INTRODUCTION

Rabipur is a product of Hoechst Marion Roussel, a German-based company with headquarters in Frankfurt. In 1998 Hoechst AG was the world’s third-largest pharmaceutical company and one of the most profitable. In 1995 Marion Merrell Dow Inc. was purchased by Hoechst AG from the Dow Chemical Company and public shareholders. It combined with the pharmaceutical businesses of Hoechst and Roussel Uclaf to form Hoechst Marion Roussel, which discovers and develops novel therapies based on scientific innovations in fields such as genetic engineering and biotechnology and aims to bring those therapies to the global marketplace in the form of branded prescription drugs. Rabipur accounted for 21 percent of its sales worldwide.

The product portfolio of Hoechst Marion Roussel is highly fragmented, with only one product accounting for more than 20 percent of total sales. In 1998, management developed a strategy to prune the product portfolio and to focus on the development of newer, more profitable—and generally global—products. Significant global products launched in late 1998 or 1999 include Allegra®/Telfast® for seasonal allergic rhinitis, Amaryl® for type II diabetes, Anzemet® for the prevention of nausea and vomiting associated with chemotherapy, and Copaxone® for the treatment of multiple sclerosis.

Rabipur is a purified chick embryo cell rabies vaccine required to be taken in six injections at specific time intervals. It is an improvement on previous sheep-brain rabies vaccines, which were to be administered on an average of fourteen to twenty-one times at different intervals. Rabipur was first developed by Hoechst in 1984, which began distributing it in the market only in 1987 after trials were completed and approval obtained from the Food and Drug Administration. Rabipur is marketed worldwide, with its primary markets being in Asia and Africa, where rabies is endemic all year round.

Prices for the vaccine vary between countries as related to the income level, standard of living, and exchange rates of that particular country. Prices, however, have increased by only 5 percent on average in the last ten years due to increasingly advanced manufacturing processes, higher volumes, and more accessible distribution regions in the world.

Distribution channels used are different in the United States and Europe from those in Asia and Africa, as shown in Exhibit 1. In the United States and Europe, batches are supplied to wholesalers who get a margin of 12 percent, and they supply to pharmacies and hospitals, which keep a 6 percent margin. In Asia and Africa, batches are supplied to independent distributors, who keep a margin of 12 percent and distribute to wholesalers, whose margin is 8 percent. They, in turn, supply to pharmacies and hospitals, which keep a 10 percent margin. Wholesalers are required by Hoechst to possess equipment and storage facilities essential to store and maintain Rabipur at the ideal temperature level.

Medical representatives are used to initiate doctors into prescribing Rabipur to their patients. Each medical representative would, on average, allocate 15 percent of his time to promoting Rabipur among other products of Hoechst Marion Roussel. Medical representatives receive a basic salary and no commission for promoting Rabipur. Promotion for Rabipur is done primarily through doctors. Any TV or other media sources are used solely for educational purposes and creation of awareness regarding the disease. A royalty fee of 5 percent of worldwide sales is payable to Hoechst AG, Germany.

Hoechst’s pharmaceutical company Hoechst Marion Roussel decides how to position Rabipur, when to introduce which line extensions, how much marketing resource to devote to Rabipur versus other products, and the promotional mix. Marketing and distribution costs amounted to, on average, 30 percent of Rabipur sales. Of these, 9 percent went to the sales force, 4 percent on promotional expenditure, 6.4 percent on product sampling, and 10.3 percent on educational events.

Hoechst is an international network of innovative and customer-oriented companies that are among the leading suppliers in the fields of industrial chemistry, pharmaceuticals, and agriculture. It sets its sights on long-term partnerships with customers. In order to recognize
its customers needs swiftly and flexibly, it has organized the company into business units operating in close proximity to customers.

Hoechst is committed to promoting the concept of sustainable development. This challenges it to open up market opportunities with innovative and environmentally advantageous products and processes.

The company performed well in 1998. It was a successful year marked by growth and higher added value, and 1999 looks set to continue along the same lines. The goals for 1999 are clear.

Hoechst AG intends to strengthen Hoechst Marion Roussel’s position as one of the world’s leading pharmaceutical companies. It will continue to develop its crop protection activities into an integrated crop production business and increase the biotechnological expertise needed to develop new innovations in the fields of health care and nutrition. It will also put all of its industrial chemical activities on a sustainable competitive footing, either by going it alone or through alliances and will conclude the organizational realignment of Hoechst into a flexible, international network of autonomous operating companies. Last but not least, it intends to grow and generate an above-average return on capital employed.

