

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

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 KG (until and including December 31, 2008: E. Merck OHG), the general partner of Merck KGaA with an equity interest of 70.3% as of December 31, 2008. 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 then be accessed at www.ebundesanzeiger.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 Commercial 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 amendments to standards as well as the following interpretations were effective for the first time in fiscal 2008:

- Amendments to IAS 39 and IFRS 7: "Reclassification of Financial Instruments"
- IFRIC 11: "IFRS 2: Group and Treasury Share Transactions"

The new rules had no material effects on the consolidated financial statements of the Merck Group.

The following standard and amendments to standards and the following interpretations will take effect as of fiscal 2009:

- IFRS 8 "Operating Segments"
- Revised version of IAS 1 "Presentation of Financial Statements: A Revised Presentation"
- Revised version of IAS 23 "Borrowing Costs"
- Amendment to IAS 32 and IAS 1: "Puttable Financial Instruments and Obligations Arising on Liquidation"
- Amendment to IFRS 1 and IAS 27: "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"
- Amendment to IFRS 2 "Share-based payment - Vesting Conditions and Cancellations"
- "Improvements to International Financial Reporting Standards"
- IFRIC 13 "Customer Loyalty Programmes"
- IFRIC 14: "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

We do not expect the new rules to have any material effects on the consolidated financial statements.

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 27 "Consolidated and Separate Financial Statements"
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement: Eligible Hedged Items"
- Amendment to IAS 39 and IFRS 7: "Reclassification of Financial Assets: Effective Date and Transition"
- Revised version of IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- Revised version of IFRS 3 "Business Combinations"
- IFRIC 12 "Service Concession Arrangements"
- IFRIC 15 "Agreements for the Construction of Real Estate"
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 17 "Distributions of Non-cash Assets to Owners"
- IFRIC 18 "Transfers of Assets from Customers"

We currently do not expect the new rules to have any material effects on the consolidated financial statements.

Companies consolidated

Including the parent company Merck KGaA, Darmstadt, 178 companies are fully consolidated in the annual financial statements of the Merck Group. One associate is included using the equity method. Due to secondary importance 40 investments are not consolidated and are presented under non-current financial assets. In fiscal 2008, ten companies were included in the consolidated financial statements for the first time, and 24 companies were deconsolidated, mainly as a result of company mergers.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

Acquisitions

At the end of 2007, we completed the acquisition of a 100% interest in Solvent Innovation GmbH of Cologne, Germany, for a purchase price of € 2.0 million. The company, which was consolidated for the first time as of January 1, 2008, is strengthening the research activities of our Performance & Life Science Chemicals division in the field of ionic liquids.

On February 29, 2008, Merck acquired a 100% interest in SeQuant AB of Umea, Sweden, for € 6.9 million. This included transaction costs of € 0.1 million. The company is strengthening the activities of our Performance & Life Science Chemicals division in the field of chromatography. The company was consolidated for the first time on March 1, 2008.

On June 30, 2008, Litec-LLL GmbH of Greifswald, Germany was acquired in full for € 5.6 million (including transaction costs of € 0.6 million). The company specializes in research and development as well as production and marketing of ortho-silicate lighting materials. The acquisition of the company, which was founded in 2002, gives Merck access to the business with light sources for LEDs. The company was consolidated for the first time on July 1, 2008 and is part of the Liquid Crystals division.

On August 21 and 27, we increased our interest in the fully consolidated Indonesian company PT Merck Tbk of Jakarta, Indonesia, by a total of 12.66% to 86.65%, for € 10.2 million.

On December 1, 2008, Merck acquired Bio-Fyt Pharma N.V. of Sint-Jans-Molenbeek, Belgium, in full for € 30.0 million. Including the assumption of cash and transaction costs of € 0.2 million, the total cost of the acquisition was € 32.6 million. The company, which is now part of the Consumer Health Care division, develops and markets products for mobility, women's health and everyday health protection. The company was consolidated for the first time on December 1, 2008.

