 1 year	Remaining maturity 1–5 years	Remaining maturity more than 5 years	Total Dec. 31, 2002
Present value of future lease payments from finance leases	2.3	5.9	3.4	**11.6**
Interest component of finance leases	0.4	0.7	0.4	**1.5**
Future finance lease payments	2.7	6.6	3.8	**13.1**
Future operating lease payments	29.8	66.2	28.3	**124.3**

|38| *Staff costs/ Material costs*

Staff costs are composed as follows:

EUR million	2002	2001
Wages and salaries	1,463.9	1,425.8
Compulsory social security contributions and special financial assistance	248.9	244.6
Pension expenses	99.7	86.5
	1,812.5	1,756.9

Material costs amounted to EUR 3,069 million (previous year: EUR 3,014 million).

|39| *Corporate Governance*

The Statement of Compliance in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) was published on our Web site in December 2002 (www.merck.de/CorporateGovernance). In accordance with section 6.6 of the German Corporate Governance Code, the following must be declared.

- Notification according to section 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act)
  The general partner, Dr. Michael Becker, purchased a total of 1,230 no-par value shares of Merck KGaA on August 30, 2002 (ISIN: DE 000 659 990 // SCN: 659 990). The price per share was EUR 21.00.

- Shareholdings of executive body members
  The shareholdings of members of the company's executive bodies, including stock options, amounts to 442,598 shares and stock options for members of the Executive Board and to 23,558 shares and stock options for members of the Supervisory Board.

|40| *Related party disclosures*

Related parties as defined by IAS 24 are the members of the Executive Board, members of the Merck family and the companies E. Merck, E. Merck Beteiligungen OHG and E. Merck Vermögens KG.

As of December 31, 2002, there were liabilities by Merck KGaA and Merck & Cie, Altdorf, of EUR 313.4 million to E. Merck (previous year: EUR 313.2 million liabilities). These liabilities result mainly from the profit transfers by Merck & Cie to E. Merck on the one hand, and the reciprocal profit transfers between Merck KGaA and E. Merck on the other. Merck KGaA was owed receivables in the amount of EUR 5.3 million by E. Merck Vermögens KG (previous year: receivables EUR 5.6 million). In addition, Merck KGaA was owed receivables from E. Merck Beteiligungen OHG amounting to EUR 0.4 million as of the balance sheet date (previous year: EUR 7.4 million). In total, an average of EUR 184.0 million liabilities was owed to related parties in the fiscal year (previous year: EUR 172.3 million), these liabilities were subject to standard market interest rates. There were no further material transactions with related parties in 2002.

The remuneration of the Executive Board of Merck KGaA in the current year consists of salaries (fixed portion) totaling EUR 2.9 million, profit participation of EUR 7.4 million and appropriations to pension provisions of EUR 2.2 million. Profit participation is based on the three-year rolling average of profit after tax, i. e., for 2002, 2001 and 2000. The costs relating to the Executive Board are borne primarily by the general partner, E. Merck and recorded in its income statement as an expense. When comparing the costs of the previous year, it must be taken into account that the Executive Board has one additional member this year. The members of the Executive Board hold 198,000 stock options from the first tranche and 242,000 stock options from the second tranche of Merck KGaA's stock option program (refer to note (9)).

The Executive Board of Merck KGaA
Darmstadt, January 27, 2003

B. Scheuble   M. Römer   M. Becker

M. Emmens   Th. Schreckenbach   J. Sombroek

Auditors' Report

"To Merck Kommanditgesellschaft auf Aktien:

We have audited the consolidated financial statements prepared by Merck Kommanditgesellschaft auf Aktien for the Merck Group comprising the balance sheet, income statement, statement of changes in net equity, cash flow statement and notes for the business year January 1 to December 31, 2002. The preparation and the content of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatement. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group and the results of its operations and its cash flows for the business year in accordance with IFRS. Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1 to December 31, 2002, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development."

Mannheim, January 28, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Schmid	Bayer
Wirtschaftsprüfer	Wirtschaftsprüfer

Further information can be found at www.merck.de and in the following brochures, which can be downloaded or ordered online:

- Merck Transparent (in German, English, French, Spanish)
- "Was der Mensch thun kann..." – History of the Pharmaceutical and Chemical Company Merck
- Expedition to the Future – A Journey through Research at Merck
- Biotherapeutic Innovation in Oncology
- Liquid Crystals – Merck Makes Bits and Bytes Visible
- Responsible Care® in the Merck Group – Report 2000
- Special-Effect Pigments – A New Colour Dimension
- Consumer Health Care – How We Think and How We Care
- Principles and Strategies for Safety, Health, and Environment (in German, English, French, Spanish)
- Corporate Citizenship in the Darmstadt Region (in German only)

The Merck Annual Report 2002 has been published in German and English. Both versions are available on the Internet at www.merck.de. Full and short versions of the Report can be requested, free of charge, from:
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