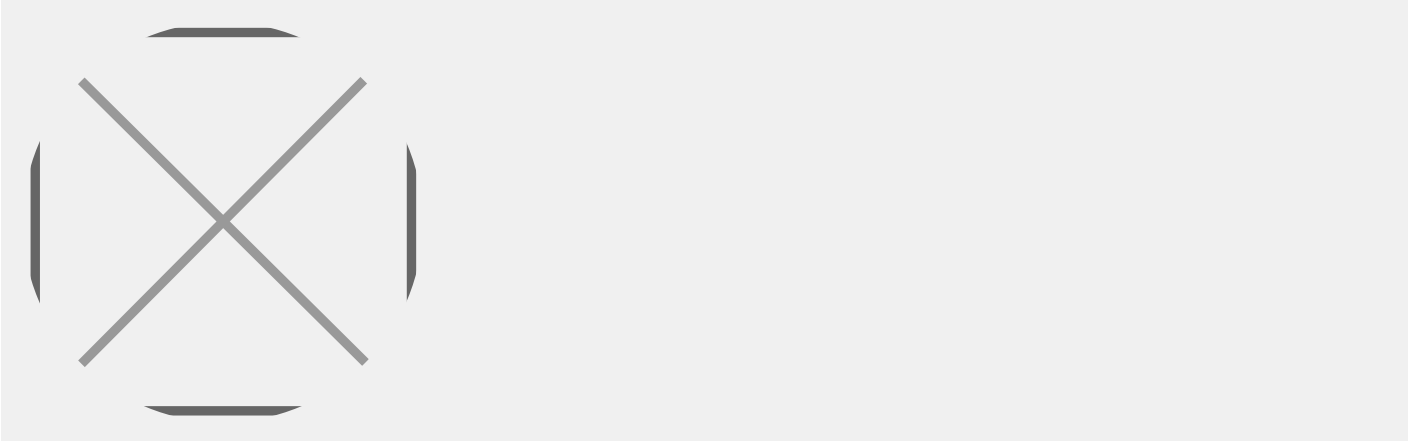
Interview with Laurent Henaux, Managing Director Belgium & Luxemberg, Merck Belgium



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In your 8 years of experience within the group, how would you classify the competitive advantages derived for the company's unique familial ownership structure?

Due to its history and strong values, Merck certainly does have a specific corporate culture which helps to shape its unique character. This is further enhanced by Merck's seniority as well as the diversity and complementarity of the company's different businesses: in fact Merck is characterized by its duality between Pharmaceuticals and Chemicals, tradition and innovation, global business and local entrepreneurship, public company and family owned.

Indeed, Merck has been pursuing a robust long term strategy for many years now that is rooted in its core competencies and values. Nonetheless, as a dynamic organization, Merck is currently undergoing several adaptations aimed at renewing and reviewing its strategy and business practices in order to better cope with the significant present and future challenges in the pharmaceuticals industry.

How have the challenges of rapidly ageing populations and insufficient public financing affected the Belgian affiliate's operations and strategy and what opportunities or remedies do you see here?

Undoubtedly, these challenges represent a very important concern for a medium sized company such as ours. However we must face the consequences of these challenges that extend beyond Belgium to include all of the European and modernized markets and adapt to them accordingly.

Hence, on a global level, we must reinvigorate our innovativeness although that too is becoming an increasingly challenging task in itself. That is, the capacity to innovate is becoming increasingly difficult, not only in terms of breaking through new scientific barriers but also due to financial constraints related to increasing costs as well as the complexities of the regulatory systems that place increasing administrative and technical demands, for instance. On the other hand, we must also strive towards reducing our operational costs while increasing our overall efficiency at a local level.

Referring to Merck's two previously mentioned strengths – its solid familial foundations and realized synergies among business units – we certainly expect them to help us overcome these challenges as we continue to further develop and align them in the long term. In line with this, Merck has recently announced a new strategy for 2018 in which it is reshuffling its leadership organization to accommodate a more centralized decision making process as well as streamlining its costs to cope with the increased price pressures that we facing across the world, and in Belgium in particular.

Considering the importance and contribution of the pharmaceutical industry to the economy and employment levels, how receptive are the Belgian authorities to your discussions with them on the topic of pricing issues?

I am pleased to say that we do have open discussions with the relevant authorities, especially through the general association of the pharmaceutical industry: pharma.be. Nevertheless, we also understand that the Belgian government is faced with its own set of challenges from an economical point of view. Hence, they must find consensus between the requirements to maintain the sustainability of the industry in Belgium and the need to balance their budget. Naturally, this entails conducting difficult and permanent discussions aimed towards resolving the industry's concern of the increasing price pressures on both mature and novel products.