Overall, the changes in the companies consolidated due to acquisitions had the following effects on the consolidated balance sheet:

€ million	Acquisitions			Disposals/ Deconsoli- dations
	Pre- acquisition book value	Adjustment	Fair value	Disposal at book value
Goodwill	–	26.7	26.7	–
Other intangible assets	0.4	30.6	31.0	–
Property, plant and equipment	1.1	–0.3	0.8	–
Other non-current assets	0.2	0.1	0.3	–
Cash and cash equivalents	4.3	–	4.3	–
Other current assets	3.4	1.6	5.0	–
Current and non-current liabilities	3.5	9.8	13.3	–

The acquisition of Bio-Fyt Pharma N.V, of Sint-Jans-Molenbeek, Belgium, was responsible for € 14.8 million of the effect from the adjustment of goodwill. A further € 7.7 million was due to the purchase of additional holdings in PT Merck Tbk of Jakarta, Indonesia. € 4.2 million resulted from the other named acquisitions.

The adjustment of other intangible assets primarily includes the purchase price allocation to brands, product rights, patents and technical know-how.

Taking into account the acquisitions made in 2008, sales and operating result were impacted as follows in the reporting period:

€ million	Acquisitions/ First-time consolidations	Disposals/ Deconsolidations
Sales	1.4	–
Cost of sales	–2.2	–
Other income/expenses	–1.9	–
Operating result	–2.7	–

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

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.

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

Within the scope of the agreement, Mylan Inc. was granted an option to purchase the Generics business remaining with the Merck Group after the transfer. This option was already reflected in the purchase price. The remaining Generics business is immaterial for Merck and is reported in 2008 as part of the Merck Serono division.

The reported profit/loss from discontinued operations for 2007 comprises the following:

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

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 recorded in the reporting period or in future periods. Assumptions and estimates are made in particular in connection with the measurement of intangible assets and provisions. 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, 2008, which were prepared applying consistent accounting policies in accordance with IFRS.

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 effects of intragroup deliveries reported under non-current assets and inventories have been adjusted by eliminating any intragroup profits.

Currency translation

The functional currency concept applies to the translation of financial statements of consolidated companies prepared in foreign currencies. The companies of the Merck Group conduct their operations independently. The functional currency of these companies is the respective local currency. 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.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

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.

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. Depending on the substance of the relevant agreements, compensation for use of assets by others and license royalties are recognized either immediately or on an accruals basis if a contractual obligation concerning further payments exists. Dividend revenue is recognized when the shareholders' right to receive the dividend is established. This is normally the date of the dividend resolution. Interest revenue is recognized on a time-proportionate basis using the effective rate method.

Research and development

The breakdown of research and development costs 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 compensation for services performed (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 90 days from the date of acquisition.

Receivables and other assets

Receivables and other assets are carried at amortized cost. Write-downs are charged for default risks unless these are covered by insurance. Non-interest-bearing or low-interest non-current receivables are carried at their present value. Derivative financial assets are reported 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 recognized at cost and are classified as assets with finite and indefinite useful lives. Intangible assets acquired within the scope of business combinations are recognized 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. Amortization of intangible assets – except for software – are disclosed separately before 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. Depending on the type of asset concerned, other types of depreciation are 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.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

Assets with indefinite useful lives are not amortized, but tested annually for impairment instead. Goodwill is likewise not amortized. 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 at the weighted average cost of capital (WACC) of 9.5% after taxes.

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 6 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 in accordance with IAS 28 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 and recognized as income. The carrying amount of the asset is increased to no more than the amortized cost. Equity instruments held for sale are recognized in equity.

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.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

Provisions

In accordance with IAS 37, provisions are disclosed in the balance sheet for legal or de facto obligations if the payment amount to settle the obligation is probable and can be reliably estimated. The amount recognized as provisions takes into account the resources required to cover future payment obligations, recognizable risks and uncertain obligations of the Group vis-à-vis third parties. Measurement is based on the settlement amount with the highest probability or if the probabilities are equivalent, then using the expected value of the settlement amounts. Provisions are discounted and carried at their present value as of the balance sheet date. To the extent that reimbursement claims exist within the meaning of IAS 37, they are recognized as a separate asset if their realization is virtually certain.

