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 accordance with the provisions of the German financial reporting disclosure law (Publizitätsgesetz), consolidated financial statements are also prepared for E. Merck OHG, the general partner of Merck KGaA with an equity interest of 70.3% as of December 31, 2007. These include Merck KGaA and its subsidiaries. The authoritative German versions of these financial statements are filed with the electronic German Federal Gazette (elektronischer Bundesanzeiger) and can be accessed at www.unternehmensregister.de.

Application of International Financial Reporting Standards (IFRS)

The consolidated financial statements of the Merck Group – with Merck KGaA as parent company – have been prepared in accordance with consistent accounting policies. Pursuant to Section 315a HGB (German Commcercial Code), the International Financial Reporting Standards (IFRS) in force on the reporting date and adopted by the European Union as issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have been applied.

The following standards and amendments to standards were effective for the first time in fiscal 2007: Amendment to IAS 1 “Presentation of Financial Statements: Capital Disclosures” and IFRS 7 “Financial Instruments: Disclosures”.

The following interpretations were also effective for the first time: IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies”, IFRIC 8 “Scope of IFRS 2”, IFRIC 9 “Reassessment of Embedded Derivatives” and IFRIC 10 “Interim Financial Reporting and Impairment”.

Neither the new nor the amended rules had any material effects on the consolidated financial statements of the Merck Group. IFRS 7 “Financial Instruments: Disclosures” and the Amendment to IAS 1 “Presentation of Financial Statements: Capital Disclosures” are reflected in additional disclosures in the notes.

The following interpretation takes effect as of fiscal 2008: IFRIC 11 “IFRS 2: Group and Treasury Share Transactions”. We do not expect the new rule to have an impact on the consolidated financial statements.

The following interpretation will take effect as of fiscal 2009: IFRS 8 “Operating Segments”. We expect that adjustments to the disclosures in the Notes will be necessary.

In addition, the following amendments to standards were published by the International Accounting Standards Board (IASB) and the following interpretations published by the International Financial Reporting Interpretations Committee (IFRIC), but not yet adopted by the EU: Amendment to IAS 1 “Presentation of Financial Statements: A Revised Presentation”, Amendment to IAS 23 “Borrowing Costs”, IFRIC 12 “Service Concession Arrangements”, IFRIC 13 “Customer Loyalty Programmes” and IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction“. We do not expect the new standards to have any material effects on the consolidated financial statements. As of fiscal 2009, the Amendment to IAS 23 is likely to result in increased capitalization of borrowing costs related to the acquisition, construction and production of a qualifying asset compared with current treatment. This is because the option to expense borrowing costs attributable to the acquisition, construction or production of such an asset as incurred will no longer exist.

Changes in the reporting structure

Since 2007, royalty income is no longer shown on a separate line above the operating result. Instead, it is reported under total revenues along with sales. This presentation has been selected since patent and license income is a common form of revenue in the pharmaceutical industry and with the acquisition of Serono, the significance of these amounts is greater to Merck than in the past. The previous year's presentation has been made comparable and key figures have been adjusted accordingly.

Additional amortization of intangible assets resulting from the Serono purchase price allocation will strongly impact the future results of Merck. In order to increase the transparency of the income statement, as of 2007 the amortization of intangible assets is presented on a separate line above the operating result. This item primarily comprises amortization in connection with the allocation of the Serono purchase price, but also to a lesser extent amortization of other intangible assets. This item does not take into consideration amortization of software, which is still included under operating expenses and is of secondary importance overall. The change lowered the marketing and selling expenses reported in 2006 by € 8.0 million. Of this amount, € 3.8 million related to the Merck Serono division, € 1.8 million to the Consumer Health Care division, € 0.2 million to the Liquid Crystals division, € 1.8 million to the Performance & Life Science Chemicals division and € 0.4 million to the segment Corporate and Other. For the same reason, research and development costs decreased by € 4.0 million. Of this amount, € 0.7 million relates to the Merck Serono division and € 3.3 million to the Liquid Crystals division.

Since 2007, we report inventory write-downs, which were previously included under other operating expenses, as a component of cost of sales. The adjustment was made in order to improve the informative value of the income statement and to permit a causal allocation of the costs to the relevant functions. The previous year's figures are presented accordingly on a comparable basis. As a result of these changes, the cost of sales reported in 2006 increased by € 56.4 million. Of this amount, € 17.6 million related to the Merck Serono division, € 2.5 million to the Consumer Health Care division, € 23.0 million to the Liquid Crystals division, € 12.6 million to the Performance & Life Science Chemicals division and € 0.7 million to the segment Corporate and Other. By contrast, other operating expenses declined.

Previously, the financial result was allocated to the divisions. As of this year, we disclose the financial result in full in the segment Corporate and Other since it is no longer possible to allocate the financial result to the individual divisions subsequent to the acquisition of Serono and the disposal of the Generics business. In accordance with these structural changes, the previous year's presentation has been made comparable. As a result of this change, the free cash flow reported in 2006 for the Merck Serono and Consumer Health Care divisions increased by € 25.7 million and € 11.2 million, respectively, as did that of Generics, a discontinued operation, by € 9.2 million. The free cash flow reported in 2006 for the Liquid Crystals and Performance & Life Science Chemicals divisions declined by € 4.6 million and € 11.6 million, respectively, as did that of the segment Corporate and Other by € 29.9 million.

Companies consolidated

Including the parent company Merck KGaA, Darmstadt, 192 companies are fully consolidated in the annual financial statements of the Merck Group. One associate is included using the equity method. 37 investments are not consolidated due to secondary importance and a further 29 investments are not consolidated due to the absence of control and are presented under non-current financial assets. In fiscal 2007, 64 companies were included in the consolidated financial statements for the first time, primarily as a result of the acquisition of Serono, and 48 companies were deconsolidated, mainly as a result of the disposal of Generics.

Acquisitions

With the closing of the share purchase agreement on January 5, 2007, Merck acquired from the Bertarelli family the majority of the shares and voting rights of the Swiss pharmaceutical and biotechnology company Serono S.A., Coinsins, Switzerland, and renamed it “Laboratoires Serono S.A.“. Additional shares were acquired through a public tender offer under Swiss law that ran until February 22, 2007, as well as on the stock market. A squeeze-out to aquire the remaining shares was successfully completed on July 6, 2007, with the ruling issued by the Civil Court of the City of Basel. The delisting of Merck Serono shares from the SWX Swiss Exchange of Merck Serono shares took place on July 18, 2007. The acquisition of 100% of the Serono shares involved cash payments of € 10,271 million. In addition, the net assets of the holding company Bertarelli Biotech S.A. (now: “Merck Serono S.A.“) were acquired from the Bertarelli family for € 571 million. The holding company had liquid assets amounting to roughly the same amount.

The acquired assets, liabilities and contingent liabilities have been recognized at fair values in the balance sheet and are as follows:

€ million	Pre-acquisition book-values	Adjustment	Fair value
Cash and cash equivalents, marketable securities, financial assets	2,255	–	2,255
Inventories	197	734	931
Other current assets	498	–4	494
Goodwill	59	1,280	1,339
Other intangible assets	183	6,819	7,002
Property, plant and equipment	661	112	773
Other non-current assets	639	–15	624
Current financial liabilities	–590	–	–590
Other current liabilities	–548	–45	–593
Non-current financial liabilities	–21	–	–21
Provisions for pensions and other post-employment benefits	–41	34	–7
Other non-current liabilities	–257	–1,124	–1,381
Net assets	**3,035**	**7,791**	**10,826**
Purchase price Bertarelli Biotech			–571
Exchange differences and other			16
Net assets acquired			**10,271**

Cash and cash equivalents include around € 106 million from the exercise of stock options.

The most significant impact of the purchase price allocation on the balance sheet and the income statement results from the fair value measurement of intangible assets and the revaluation of inventories: Intangible assets mainly comprise technologies and know-how, license, in-process research as well as trademarks and brands. Amortization is presented separately in the income statement before the operating result. In addition, the fair value measurement of Serono's inventories resulted in an increase of € 734 million. This amount is fully expensed in the income statement in 2007 in accordance with the assumed stock turnover time. Due to the non-recurring nature and size of this amount, we disclose it under exceptional items. The write-up of intangible assets and inventories in particular has resulted in deferred tax liabilities that account for the vast majority of the adjustment of € 1,124 million reported under other non-current liabilities. The remaining difference between the purchase price and fair value has been recognized as goodwill. It primarily included the value of expected synergies, unmeasured early-stage in-process research, and the workforce. Synergies are expected primarily in R&D, purchasing, consolidation of local subsidiaries and IT infrastructure. The changes made in the fourth quarter of 2007 to the preliminary purchase price allocation relate mainly to the measurement of intangible assets, as well as provisions and the related deferred taxes. The changes were made on the basis of detailed information on individual product lines and legal disputes.

The impact on the operating result of the inclusion of Serono was € 151.0 million in 2007. In addition, restructuring and integration costs amounting to € 153.6 million were incurred.

Disposals/Discontinued operations

On May 13, 2007, Merck and Mylan Inc., Canonsburg, PA (USA), entered into an agreement concerning the sale of the Generics business. The business was transferred to the acquirer with the closing on October 2, 2007.

The gain on the disposal pursuant to this agreement is combined with the result of this activity in accordance with IFRS 5 up until the closing date under profit/loss from discontinued operations.

The presentation of the previous year's figures in the income statement and the segment reporting was adjusted accordingly.

Within the scope of the agreement, an option to purchase the Generics business remaining with the Merck Group after the transfer was granted to Mylan Inc. This option was already reflected in the purchase price. This remaining part of the Generics division is likewise reported as a discontinued operation within the meaning of IFRS 5. The relevant assets and liabilities are classified and reported as "held for sale".

The reported profit/loss from discontinued operations comprises the following:

€ million	2007	2006
Total revenues	1,394.5	1,824.0
Cost of sales	–737.7	–924.9
Marketing and selling expenses	–271.9	–339.6
Administration expenses	–66.0	–88.1
Other operating income and expenses	–34.9	–32.4
Research and development costs	–95.3	–132.2
Operating result	**188.7**	**306.8**
Exceptional items	3,561.5	–13.2
Earnings before interest and tax (EBIT)	**3,750.2**	**293.6**
Financial result	10.1	–2.4
Profit before tax	**3,760.3**	**291.2**
Taxes on income	–168.3	–96.3
Profit after tax	**3,592.0**	**194.9**
Reversal of depreciation in accordance with IFRS 5	16.0	–
Profit after tax in accordance with IFRS 5	**3,608.0**	**194.9**
thereof:		
Profit before tax of current business	207.2	291.2
Taxes on income	–70.1	–96.3
Profit after tax of current business	**137.1**	**194.9**
Gain on disposal before tax	3,569.1	–
Taxes on income	–98.2	–
Gain on disposal after tax	**3,470.9**	**–**

The following consolidated assets and liabilities were disposed of within the scope of the sale:

€ million	
Cash and cash equivalents	98.0
Inventories	349.5
Other current assets	441.0
Goodwill	357.4
Other intangible assets	65.7
Property, plant and equipment	212.3
Other non-current assets	91.2
Assets	**1,615.1**
Current liabilities	492.1
Non-current liabilities	141.0
Equity and liabilities	**633.1**

Assets and liabilities held for sale within the scope of the purchase option granted to Mylan Inc. are as follows:

€ million	Dec. 31, 2007
Inventories	11.3
Receivables and other assets	15.6
Assets held for sale	**26.9**
Liabilities	7.4
Provisions	0.6
Liabilities held for sale	**8.0**

Accounting policies

The preparation of the consolidated financial statements in accordance with IFRS requires the use of estimates when reporting and measuring assets and liabilities. These are reviewed on an ongoing basis. Changes are prospectively recorded in the reporting period or in future periods. Assumptions and estimates are made in particular in connection with the measurement of intangible assets (primarily resulting from the Serono purchase price allocation) and provisions. The measurement of intangible assets is based mainly on management's forecasts. If these do not prove to be accurate, this may give rise to the need for write-downs, which could materially impact the consolidated result. The material assumptions and parameters for the estimates made are disclosed in the Notes.

Consolidation methods

The consolidated financial statements are based on the single-entity financial statements of the consolidated companies as of December 31, 2007, which were prepared applying consistent accounting polices in accordance with IFRS and audited by independent auditors.