**INDUSTRY BACKGROUND**

All new pharmaceutical products have to obtain approval from each country’s health or regulatory bodies before market introduction. Manufacturers have to provide data from tests on animal and human subjects (clinical trials) that demonstrate the safety of the product. The approval decision can take two or six years for products based on new chemical entities. The terms of approval are highly specific and defined. Any change in the specifications requires new data, and a new application and approval. Approval of changes generally takes less than a year.

Rabipur was approved for distribution only in pharmacies and hospitals, and patients needed doctors’ prescription to obtain it. This differentiates so-called “ethical” products like Rabipur from over-the-counter products like aspirin and antacids.

General practitioners account for 75 percent of all prescriptions. Specialists, especially those practicing in research hospitals, play an important role by carrying out clinical trials, and as opinion leaders. Manufacturer’s medical representatives are the main source of information about drugs for many general practitioners.

Contact time per visit varies between 15-25 minutes, during which up to four products are promoted. Visits are carefully scripted, and presentations are supported by visual aids, PC presentations, and slides. What the reps say to doctors is highly regulated. For example, reps are obliged to provide doctors with a health-authority approved data sheet comprising the following information: (1) indications, (2) dosages, (3) drug interactions, (4) side effects, and (5) warnings. If a company detects a violation by a competitor, it can obtain a discontinuation of the promotion in question. Brand advertising of ethical drugs to the general public through TV or media is forbidden.

Few doctors have an accurate perception of drug costs, and high prices tend to indicate high quality. Due to spiraling health care costs, price sensitivity is increasing, especially in the hospital market.

**THE RABIES DISEASE**

Rabies is a viral disease of humans and other mammals, especially carnivores. The virus is transmitted in saliva, by the bite of an infected animal, or by contact through

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**EXHIBIT 1**

**DISTRIBUTION CHANNEL AND PRICE FOR RABIPUR**

<table>
<thead>
<tr>
<th>Country</th>
<th>Amts in DM</th>
<th>Amts in DM</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA and Europe</td>
<td>10 ➔ SP for Hoechst</td>
<td>10 ➔ SP* for Hoechst</td>
</tr>
<tr>
<td>Asia</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>USA and Europe</td>
<td>11.2 ➔ SP for wholesaler</td>
<td>11.2 ➔ SP for distributor</td>
</tr>
<tr>
<td>Asia</td>
<td>11.2</td>
<td>0.90</td>
</tr>
<tr>
<td>Asia</td>
<td>11.87</td>
<td>12.10</td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td>1.2</td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td>13.20</td>
</tr>
</tbody>
</table>

* selling price
the mucous membranes or breaks in the skin. Within the body the virus attacks the central nervous system. Symptoms develop ten to fifty days after exposure. Human symptoms usually begin with depression, restlessness, fatigue, and fever, soon followed by a period of great excitability, excessive salivation, and convulsions, especially in the form of throat spasms. The victim is unable to drink even though extremely thirsty — hence the old name for rabies, hydrophobia, “fear of water.” Death from paralysis and suffocation follows within ten days. Once rabies symptoms appear, no treatment of the disease is possible.

A vaccine against rabies was first developed in France in the 1880s by Louis Pasteur. Human cases have since become rare in the United States and other developed countries because of vaccination programs for domestic animals. People in high-risk occupations, such as veterinarians, forest-service agents, and health workers in developing countries are also often immunized against the disease. A less-expensive, low-dose vaccine was introduced in 1987 for use by travelers.

The few U.S. cases reported each year are mostly from contact with wild animals. The species most frequently associated with the spread of rabies are skunks, foxes, coyotes, raccoons, rabbits, bats, and squirrels and other rodents. In the late 1980s and early 1990s, rabies in animals spread throughout the northeastern United States. If a person is bitten by an animal that cannot be found, physicians prefer to begin treatment for rabies rather than risk the person’s life, especially if the animal behaved abnormally. (The treatment consists of a series of injections over the span of three months.) If the animal can be found and appears rabid, it is destroyed and its brain tissue examined; if it appears healthy, it is confined and watched for signs of the disease.