Provisions for pensions and other post-employment benefits

Provisions for pensions and other post-employment benefits are disclosed 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. The rest is externally funded. These provisions also contain other post-employment benefits, such as accrued future health care costs for retirees in the United States. 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. In accordance with the option under IAS 19.93A, actuarial gains and losses resulting from changes in actuarial assumptions and/or experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) are recognized immediately in equity as soon as they are incurred taking deferred taxes into account. The gains and losses recognized in equity are disclosed separately in the Statement of Recognized Income and Expense.

Notes to the income statement

[1] Sales

Merck Group sales totaled € 7,201.6 million in 2008. This corresponds to an increase of 6.3% over the previous year. Adjusted for the impact of currency and acquisitions, organic growth amounted to 10.7%.

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

[2] Royalty income

In 2008, royalty income totaled € 356.4 million (2007: € 282.0 million) and mainly included royalty income from the products Avonex® (Biogen Idec), Humira® (Abbott), Enbrel® (Amgen) and Puregon® (Schering-Plough) as well as 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. We also disclose write-downs of inventories as part of cost of sales.

[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 € 6.6 million were deducted from marketing and selling expenses (2007: € 7.9 million). This item also includes the net amount of commission expenses totaling € 165.2 million (2007: € 132.9 million) and commission income of € 31.6 million (2007: € 24.3 million) are also included here.

[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	2008	2007
Gains from disposals of assets	16.3	31.0
Exchange rate differences from operating activities	-6.8	11.5
Write-ups	0.3	2.2
Other operating income	88.2	91.8
	98.0	136.5

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

Other operating income mainly includes income from ancillary business such as rental and leasing agreements, as well as payments from third parties for services performed and compensation payments.

Other operating expenses comprise the following:

€ million	2008	2007
Restructuring and Serono integration costs	-27.0	-181.8
Project costs	-58.0	-44.4
Bonuses, fees and contributions	-47.9	-36.0
Litigation	-24.2	-33.0
Impairment losses	-10.5	-73.2
Losses on disposals of assets	-10.9	-7.9
Write-downs of receivables	-4.9	-10.0
Special environmental protection costs	-4.9	-5.3
Other operating expenses	-79.8	-84.7
	-268.1	-476.3

Project costs relate mainly to the costs incurred in connection with Group-wide IT projects. These include, for example, projects to harmonize IT applications and infrastructure throughout the Group. Other operating expenses also include expenses for services performed for third parties as well as costs of ancillary businesses and clearing balances.

[7] Research and development

Reimbursements for R & D amounting to € 20.1 million (2007: € 19.2 million) were offset against research and development costs.

[8] Amortization of intangible assets

This item primarily comprises amortization of intangible assets in connection with the allocation of the Serono purchase price.

[9] Investment result

€ million	2008	2007
Dividend income from associates	0.2	0.2
Other investment income/expenses	-0.1	0.1
	0.1	0.3

[10] Exceptional items

Exceptional items comprise:

€ million	2008	2007
Impairment losses on product technologies	-194.5	-
Impairment losses on licenses	-42.9	-
Impairment losses on goodwill	-41.7	-
Impairment losses on development technology	-20.2	-
Impairment losses on financial assets	-29.2	-
Restructuring	-71.5	2.0
Write-down of Serono inventories	-	-734.0
Environmental protection measures	-	-38.5
Disposal of the Genmab interest	-	-11.5
Release of the provision for Electronic Chemicals	-	6.4
Exceptional items	-400.0	-775.6

The product technologies capitalized for the product Raptiva® within the scope of the Serono purchase price allocation were written off in full due to a sharp decline in sales expectations.

Based on new estimations of the amount and timing of royalty income, we partially wrote down the relevant licensing rights to Enbrel® (Amgen), which were capitalized within the scope of the Serono purchase price allocation.

In connection with the termination of research projects, the goodwill resulting from the acquisition of the EMD Lexigen Research Center Corp., United States, was written off in full. This relates to the Merck Serono division.