Acquisitions are accounted for using the purchase method in accordance with IFRS 3. Subsidiaries consolidated for the first time in the reporting period are measured at the carrying values at the time of acquisition on the basis of corresponding annual and interim financial statements. Resulting differences are recognized as assets and liabilities to the extent that their fair values differ from the values actually carried in the financial statements. Any remaining difference is recognized as goodwill within intangible assets, and is subjected to a regular impairment test.

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 reported under non-current assets and inventories was adjusted by eliminating any intragroup profits.

Currency translation

In accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates), assets and liabilities are translated at the closing rate, and income and expenses are translated at weighted average annual rates to euros, the reporting currency. If Group companies are deconsolidated, existing currency differences are reversed and recognized in income.

The functional currency concept applies to the translation of financial statements of consolidated companies prepared in foreign currencies. The majority of the Merck Group companies conduct their operations independently. The functional currency of these companies is the respective local currency. Business transactions that are conducted in currencies other than the local currency are recorded using the current exchange rate on the date of the transaction. 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 respective closing rates. Exchange differences from the translation of monetary items are recognized in the income statement with the exception of cases of IAS 21.15, 21.15A and 21.33 (Net investment in a foreign operation). Hedged items are likewise carried at the closing rate in accordance with IAS 21. The resulting gains or losses are eliminated in the income statement against offsetting amounts from the fair value measurement of derivatives. Non-monetary items denominated in foreign currencies are carried at historical cost.

Goodwill in the context of foreign entities is translated at the closing rate. In accordance with the transitional provisions, goodwill arising prior to the date of first application of IFRS 3 (March 31, 2004) continues to be stated in euros, the reporting currency of the Group.

Recognition of sales and other revenue

Sales are recognized net of rebates, discounts and returns as well as related taxes. They are deemed realized once the goods are delivered, the services have been rendered or the material opportunities and risks of ownership have been transferred. In addition, payment must be sufficiently probable. Sales also include revenue from services, but the volume involved is insignificant. Interest revenue is recognized on a time-proportionate basis using the effective rate method. Compensation for use of assets by others and license royalties are recognized either immediately or on an accruals basis, depending on the substance of the relevant agreements. Dividend revenue is recognized when the shareholders' right to receive the dividend is established. This is normally the date of the dividend resolution.

Research and development

The breakdown of research and development by divisions and regions is presented 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 cannot be capitalized. In addition to our own research and development, Merck is also a partner in collaborations aimed at developing marketable products. These collaborations typically involve payments for the achievements of certain milestones. With respect to this situation, an assessment is required as to whether these upfront or milestone payments represent ongoing research and development expense or whether the payments represent the acquisition of a right which has to be capitalized. Reimbursements for R&D are offset against research and development costs.

Cash and cash equivalents

Cash and cash equivalents include cash and monetary deposits with a maturity of normally 90 days from the date of acquisition.

Receivables and other assets

Receivables and other assets are carried at amortized cost. Insofar as not covered by insurance, default risks are covered by write-downs. Non-interest-bearing or low-interest non-current receivables are carried at their present value. Derivative financial assets are carried at fair value (see also "Financial Instruments").

Inventories

Inventories are carried at cost using the weighted average method. In accordance with IAS 2, 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, which are determined on the basis of normal capacity utilization of the production facilities. Financing costs are not included.

Inventories are written down if the net realizable value is lower than the acquisition or manufacturing cost carried in the balance sheet.

Intangible assets

Acquired intangible assets are capitalized at cost and are classified as assets with finite and indefinite useful lives. Intangible assets acquired within the scope of business combinations are capitalized at fair value on the date of acquisition. If such assets have not yet reached market maturity, they are disclosed as intangible assets with indefinite useful lives and are not amortized. Assets with a finite useful life are depreciated using the straight-line method. The useful lives of acquired concessions, property rights, licenses, patents, brand names, trademarks and software are between 3 and 15 years. Depending on the type of asset concerned, depreciation is allocated to the corresponding operating expense line in the income statement. If there are any indications of a decline in value, an impairment test is performed, and if necessary, impairment losses are recognized. Assets with indefinite useful lives are not amortized, but tested annually for impairment instead. Goodwill is likewise not amortized. For goodwill incurred prior to March 31, 2004, the fair value as of December 31, 2004 is measured at cost. Goodwill is tested annually for impairment. Goodwill is allocated to cash-generating units. A cash-generating unit is normally a segment as presented under "Segment Reporting". In a few cases, the cash-generating unit is a company or a business field (reporting level within a segment). Necessary write-downs are determined by comparing the book value of the cash-generating unit with the recoverable amount. The recoverable amount of a cash-generating unit is determined as the higher of fair value less costs to sell and value in use as computed using the discounted cash flow method. The discounted cash flow method discounts future cash flows based on both a medium-term business plan and a long-term growth rate forecast. The after-tax discount rate is 8.25% and orients towards the weighted average cost of capital (WACC).

Property, plant and equipment

Property, plant and equipment is carried at the cost of acquisition or manufacture less depreciation. The component approach is applied here in accordance with IAS 16. Subsequent acquisition and manufacturing costs are only capitalized if it is probable that future economic benefits will arise for the Group and the cost of the asset can be measured reliably. The cost of manufacture of self-constructed property, plant and equipment is calculated on the basis of the directly attributable unit costs and an appropriate share of overheads, including depreciation and write-downs. Financing costs are not capitalized.

In accordance with IAS 20, costs of acquisition or manufacture are reduced by the amount of government grants in those cases where government grants or subsidies have been paid for the acquisition or manufacture of assets (investment grants). Grants related to expenses which no longer offset future expenses are recognized in income. Property, plant and equipment is depreciated by the straight-line method over the useful life of the asset concerned. The useful life applied to production buildings is a maximum of 33 years. Administration buildings are depreciated over a maximum of 40 years. The useful lives of machinery and technical equipment is between 8 and 20 years, and between 3 and 10 years for other facilities, factory and office equipment. The useful lives are reviewed regularly and adjusted if necessary. Impairment losses are charged in accordance with IAS 36 where required, and these are subsequently reversed if the original grounds for the impairment no longer apply.

Financial investments in real estate
Assets of this category are of minor importance to the Merck Group and are carried at cost.

Leasing
Where assets are rented or leased and economic ownership lies with the Group company (finance lease), the asset is recorded at the lower of present value of the lease payments and fair value in accordance with IAS 17 and depreciated over its useful life. The corresponding payment obligations from future lease payments are recorded as liabilities.

Marketable securities, investments and other financial assets
Marketable securities and financial assets are recorded in the balance sheet in accordance with IAS 39. Marketable securities and non-current financial assets classified as "available-for-sale" are generally carried at fair value. Unrealized gains and losses arising from changes in the fair value are recognized in equity. If the fair value of a security or financial asset cannot be reliably determined, the asset is carried at cost less any applicable write-downs. Held-to-maturity securities are generally measured at amortized cost.

Interests in companies over which Merck has significant influence but does not control are normally included using the equity method of accounting and are recognized at amounts corresponding to their net equity.

Non-interest-bearing or low-interest loans are carried at their present value. All securities and financial assets are subject to an impairment test whenever there is an indication that the asset may be impaired. The resulting write-downs are charged to income. If the reasons for the impairment no longer exist, the impairment is reversed. The carrying amount of the asset is increased to no more than the amortized cost.

Deferred taxes

Deferred tax assets and liabilities result from temporary accounting differences in the IFRS and tax accounts of Group companies as well as from consolidation measures. In addition, deferred tax assets are recorded in particular for tax loss carryforwards if and insofar as their utilization is probable in the foreseeable future. In accordance with the liability method, the tax rates applicable or enacted as of balance sheet date are used.

Liabilities

Liabilities are generally carried at their repayment amount in accordance with IAS 39. Any differences arising between the amounts already paid and the amount payable at final maturity are amortized. Liabilities in foreign currencies are translated at the closing rates. Hedged items in foreign currency are likewise translated at the closing rates in accordance with IAS 21.

Provisions

In accordance with IAS 37, provisions are recognized in the balance sheet for legal or de facto obligations if the net cash outflow used to settle the obligation is probable and can be reliably estimated. The carrying value of provisions takes into account the amounts used to cover future payment obligations, recognizable risks and uncertain obligations of the Group. Non-current provisions are discounted and carried at their present value.

Provisions for pensions and other post-employment benefits are recorded in the balance sheet in accordance with IAS 19. 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. In principle, these systems are based on length of service and salary of the employees. Pension obligations of the Merck Group include both defined benefit and defined contribution plans and comprise both obligations from current pensions and accrued benefits for pensions payable in the future.

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 provisions recognized in the balance sheet, while the rest is externally funded. These provisions also contain other post-employment benefits, such as accrued future health care costs for pensioners (U.S.A.).

The obligations of our companies under defined benefit plans are measured using the projected unit credit method. Under the projected unit credit method, dynamic parameters are taken into account in calculating the expected benefit payments after an insured event occurs; these payments are spread over the entire period of service of the participating employees. Actuarial valuations are prepared annually for this purpose. Actuarial gains and losses resulting from changes in actuarial assumptions and experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) are recognized immediately in equity as incurred.

Notes to the income statement

[1] Sales

Merck Group sales totaled € 6,775.1 million in 2007. This corresponds to an increase of 52.6% over the previous year. Adjusted for a negative currency impact and the effect of the acquisition of Serono, organic growth amounted to 10.7%.

Sales are presented by business sector, division and region under "Segment Reporting".

[2] Royalty income

Due to the acquisition of Serono, the significance of royalty income in the income statement has increased considerably. Therefore, royalty income is now presented together with sales under total revenues. In 2007, royalty income totaled € 282.0 million (2006: € 19.5 million) and mainly included Serono royalty income from the products Avonex® (Biogen Idec), Humira® (Abbott), Enbrel® (Amgen) and Puregon® (Schering-Plough). The previous year's figure primarily included income from the pharmaceutical active ingredients bisoprolol and metformin.

[3] Cost of sales

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

[4] Marketing and selling expenses

In addition to the cost of sales and marketing departments and of the sales force, marketing and selling expenses include advertising, logistics and license costs. Suspense items for oncharged freight expenses amounting to € 7.9 million were deducted from marketing and selling expenses (2006: € 10.3 million). The net amount of commission expenses totaling € 132.9 million (2006: € 12.8 million) and commission income of € 24.3 million (2006: € 25.2 million) are also included here. The increase over the previous year is mainly the result of the inclusion of Serono.

[5] Administration expenses

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

[6] Other operating income and expenses

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

€ million	2007	2006
Exchange rate differences from operating activities	11.5	25.0
Losses on disposals of assets	–7.9	–
Impairment losses	–73.2	–16.5
Write-downs on receivables	–10.0	–2.0
Project costs	–44.4	–34.8
Bonuses, fees and contributions	–36.0	–26.0
Special environmental protection costs	–5.3	–3.6
Restructuring and Serono integration costs	–181.8	–12.3
Litigation	–33.0	–0.6
Other operating expenses	–84.7	–85.3
Gains from disposals of assets	31.0	25.9
Write-ups	2.2	–
Other operating income	91.8	80.0
	–339.8	**–50.2**

Impairment losses mainly include write-downs of intangible assets. “Restructuring and Serono integration costs” includes an amount of € –153.6 million for the Serono integration. Other operating expenses also include expenses for services performed for third parties. Other operating income mainly includes income from the release of provisions, prior-period income as well as income from ancillary business and payments from third parties for services performed.

[7] Research and development

Reimbursements for R & D amounting to € 19.2 million (2006: € 20.1 million) were offset against research and development costs.

[8] Amortization of intangible assets

The increase in this item primarily comprises amortization of intangibles in connection with the allocation of the Serono purchase price.

[9] Investment result

€ million	2007	2006
Dividend income from associates	0.2	0.0
Other investment income/expenses	0.1	–0.2
	0.3	**–0.2**

[10] Exceptional items

Exceptional items comprise:

€ million	2007	2006
Write-down of Serono inventories	–734.0	–
Environmental protection measures	–38.5	–16.5
Divestment of the interest in Genmab	–11.5	–
Release of the Electronic Chemicals provision	6.4	–
Restructuring	2.0	–56.4
Gain on sale of the Schering shares	–	377.9
Litigation	–	–72.4
Exceptional items	**–775.6**	**232.6**

Within the scope of the Serono purchase price allocation, inventories were remeasured at fair value. These amounts were fully expensed in 2007 with the sale of the inventories. Due to their non-recurring nature and size, they are disclosed as the “Write-down of Serono inventories” under Exceptional items.