Following the acquisition of Serono in 2007 Michal Bichta GM of Merck Poland told us last year that a key to Merck's success is a result of the synergies realized from their alignment of mindsets and culture. Where Serono's legacy was customer-oriented and focused on short term results, while Merck's legacy emphasised long-term growth and lifecycle management. In this context, what synergies would you say have resulted from the acquisition of Millipore in 2010?

I believe that the integration process and the resulting synergies from the acquisition of Millipore are more or less comparable to those resulting from the merger of Merck and Serono. That is, Millipore operates under a short term time horizon, focused on delivering strong quarterly results through a customer-orientated approach – as is the case with Serono. Also, the fact that Millipore is an American company with a corporate philosophy and culture that contrasts to that of Merck and its German roots represents a similar situation that Merck had to face with Serono. Therefore,

although the process of integrating the business operations and cultural aspects of the two is certainly no easy task, it has been well prepared and I am confident that over time it will slowly but surely begin to bear fruit as was the case with Merck Serono.

Besides being well known for its beer and chocolates, Belgium is renowned for its leadership in the pharmaceutical industry, especially in the biotech and clinical research fields. As a company focused on innovation, to what extent is the Belgian affiliate leveraging on the country's strengths?

As Belgium is being ranked one of the top countries in terms of number of clinical trials per capita, Merck has certainly capitalized on the country's strengths in this field by establishing and operating a clinical research and monitoring department. More specifically, due to the particular trials environment and opportunities in Belgium, we are monitoring studies for all of the group's R&D activities, focused on the entire range of therapeutic areas that we are active in. In addition to this, we have also established many solid relationships with key opinion leaders that help and guide us in the development of our clinical activities, particularly in the oncology and neurology therapeutic areas. And last but not least, we are also partnering with the most famous universities in Belgium supporting scientific research.

On the other hand, Merck does not have any R&D activity in Belgium. Instead, the Merck Group as a whole has taken the decision to focus these activities to three locations across the world: namely, in Darmstadt, Germany; Boston, United States and Beijing, China.

Merck Serono represents the largest division of the group with global revenues just shy of €6 billion in 2011. How would you describe the strategic importance of Merck Serono's Belgian operations and their contribution to the division's regional performance?

Due to the relative size of the market, the Belgian affiliate can be considered to be a medium sized entity. Despite this, Merck Serono in Belgium generated revenues of €60 million for the group last year in 2011. In the Belgian context, Merck Serono has four main 'pillars' of activity. These include Oncology, Neurodegenerative Diseases, Cardio-Metabolic Care and Fertility.

More specifically, despite the small market size, we have maintained our strong position in the Cardio-Metabolic treatment areas with our Glucophage® and Concor® products, for example. Interestingly, the generics business in Belgium is quite small, characterized by no substitution rights and the government's policy to reduce costs by requiring doctors, for example, to maintain a minimum percentage of so called 'cheap' prescription products that is increasing year after year. Therefore, these inexpensive products represent around half of the retail market volume while the proportion represented by branded generics is quite low. This leaves room in the Belgian market for branded products, including mature ones. Therefore, despite having many duplicates of our Glucophage® and Concor® products, for instance, these products continue to achieve notable

results.

The other pillars of our success in Belgium are positioned in the Oncology and Neurodegenerative Diseases in particular with the Erbitux® and Rebif® product lines, respectively. For instance, Erbitux®, which focuses on the treatment of colorectal and head and neck cancers has performed extremely well here, boasting double digit growth figures over the last three years. In fact this represents even stronger growth for the Belgian affiliate in proportion to our size. Similarly, with respect to Neurodegenerative Diseases, Rebif® has also achieved pleasing results despite the challenging market conditions.

Finally, another successful drug that we provide is GONAL-f ® – addressing the fertility therapeutic area. Although the market for this product is restricted by stronger reimbursement constraints, we do maintain a strong relationship with all the fertility centers in Belgium, which naturally facilitates its performance.

Within the scope of Merck Serono, what have you identified as the main areas of growth?

In order to maximize the impact of our investments in R&D and increase our chances of success in discovering and developing new medical therapies, Merck Serono has outlined that it will focus on its area of expertise on specific therapeutic areas. At the core, these include the fields of Oncology, Neurodegenerative diseases and Rheumatology.