The assets relating to technology and research know-how that were capitalized within the scope of the Serono purchase price allocation for the development of a high-dose recombinant human growth hormone for the indication HIV-associated adipose redistribution syndrome (HARS) were written off since the development of this indication has been terminated.

Write-downs of financial assets were made owing to the decline in the stock market value of the interest in ZymoGenetics, Inc. These were charged to the Merck Serono division.

Exceptional items for "Restructuring" relate on the one hand to closures and business disposals amounting to € -45.9 million within the Performance & Life Science Chemicals division and concern sites in the United States and Brazil. In addition, in the Merck Serono division we recognized expenses of € 25.6 million in connection with the restructuring of the sales force in a number of European countries.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

[11] Financial result

€ million	2008	2007
Interest income and similar income	13.1	59.1
Interest expenses and similar expenses	-84.9	-321.9
	-71.8	-262.8
Interest component of the addition to pension provisions and other provisions for personnel expenses	-66.4	-59.5
Exchange rate differences from financing activities	-18.4	8.5
Income from financial interests	0.1	2.5
	-156.5	-311.3

[12] Income tax

€ million	2008	2007
Taxes in the period under review on operating activities	-242.4	-235.4
Taxes in the period under review on exceptional items	2.6	-0.1
Taxes for other periods	2.9	-29.8
Deferred taxes on operating activities	-11.7	78.1
Deferred taxes on exceptional items	52.8	210.3
	-195.8	23.1
Tax rate	34.1%	20.8%
Tax rate before exceptional items	25.8%	28.2%

The tax expense consists of corporation and trade 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 € 1.7 million was recorded (2007: € 21.3 million). Taxes on exceptional items relate mainly to write-downs of intangible assets and financial assets as well as to restructuring measures. Deferred taxes on exceptional items in 2007 mainly comprise deferred taxes resulting from the remeasurement of inventories within the scope of the purchase price allocation owing to 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	2008	2007
Change in deferred tax assets (balance sheet)	15.9	195.1
Change in deferred tax liabilities (balance sheet)	-73.8	-780.3
Deferred taxes credited/debited to equity	17.9	30.8
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	81.1	-27.2
Deferred taxes (income statement)	41.1	288.4

Tax loss carryforwards are structured as follows:

€ million	Dec. 31, 2008			Dec. 31, 2007		
	Germany	Abroad	Total	Germany	Abroad	Total
Tax loss carry-forwards	121.6	288.1	409.7	126.4	401.6	528.0
thereof:						
Including de-ferred tax asset	-	29.2	29.2	124.8	227.4	352.2
Deferred tax asset	-	7.4	7.4	18.9	45.0	63.9
thereof:						
Excluding de-ferred tax asset	121.6	258.9	380.5	1.6	174.2	175.8
Theoretical deferred tax asset	18.5	34.2	52.7	0.4	29.8	30.2

The decrease in tax loss carryforwards compared with the previous year is mainly the result of the positive business development of the relevant Group companies. Deferred tax assets are recognized for tax loss and interest carryforwards only if realization of the related tax benefit is probable in the foreseeable future. Due to overall economic development, existing deferred tax assets of € 40.2 million were written down at year-end.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

The vast majority of the loss carryforwards either have no expiry date or can be carried forward for up to 20 years. The interest carryforward results from the German earnings stripping rule and has no expiry date. Deferred tax assets on interest carryforwards were not recognized. The theoretically possible deferred tax asset amounts to € 10.0 million. In 2008, the income tax burden was reduced by € 7.5 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 (2007: € 8.3 million).

The tax loss carryforwards accumulated in Germany for corporation tax amount to € 57.6 million (2007: € 54.5 million) and to € 64.0 million (2007: € 71.9 million) for trade tax. The increase in additional theoretically possible deferred tax assets for non-German Group companies to € 52.7 million (2007: € 30.2 million) results mainly from the write-down of deferred tax assets for capitalized tax-loss carryforwards.

