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The Future of Corporate Responsibility in America

Let me start out by saying how glad I am to see the number of people here today. With events in the financial markets of the past six months, there is a strong concern -- as all of you know -- that the concept of responsible investing will lose the momentum it has gained in the past five years and be overtaken by investment driven solely by short-term financial measures.

Will companies decrease their investment in corporate responsibility or sustainability in these difficult times? A number of investors and shareholder groups have asked Merck this question. True, you may see fewer glossy publications in the future and companies may have fewer resources available for philanthropy as their profits and revenues are squeezed.

But overall, I find the question puzzling. To me, it is exactly in times of challenge that it becomes clear why CR is so critical to a company's success, and why it must be an integral part of a company's overall strategy – not an isolated add on. In this time of financial crisis, the fundamentals of good corporate governance and accountability, ethical business practices, and transparency have never been more important.

For a business to succeed we must make profits in a way that is socially responsible, environmentally sustainable and politically acceptable. If not, we will lose our implicit "license to operate" from the public or lose out to the competition. This is true for all industries, including the pharmaceutical industry which is under heightened public and regulatory scrutiny and intense market pressures. Beyond the fundamentals, companies that also see CR through the lens of opportunities for new growth and market expansion should also come out ahead.

For Merck, we see CR as playing a critical role in creating a sustainable competitive advantage in three key areas: regaining trust, building revenue growth, and working in public-private partnerships and collaborations to solve tough issues confronting business and society.

I'll start with regaining trust.

We are keenly aware that we are operating in a more difficult environment -- one in which we face frequent challenges to our reputation. When our president and CEO Richard Clark took on the chairmanship of the Pharmaceutical Research and Manufacturers of America last year, his highest priority was to take steps to address the trust deficit facing the industry. We at Merck take this very seriously and believe trust and transparency go hand in hand.

We draw resolve from the knowledge that Merck continues to have an unwavering commitment to ethics and integrity. We are communicating directly with our stakeholders so that we can rebuild trust, ensure we are listening to their concerns and set the record straight about recent developments involving Merck. We also are working on creating more openness about our business.

For example, there has been much attention on the sales and marketing practices of pharmaceutical companies and our interactions with and support of medical, scientific and patient groups. We believe that providing support to third-party organizations is an important way to advance our mutual objectives to improve health, advance patient care and encourage medical research. However, we recognize that providing such support also raises questions. So we decided last year to make public our support for these groups. Starting last October, Merck began reporting on our website grants over \$500 provided by the Company's Global Human Health division to U.S. organizations in support of independent accredited educational programs for health care professionals.

Over the course of 2009, we will expand this disclosure to include other types of grants. We are beginning in the United States as this is where the largest amount of our support is directed. But it is our intent over time to disclose our support globally.

In addition, we believe in broader disclosure of financial relationships between physicians and the pharmaceutical industry. Last year, Merck endorsed the Physicians Payment Sunshine Act, legislation offered by Senators Grassley and Kohl, mandating disclosure of these financial relationships. But even in the absence of a legislative requirement, we plan to voluntarily disclose in the fourth quarter of this year all payments to U.S.-based health care professionals who speak on behalf of Merck or our products.

These are just two examples, but they touch on a major area where we have the opportunity to improve transparency and trust. You can find additional disclosures in our latest CR report, including:

- The portion of dues that major U.S.-based trade associations report to us as being used for advocacy and/or political activities.
- Registration status by country for our newest vaccines and all of our HIV medicines.
- And, our perspective on the right to health, and our role in realizing this right.

Moving to the second area where CR is critical to our future is building top-line revenue growth. This is an imperative for our business, but we must do so in a way that balances profits with patient access.

Traditionally we have generated the majority of our revenues in developed markets, such as the U.S. and Western Europe.

This is changing as pricing pressures in traditional markets squeeze profits. At the same time, in emerging markets such as China, India, Brazil and Russia, we are starting to see increased purchasing power as middle classes emerge and as governments invest more in the health of their citizens. We also are seeing a shift in prevalence of disease from infectious to chronic disease in these markets.

In India for example, there are an estimated 40 million people with diabetes, a number that is estimated to grow to 80 million by 2030. So clearly, there is a great need for innovative medicines among all segments of the population – even the most poor. In addition to the business opportunity, we believe we have an ethical responsibility to help

ensure our products are accessible in a fair and responsible manner to patients worldwide.

We've been involved in a number of public-private partnerships in least developed countries to help make our products available for more than 20 years. Through the Merck Mectizan Donation Program we have donated more than 2.5 billion tablets of Mectizan for river blindness, with more than 700 million treatments approved since 1987. The program currently reaches more than 80 million people in Africa, Latin America and Yemen annually.