We are very confident that the Oncology will continue to grow not only because of the Erbitux® growth trends but also as a result of the new developments and products that we will market in the coming years. At the international level, we have a number of projects that are focused on Oncology alongside Belgium as well. Indeed, there are very exciting projects in this therapeutic area and this is where our portfolio of future products is best developed for the time being. Our R&D focus is also directed towards Neurodegenerative diseases including, but not limited to, Multiple Sclerosis. Finally, we are focused on Rheumatology where we have a number of very promising compounds in phase II of the pipeline.

I believe that this clearly illustrates our determination to refocus, realign and redesign our product portfolio. To this end, there is certainly a strong focus at the moment from corporate management to realize this and I can say that these efforts have begun to yield results.

Merck Belgium also has a strong presence in the consumer health market. How has this business unit performed recently and what have you identified as the main source of growth?

I am pleased to say that our consumer healthcare activity in Belgium is performing very well and has earned us the fourth position ranking in this sector for Belgium. As a matter of fact, Merck’s local consumer health business has been experiencing a commendable growth rate of between 3-

5% per annum, for the past 15 years. This represents €30 million in revenues for 2011.

We have approximately 50 employees contributing to the success of Merck's over-the-counter (OTC) business unit by promoting such products as Nasivin® and Omnibionta3® which are among our best performers. Crucial to their success is the backing these products receive from doctors who prescribe them and pharmacists that endorse them to their patients, for their benefit, despite being non-reimbursable.

Most importantly however, we have developed strong synergies between Merck Consumer Health and Merck Serono which contribute greatly to the success of both. For example, we are promoting Omnibionta® Pronatal – a very famous OTC food supplement for pregnant women which is consumed by 75% of pregnant woman in Belgium. Similarly, when we visit neurologists on the topic of Multiple Sclerosis, we engage with them about several of our food supplements that could be of benefit for their patients. Interestingly, Belgium is among the few countries within the Merck Group that is building such concrete synergies between its business units. Indeed, we are delighted to have a dedicated pharmacy sales team for OTCs, and we will leverage this by encouraging them to distribute information on the Merck Serono range of products when necessary, – effectively maximizing the efficient use of our resources.

I believe this again highlights some of the company's key advantages in which two different, yet independently successful, divisions are working in tandem to create real and measurable synergies amongst them. We will certainly continue to work closely with the management team in order to maximize these synergies that have so far put us at an advantage.

Considering the strength of the local pharmaceutical industry, what is Merck's appetite for partnerships and collaborations in the Belgian market?

I believe that our openness and willingness to collaborate is quite clear once you consider some of the concrete partnerships that we have formed thus far. For instance, in the diabetes disease area, we have a so-called 'DIEP' initiative which is a collaborative effort among three companies as well as patient/physician associations involved in the treatment of diabetes to be able to build a common approach to provide innovative support to the doctors while also helping patients to best cope with their disease. We also have regular meetings with these companies as well as with key opinion leaders to discuss the disease and the best directions to further develop the initiative. On the international level, another good example of our dedication to partnerships is the very recent worldwide agreement we made with Dr. Reddy's to develop new biosimilar with a specific focus on Oncology. This is certainly great news for Merck Group since biosimilars will play an increasing role in the future. I believe that this partnership was an excellent strategic decision that will begin to yield over the medium term.

Of course, we would like to establish partnerships with other companies in Belgium, especially for the promotion of our products or developing global solutions for our patients and doctors in the context of our area of expertise. We are acting on this as we have several on-going discussions but we have nothing concrete so far.

How would you describe the Groups dedication to the Belgian market and where would you like to take the Belgian operations of Merck in the next 2-3 years?

Our dedication to Belgium is surely demonstrated by the solid asset base we have built as well as the good relationships we have developed with our customers. Perhaps most importantly however, Merck has established a very dedicated, reliable and ethical image in Belgium which, in my opinion, is crucial to maintain a long term partnership both with businesses and stakeholders.

Thus, our first goal here would be to develop and strengthen the relationships we have with our customers in order to ensure the sustainability and advancement of Merck in Belgium. Second we will aim to embrace and contribute to the process of adaptation that the group is undertaking in order to achieve a more agile and efficient organization with a more effective decision making process used to successfully implement these new guidelines. By all means, this will be a challenging, yet necessary step for all of the group's affiliates around the world.

On a more personal level, my third and permanent objective as managing director of the Belgian affiliate is to have each and every of our employees wake up in the morning feeling happy to go to the office. I strongly believe that having a truly satisfied and committed work force is a valuable asset to the company. Indeed, having committed people on your team will allow you to tackle future challenges more effectively while also contributing greatly to your overall success.

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