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

€ million	Dec. 31, 2008		Dec. 31, 2007	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	37.5	758.3	41.4	753.9
Property, plant and equipment	4.5	84.1	6.7	86.8
Current and non-current financial assets	2.3	28.1	1.1	1.9
Inventories	261.1	47.1	198.4	15.8
Current and non-current receivables/ Other assets	28.7	9.1	12.6	1.0
Provisions for pensions and other post-employment benefits	58.6	10.3	84.1	15.5
Current and non-current other provisions	131.6	7.7	121.1	4.2
Current and non-current liabilities	22.3	9.1	6.2	7.6
Tax loss carryforwards	7.4	–	63.9	–
Tax refund claims/Other	0.3	16.6	27.5	34.5
Netted deferred tax assets and liabilities	–74.2	–74.2	–98.8	–98.8
Total deferred taxes	480.1	896.2	464.2	822.4

Deferred tax liabilities of € 23.0 million (2007: € 10.9 million) were set up for temporary timing differences for interests in subsidiaries. These relate to planned dividend payments. No deferred tax liabilities were recognized for other temporary differences since the reversal of these differences is not foreseeable.

Deferred tax assets of € 472.7 million (2007: € 400.3 million) were recognized for other temporary timing differences for interests in subsidiaries.

The following table presents a tax reconciliation of the theoretical tax rate to consolidated profit. The theoretical tax rate is determined by applying the statutory tax rates of the German and foreign companies in proportion to their contribution to consolidated profit. The change in comparison with 2007 results from the change in the consolidated contributions in relation to local tax rates.

€ million	2008	2007
Consolidated profit before tax	574.9	-110.9
Exceptional items	-400.0	-775.6
Consolidated profit before tax and exceptional items	974.9	664.7
Theoretical tax rate	29.6%	30.9%
Theoretical tax expense before exceptional items	-288.6	-205.6
Tax effect of companies with a negative contribution to consolidated profit	-41.1	-23.7
Taxes for other periods	2.9	-29.8
Tax credits	66.6	35.0
Effect of non-deductible expenses/ tax-free income/tax allowances	9.0	36.9
Tax expense before exceptional items	-251.2	-187.1
Tax rate before exceptional items	25.8%	28.2%
Taxes on exceptional items	55.4	210.2
Tax expense according to income statement	-195.8	23.1
Tax rate according to income statement	34.1%	20.8%

[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 in 2007 included the profit/loss of the current business classified as discontinued operations. More details can be found under "Disposals/Discontinued operations".

[14] Minority interest

Minority interest in net profit is primarily composed of the minority interests in Merck Ltd., Thailand and Merck Serono SpA, Italy, as well as the listed company Merck Ltd., India.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

[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 64,621,126 shares, the general partner's capital amounts to € 397.2 million or 152,767,813 theoretical shares. Overall, the total capital thus amounts to € 565.2 million or 217,388,939 theoretical shares. It should be noted that in accordance with IAS 33, the 8,000 shares issued in 2008 by the Merck stock option program 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

	2008	2007
Earnings after minority interest (€ million)	367.1	-107.9
Weighted average number of theoretical shares outstanding (in millions)	217.4	215.9
Basic earnings per share (€)	1.69	-0.50

Earnings per share from continuing and discontinued operations

	2008	2007
Earnings after minority interest (€ million)	367.1	3,500.1
Weighted average number of theoretical shares outstanding (in millions)	217.4	215.9
Basic earnings per share (€)	1.69	16.21

As of December 31, 2008, there were no potentially dilutive shares. Details on the stock option programs, which expired on April 8, 2008, can be found in Note [32] "Net equity" to these financial statements.

Notes to the balance sheet

[16] Cash and cash equivalents

This item comprises:

€ million	Dec. 31, 2008	Dec. 31, 2007
Cheques, cash and bank balances	329.1	292.6
Short-term cash investments	363.6	134.0
	692.7	426.6

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 € 2.6 million (2007: € 3.0 million).