[11] Financial result

€ million	2007	2006
Interest income and similar income	59.1	53.8
Interest expenses and similar expenses	–321.9	–50.6
	–262.8	**3.2**
Interest component of the addition to pension provisions and other provisions for personnel expenses	–59.5	–55.1
Exchange rate differences from financing activities	8.5	–8.9
Measurement of interest rate derivatives	–	0.2
Income from financial interests	2.5	11.6
	–311.3	**–49.0**

The increase in net interest expense is due to outside financing of the Serono acquisition.

[12] Income tax

€ million	2007	2006
Taxes in the period under review on operating activities	–235.4	–200.8
Taxes in the period under review on exceptional items	–0.1	–8.5
Taxes for other periods	–29.8	13.5
Deferred taxes on operating activities	78.1	–6.2
Deferred taxes on exceptional items	210.3	26.2
	23.1	**–175.8**
Tax rate	20.8%	17.9%
Tax rate before exceptional items	28.2%	25.8%

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. As a result of changes in tax rates at individual companies, a total deferred tax expense of € 21.3 million was recorded. The changes relate mainly to deferred taxes resulting from the elimination of intercompany profits. Deferred taxes for exceptional items mainly comprise deferred taxes resulting from the remeasurement of inventories within the scope of the purchase price allocation with the acquisition of the Serono companies in January 2007.

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

€ million	2007	2006
Change in deferred tax assets (balance sheet)	195.1	1.0
Change in deferred tax liabilities (balance sheet)	–780.3	–1.9
Deferred taxes credited/debited to equity	30.8	–7.9
Changes in companies consolidated First-time consolidation of the Serono companies	788.0	–
Changes in companies consolidated/Deconsolidation of the Generics companies	82.0	–
Other changes in companies consolidated/currency translation/ Other changes	–27.2	28.8
Deferred taxes (income statement)	**288.4**	**20.0**

As of the balance sheet date, tax loss carryforwards totaled € 528.0 million (2006: € 137.3 million). The increase over the previous year is mainly the result of the inclusion of the Serono companies. Deferred tax assets are recognized for tax loss carryforwards only if realization of the related tax benefit is probable in the foreseeable future. The vast majority of these loss carryforwards 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 € 175.8 million (2006: € 118.4 million) since realization of the related tax benefits is not currently expected in the planning period. In 2007, the income tax burden was reduced by € 8.3 million due to the utilization of tax loss carryforwards and tax credits from prior years for which no deferred tax asset had been recognized in prior periods (2006: € 4.4 million). Deferred tax assets as of the balance sheet date relating to tax loss carryforwards totaled € 63.9 million (2006: € 5.9 million). No deferred tax liabilities were set up for temporary differences for interests in subsidiaries, since the reversal of these differences is not foreseeable. Deferred tax assets of € 400.3 million (2006: € 263.2 million) were recognized for other temporary timing differences.

Deferred tax assets and liabilities correspond to the following balance sheet items:

	Dec. 31, 2007		Dec. 31, 2006	
€ million	Assets	Liabilities	Assets	Liabilities
Intangible assets	41.4	753.9	10.4	16.0
Property, plant and equipment	6.7	86.8	3.3	64.7
Current and non-current financial assets	1.1	1.9	–	0.6
Inventories	198.4	15.8	53.6	0.7
Current and non-current receivables / Other assets	12.6	1.0	10.1	4.0
Provisions for pensions and other post-employment benefits	84.1	15.5	120.8	9.4
Current and non-current other provisions	121.1	4.2	131.4	3.1
Current and non-current liabilities	6.2	7.6	3.3	0.3
Tax loss carryforwards	63.9	–	5.9	–
Tax refund claims/Other	27.5	34.5	–	13.0
Netted deferred tax assets and liabilities	–98.8	–98.8	–69.7	–69.7
Total deferred taxes	**464.2**	**822.4**	**269.1**	**42.1**

The following table presents a tax reconciliation based on the theoretical tax rate which would result by applying the statutory tax rates of the German and foreign companies in proportion to their contribution to consolidated profit leading to the effective income tax expense before exceptional items and the effective income tax expense according to the income statement.

€ million	2007	2006
Consolidated profit before tax	–110.9	982.2
Exceptional items	–775.6	232.6
Consolidated profit before tax and exceptional items	**664.7**	**749.6**
Theoretical tax rate	30.9%	26.9%
Theoretical tax expense before exceptional items	–205.6	–201.9
Tax effect of companies with a negative contribution to consolidated profit	–23.6	–1.3
Taxes for other periods	–29.8	13.5
Tax credits	35.0	15.9
Effect of non-deductible expenses/tax-free income/ tax allowances	36.9	–19.7
Tax expense before exceptional items	**–187.1**	**–193.5**
Tax rate before exceptional items	28.2%	25.8%
Taxes for exceptional items	210.2	17.7
Tax expense according to income statement	**23.1**	**–175.8**
Tax rate according to income statement	20.8%	17.9%

[13] Profit after tax from discontinued operations

In addition to the gain on the sale of the Generics business, profit after tax from discontinued operations includes the profit/loss of the current business classified as discontinued operations. For further details, please see the explanations under "Companies consolidated".

[14] Minority interest

Minority interest in net profit is primarily composed of the minority interests in Merck Marker Ltd., Pakistan, Merck Ltd., Thailand, Merck S.A., France, Merck Serono SpA, Italy, as well as the listed companies Merck Ltd., India, and the Merck Indonesia Group.

[15] Earnings per share

Basic earnings per share are calculated by dividing the net profit after minority interest by the weighted average number of theoretical shares outstanding. The use of a theoretical number of shares takes into account the fact that the general partner's capital is not represented by shares. In accordance with the division of the share capital in the amount of € 168.0 million into 64,613,126 shares, the general partner's capital amounts to 152,767,813 theoretical shares. The Executive Board of Merck KGaA resolved and announced on January 21, 2007 with the consent of the Supervisory Board and of E. Merck OHG as the general partner holding an equity interest, to utilize the authorized capital to increase the share capital. Within the scope of this capital increase, 13,278,927 new shares were issued. In addition, an increase in the equity interest of the general partner E. Merck OHG by a nominal amount of approximately € 34 million, corresponding to 13,067,816 new shares, took place. It should be noted that in accordance with IAS 33, the 13,299,237 shares issued through the capital increase and the Merck stock option program in 2007 may only be included in basic earnings per share on a time proportionate basis from the date of their conversion.

Earnings per share from continuing operations

	2007	2006
Earnings after minority interest (€ million)	–107.9	788.2
Weighted average number of theoretical shares outstanding (in millions)	215.9	194.0
Basic earnings per share (€)	**–0.50**	**4.06**

Earnings per share from continuing and discontinued operations

	2007	2006
Earnings after minority interest (€ million)	3,500.1	983.1
Weighted average number of theoretical shares outstanding (in millions)	215.9	194.0
Basic earnings per share (€)	**16.21**	**5.07**

Basic earnings per share from discontinued operations were € 16.71 (2006: € 1.01). Diluted earnings per share are calculated by dividing the net profit after minority interest by the weighted average number of theoretical shares outstanding, plus all potentially dilutive shares. Potentially dilutive shares in the Merck Group are stock options under the Merck stock option program, provided that their exercise requirements are met at the balance sheet date. In this case, this relates to the stock options from tranche 2002 of Merck's stock option program. The weighted average number of shares to calculate diluted earnings per share was 215,917,465 shares (2006: 194,011,560 shares). The resulting dilutive effect is not material. The diluted earnings per share thus correspond to the basic earnings per share.

Notes to the balance sheet

[16] Cash and cash equivalents
The item comprises:

€ million	Dec. 31, 2007	Dec. 31, 2006
Cheques, cash and bank balances	292.6	264.2
Short-term cash investments	134.0	195.9
	426.6	**460.1**

Changes in cash and cash equivalents as defined by IAS 7 are presented in the cash flow statement. This item includes short-term receivables due from related parties and affiliates amounting to € 3.0 million (2006: € 24.8 million).

[17] Marketable securities and financial assets
This item comprises the following categories:

€ million	Dec. 31, 2007	Dec. 31, 2006
Financial investments held to maturity	39.3	39.6
Available for sale financial investments	11.6	60.0
Short-term financial investments/loans to third parties	500.5	20.7
Derivative assets (Financial transactions)	13.9	12.8
	565.3	**133.1**

The funds from the bond issued in the fourth quarter amounting to € 497.9 million were invested in short-term financial investments. Loans to third parties neither declined in value nor were past due for 2007 or 2006. No reclassifications of assets were made across the individual categories during the fiscal year.

[18] Trade accounts receivable

This item comprises:

€ million	Dec. 31, 2007	Dec. 31, 2006
Receivables from other affiliates	0.4	–
Receivables from third parties	1,377.9	1,252.9
	1,378.3	**1,252.9**

Receivables past due are as follows:

€ million	Book value Dec. 31, 2007	thereof: Neither impaired nor past due on the reporting date	thereof: Not impaired, past due in the following periods as of the reporting date			
			up to 3 months	and 6 months	and 12 months	over 1 year
Trade accounts receivable – Third parties	**1,377.9**	1,148.7	155.7	20.9	27.8	24.8

€ million	Book value Dec. 31, 2006	thereof: Neither impaired nor past due on the reporting date	thereof: Not impaired, past due in the following periods as of the reporting date			
			up to 3 months	and 6 months	and 12 months	over 1 year
Trade accounts receivable – Third parties	**1,252.9**	1,044.5	141.6	19.0	25.3	22.5

With regard to trade receivables that are neither impaired nor delayed, as of the reporting date, there are no indications that the debtors will not meet their payment obligations.

In 2007, receivables amounting to € 168.7 million were sold. No further liability exists for these receivables.

[19] Inventories

This item comprises:

€ million	Dec. 31, 2007	Dec. 31, 2006
Raw materials and production supplies	238.9	258.9
Work in progress, finished goods and goods purchased for resale	917.0	958.9
Advance payments	2.6	0.5
	1,158.5	**1,218.3**

Write-downs of inventories amounted to € 98.3 million as of the balance sheet date (2006: € 139.3 million). The fair value of inventories that were written down amounts to € 340.0 million (2006: € 274.9 million). As of the balance sheet date, no inventories were used to secure liabilities. There were no significant contracts to be accounted for in accordance with IAS 11 (Construction Contracts) as of the balance sheet date.

[20] Other assets

This item comprises:

Other current assets

€ million	Dec. 31, 2007	Dec. 31, 2006
Other receivables from associates	–	–
Other receivables from other affiliates	0.9	1.3
Other receivables from third parties	118.4	70.8
Receivables from related parties	26.6	21.7
Derivative assets (operational)	3.1	8.7
Prepaid expenses	32.4	39.9
Deferred pension payments	29.8	20.8
Other assets	15.2	8.9
	226.4	**172.1**

Other non-current assets

€ million	Dec. 31, 2007	Dec. 31, 2006
Other receivables from associates	–	–
Other receivables from third parties	50.4	2.7
Prepaid expenses	1.9	26.6
Other assets	9.5	5.1
	61.8	**34.4**

Other receivables and other assets include in particular refund claims in connection with non-income-related taxes (mainly value added tax), prepayments, interest deferrals as well as claims in connection with duties and import fees. In addition, receivables in the form of profits resulting from co-marketing agreements with other companies for various products are recorded in this item.

Other receivables past due are as follows:

€ million	Book value Dec. 31, 2007	thereof: Neither impaired nor past due on the reporting date	thereof: Not impaired, past due in the following periods as of the reporting date			
			up to 3 months	and 6 months	and 12 months	over 1 year
Other receivables - Third parties	**168.8**	161.0	3.5	3.5	0.2	0.6

€ million	Book value Dec. 31, 2006	thereof: Neither impaired nor past due on the reporting date	thereof: Not impaired, past due in the following periods as of the reporting date			
			up to 3 months	and 6 months	and 12 months	over 1 year
Other receivables - Third parties	**73.5**	68.6	2.2	2.2	0.1	0.4

With regard to other receivables that are neither impaired nor delayed, as of the reporting date, there are no indications that the debtors will not meet their payment obligations.