MARKETS FOR RABIPUR IN ASIA

The markets in Asia for Rabipur are mainly concentrated in the developing countries of India, Thailand, and Bangladesh. India is the primary market. It accounts for 43 percent of sales on account of its large stray dog population and large-scale illiteracy, followed by a combined 30 percent in Thailand, Bangladesh, and Sri Lanka. Developed economies of Malaysia, Singapore, Korea, and Japan account for only 7 percent of sales. Myanmar, Nepal, Philippines, and Vietnam account for 10 percent of sales volume. China accounts for 10 percent. Rabipur is not distributed in Indonesia and Cambodia due to government regulations and inadequate storage and distribution facilities.

Rabipur has a 65 percent market share in Asia, which has a total market value of DM 31 million. There are an estimated 100,000 rabid dog bites in India alone per year. Health insurance in India and other countries in the subcontinent is rare and not mandatory. Other than free government-run public hospitals, governmental medical plans are inadequate or nonexistent. The government regulates the prices of ethical drugs such as Rabipur, but offers no reimbursement plans to patients. Countries such as Singapore and Malaysia have very few instances of dog bites due to strict regulations on vaccination measures and the low occurrence of stray dogs. Individuals are not permitted to have a pet in their possession unless they buy a license to do so, which could be very expensive. Many apartment complexes and public areas do not allow pets. There were only 25 dog bites reported in Singapore and 158 in Malaysia in 1998. It is due to these reasons that the management of Hoechst Marion Roussel is considering withdrawing from these unprofitable markets. The Japanese are not accustomed to keeping dogs as pets, given the small size of the average Japanese home in urban areas of Tokyo, Osaka, and other industrialized cities. Superstitious beliefs also play a part in the Japanese reluctance to keep pets. Other carriers such as monkeys and rats are not sighted in urban areas unless permitted by the authorities for public viewing.

Exhibit 2 indicates Rabipur’s market share in percentage for each of its major markets in Asia.

Exhibit 2 indicates a very high market share in Bangladesh, Vietnam, Singapore, Malaysia, and the Philippines. The markets in India and China are dominated by the government vaccines, which are either free of cost or heavily subsidized. In addition, Hoechst Marion Roussel faced regulatory obstacles in Thailand at the time of the launch, accounting for a slow start and loss of market share to Pasteur Merieux’s Verorab. It is interesting to note that although Rabipur enjoys a fairly high market share in Singapore and Malaysia, these markets...
are not profitable due to the very low volumes that they deal in. The revenue gained does not justify the costs associated with marketing the product in these countries, and suggests that these markets be removed from their portfolio in the long term.

COMPETITOR ANALYSIS

The main competitor for Hoechst Marion Roussel in Asia is Pasteur Mérieux’s Verorab, which has a 30 percent market share. There are various other competitors in each country, which also have a minute market share. In its primary market of India, the government sheep-brain vaccine is the main competitor. The government vaccine is given away free at government-run hospitals but is inferior to Rabipur in terms of effectiveness and dosage requirements. However, it is still popular, as consumers are unable to afford the more expensive alternatives and since it has been in the market for many more years, doctors are simply unaware of existing alternatives such as Rabipur and Verorab. It currently occupies in excess of 50 percent of the rabies vaccine market. The Swiss Serum Institute also produces an HDC vaccine, which is distributed in selected regions of India, Bangladesh, Thailand, Singapore, and China. This vaccine is not considered a threat to Rabipur because it does not compete in the same markets and has an insignificant market share at present.

Pasteur Mérieux is wholly owned by Rhône-Poulenc S.A., the world’s seventh-largest pharmaceuticals and chemicals group, headquartered in Paris, France. It has a very high operating profit and has been increasing sales volume at an average of 8 percent over the last five years. Pasteur Mérieux is one of the world’s premier researcher, developer, manufacturer, and supplier of vaccines for use in humans, providing the broadest range of vaccines and biologicals available from a single company in the United States. It is part of a global organization that distributes vaccines to 150 countries around the world—more than one billion doses of vaccines annually. This translates to administering one dose to thirty people every second of every day. This global presence gives it direct access to broad scientific expertise, vast research and development resources, and cutting-edge vaccine technologies.

The Swiss Serum vaccine institute is located in Berne, Switzerland, and is specialized in the production of immunobiological preparations, products for active and passive immunization, and bacterial and viral vaccines.

There is a future growth potential of 15 percent in Asia for the vaccine market. Rabipur is an ethical drug and therefore may not be directly promoted to the end user. Ethical drugs are promoted through general practitioners and hospital. The only form of promotion to the customer may be through educational programs and discussions.