[17] Marketable securities and financial assets

This item comprises the following categories:

€ million	Dec. 31, 2008	Dec. 31, 2007
Financial investments held to maturity	27.0	39.3
Available for sale financial investments	20.5	10.9
Financial investments held for trading	0.9	0.7
Short-term financial investments/loans to third parties	0.1	500.5
Derivative assets (financial transactions)	128.3	13.9
	176.8	565.3

In 2007, the funds from the issuance of a bond amounting to € 497.9 million were invested in short-term financial investments and used in 2008 for intragroup financing purposes.

Loans to third parties declined in value by € 1.3 million (2007: € 0.0 million). They were not past due for 2008 or 2007.

No reclassifications of assets were made across the individual categories during the fiscal year.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

[18] Trade accounts receivable

This item comprises:

€ million	Dec. 31, 2008	Dec. 31, 2007
Receivables from other affiliates	0.0	0.4
Receivables from third parties	1,659.4	1,377.9
	1,659.4	1,378.3

Receivables past due are as follows:

€ million	Book value	thereof: Nei- ther impaired nor past due on the report- ing date	thereof: Not impaired, past due in the following periods as of the reporting date			
	Dec. 31, 2008		up to 3 months	and 6 months	and 12 months	over 1 year
Trade accounts receivable						
– Third parties	1,659.4	1,209.5	236.9	92.8	73.8	46.0

€ million	Book value	thereof: Nei- ther impaired nor past due on the report- ing date	thereof: Not impaired, past due in the following periods as of the reporting date			
	Dec. 31, 2007		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

With regard to trade accounts receivable that are neither impaired nor delayed, as of the reporting date, there are no indications that the debtors will not meet their payment obligations. Write-downs of outstanding trade accounts receivable amount to € 16.6 million as of the balance sheet date.

The increase in trade accounts receivable is due to the fact that the program to sell receivables was discontinued in 2008.

[19] Inventories

This item comprises:

€ million	Dec. 31, 2008	Dec. 31, 2007
Raw materials and production supplies	253.6	238.9
Work in progress, finished goods and goods purchased for resale	1,152.3	917.0
Advance payments	1.5	2.6
	1,407.4	1,158.5

Write-downs of inventories amounted to € 93.5 million as of the balance sheet date (2007: € 98.3 million). The fair value of inventories that were written down amounts to € 377.6 million (2007: € 340.0 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, 2008	Dec. 31, 2007
Other receivables from associates	–	–
Other receivables from other affiliates	2.8	0.9
Other receivables from third parties	138.4	118.4
Receivables from related parties	22.5	26.6
Derivative assets (operational)	47.0	3.1
Prepaid expenses	40.7	32.4
Refund claims on plan assets	19.9	29.8
Other assets	12.0	15.2
	283.3	226.4

Other non-current assets

€ million	Dec. 31, 2008	Dec. 31, 2007
Other receivables from associates	–	–
Other receivables from third parties	50.6	50.4
Prepaid expenses	1.6	1.9
Other assets	11.5	9.5
	63.7	61.8

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

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 are recorded in this item.

Other receivables past due are as follows:

€ million	Book value Dec. 31, 2008	thereof: Neither im- paired 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	189.0	172.3	12.6	1.2	0.7	2.2

€ million	Book value Dec. 31, 2007	thereof: Neither im- paired 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

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 € 139.1 million (2007: € 43.5 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

In 2007, the balance sheet items allocable to the Generics business were presented collectively under “Assets/liabilities held for sale”.

