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Lilly Acquires Novel Compound for Insomnia from Merck KGaA

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Eli Lilly and Company (NYSE: LLY) and Merck KGaA of Darmstadt, Germany, announced today that Lilly has acquired Merck's 5-HT_{2a} antagonist compound EMD 281014, a potential breakthrough treatment for insomnia. EMD 281014 is currently in Phase 1 clinical trials.

Insomnia affects more than 164 million people worldwide, including more than 49 million with chronic insomnia. Despite current therapies, there remain significant unmet medical needs. The insomnia market would benefit from a non-scheduled pharmaceutical option that could be used safely across a broader patient population and that significantly improves patients' quality of sleep while eliminating the common side effect of daytime impairment.

"EMD 281014 represents a novel approach to treating insomnia and potentially other central nervous system (CNS) disorders," said Dr. Steve Paul, executive vice president, science and technology, for Lilly. "This highly selective and potent 5-HT_{2a} antagonist complements our portfolio and reflects our continued commitment to addressing important unmet medical needs of patients afflicted with CNS-related disorders."

"Merck is pleased to entrust this unique molecule discovered and developed in-house to Lilly, which is a world leader in CNS pharmaceuticals," said Dr. Inge Lues, executive vice president of preclinical research and development at Merck KGaA. "We believe Lilly can develop the considerable potential of EMD 281014, while we continue to focus our research and development efforts on our main therapeutic areas of oncology and cardiometabolic care."

Under the terms of the agreement, Merck will receive an upfront payment of Euros 22.5 million (approximately \$29 million) in the fourth quarter of 2004 as well as potential development and commercialization milestone payments and royalties on product sales in future periods. Lilly receives exclusive rights to develop and market this compound worldwide. Merck retains rights for potential co-promotion of the product in certain countries. Lilly will report the upfront payment as an acquired in-process research and development (IPR&D) charge in fourth quarter 2004 results. This expected charge of \$.02 per share was not included in Lilly's previously provided earnings guidance for the fourth quarter and full year 2004. The transaction is expected to close next month upon approval by the U.S. Federal Trade Commission under the Hart-Scott-Rodino Act.

Lilly, a leading innovation-driven corporation, is developing a growing portfolio of first-in-class and best-in-class pharmaceutical products by applying the latest research from its own worldwide laboratories and from collaborations with eminent scientific organizations. Headquartered in Indianapolis, Ind., Lilly provides answers - through medicines and information - for some of the world's most urgent medical needs. Additional information about Lilly is available at www.lilly.com.

The Merck Group, based in Darmstadt, Germany, is a global pharmaceutical and chemical company with sales of EUR 7.2 billion in 2003, a history that began in 1668, and a future shaped by 28,300 employees in 56 countries. Its success is characterized by innovations from entrepreneurial employees. Merck's operating activities come under the umbrella of Merck KGaA, in which the Merck family holds a 74 percent interest and free shareholders own the remaining 26 percent. The former U.S. subsidiary, Merck & Co., has been completely independent of the Merck Group since 1917.

This press release contains forward-looking statements about the potential of the investigational compound EMD 281014 for the treatment of insomnia that reflect the current beliefs of Lilly and Merck KGaA. However, as with any pharmaceutical under development, there are substantial risks and uncertainties in the process of development and regulatory review. There are no guarantees that future clinical trials will confirm the preliminary results referred to in this release or that the product will receive regulatory approvals or prove to be commercially successful. For further discussion of these and other risks and uncertainties, see Lilly's filings with the United States Securities and Exchange Commission. Lilly and Merck KGaA undertake no duty to update forward-looking statements.