[21] Tax receivables

Tax receivables amounted to € 43.5 million (2006: € 77.5 million) and result from tax refund claims for tax prepayments that exceed the actual amount of tax payable for the past and prior fiscal years, and from refund claims for prior years owing to tax audits as well as withholding tax credits.

[22] Assets/liabilities held for sale

The balance sheet items allocable to the Generics business are presented collectively under “Assets/liabilities held for sale”. A detailed breakdown of the components is provided under “Companies consolidated”.

[23] Intangible assets

€ million	Patents, licenses and similar rights, as well as brands, trademarks/Other – Finite useful life	Patents, licenses and similar rights, as well as brands, trademarks/Other – Indefinite useful life	Goodwill	Software	Advance payments	Total
Acquisition cost January 1, 2006	**295.1**	**–**	**839.2**	**88.7**	**7.4**	**1,230.4**
Currency translation	–1.1	–	0.7	–2.8	–	–3.2
Changes in companies consolidated	38.8	14.9	14.1	–	–	67.8
Additions	10.1	27.4	–	6.9	12.2	56.6
Disposals	–6.1	–	–	–11.7	–0.7	–18.5
Transfers	5.6	–	–	4.7	–9.5	0.8
December 31, 2006	**342.4**	**42.3**	**854.0**	**85.8**	**9.4**	**1,333.9**
Accumulated amortization and impairment losses January 1, 2006	**–176.1**	**–**	**–0.3**	**–67.6**	**–**	**–244.0**
Currency translation	1.1	–	–	2.1	–	3.2
Changes in companies consolidated	1.3	–	–	–	–	1.3
Amortization and impairment losses	–34.7	–	–0.1	–12.4	–	–47.2
Disposals	5.2	–	–	11.3	–	16.5
Transfers	1.0	–	–	–1.2	–	–0.2
December 31, 2006	**–202.2**	**–**	**–0.4**	**–67.8**	**–**	**–270.4**
Net carrying amount as of December 31, 2006	**140.2**	**42.3**	**853.6**	**18.0**	**9.4**	**1,063.5**
Acquisition cost January 1, 2007	**342.4**	**42.3**	**854.0**	**85.8**	**9.4**	**1,333.9**
Currency translation	0.7	–	–35.9	–0.9	0.1	–36.0
Changes in companies consolidated	6,482.7	321.2	974.5	63.8	–3.3	7,838.9
Additions	25.2	63.0	–	15.6	17.3	121.1
Disposals	–19.9	–1.2	–	–13.0	–1.6	–35.7
Transfers	2.8	1.0	–	15.2	–12.4	6.6
Reclassification to assets held for sale	–0.9	–	–0.2	–	–0.1	–1.2
December 31, 2007	**6,833.0**	**426.3**	**1,792.4**	**166.5**	**9.4**	**9,227.6**
Accumulated amortization and impairment losses January 1, 2007	**–202.2**	**–**	**–0.4**	**–67.8**	**–**	**–270.4**
Currency translation	0.4	–	0.1	0.6	–	1.1
Changes in companies consolidated	–148.9	0.1	0.2	–32.0	–	–180.6
Amortization and impairment losses	–522.6	–90.1	–	–23.4	–	–636.1
Disposals	18.0	–	–	11.9	–	29.9
Transfers	3.0	–0.6	–	–9.4	–	–7.0
Reclassification to assets held for sale	0.1	–	–	–	–	0.1
December 31, 2007	**–852.2**	**–90.6**	**–0.1**	**–120.1**	**–**	**–1,063.0**
Net carrying amount as of December 31, 2007	**5,980.8**	**335.7**	**1,792.3**	**46.4**	**9.4**	**8,164.6**

The changes in the companies consolidated relate almost exclusively to the acquisition of Serono as well as the disposal of the Generics division. A detailed presentation of both transactions can be found in the sections on acquisitions and disposals/discontinued operations. As of December 31, 2007, goodwill from Serono (including exchange differences) totaled € 1,303.5 million. The net carrying amount of the remaining intangible assets including the purchase price allocation was € 6,212.3 million.

As a result of the disposal of the Generics division, intangible assets declined by € 423.1 million (€ 357.4 million of which was goodwill).

In fiscal 2007, impairment losses on intangible assets with definite useful lives totaled € 8.7 million. The majority of these impairment losses became necessary since the value in use of technologies and patents declined due to lower sales expectations of a business field within the Performance & Life Science Chemicals division.

Since goodwill and intangible assets with indefinite useful lives are not amortized, these are subjected to an annual impairment test. Here, book values were compared with values in use. Consequently, impairment losses of € 90.1 million result in fiscal 2007. Due to changes in sales expectations for a product from the Merck Serono division, capitalized technologies were written down by € 57.4 million to the lower value in use. Owing to the restructuring of diabetes research (Merck Serono division) and the related termination of a project, rights worth € 27.9 million were written off. The remaining impairment losses of € 4.8 million result mainly from the termination of research projects and the related write-off of the capitalized assets.

Impairment losses are recorded under other operating expenses.

Goodwill can be allocated to the divisions as follows:

€ million	Dec. 31, 2007	Dec. 31, 2006
Merck Serono	1,559.5	255.4
Consumer Health Care	148.0	148.0
Performance & Life Science Chemicals	80.7	88.7
Liquid Crystals	4.1	4.1
Discontinued operations	–	357.4
Total	**1,792.3**	**853.6**

[24] Property, plant and equipment

€ 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
Acquisition cost January 1, 2006	**1,235.3**	**2,036.8**	**685.9**	**179.5**	**4,137.5**
Currency translation	–33.2	–41.2	–12.5	–5.4	–92.3
Changes in companies consolidated	1.9	1.0	0.1	–	3.0
Additions	17.3	53.2	45.1	137.6	253.2
Disposals	–47.8	–92.4	–32.2	–2.6	–175.0
Transfers	43.0	85.4	32.5	–161.7	–0.8
December 31, 2006	**1,216.5**	**2,042.8**	**718.9**	**147.4**	**4,125.6**
Accumulated depreciation and impairment losses January 1, 2006	**–511.6**	**–1,276.5**	**–481.1**	**–10.3**	**–2,279.5**
Currency translation	9.9	29.0	8.9	–	47.8
Changes in companies consolidated	–	–	–	–	–
Depreciation and impairment losses	–43.2	–151.4	–59.0	–0.7	–254.3
Disposals	33.9	75.1	29.9	0.2	139.1
Transfers	–0.2	8.1	–7.7	–	0.2
Write-ups	0.6	0.3	–	–	0.9
December 31, 2006	**–510.6**	**–1,315.4**	**–509.0**	**–10.8**	**–2,345.8**
Net carrying amount as of December 31, 2006	**705.9**	**727.4**	**209.9**	**136.6**	**1,779.8**
Acquisition cost January 1, 2007	**1,216.5**	**2,042.8**	**718.9**	**147.4**	**4,125.6**
Currency translation	–12.4	–9.1	–7.0	–1.5	–30.0
Changes in companies consolidated	536.6	200.5	59.9	13.4	810.4
Additions	22.1	46.3	43.2	171.2	282.8
Disposals	–36.4	–52.1	–60.0	–2.1	–150.6
Transfers	29.8	98.7	5.8	–140.9	–6.6
Reclassification to assets held for sale	–1.3	–1.8	–0.6	–0.1	–3.8
December 31, 2007	**1,754.9**	**2,325.3**	**760.2**	**187.4**	**5,027.8**
Accumulated depreciation and impairment losses January 1, 2007	**–510.6**	**–1,315.4**	**–509.0**	**–10.8**	**–2,345.8**
Currency translation	2.3	6.1	4.7	0.1	13.2
Changes in companies consolidated	–110.8	–125.5	–46.0	0.2	–282.1
Depreciation and impairment losses	–63.5	–150.8	–69.6	–3.6	–287.5
Disposals	32.8	47.5	56.7	–	137.0
Transfers	0.6	–7.7	14.1	–	7.0
Write-ups	2.2	0.2	0.1	0.3	2.8
Reclassification to assets held for sale	0.5	1.2	0.4	–	2.1
December 31, 2007	**–646.5**	**–1,544.4**	**–548.6**	**–13.8**	**–2,753.3**
Net carrying amount as of December 31, 2007	**1,108.4**	**780.9**	**211.6**	**173.6**	**2,274.5**

The changes in the companies consolidated relate almost exclusively to the acquisition of Serono as well as the disposal of the Generics division. A detailed presentation of both transactions can be found in the sections on acquisitions and disposals/discontinued operations. As of December 31, 2007, the net carrying value of property, plant and equipment attributable to Serono amounted to € 729.8 million. The disposal of the Generics division led in the same category to a decline of € 212.3 million.

Impairment losses totaled € 10.5 million in fiscal 2007. This includes write-offs of € 3.8 million in connection with the restructuring of diabetes research in France. Likewise in the Merck Serono division, impairment losses of € 3.1 million were recognized on the originally planned expansion of the production site in Corsier-sur-Vevey, Switzerland. With the decision to build a new large-scale technical facility for biotechnological products at the same location, the already capitalized advance payment was written off in full. Additional smaller impairment losses amounting to € 3.6 million relate mainly to the PLS division and to a lesser extent to the Merck Serono division. The reasons are planned demolitions as well as the depreciation of plants within the scope of restructuring.

Impairment losses are recorded under other operating expenses.

Property, plant and equipment amounting to € 15.9 million serve as collateral (2006: € 8.5 million). Total government grants and subsidies during the fiscal year amounted to € 7.1 million (2006: € 7.0 million).

Property, plant and equipment also includes assets that are rented or leased. The total value of capitalized leased assets amounts to € 12.2 million and the corresponding obligations amount to € 9.9 million (please see Note [26] "Financial liabilities").

Capitalized leased assets are as follows:

€ million	Dec. 31, 2007	Dec. 31, 2006
Capitalized leased land	–	0.3
Capitalized leased buildings	11.7	–
Capitalized leased facilities	–	0.5
Capitalized leased vehicles	0.2	–
Capitalized leased other property, plant and equipment	0.3	0.5
	12.2	**1.3**

[25] Non-current financial assets and equity method financial assets

	Investments in		Securities		Loans		
€ million	available for sale companies	other affiliates	available for sale financial investments	financial investments held to maturity	and other non-current financial assets	Total	Equity method financial assets
Acquisition cost January 1, 2006	**28.8**	**17.6**	**5.9**	**10.5**	**29.5**	**92.3**	**1.9**
Currency translation	–	–	–	–	–0.2	–0.2	–0.3
Changes in companies consolidated	–	–75.7	–	–	–	–75.7	–
Additions	1,578.7	82.5	–	3.2	4.1	1,668.5	0.1
Disposals	–1.3	–	–0.1	–13.3	–2.8	–17.5	–
December 31, 2006	**1,606.2**	**24.4**	**5.8**	**0.4**	**30.6**	**1,667.4**	**1.7**
Accumulated depreciation and impairment losses January 1, 2006	**–17.9**	**–0.1**	**–4.3**	**–**	**–0.4**	**–22.7**	**–0.4**
Currency translation	–	–	–	–	–	–	–
Changes in companies consolidated	–	–	–	–	–	–	–
Depreciation and impairment losses	–1.5	–	–	–	–	–1.5	–
Disposals	0.6	–	0.1	–	–	0.7	–
Fair value adjustments of long-term investments taken directly to equity	–3.5	–	–	–	–	–3.5	–
December 31, 2006	**–22.3**	**–0.1**	**–4.2**	**–**	**–0.4**	**–27.0**	**–0.4**
Net carrying amount as of December 31, 2006	**1,583.9**	**24.3**	**1.6**	**0.4**	**30.2**	**1,640.4**	**1.3**
Acquisition cost January 1, 2007	**1,606.2**	**24.4**	**5.8**	**0.4**	**30.6**	**1,667.4**	**1.7**
Currency translation	–	–	–	–	–	–	–
Changes in companies consolidated	165.6	–9,974.7	167.5	–	–0.1	–9,641.7	0.3
Additions	16.6	9,272.4	–	11.3	5.8	9,306.1	0.3
Disposals	–118.3	–870.2	–167.7	–	–20.1	–1,176.3	–0.4
Transfers	–1,575.4	1,575.5	–	–	–	0.1	–0.1
December 31, 2007	**94.7**	**27.4**	**5.6**	**11.7**	**16.2**	**155.6**	**1.8**
Accumulated depreciation and impairment losses January 1, 2007	**–22.3**	**–0.1**	**–4.2**	**–**	**–0.4**	**–27.0**	**–0.4**
Currency translation	–0.2	–	–0.3	–	–	–0.5	–
Changes in companies consolidated	–	–	–	–	–	–	–
Depreciation and impairment losses	–	–	–	–	–	–	–
Disposals	3.5	–	–	–	–	3.5	–
Fair value adjustments of long-term investments taken directly to equity	–1.3	–	–	–	–	–1.3	–
December 31, 2007	**–20.3**	**–0.1**	**–4.5**	**–**	**–0.4**	**–25.3**	**–0.4**
Net carrying amount as of December 31, 2007	**74.4**	**27.3**	**1.1**	**11.7**	**15.8**	**130.3**	**1.4**

As of December 31, 2007, non-current financial assets available for sale (investments) were carried at cost with a book value of € 18.5 million since a market price could not be determined.