[23] Intangible assets

	Patents, licenses and similar rights, as well as brands, trademarks/Other		Goodwill	Software	Advance payments	Total
€ million	Finite useful life	Indefinite useful life				
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 in 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
Acquisition cost January 1, 2008	6,833.0	426.3	1,792.4	166.5	9.4	9,227.6
Currency translation	679.0	33.1	152.7	8.2	–1.0	872.0
Changes in companies consolidated	29.4	0.7	26.1	–0.7	–	55.5
Additions	8.6	88.3	–	25.2	18.8	140.9
Disposals	–8.2	–5.1	–0.1	–38.1	–0.5	–52.0
Transfers	–2.1	–0.3	–	16.8	–9.6	4.8
Reclassification of assets held for sale	0.9	–	0.2	–	0.1	1.2
December 31, 2008	7,540.6	543.0	1,971.3	177.9	17.2	10,250.0
Accumulated amortization and impairment losses January 1, 2008	–852.2	–90.6	–0.1	–120.1	–	–1,063.0
Currency translation	–102.4	–8.8	–0.4	–6.1	–	–117.7
Changes in companies consolidated	–	–	–	0.5	–	0.5
Amortization in impairment losses	–812.1	–30.1	–41.7	–23.7	–	–907.6
Disposals	8.1	0.2	–	35.3	–	43.6
Transfers	0.3	–	–	–3.2	–	–2.9
Write-ups	0.6	–	–	–	–	0.6
Reclassification of assets held for sale	–0.1	–	–	–	–	–0.1
December 31, 2008	–1,757.8	–129.3	–42.2	–117.3	–	–2,046.6
Net carrying amount as of December 31, 2008	5,782.8	413.7	1,929.1	60.6	17.2	8,203.4

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

The increase in currency translation differences is due mainly to the translation of intangible assets reported in Swiss francs in connection with the Serono purchase price allocation into euros – the Group currency.

The stated effects resulting from changes in the companies consolidated relate to the additions mentioned under "Acquisitions".

The net carrying amount of patents, licenses and similar rights with finite useful lives amounting to € 5,782.8 million mainly include the recognized assets from the Serono purchase price allocation in 2007. The vast majority is attributable to technologies and know-how. The remaining useful lives range between 10 and 13 years. Licenses with remaining useful lives of between 4.5 and 9 years have been recognized and are reported in this item.

In fiscal 2008, impairment losses on intangible assets with finite useful lives totaled € 237.8 million. Of this amount, € 194.5 million is attributable to amounts capitalized in respect of Raptiva® within the scope of the purchase price allocation. These were written off in full due to sharply reduced sales expectations. Based on new estimates concerning the amount and the timing of royalty income, the relevant license rights to Enbrel® (Amgen), which were capitalized within the scope of the Serono purchase price allocation, were written down by € 42.9 million to the lower value in use. Both of these issues are disclosed under Exceptional items.

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 € 71.4 million result in fiscal 2008. Of this amount € 41.7 million is attributable to the goodwill of EMD Lexigen Research Center Corp., which was written off in full in connection with the termination of research projects. The technology and know-how assets in connection with the development of a high-dose recombinant human growth hormone for HIV-associated adipose redistribution syndrome (HARS) amounting to € 20.2 million and capitalized within the scope of the Serono purchase price allocation were written off in full since the development of this indication was discontinued. Both of these issues are disclosed under Exceptional items and had a negative effect on the Merck Serono division.

The remaining impairments are due mainly to the termination of various research projects and the related write-offs of the capitalized assets within the Merck Serono division. These impairment losses are disclosed under Other operating expenses.

Goodwill can be allocated to the divisions as follows:

€ million	Dec. 31, 2008	Dec. 31, 2007
Merck Serono	1,670.7	1,559.5
Consumer Health Care	164.3	148.0
Performance & Life Science Chemicals	90.0	80.7
Liquid Crystals	4.1	4.1
Total	1,929.1	1,792.3

The increase in goodwill at Merck Serono results from the translation of Serono goodwill from Swiss francs into euros – the reporting currency of the Group. This translation effect outweighed the impairment losses. The increase in goodwill attributable to the Consumer Health Care and Performance & Life Science Chemicals division is due to the first-time consolidation of Bio-Fyt Pharma N.V., Solvent Innovation GmbH and SeQuant AB as well as to currency translation effects.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