As a leader in HIV drug development since the 1990s, we also have long recognized our responsibility to make our products accessible particularly in sub-Saharan Africa where the pandemic is taking its heaviest toll. Through a combination of differential pricing and engagement in public-private partnerships, our HIV medicines are used by people around the world, regardless of their economic status. Currently, of those patients taking at least one of Merck's HIV medicines, 81 percent are in the poorest nations of the world where they receive our products at a price at which Merck does not profit.

In emerging markets with much greater purchasing power than least developed countries, the objective is to marry our business and social responsibilities together in a sustainable – and profitable – way.

In 2005, we announced a goal of doubling Merck's revenues in emerging markets to \$2 billion by 2010. We are on track to hit this goal by building larger businesses in these markets both from internal and external growth, and by developing market-specific strategies for our products.

In India, for example, as I mentioned, diabetes is an enormous public health problem.

We launched Januvia for treatment for type 2 diabetes in India in the middle of 2008, only three years after re-establishing our business there.

Before launching, we met with more than 200 physicians, government officials and

patients in 60 cities across India. During these discussions, Merck sought guidance on a responsible pricing strategy, and asked what they believed would be a fair price for Indian patients based on the advances the new treatment would bring. Merck used this input, coupled with additional market research, to develop the final price in line with the purchasing capacity of the Indian market.

We see almost a year later that this strategy is working to ensure access to Indian patients, while also allowing Merck to earn a return on our investment. The product is on its way to becoming the most successful pharmaceutical product launch in the history of the Indian market. And, most importantly, thousands of type 2 diabetics are using the product in India today.

Clearly this will be a long-term investment. But it shows that it is possible to use corporate responsibility as a profitability driver and competitive tool.

The third aspect in which I believe CR is critical is in working in public-private partnerships to solve the tough issues confronting business and society.

Here in the U.S., one of the biggest issues, of course, is reform of our health system.

As a pharmaceutical research and manufacturing company, we have an abiding interest in seeing comprehensive health care reform enacted. We believe that all Americans should have access to quality, affordable health insurance coverage. Without coverage, millions of Americans are denied access to needed health care – including prescription medicines and other basic services. Without coverage, our health care system will not deliver its full value to all.

We believe we can be a constructive voice in the discussion and debate about needed reforms. We hope our participation and support can help facilitate a consensus to take action. We recently joined with other business leaders and employers in the Coalition to Advance Healthcare Reform. And, we are members of a group called Healthcare CEOs for Health Reform. We also are members of the Pharmaceutical Research and Manufacturers of America and a number of other policy-oriented groups as well. With many of these groups, we are working to advance a set of core principles to guide and

shape federal policies that can help reverse rising health care costs, solve the problem of the uninsured, and improve the quality of care for every American.

One area that Merck supports, for example, is a national comparative effectiveness research effort. The \$1.1 billion funding for this research contained in the stimulus bill is a good start. Properly structured, comparative effectiveness research can help direct health resources to the most appropriate health interventions for patients by increasing the amount of credible and accessible information available to patients, providers and payers. The stimulus bill funding is just the start. We need a new structure with a high degree of public transparency and stakeholder governance for this effort to be successful for the long term. In coming months, we will work with our partners in Washington to advocate for a new structure for the research in any health reform legislation.

Together, these three areas -- regaining trust, building revenue growth, and working in public-private partnerships -- are critical for our success. And that is why I can say emphatically that Merck is more committed than ever to corporate responsibility, and to ensuring alignment with our business strategy. If we do this right, it will help not only patients but also our bottom line.

While we clearly understand the importance of CR to our future success, we do face challenges ensuring the link is fully understood internally. We are working to communicate what CR means at all levels of our organization -- that it is not a "nice to have" or a discretionary item in tough times. One way we are doing this is by linking pay to performance, which includes an evaluation of how objectives are achieved.

We also recently signed on to the UN Global Compact. With a clear commitment from the company leadership, I am confident that we will enjoy broad support for the principles and ensure that they are reflected in our strategy, culture, and day-to-day operations.

And now, I have a call to action for all of you. Clearly you are here today because you believe in sustainable investing. To ensure CR stays front and center at companies, I urge you to advocate for greater transparency on non-financial material issues and for

companies to report on their environmental, social and governance performance using consistent standards such as the Global Reporting Initiative. Merck works to do this within our sphere of influence, but your voice can resonate more loudly than ours among senior management in other companies.

Thank you again for this opportunity and I'd be happy to open up to questions.