No non-current financial assets were reclassified between the individual categories of financial instruments during the fiscal year. The following amounts arising from non-current financial assets classified as "available-for-sale" were recognized in equity as of the balance sheet date:

€ million	Available for sale investments	Available for sale securities	Total Dec. 31, 2007	Available for sale investments	Available for sale securities	Total Dec. 31, 2006
Fair values/ Book values	74.4	1.1	75.5	1,583.9	1.6	1,585.5
Amortized acquisition cost	–73.5	–1.1	–74.6	–1,585.2	–1.6	–1,586.8
Unrealized gains/losses	0.9	–	0.9	–1.3	–	–1.3

A statement of the Merck Group's equity interests is filed with the electronic Federal Gazette and can be accessed at www.unternehmensregister.de. Major companies of the Merck Group as of December 31, 2007 are presented in the following table:

Major companies of the Merck Group by region	Direct equity interest in %	Sales[1] € million	Profit after tax[1] € million	Net equity[1] € million	Employees
Germany/Europe					
Merck KGaA, Darmstadt, Germany	Parent company	2,057.6	21.4	4,944.4	8,952
Ares Trading S.A., Aubonne, Switzerland[2]	100.00	2,123.2	193.4	217.3	30
Laboratoires Serono S.A., Coinsins, Switzerland[2]	100.00	1,336.7	–366.9	8,182.1	577
Merck Serono S.p.A., Rome, Italy	96.72	1,007.7	48.0	236.3	632
Merck Lipha Santé S.A.S., Lyon, France	100.00	435.3	23.9	60.2	498
Merck Santé S.A.S., Lyon, France	100.00	412.3	56.2	362.3	1,165
Serono Benelux B.V., Den Haag, Netherlands	100.00	382.1	2.1	6.9	44
Merck Farma y Quimica S.L., Madrid, Spain	100.00	366.8	15.1	90.8	947
Merck Pharma GmbH, Darmstadt, Germany	100.00	214.0	12.2	–	380
Serono GmbH, Darmstadt, Germany	100.00	199.5	5.6	15.2	156
Laboratoire Théramex S.A.M., Monaco	99.88	102.9	6.6	35.0	384
Merck CHC France Group, Lyon, France	100.00	101.4	7.6	37.0	214
Seven Seas Group, Hull, United Kingdom	100.00	91.2	6.0	17.2	382
Serono Ltd., Feltham, United Kingdom	100.00	79.8	0.3	2.7	76
Merck UK, West Drayton, United Kingdom	100.00	76.7	12.4	15.2	222
Serono France S.A.S., Lyon, France	100.00	64.3	5.0	9.7	68
Merck AG, Zug, Switzerland and Darmstadt, Germany	100.00	–	470.9	1,688.3	–
North America					
EMD Serono US Group, Rockland, MA United States	100.00	635.0	54.5	214.7	671
EMD Chemicals, Inc., Gibbstown, NJ United States	100.00	246.3	14.5	235.9	960
EMD Serono Canada Inc., Mississauga, Canada	100.00	79.1	3.1	15.2	89
Latin America					
Merck, S.A. de C.V., Mexico City, Mexico	100.00	184.5	29.1	59.2	961
Merck S.A., Rio de Janeiro, Brazil	100.00	157.2	7.2	56.6	996
Merck S.A., Caracas, Venezuela	100.00	73.3	12.6	16.7	242
Ares Trading Uruguay S.A., Montevideo, Uruguay	100.00	67.7	21.6	11.7	15
Serono Produtos Farmaceuticos Ltda., Sao Paulo, Brazil	100.00	59.2	–5.3	1.7	69
Merck S.A., Bogota, Colombia	100.00	51.6	3.6	27.2	540
Asia, Africa, Australasia					
Korean companies, South Korea	100.00	399.8	52.4	95.6	325
Taiwanese companies, Taiwan	100.00	379.7	27.1	62.0	372
Merck Ltd., Tokyo, Japan	100.00	313.9	35.5	75.8	456
Serono Singapore Pte. Ltd., Singapore	100.00	62.9	–0.7	1.4	–
Merck Ltd., Mumbai, India	51.00	55.6	10.8	76.7	922
Merck Indonesia Group, Jakarta, Indonesia	73.99	43.5	7.0	20.2	707

[1] Figures for the entire company unconsolidated, irrespective of the equity interest
[2] Values subsequent to the purchase price allocation

[26] Financial liabilities

This item comprises:

Current financial liabilities

€ million	Dec. 31, 2007	Dec. 31, 2006
Bonds	–	–
Commercial Paper	7.0	293.6
Bank loans and overdrafts	126.6	51.6
Loans from third parties	22.9	36.1
Liabilities to related parties	93.5	–
Other financial liabilities	2.3	3.6
Financial liabilities to other affiliates	7.1	5.7
Financial leasing liabilities	1.0	0.5
Liabilities from derivatives (financial transactions)	40.0	107.3
	300.4	**498.4**

Non-current financial liabilities

€ million	Dec. 31, 2007	Dec. 31, 2006
Bonds	969.2	477.5
Bank loans and overdrafts	15.5	74.4
Loans from third parties	52.9	61.0
Liabilities to related parties	–	–
Other financial liabilities	–	0.1
Financial leasing liabilities	8.9	0.6
Liabilities from derivatives (financial transactions)	0.1	–
	1,046.6	**613.6**

Bank credit facilities to the Merck Group are as follows:

€ million	Bank credit facilities	Utilization* as of Dec. 31, 2007	Interest	Due
Syndicated loan 2007	2,000.0	–	variable	2014
Bilateral credit facilities with banks	22.5	11.3	fixed	2017
Bilateral credit facilities with banks	4.7	4.7	fixed	2009
Various bank lines	531.8	126.8	fixed/variable	< 1 year
	2,559.0	**142.8**		

*Booked disagios are not taken into account in the disclosure

The € 11.5 billion syndicated multi-currency term loan concluded in 2006 to finance the acquisition of Serono S.A., Switzerland, was completely repaid and canceled in fiscal 2007. A new € 2 billion multi-currency term loan and revolving credit facility was agreed at much better conditions. The new loan has a term of seven years and was placed with an international banking syndicate.

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

in %	Dec. 31, 2007	Dec. 31, 2006
Euros	68.8	78.3
U.S. dollars	0.6	0.4
Pounds sterling	–	–
Swiss francs	–	0.2
Yen	1.8	1.0
Other currencies	28.8	20.1
	100.0	**100.0**

In 2005, Merck KGaA launched its first euro Benchmark Bond in the European debt capital market via Merck Finanz AG, Luxembourg. The size of the issue was € 500 million with a maturity of seven years. The bond pays a coupon of 3.75% and was issued at a price of 99.716%. The interest expense of the bond has been made variable through interest rate swaps based on six-month Euribor. The measurement reflects fair value taking into account disagios and transactions costs.

In 2007, Merck KGaA launched another euro Benchmark Bond for € 500 million in the European debt capital market. It has a term of three years. The bond pays a coupon of 4.75% and was issued at a price of 99.7%. The measurement reflects amortized cost.

In order to meet short-term capital requirements, Merck KGaA issued a commercial paper program with a volume of € 500 million, which had not been utilized as of the reporting date. Merck companies in Taiwan issued commercial paper for an equivalent of € 7.0 million as of the balance sheet date.

Liabilities from financial leasing represent the discounted amount of future payments arising from finance leases. This item primarily relates to liabilities from finance leases for buildings.

Information on liabilities due to related parties can be found in Note [48].

[27] Trade accounts payable

Trade accounts payable consist of the following:

€ million	Dec. 31, 2007	Dec. 31, 2006
Liabilities due to associates	–	–
Liabilities due to other affiliates	0.3	0.4
Liabilities due to third parties	646.6	607.6
	646.9	**608.0**

Trade accounts payable include accrued amounts of € 355.5 million (2006: € 222.6 million) for outstanding invoices and accrued reductions in sales revenues.

[28] Other liabilities

This item comprises:

Other current liabilities

€ million	Dec. 31, 2007	Dec. 31, 2006
Other liabilities to associates	–	–
Other liabilities to other affiliates	1.5	1.6
Other liabilities to third parties	75.3	66.2
Advance payments received from customers	6.9	6.3
Liabilities to related parties	533.2	224.5
Liabilities from profit distributions	0.3	0.4
Liabilities from derivatives (operational)	1.9	1.1
Payroll liabilities	51.2	51.5
Deferred income	6.9	1.9
Accruals for personnel expenses	304.1	198.8
	981.3	**552.3**

Other non-current liabilities

€ million	Dec. 31, 2007	Dec. 31, 2006
Other liabilities to associates	–	–
Other liabilities to other affiliates	0.1	–
Other liabilities to third parties	25.6	2.5
Advance payments received from customers	–	–
Payroll liabilities	0.1	0.9
Deferred income	13.7	3.9
	39.5	**7.3**

Other liabilities due to other companies include liabilities in connection with non-income-related taxes as well as obligations in connection with duties and import fees. Liabilities due to insurance companies as well as contractually agreed payment obligations vis-à-vis other companies are also disclosed here.

The deviation in liabilities due to related parties compared with 2006 is mainly the result of an increase in the profit transfers to E. Merck OHG.

[29] Tax liabilities

Tax liabilities amount to € 337.1 million (2006: € 205.5 million). This item also includes provisions for tax liabilities amounting to € 272.9 million (2006: € 131.8 million).

[30] Provisions

Provisions developed as follows:

€ million	Restructuring	Personnel	Litigation	Other	Total
January 1, 2007	**46.2**	**126.8**	**168.6**	**144.0**	**485.6**
Exchange differences	–1.4	–1.0	–11.1	–0.5	–14.0
Utilizations	–21.9	–47.4	–50.2	–56.6	–176.1
Additions	94.7	62.4	87.9	150.2	395.2
Release	–3.7	–2.8	–8.7	–22.6	–37.8
Changes in companies consolidated/Other	–11.1	11.8	226.1	–12.7	214.1
December 31, 2007	**102.8**	**149.8**	**412.6**	**201.8**	**867.0**
thereof current	80.3	51.9	58.7	106.1	297.0
thereof non-current	22.5	97.9	353.9	95.7	570.0

Provisions for restructuring: This item mainly includes provisions for project-related severance payments for employees, contractually agreed severance obligations and contingent liabilities. The relevant provisions are recognized in accordance with IAS 37 when detailed restructuring plans have been prepared and communicated.
Provisions for personnel: Personnel provisions mainly include the expenses of obligations for the partial early retirement program, severance pay and anniversary bonuses.

Provisions for litigation: Provisions for litigation risks in connection with our former U.S. generics subsidiary Dey Inc. concerning allegedly false reporting of price information amounted to € 107.0 million on the balance sheet date. There are also provisions amounting to the equivalent of € 24.0 million in connection with the legal dispute at our former subsidiary Generics UK Ltd. for having allegedly taken part in pricing agreements for certain drugs. Although both companies were disposed of within the scope of the sale of the Generics business to Mylan Inc., PA (USA), Merck continues to be liable for costs incurring from the above-mentioned legal disputes.