GOALS FOR 1999

Strategic Management Holding

The board expects the economies of Europe, the Americas, and Asia to grow in 1999, albeit at different speeds. In Europe, the Euro shows financial policy discipline, good export possibilities, and additional growth in central and eastern Europe. In North America, the long period of growth will continue; in Latin America, Hoechst expects economic activity to generate additional momentum. Strong impetus will continue to come from Asian countries of Singapore, Taiwan, and Hong Kong, except for Japan, where economic developments are expected to be slow. The board sees no particular risks emanating from raw material prices or exchange rates in 1999.

Consolidated sales of the Hoechst Group will decline due to spin-offs in preparation for a full merger with French giant Rhone Poulenc Rorer (appendix E)—especially in the speciality chemicals division—to around DM 47 billion. Hoechst Marion Roussel will expand its sales volumes thanks to its broader market presence, but prices will remain under pressure. AgrEvo expects to be able to gain additional market shares. In both sectors, it plans to strengthen its efforts in biotechnological research.

Group research expenditure will amount to around DM 3.5 billion. Capital expenditure will be approximately DM 3 billion. Expenditure on environmental protection will fall as a result of the decline in industrial production activities. The board expects profits to rise in the pharmaceutical and agriculture businesses and at Messer and Herberts. Activity in the basic chemicals, fibers, and plastics markets is expected to pick up slightly. The 1999 result, however, will be adversely affected by restructuring charges. Overall, the board expects the consolidated underlying operating result to increase in an improved economic environment.

Hoechst Strategic Management Holding Company

The board intends to propose to the 1999 Annual Meeting the further development of the organizational structure of Hoechst into a strategic management holding company. Hoechst AG now steers a group of affiliates but no longer directly runs any operating busi-
nesses. The Hoechst Board of Management is responsible for shaping the Hoechst Group in a long-term and value-enhancing manner. It will be supported in its task by a small corporate staff.

The responsibility for operating business will lie with the individual affiliates, which will be organizationally structured retroactively to January 1, 1999, into Hoechst Marion Roussel, which has management and research synergies for pharmaceutical development with Rhône Poulenc Rorer, Behring Diagnostics, AgrEvo, Hoechst Roussel Vet, Celanese, Trevira, Ticona, Messer and Herberts. The service units and sites will also be transformed into independent legal entities, either in 1999 or in early 2000. The details of the realignment of the Hoechst Group are contained in a comprehensive report that will be available along with the Annual Report 1999 at the Annual General Meeting. After a far-reaching process of change, the board believes that it has found an organizational structure that will give managers and staff more scope and strengthen businesses in the face of global competition. The new structure also permits the clear delegation of responsibility and will increase entrepreneurial flexibility while offering shareholders greater transparency. Within this framework there will be focus on driving and sustaining the growth of Hoechst.

Rabipur Asia represents 12.5 percent of sales for Asia as compared to 21 percent worldwide. Operating profit has dropped from 27 percent in 1996 to 10 percent in 1998. The management and shareholders of Hoechst Marion Roussel are disappointed with these results, given the growth potential and resources available in the Asian market. As independent consultants, you have been asked by the board of Directors, Hoechst AG Germany to formulate a marketing strategy whereby operating profit may reach a target of 25 percent of sales and at the same time to achieve a sales percentage at par with worldwide figures for Rabipur. The research findings and appropriate recommendations are to be reviewed by the board at its next meeting.

ANALYSIS

The operating profit of the Hoechst Group rose by 12 percent to DM 4.0 billion; on a comparable basis, it decreased slightly by 1 percent. Profit before taxes on income rose by 29 percent to DM 5.3 billion; the disposal of affiliates and shareholdings accounted for DM 2.5 billion of this figure, as shown in Appendix D. On a comparably stated basis, pretax profit declined by 1 percent; this is attributable to the sluggish state of business in the fourth quarter of 1997. Profit after taxes and before minority interests rose by 24 percent to DM 2.8 billion. The proposed dividend payment is DM 1.40 per DM 5 share.

Operating profit of the pharmaceutical business rose from DM 709 million to DM 2249 million. This figure contains DM 169 million in profits from the vaccines business. The operating business of Hoechst Marion Roussel accounted for an increase of approximately DM 500 million. The remaining growth is primarily attributable to the sale of affiliates and product rights, as well as to lower restructuring charges than in 1997. However Rabipur’s return as a percentage of sales dropped by 21 percent in the second consecutive year as compared to other products for the company. The drop was attributed to increasing promotional and personnel expenditure. Decreasing revenue and higher operating expenses for Rabipur have been causing a concern for Hoechst in the past few years. Wholesalers and distributors were paid a higher percentage in Asia for the same product as compared to Europe. This also accounts for the decreasing bottom line.