Provisions for litigation increased sharply (€ 236.2 million) primarily as a result of the first-time inclusion of Serono. As of the balance sheet date, there are provisions in connection with the legal dispute with the company Israel Bio-Engineering Project Limited Partnership (IBEP), in which IBEP claims intellectual property rights and license fees in connection with funding and developing Rebif® and other products.

In addition, there are provisions in connection with a legal dispute with Italfarmaco S.p.A., Italy. The background is a license and supply agreement relating to the product Rebif® that was concluded between the parties and has been terminated by Italfarmaco S.p.A. in the meantime on account of alleged violations of the agreement by Serono. Italfarmaco S.p.A. claims compensation for, among other things, loss of profit.

In connection with the hormone preparation Serostim®, various persons and associations allege impermissible sales practices for Serostim®.

For various smaller pending legal disputes at companies of the Merck Group, provisions that are considered appropriate from today's perspective have been set up.

Other provisions: This item includes provisions for uncertain commitments in the context of environmental protection measures as well as contributions, duties and fees.

[31] Provisions for pensions and other post-employment benefits

The calculation of obligations as well as the relevant plan assets is based on the following actuarial parameters:

in %	2007	2006
Discount rate	5.2	4.6
Future salary increases	3.2	3.2
Future pension increases	2.1	2.2
Staff turnover	2.1	2.1
Expected return on plan assets	5.9	6.0
Future increases in health care benefits	9.0	10.0

These are average values weighted by the present value of the respective benefit obligation. The average expected return on plan assets is weighted by the fair value of the respective plan assets. Plan assets for funded benefit obligations primarily comprise equities, fixed-income securities and real estate. They do not include financial instruments issued by Merck Group companies or real estate used by Group companies.

The balance sheet item “Provisions for pensions and other post-employment benefits” can be broken down as follows:

€ million	Dec. 31, 2007	Dec. 31, 2006
Present value of benefit obligations funded by provisions	1,129.2	1,206.0
Present value of funded benefit obligations	536.7	401.2
Present value of all benefit obligations	**1,665.9**	**1,607.2**
Fair value of plan assets of all funds	–520.5	–346.2
Funded status	**1,145.4**	**1,261.0**
Other changes	10.3	0.5
Net liability recognized in the balance sheet	**1,155.7**	**1,261.5**
Deferred pension payments	29.8	20.8
Provisions for pensions and other post-employment benefits	**1,185.5**	**1,282.3**

In 2007, the following items were recognized in income:

€ million	2007	2006
Current service cost	61.6	47.5
Past service cost	–2.8	0.5
Interest cost on pension obligations	77.6	67.9
Expected return on plan assets	–26.0	–18.3
Other effects	–4.1	–3.5
Total amount recognized in income	**106.3**	**94.1**

The actual return on plan assets amounted to € 18.2 million (2006: € 31.7 million). Apart from the interest component stemming from provisions for pension obligations, which is disclosed in the financial result, the relevant expense of defined benefit and defined contribution plans is distributed across the individual functional areas.

During 2007, the present value of all defined obligations changed as follows:

€ million	2007	2006
Present value of all defined benefit obligations on January 1	1,607.2	1,491.4
Currency translation differences	–28.9	–2.8
Current service cost	61.6	47.5
Interest cost on pension obligations	77.6	67.9
Other effects recognized in income	–4.1	–3.1
Actuarial gains/losses	–115.3	37.7
Pension payments in the reporting period	–84.7	–67.5
Transfers/Changes in companies consolidated/Other changes	152.5	36.1
Present value of all defined benefit obligations on December 31	**1,665.9**	**1,607.2**

The fair value of the plan assets changed as follows in the reporting period:

€ million	2007	2006
Fair value of the plan assets on January 1	346.2	276.5
Currency translation differences	–22.3	–0.7
Expected return on plan assets	26.0	18.3
Other effects recognized in income	–	0.2
Actuarial losses/gains	–7.2	12.9
Employer contributions	50.1	21.4
Employee contributions	8.5	2.1
Pension payments in the reporting period	–32.0	–18.0
Transfers/Changes in companies consolidated/Other changes	151.1	33.5
Fair value of the plan assets on December 31	**520.5**	**346.2**

In the reporting period, actuarial gains (+) and losses (-) as well as the effects of limiting accrued pension payments in accordance with IAS 19.58 amounting to € +102.4 million (2006: € –24.8 million) were taken to equity.

As of December 31, 2007, for the aforementioned reasons a cumulative total of € –164.8 million (2006: € –267.2 million) was taken to equity.

The fair value of the plan assets can be allocated to the individual asset categories as follows. Weighted average values are used here:

in %	Dec. 31, 2007	Dec. 31, 2006
Equity instruments	44.2	53.3
Debt instruments	39.7	37.4
Real estate	5.8	2.1
Other assets	10.3	7.2

On average, the expected rate of return on equity instruments is 8.3%, on debt instruments 4.3% and on real estate 5.2%. The respective rates of return take into account country-specific conditions and are based, among other things, on interest and dividend income expected over the long term as well increases in the value of the investment portfolio after the deduction of directly allocable taxes and expenses.

Over the past five years, the funded status, composed of the present value of the defined benefit obligations and the fair value of the plan assets, has changed as follows:

€ million as of Dec. 31	2007	2006	2005	2004	2003
Present value of the defined benefit obligations	1,665.9	1,607.2	1,491.4	1,301.3	1,355.0
Fair value of the plan assets	–520.5	–346.2	–276.5	–234.9	–308.8
Funded status	1,145.4	1,261.0	1,214.9	1,066.4	1,046.2

It is expected that the payments to beneficiaries from unfunded pension plans will amount to around € 59 million in 2008 (2007: € 54 million) while payments to fund-financed pension plans will probably amount to around € 31 million in 2008 (2007: € 20 million).

The cost of ongoing contributions in 2007 for defined contribution plans that are financed exclusively by external funds and for which the companies of the Merck Group are only obliged to pay the contributions, amounted to € 13.5 million in 2007 (2006: € 13.2 million). In addition, employer contributions of € 45.6 million (2006: € 42.3 million) were transferred to the German statutory pension insurance system and of € 7.7 million (2006: € 7.1 million) to statutory pension insurance systems abroad.

[32] Net equity

A strong equity position is important for Merck to ensure the continued existence of the company. Based on our financial strategy, the Executive Board regularly reviews various key figures that reflect the capitalization of the company. Gearing (ratio of net debt and pension provisions to net equity) and the equity ratio are important indicators here.

Within the scope of the capital increase conducted in February, the subscribed capital of the company was increased by 13,278,927 shares from 51,313,889 non-par-value shares to 64,592,816. The general partner E. Merck OHG participated in the capital increase with the same rights and conditions by increasing the number of theoretical shares it holds by 13,067,816 from 139,699,997 to 152,767,813. As a result, limited liability shareholders now hold a 29.72% interest and the general partner E. Merck OHG a 70.28% interest in the company's share capital. As a result of the capital increase, the equity capital increased by € 2,055.2 million. Transaction costs of € 17.6 million related to the capital increase were recognized in equity. Moreover, during the reporting period a further 20,310 shares were issued as part of the stock option program. This led to a further increase in the number of shares to a total of 64,613,126. The amount resulting from the issue of shares by Merck KGaA exceeding the nominal amount is recognized in the capital reserves. The reserves also contain the retained earnings and the net retained profit of the consolidated subsidiaries as well as the income and expenses taken directly to equity. The currency translation difference includes the differences not recognized in income from currency translation by subsidiaries abroad. Currency translation differences decreased equity in 2007 by € 205.8 million (2006: decreased by € 128.6 million). Accordingly, as of December 31, 2007, currency translation differences in equity amounted to a loss of € 348.4 million (2006: € 317.4 million). Accumulated exchange rate losses of € 174.9 million were recognized with the disposal of the Generics companies.

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 policies of the Merck Group, as well as pro rata consolidation entries. The interests of other shareholders in net equity mainly relates to the minority interests in Merck Ltd. India, the Merck Indonesia Group and Merck Ltd., Thailand.

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 OHG in accordance with the company agreements and the reciprocal transfer of profits between E. Merck OHG and Merck KGaA in accordance with the Articles of Association. In accordance with the capital ratios, E. Merck OHG has a 70.28% interest in the profit/loss of Merck KGaA while Merck KGaA has an interest of 29.72% in the profit/loss of E. Merck OHG. Merck KGaA's profit from ordinary activities less trade income tax, on which the appropriation of its profit is based, amounts to € 92.6 million. Merck KGaA transferred € 65.1 million of its profit to E. Merck OHG (2006: € 400.9 million). In 2007, € 30.4 million was transferred from Merck & Cie KG (2006: € 28.3 million). In 2007, € 438.2 million was transferred from the net retained profit and other retained earnings of Merck KGaA to E. Merck OHG (2006: E. Merck OHG transferred € 203.8 million to the net retained profit and retained earnings of Merck KGaA). The profit/loss of E. Merck OHG, on which the appropriation of profit/loss is based, amounts to € –7.2 million (2006: € –1.7 million). Consequently, Merck KGaA will take over a loss of € 2.1 million (2006: € 4.0 million).

For 2007, a dividend of € 1.20 per share plus a bonus of € 2.00 per share will be proposed. This corresponds to a total dividend payment of € 206.8 million to the limited liability shareholders.

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.

€ million	Available-for-sale current and non-current financial assets	Derivative financial instruments	Total
Balance as of January 1, 2007	**6.0**	**–77.9**	**–71.9**
Fair value adjustments	2.1	–5.2	–3.1
Reclassification to income statement	–11.2	–0.7	–11.9
Reclassification to assets	3.5	82.9	86.4
Subsequent measurement in fiscal year	**–5.6**	**77.0**	**71.4**
Deferred taxes recognized in equity	0.5	1.1	1.6
Currency translation difference	–	–0.1	–0.1
Balance as of December 31, 2007	**0.9**	**0.1**	**1.0**

As part of the stock option program for senior executives resolved by the Merck KGaA Annual General Meeting 2000, the creation of € 5,720,000 contingent capital for issuing stock rights was approved. As a result, 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. Each option entitles the bearer to acquire one share of Merck KGaA, provided that the exercise requirements are met. The term of the program for both tranches is six years. Both tranches had a minimum vesting period of 25 months. Stock options may only be exercised after the minimum vesting period if the stock price on the day before exercise is at least 30% higher than the option exercise price. The exercise price is the mean value of Merck's shares in the Frankfurt XETRA trading system, commencing 30 days before the date of issue of the stock rights. In addition, the rights are subject to a lockup period that begins two calendar weeks before the date of publication of the Q1 and Q3 reports and eight calendar weeks before the date of publication of the H1 and Annual Reports. When granted, the first tranche included 766,500 options. As of October 2002, the options in the first tranche could be exercised at an exercise price of € 37.41, provided that Merck shares were quoted at a price of at least € 48.63. When granted, the second tranche included 1,387,000 options. These stock options may be exercised as of May 2004, at an exercise price of € 34.35, provided that Merck's share price is not below € 44.66. Upon exercising the options, the shares carry dividend rights for the current and following fiscal years.

The development of all options on shares of Merck KGaA is presented in the following table:

	2007		2006	
	Tranche 1	Tranche 2	Tranche 1	Tranche 2
Outstanding options as of January 1	**–**	**40,310**	**29,300**	**96,310**
Options exercised during the period	–	20,310	16,750	51,000
Options forfeited during the period	–	0	12,550	5,000
Outstanding options as of December 31	**–**	**20,000**	**0**	**40,310**
thereof exercisable as of December 31	–	20,000	0	40,310
Recognized capital increase (in € million)	–	0.7	0.6	1.8

The weighted average price of Merck KGaA's shares in XETRA trading at the time of exercise of the stock options was € 93.85 in 2007.

Moreover, options that have not been exercised or converted into cash are neither recorded in the balance sheet nor recognized in income in these financial statements.

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 is presented in "Segment Reporting". Segmentation was performed in accordance with the internal reporting of the Merck Group. The financial result and taxes on income are allocated in full in the Corporate and Other segment. The operating segments are described in detail in the chapter about the divisions in this Annual Report.

With the sale of our Electronic Chemicals business in April 2005, we reclassified the remaining contract manufacture business as well as the figures reported under this segment to the segment "Corporate and Other".