Structural Change: A round DM 4.9 billion for Rationalization and Personnel Reductions

The Hoechst Group incurred restructuring charges totaling DM 4.9 billion from 1993 to 1998. Restructuring is another word for the rationalization or closure of plants and downsizing. Three-quarters of the total — nearly DM 3.3 billion — were incurred in personnel expenses, mainly for early retirements and, in some cases, severance agreements. In the same time period, the number of employees in the Hoechst Group fell on a comparable basis by 21 percent, or 37,284. At Hoechst AG, the decline amounts to 26 percent; on a comparable basis, Hoechst AG had 15,501 fewer employees in 1997 than in 1993. These figures do not reflect success. They show the existing pressure to take action, above all in industrial business and primarily in Germany, for without the personnel savings of around DM 3 billion this year — compared with 1993 — Hoechst would not be competitive. And it shows the dimensions of an industrial restructuring process that Hoechst has largely been through. This is a process that certainly lies ahead of other companies and one that the political community and society still haven’t fully grasped.

Capital Spending on Property, Plant and Equipment up Slightly on 1997

The Hoechst Group invested DM 4 billion in property, plant and equipment, and intangible assets in 1997, only 5 percent of which was spent in Asia. Capital
expenditure on property, plant and equipment alone accounted for DM 3,826 million; DM 354 million of this figure is attributable to the acquisition of real estate from the company pension fund. This transaction puts the pension fund in a position to deploy its financial resources more profitably. This is part of a process that allows Hoechst to lower the contribution burden of the company and also to strengthen the retirement pensions and benefits of our employees. Without this contribution for the pension fund, capital expenditure on plant, property and equipment would be 3 percent above 1997’s figure. Approximately 40 percent of capital expenditure on plant, property and equipment is attributable to the expansion of production facilities for enhancing profitability. A further 20 percent is attributable to further rationalization measures for increasing profitability. The remaining 40 percent will be used for repairs and environmental protection.

Hoechst Marion Roussel has modernized its production processes at numerous sites in Asia. Capacities for vaccine productions are being expanded, among other things by the construction of a vinyl acetate plant in Singapore and by expanding acrylic acid and oxo product capacity in the United States and Germany, respectively.

Personnel: Headcount Falls Further, Rise in Personnel Expenses per Employee

At the end of 1998, 147,862 employees worked for the Hoechst Group, 13,756 fewer than at the end of 1997. On a comparable basis, the headcount fell by 6,326, or 4 percent. These personnel reductions were effected chiefly through early retirements and, in exceptional cases, severance agreements.

Excluding restructuring charges, personnel expenses fell by 3 percent to DM 13.8 billion. This figure includes retirement pensions and benefits totaling DM 1.2 billion. Excluding retirement pensions and benefits and restructuring charges, personnel expenses totaled nearly DM 12.7 billion. In relation to sales, the personnel cost ratio remained unchanged at 25 percent. Personnel expenses per employee increased from DM 79,500 to approximately DM 83,700.

Research at Hoechst

In 1998, Hoechst invested DM 3,479 billion, or 6.7 percent of its sales, in research and development. Comparably, only DM 2 million was incurred for research on Rabipur Asia in 1998.

A round 58 percent of this sum is accounted for by the pharmaceutical division, which conducts research into new drugs and diagnostics. If we add our research expenditure in the crop protection and animal health sectors, Hoechst invests around 70 percent, or more than two-thirds of its R&D resources, in the highly attractive and innovative life sciences field.

Hoechst conducts research worldwide. A round 15,600 people work in research centers in eighteen countries. In each of the regions Europe, the United States, and Japan, Hoechst focuses on a specific area of research: In Europe, the more classical research in the fields of chemistry, pharmaceuticals, or new materials is done. Research in Japan focuses on materials for Consumer Electronics. R&D activities in the fields of Biotechnology and Genetic Engineering are mainly located in the United States.

In the last years, R&D spending outside Germany increased continuously. In 1997, more than 50 percent of the R&D budget had been spent outside Germany. Asia still accounts for only 6 percent of total research costs, in spite of having one of the best equipped research centers in the world, located in Mumbai, India.

Employee Shares and Performance-related Pay Upward Appraisals

At the end of 1998, 147,862 employees worked for the Hoechst Group, 13,756 fewer than at the end of 1997. On a comparable basis, the headcount fell by 6,326. The decline is attributable to rationalization measures and was effected through early retirements and, in exceptional cases, severance agreements. Excluding retirement pensions and benefits, personnel expenses totaled DM 12.9 billion, 6 percent less than in 1997. Personnel expenses per employee excluding restructuring charges and retirement pensions. Benefits increased by DM 4,200 to approximately DM 83,700. Basic and advanced training continues to be an important part of its human resources activities. At the end of 1998, the Hoechst Group had 3,012 apprentices in Germany alone; expenditure on basic and advanced training here amounted to DM 139 million.

Disposals of Affiliates and Shareholdings Increase Profits

Operating profit of the Hoechst Group totaled DM 4 billion and was thus 12 percent higher than in the previous year. Disposals of affiliates, operations, and shareholdings increased operating profit by DM 710 million (DM 220 million in 1997); restructuring charges burdened it by DM 624 million (DM 1 billion in 1997). On a comparable basis, operating income
declined by 1 percent. The pretax profit of the Hoechst Group increased by 29 percent to 5.3 billion. Disposals of affiliates and shareholdings contributed DM 2.5 billion (DM 1.1 billion in 1995). SGL Carbon accounted for more than DM 1.1 billion and Uhde for DM 600 billion of this figure. The extraordinary items that impacted profits are presented individually in the chart. On a comparable basis, the pretax profit fell by 1 percent. In the fourth quarter, business was disappointing, and a relatively high level of restructuring charges was incurred.

The profit after taxes amounted to DM 2.8 billion following DM 2.2 billion in 1995. The tax ratio was 47 percent (45 percent in 1995). DM 660 million of the profit after taxes is attributable to minority interests, leaving DM 2.1 billion in net income. DM 950 million of the profit after taxes will be paid out in dividends, and DM 1.8 billion transferred to the reserves.

### Corporate Debt Decreases
Cash flow from operating activities in the Hoechst Group decreased in 1998 by 3 percent to DM 5.6 billion. DM 2.1 billion was used for capital investments and acquisitions. Cash flows used for financing activities, above all to pay interest, dividends, and repay corporate debt, totaled DM 3.7 billion. 2.1 times cash flow would suffice to retire the corporate debt of the Hoechst Group, amounting to DM 11.8 billion, 8 percent of which is attributable to Hoechst Marion Roussel. Corporate debt decreased in 1996 by a total of DM 900 million. DM 2.4 billion in liquid funds from disposals of affiliates, operations, and shareholdings was used to decrease corporate debt. The acquisition of Plant Genetic Systems increased the debt level by DM 700 million. Exchange rate movements likewise increased corporate debt by DM 700 million compared with 1995. Long-term corporate debt is financed at an average interest rate of 6.5 percent. The weakening of the Asian currencies against the dollar further eroded profitability in Asia. Cost of raw material and essential items increased, as they have to be imported from Germany and other European countries.

### Good Volume Development in the Face of Continued Price Weakness
Hoechst Group sales fell by 2 percent to DM 50.9 billion. Sales for Rabipur Asia fell from DM 22 million to DM 20 million in 1998. Sales would have exceeded the 1997 figure by 1 percent were it not for the numerous changes in the composition of the Hoechst Group. While Hoechst Marion Roussel succeeded in expanding sales volumes by 3 percent, selling prices declined by an average of 4 percent. The value of the U.S. dollar and major European currencies increased against the DM in 1996, whereas the yen fell markedly. Overall, sales increased by 2 percent due to currency translation.

### Capital Spending at the Previous Year's Level
In 1998, capital expenditure in the Hoechst Group amounted to DM 3.8 billion (DM 3.4 billion in 1997), mainly concentrated in Europe, which accounted for 69 percent. DM 350 million of this figure is attributable to the acquisition of real estate from the company pension fund. Around 40 percent of capital expenditure is focused on the pharmaceutical, basic chemicals, fiber, and industrial gases sectors.

For 1999, Hoechst is expecting sales to decline to DM 42 – 47 billion, depending on how the planned realignments within the company proceeds. It anticipates an increase in underlying operating profit in a generally favorable economic climate. The company is focusing in particular on the pharmaceutical Rabipur market and Hoechst Marion Roussel’s performance in partnership with Rhone-Polenc Rorer.