Transfer prices for intragroup sales are determined on an arm's-length basis. There were no significant intercompany relations between the business segments. 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:

€ million	Dec. 31, 2007	Dec. 31, 2006
Assets	14,922.3	8,102.5
Monetary assets (cash and equivalents, loans, securities)	–1,020.5	–625.2
Non-operating receivables, tax receivables, deferred taxes and accruals and deferred pension payments	–567.0	–373.3
Trade accounts payable	–646.9	–608.0
Other operating liabilities	–481.1	–331.5
Operating assets of discontinued operations	–26.9	–1,042.3
Operating assets	**12,179.9**	**5,122.1**

Notes to the cash flow statement

[33] Net cash flows from operating activities

Tax payments in 2007 totaled € 209.0 million (2006: € 215.5 million). Interest expense totaled € 302.8 million (2006: € 29.4 million) and interest income totaled € 51.6 million (2006: € 42.7 million). Other non-cash expenses include the write-downs of the Serono inventories that were remeasured within the scope of the purchase price allocation and amount to € 734.0 million.

[34] Net cash flows from investing activities

In 2007, € 7,318.0 million was spent on acquisitions of and investments in other financial assets. The majority of this amount was attributable to the acquisition of Serono. Together with the acquisition of the holding company Bertarelli Biotech S.A., a total of € 9,267.2 million was paid in 2007. The acquired liquid assets amount to € 1,987.6 million, resulting in a total net cash outflow of € 7,279.6 million. In 2006, € 1,575.4 million was paid for the acquisition of Serono, resulting in a total of € 8,855.0 million for the acquisition.

€ million	2007
Purchase price	9,267.2
Cash and cash equivalents acquired	1,987.6
Net cash outflows	**7,279.6**

The disposal of non-current assets led to a net cash inflow of € 4,995.8 million, which was mainly the result of the disposal of the Generics business.

The Generics business was sold for € 4,900 million (net) plus compensation for cash and cash equivalents disposed of and net liabilities as well as other purchase price adjustments. This led to gross cash inflows of € 5,225.7 million. After the deduction of payments due in 2007 - mainly for transaction costs and taxes - net cash inflows of € 4,828.8 million result. Along with the business, cash and cash equivalents amounting to € 98.0 million were disposed of.

€ million	2007
Consideration received, satisfied in cash	5,225.7
Cash and cash equivalents disposed of	–98.0
Compensation for net liabilities/other purchase price adjustments	–227.7
Selling price	**4,900.0**
Transaction costs, taxes, other net cash inflows	–71.2
Net cash inflow	**4,828.8**

[35] Net cash flows from financing activities

Disclosed dividend payments and transfers of profits in accordance with the Articles of Association were broken down as follows in the fiscal year:

€ million	2007		2006	
Dividend payments				
Dividends to shareholders	–67.8		–43.6	
Dividends to minority shareholders	–9.2	**–77.0**	–6.1	**–49.7**
Net profits transferred by Merck KGaA to E. Merck OHG				
Profit transfer in accordance with the Articles of Association from E. Merck OHG to Merck KGaA	–2.1		–4.0	
Profit transfer in accordance with the Articles of Association from Merck KGaA to E. Merck OHG	–65.1		–400.9	
Appropriation by E. Merck OHG to reserves/ profit carried forward of Merck KGaA	–438.2	**–505.4**	203.8	**–201.1**
Profit transfer from Merck & Cie KG to E. Merck OHG		**–30.4**		**–28.3**
Total dividend payments and profit transfers		**–612.8**		**–279.1**

Free cash flow after dividend payments and profit transfers totaled € –2,085.9 million (2006: € –1,352.5 million).

[36] Cash and cash equivalents

The composition of cash and cash equivalents is presented under “Notes to the Balance Sheet”.

[37] Free cash flow

Free cash flow is an indicator that we use internally to measure the contribution of our divisions to liquidity. Free cash flow includes all net cash flows from operating activities as well as investing activities performed in connection with operating business. We do not include in free cash flow pure financial investments and similar monetary deposits of more than three months, which are also to be reported as net cash flows from investing activities under IFRS.

Other disclosures

[38] Derivative 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 and currency option contracts and interest rate swaps. The strategy to hedge the transaction risk arising from currency fluctuations is set by a Group interest rate and currency committee, which meets on a regular basis. A review period of up to 24 months normally serves as the basis. Every hedge must relate to an underlying transaction that either already exists or is definitely expected to take place (ban on speculation). Currency risks from financial assets or loans denominated in foreign currencies are generally hedged. 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 entered into 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:

	Nominal volume		Fair value	
€ million	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Forward exchange contracts	2,927.2	8,410.4	4.6	–65.8
Interest rate swaps	500.0	500.0	–28.3	–22.0
Currency options	–	16.0	–	0.9
	3,427.2	**8,926.4**	**–23.7**	**–86.9**

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 quoted prices or current market data provided by a recognized information service.

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

€ million	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2007	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2006
Forward exchange contracts	2,717.0	210.2	2,927.2	8,410.4	–	8,410.4
Interest rate swaps	–	500.0	500.0	–	500.0	500.0
Currency options	–	–	–	16.0	–	16.0
	2,717.0	**710.2**	**3,427.2**	**8,426.4**	**500.0**	**8,926.4**

Gains and losses on the fair value of derivatives and underlyings are usually recognized directly in the income statement. If cash flows are being hedged and the requirements for hedge accounting in accordance with IAS 39.88 are met, the effective portions of the gains and losses from the fair value measurement of derivatives are recognized in equity until the underlying transaction occurs. These amounts are only reclassified from equity and carried to the income statement after accounting for the underlying transactions. Amounts reclassified to the income statement are either recognized in the operating result, or in the financial result if liabilities have been hedged.

Hedge accounting in accordance with IAS 39 was used for some hedging transactions:

	Nominal volume		Fair value	
€ million	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Forward exchange contracts	863.0	7,688.3	–0.1	–71.5
Interest rate swaps	500.0	–	–28.3	–
Currency options	–	16.0	–	0.9
Derivatives without hedge accounting	2,064.2	1,222.1	4.7	–16.3
	3,427.2	**8,926.4**	**–23.7**	**–86.9**

The forward exchange contracts that are entered into to reduce the exchange rate risk with a total nominal volume of € 2,927.2 million primarily serve to hedge intercompany financing in foreign currency. These primarily served to hedge fluctuations in the exchange rates of the U.S. dollar (€ 721.9 million), the Swiss franc (€ 1,538.6 million), the Japanese yen (€ 319.4 million) and the British pound (€ 191.4 million).

Forecast transactions are only hedged if the occurrence can be assumed to be highly probable. The nominal volume of hedged future transactions amounted to € 760.9 million as of the balance sheet date and related mainly to the hedging of future sales in U.S. dollars, Taiwanese dollars and future costs in Swiss francs. The occurrence of hedged items is expected within the next 24 months. During the fiscal year, gains of € 5.2 million from the fair value measurement of derivatives were recognized in equity. € 0.7 million was transferred from equity to income.

	Nominal volume		Fair value	
€ million	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Hedging of future transactions	760.9	7,288.5	0.1	–76.4
Hedging of recognized transactions	2,166.3	1,121.9	4.5	10.6
Total forward exchange contracts	**2,927.2**	**8,410.4**	**4.6**	**–65.8**

The interest expense of the euro benchmark bond, which was issued in 2005 with a volume of € 500.0 million, was made variable through interests rate swaps from a fixed rate of 3.75% to six-month Euribor.

[39] Management of financial risks

Fluctuations in the price of currencies and interest rates can result in significant profit and cash flow risks for Merck. Therefore, Merck centralizes these risks as far as possible and steers them in a forward-looking manner, also by using derivative financial instruments.

Foreign currency risks

Transaction risks: Owing to its international business focus, Merck is subject to currency risks within the scope of both ordinary business and financing activities. Different strategies are used to limit or exclude these risks.

In principle, currency risks from financing activities are eliminated as far as possible through the use of forward exchange contracts. Currency risks arising from operating business are analyzed regularly and reduced if necessary through forward exchange contracts or currency options using hedge accounting.

The following table presents the net currency risk from expected and recognized transactions in 2008 in the most important currencies:

€ million as of Dec. 31	CHF	GBP	JPY	TWD	USD
Foreign exchange risk from balance sheet items	–984.0	181.0	136.1	9.9	–97.0
Foreign exchange risk from contingent business and anticipated transactions	–477.2	73.8	197.9	359.4	665.8
Transaction-related foreign exchange position	–1,461.1	254.8	334.0	369.3	568.9
Position hedged by derivatives	1,347.3	–191.1	–130.8	–36.0	–129.7
Open-end foreign exchange risk position	–113.8	63.7	203.3	333.3	439.2
Change in foreign exchange position due to a 1% appreciation of the euro	1.1	–0.6	–2.0	–3.3	–4.4

Translation risks: Many Merck companies are outside the euro zone. The financial statements of these companies are translated into euros. Exchange differences in the assets of these companies resulting from currency fluctuations are recognized in equity.

Interest rate risks

Interest rate risks relate mainly to financial liabilities and monetary deposits. If necessary, derivative financial instruments are used to change fixed interest payments into variable interest payments. The aim is to optimize the interest result and to minimize interest rate risks. Relative to net interest liabilities on the balance sheet date, a parallel shift in interest rates by 100 basis points would affect profits by € –2.6 million.

Liquidity risks

The liquidity risk, i.e. the risk that Merck cannot meet its financial obligations, is limited by the creation of the necessary financial flexibility and by effective cash management. Apart from liquid assets of € 991.9 million, Merck has at its disposal a multi-currency revolving credit line of € 2 billion to be used for business purposes with a term of seven years as well as bilateral credit facilities of € 559.0 million. Moreover, a commercial paper program with a volume of € 500 million exists. The following table presents the contractually set payments such as repayments and interest on financial liabilities carried in the balance sheet and derivative financial instruments with a negative market value:

€ million	Book value Dec. 31, 2007	Cash flows 2008		Cash flows 2009–2013		Cash flows 2014–2020	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Debt securities and Commercial Paper	976.1	41.4	6.9	114.6	1,000.0	–	–
Bank loans and overdrafts	142.6	3.9	129.7	1.7	7.6	0.4	4.9
Other financial liabilities	78.1	3.8	25.2	5.4	42.0	–	10.9
Miscellaneous other liabilities	100.6	4.0	100.6	–	–	–	–
Financial leasing liabilities	9.9	0.1	9.4	0.1	0.6	–	–
Derivative financial liabilities	40.1	7.0	11.7	27.7	0.1	–	–
	1,347.0	**60.1**	**283.4**	**149.5**	**1,050.3**	**0.4**	**15.8**

Credit risks

Merck is subject to a very low credit risk, i.e. the unexpected loss of payment funds or income. On the one hand, financial contracts are only entered into with prime-rated banks. On the other hand, 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.

[40] Other disclosures on financial instruments

The carrying values of financial instruments by category are as follows:

€ million	Book value Dec. 31, 2007	Balance sheet measurement according to IAS 39: Amortized cost	Acquisition cost	Fair value recognized in equity	Fair value included in profit/loss
Assets					
Cash and cash equivalents	426.6	426.6	–	–	–
Trade receivables	1,378.3	1,378.3	–	–	–
Loans	515.1	515.1	–	–	–
Other receivables	196.3	196.3	–	–	–
Other designated financial assets of the category					
Held to maturity	51.0	51.0	–	–	–
Available for sale	86.4	–	23.7	62.7	–
Held for trading	0.7	–	–	–	0.7
Derivative financial assets					
Unhedged derivatives	16.1	–	–	–	16.1
Hedged derivatives	2.1	–	–	1.2	0.9
Liabilities					
Debt securities and Commercial Paper	976.1	504.8	–	–	471.3
Bank loans and overdrafts	142.2	142.2	–	–	–
Other financial liabilities	178.7	178.7	–	–	–
Trade accounts payable	646.9	646.9	–	–	–
Miscellaneous other liabilities	642.8	642.8	–	–	–
Financial leasing liabilities	9.9	–	–	–	–
Derivative financial liabilities					
Unhedged derivatives from financing transactions	10.7	–	–	–	10.7
Other unhedged derivatives	0.9	–	–	–	0.9
Hedged derivatives	30.5	–	–	1.1	29.4
thereof aggregated by category acc. to IAS 39					
Loans and receivables	2,516.3	2,516.3	–	–	–
Assets of the category					
Held to maturity	51.0	51.0	–	–	–
Available for sale	86.4	–	23.7	62.7	–
Held for trading	16.8	–	–	–	16.8
Liabilities of the category					
Carried at amortized cost	2,115.4	2,115.4	–	–	–
Carried at fair value, included in profit/loss	482.9	–	–	–	482.9

			Balance sheet measurement according to IAS 39					
Carrying value according to IAS 17	Fair value Dec. 31, 2007	Book value Dec. 31, 2006	Amortized cost	Acquisition cost	Fair value recognized in equity	Fair value included in profit/loss	Carrying value according to IAS 17	Fair value Dec. 31, 2006
–	426.6	460.1	460.1	–	–	–	–	460.1
–	1,378.3	1,252.9	1,252.9	–	–	–	–	1,252.9
–	515.1	51.0	51.0	–	–	–	–	51.0
–	196.3	96.6	96.6	–	–	–	–	96.6
–	51.0	40.1	40.1	–	–	–	–	40.1
–	86.4	1,644.5	–	2.1	1,641.2	1.2	–	1,644.5
–	0.7	0.7	–	–	–	0.7	–	0.7
–	16.1	7.3	–	–	–	7.3	–	7.3
–	2.1	14.2	–	–	6.4	7.8	–	14.2
–	977.3	771.1	293.6	–	–	477.5	–	771.1
–	141.6	126.0	126.0	–	–	–	–	126.0
–	182.0	106.4	106.4	–	–	–	–	106.4
–	646.9	608.0	608.0	–	–	–	–	608.0
–	641.7	301.5	301.5	–	–	–	–	301.5
9.9	8.9	1.1	–	–	–	–	1.1	1.1
–	10.7	22.0	–	–	–	22.0	–	22.0
–	0.9	1.6	–	–	–	1.6	–	1.6
–	30.5	84.9	–	–	82.9	2.0	–	84.9
–	2,516.3	1,860.6	1,860.6	–	–	–	–	1,860.6
–	51.0	40.1	40.1	–	–	–	–	40.1
–	86.4	1,644.5	–	2.1	1,641.2	1.2	–	1,644.5
–	16.8	8.0	–	–	–	8.0	–	8.0
–	2,118.2	1,435.5	1,435.5	–	–	–	–	1,435.5
–	482.9	501.1	–	–	–	501.1	–	501.1

The net results of financial instruments by category are as follows:

2007 in € million	Interest	Subsequent measurement		
		Write-downs	Write-up	Disposal gains/losses
Loans and receivables	40.9	–10.0	17.9	–
Assets of the category				
Held to maturity	3.4	–	–	0.1
Available for sale	17.3	–	–	2.8
Held for trading	–	–	–	–
Liabilities of the category				
Carried at amortized cost	–251.1	–	–	–
Held for trading	–	–	–	–
2006 in € million				
Loans and receivables	43.2	–2.0	15.4	–
Assets of the category				
Held to maturity	2.0	–	–	–
Available for sale	4.0	–0.2	–0.2	378.0
Held for trading	–	–	–	–
Liabilities of the category				
Carried at amortized cost	–37.6	–	–	–
Held for trading	–	–	–	–

In 2007, exchange rate gains of € 3.8 million resulting from receivables and payables in operating business were recognized (2006: losses of € 9.3 million). A total of € 7.7 million was recorded for hedging transactions in operating business (2006: € 30.3 million). Exchange rate gains of € 8.5 million (2006: exchange rate losses of € 8.9 million) were booked for financial receivables/payables. A loss of € 2.5 million (2006: gain of € 4.6 million) was booked for hedging of financing transactions.

The interest expense of the bond has been made variable through an interest rate swap. The fair value measurement of the bond led to an expense of € 6.7 million (2006: € 18.9 million). This was offset by the same amount of income from an interest rate swap.

[41] Contingent liabilities

€ million	Dec. 31, 2007	thereof subsidiaries	Dec. 31, 2006	thereof subsidiaries
Bills endorsed and in circulation	0.1	–	0.1	–
Guarantees	57.4	–	37.1	2.4
Warranties	0.7	–	0.1	–
Other contingent liabilities	34.1	–	16.6	–

Most of the guarantees exist in connection with our Serono business in Italy, where pursuant to tax legislation, guarantees for reimbursements of tax receivables from the Italian fiscal authorities exist. Other contingent liabilities include, among other things, collateral security given on property, plant and equipment, for example buildings. The increase over the previous year is mainly the result of the consolidation of the companies of the former Serono Group.

[42] Other financial obligations

Other financial obligations comprise the following:

€ million	Dec. 31, 2007	thereof subsidiaries	Dec. 31, 2006	thereof subsidiaries
Obligations to acquire intangible assets	1,247.7	–	246.9	–
Orders for capital expenditure on property, plant and equipment	76.3	–	25.2	–
Future rental payments	62.9	–	64.8	–
Future operating lease payments	87.4	–	48.3	–
Long-term purchase commitments	0.3	–	0.3	–
Other financial obligations	30.9	–	13.0	–
	1,505.5	–	**398.5**	–

Obligations to acquire intangible assets exist in particular within the scope of research and development collaborations. Here Merck has obligations to make milestone payments when its partner achieves certain objectives. In the unlikely event that all contract partners achieve all milestones, Merck would be obligated to pay up to € 1,247.7 million (2006: € 246.9 million) for the acquisition of intangible assets. The obligations are as follows:

€ million	potential due date in 1 year	potential due date in 1–5 years	potential due date over 5 years	Total Dec. 31, 2007
Obligations to acquire intangible assets	78.7	423.7	745.3	**1,247.7**

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

€ million	Remaining maturity less than 1 year	Remaining maturity 1 to 5 years	Remaining maturity more than 5 years	Total Dec. 31, 2007
Present value of future payments from finance leases	1.0	8.9	–	9.9
Interest component of finance leases	–	0.5	–	0.5
Future finance lease payments	1.0	9.4	–	**10.4**
Future operating lease payments	22.0	45.3	20.1	**87.4**

[43] Personnel expenses/Headcount

Personnel expenses comprise the following:

€ million	2007	2006
Wages and salaries	1,586.8	1,144.2
Compulsory social security contributions and special financial assistance	225.1	185.6
Pension expenses	121.5	82.7
(in both years excluding discontinued operations (Generics))	**1,933.4**	**1,412.5**

As of December 31, 2007, the companies of the Merck Group had 30,968 employees (2006: 29,999; 4,468 of which were attributable to discontinued operations). The average number of employees during the year was 30,791 (2006: 29,774; 4,557 of which were attributable to discontinued operations).

[44] Material costs

Material costs amounted to € 1,133 million in 2007 (2006: € 874 million), in both years excluding discontinued operations (Generics). Discontinued operations accounted for € 608 million (2006: € 759 million).

[45] Auditors' fees

The costs of the auditors of the financial statements of the Merck Group (KPMG) can be broken down as follows:

	2007		2006	
Cost in € million for	Merck Group	thereof Germany	Merck Group	thereof Germany
Audits of financial statements	8.3	3.9	3.9	0.8
Other audit-related services	0.4	0.1	0.3	0.1
Tax consultancy services	0.4	0.1	0.4	0.1
Other services	2.2	1.7	1.1	0.7
	11.3	**5.8**	**5.7**	**1.7**

[46] Corporate Governance

The Statement of Compliance in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz) was published in the Corporate Governance section of our Web site (www.corporategovernance.merck.de) in February 2007 and thus made permanently available.

[47] Companies opting for exemption under Section 264 (4) of the German Commercial Code
The following companies, which have been consolidated in these financial statements, have opted for exemption under Section 264 (4) of the German Commercial Code:

Merck Pharma GmbH, Darmstadt
Chemische Fabrik Lehrte Dr. Andreas Kossel GmbH, Lehrte
Merck Selbstmedikation GmbH, Darmstadt

[48] Related-party disclosures
Related parties in respect of the Merck Group are E. Merck OHG as well as the companies Emanuel Merck Vermögens KG and E. Merck Beteiligungen OHG. In principle, direct or indirect subsidiaries of Merck KGaA, associates and joint ventures of the Merck Group as well as pension funds that are classified as funded defined benefit plans in accordance with IAS 19, are also related parties within the meaning of IAS 24. Members of the Executive Board and the Supervisory Board of Merck KGaA, the Board of Management and the Board of Partners of E. Merck OHG as well as close members of their families are also related parties.

As of December 31, 2007, there were liabilities by Merck KGaA and Merck & Cie KG, Altdorf, to Merck OHG in the amount of € 626.6 million (2006: € 224.5 million). In addition, Merck KGaA was owed receivables in the amount of € 20.8 million (2006: € 37.6 million) by E. Merck OHG as of December 31, 2007. The balances result mainly from the profit transfers by Merck & Cie to E. Merck OHG, the reciprocal profit transfers between Merck KGaA and E. Merck OHG, as well as the extension of loans by E. Merck OHG to Merck KGaA as well as the extension of loans by Merck KGaA to E. Merck OHG. These financial payables of € 93.5 million (2006: receivables of € 22.6 million) are subject to standard market interest rates. In 2007, Merck KGaA performed services for E. Merck OHG with a value of € 1.1 million (2006: € 0.9 million). In exchange, E. Merck OHG performed services for Merck KGaA with a value of € 0.5 million (2006: € 0.5 million). As of December 31, 2007, Merck KGaA had receivables from E. Merck Beteiligungen OHG in the amount of € 5.8 million (2006: € 6.7 million). In 2007, Merck KGaA performed services for E. Merck Beteiligungen OHG with a value of € 0.3 million (2006: € 0.5 million). In addition, Merck KGaA performed services for Emanuel Merck Vermögens KG with a value of € 0.1 million (2006: € 0.1 million).

Business transactions with major subsidiaries have been eliminated during consolidation and are not disclosed further in the Notes. Information on pension funds that are classified as funded defined-benefit plans in accordance with IAS 19 can be found in Note [31]. There were no further material transactions with these pension funds.

During the fiscal year, companies of the Merck Group supplied goods with a value of € 3.9 million (2006: € 4.3 million) to associates. During the same period, associates provided services to companies of the Merck Group with a value of € 5.2 million (2006: € 0.0 million). There were no further material transactions with associates in 2007.

The remuneration of the Executive Board of Merck KGaA is largely paid by the general partner, E. Merck OHG, and recorded as an expense in its income statement. For January to December 2007, fixed salaries of € 3.0 million (2006: € 3.0 million) and variable compensation of € 21.9 million (2006: € 10.5 million) were recorded for Members of the Executive Board of Merck KGaA. Variable compensation is in principle based on the three-year rolling average of profit after tax of the E. Merck Group. Due to the one-time effects of the reporting period, a special agreement was made. Furthermore, additions to pension provisions of E. Merck OHG include current service cost of € 2.0 million (2006: € 0.9 million) and in the previous year past service cost of € 8.0 million for members of the Executive Board of Merck KGaA.

Subject to the approval of the Annual General Meeting on the proposed distribution of a € 1.20 dividend per share plus a bonus of € 2.00 per share, the remuneration of the Supervisory Board amounting to € 964 thousand (2006: € 350 thousand) consists of a fixed portion of € 95 thousand (2006: € 95 thousand) and a variable portion of € 869 thousand (2006: € 255 thousand).

Further material transactions, for example the provision of services or the extension of loans, between companies of the Merck Group and members of the Executive Board and the Supervisory Board of Merck KGaA, the Board of Management and the Board of Partners of E. Merck OHG or close members of their families did not take place in 2007.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements of the Merck Group give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Darmstadt, January 30, 2008

Karl-Ludwig Kley | Michael Becker | Bernd Reckmann

Elmar Schnee | Walter W. Zywottek

Auditor's Report

"We have audited the consolidated financial statements prepared by Merck Kommanditgesellschaft auf Aktien, Darmstadt, comprising the balance sheet, the income statement, statement of recognized income and expense, the cash flow statement and the notes to the consolidated financial statements together with the group management report, for the Merck Group for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Mannheim, January 31, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Walter
Wirtschaftsprüfer

Heublein
Wirtschaftsprüfer