[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, 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
Acquisition cost January 1, 2008	1,754.9	2,325.3	760.2	187.4	5,027.8
Currency translation	72.5	37.5	4.7	4.8	119.5
Changes in companies consolidated	-	-2.4	1.4	0.2	-0.8
Additions	25.2	44.6	46.4	278.5	394.7
Disposals	-16.4	-80.8	-71.1	-4.1	-172.4
Transfers	48.3	65.6	32.5	-151.2	-4.8
Reclassification of assets held for sale	1.3	1.8	0.6	0.1	3.8
December 31, 2008	1,885.8	2,391.6	774.7	315.7	5,367.8
Accumulated depreciation and impairment losses January 1, 2008	-646.5	-1,544.4	-548.6	-13.8	-2,753.3
Currency translation	-19.2	-32.3	-4.4	-0.4	-56.3
Changes in companies consolidated	-0.5	1.7	-1.6	-0.1	-0.5
Depreciation and impairment losses	-68.4	-146.0	-62.5	-1.1	-278.0
Disposals	13.9	76.7	67.9	0.1	158.6
Transfers	0.4	0.4	2.1	-	2.9
Write-ups	0.4	0.5	0.1	-	1.0
Reclassification of assets held for sale	-0.5	-1.2	-0.4	-	-2.1
December 31, 2008	-720.4	-1,644.6	-547.4	-15.3	-2,927.7
Net carrying amount as of December 31, 2008	1,165.4	747.0	227.3	300.4	2,440.1

Impairment losses totaled € 6.6 million in fiscal 2008. Of this amount, € 6.0 million relates to expenses in connection with closures and disposal measures within the Performance & Life Science Chemicals division and the relevant sites in the United States and Brazil. This expense is recognized under Exceptional items.

Property, plant and equipment amounting to € 9.1 million serve as collateral (2007: € 15.9 million). Total government grants and subsidies during the fiscal year amounted to € 7.1 million (2007: € 7.1 million).

Property, plant and equipment also includes assets that are rented or leased. The total value of capitalized leased assets amounts to € 12.7 million and the corresponding obligations amount to € 9.5 million (see Note [26] "Financial liabilities").

The book values of capitalized leased assets are as follows:

€ million	Dec. 31, 2008	Dec. 31, 2007
Capitalized leased buildings	11.7	11.7
Capitalized leased vehicles	0.8	0.2
Capitalized leased other property, plant and equipment	0.2	0.3
	12.7	12.2

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

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

€ million	Investments in		Securities		Loans	Total	Equity method financial assets
	available for sale companies	other affiliates	available for sale financial investments	financial investments held to maturity	and other non-current financial assets		
Acquisition cost Januar 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
Acquisition cost January 1, 2008	94.7	27.4	5.6	11.7	16.2	155.6	1.8
Currency translation	0.3	–	–	–1.6	–0.1	–1.4	–0.3
Changes in companies consolidated	–	–58.5	–	–	–	–58.5	–
Additions	19.0	57.2	0.1	–	6.2	82.5	0.2
Disposals	–3.4	–0.4	–0.5	–	–6.7	–11.0	–
Transfers	–	–	–	–	–	–	–
December 31, 2008	110.6	25.7	5.2	10.1	15.6	167.2	1.7
Accumulated depreciation and impairment losses January 1, 2008	–20.3	–0.1	–4.5	–	–0.4	–25.3	–0.4
Currency translation	–	–	–	–	–	–	–
Changes in companies consolidated	–	–0.1	–	–	–	–0.1	–
Depreciation and impairment losses	–29.7	–	–	–	–	–29.7	–
Disposals	–	–	0.2	–	0.1	0.3	–
Fair value adjustments of long-term investments taken directly to equity	–15.0	–	–	–	–	–15.0	–
December 31, 2008	–65.0	–0.2	–4.3	–	–0.3	–69.8	–0.4
Net carrying amount as of December 31, 2008	45.6	25.5	0.9	10.1	15.3	97.4	1.3

As of December 31, 2008, non-current financial assets available for sale (investments) were carried at cost with a book value of € 17.0 million since a market price could not be determined.

The development of the value of minority investments is often dependent on developments on the stock exchanges, which is why the value of minority investments generally declined.

Due to the sustained decline in stock market values, an investment in ZymoGenetics Inc. classified as available for sale was written down by € 29.2 million to the lower fair value. The corresponding expense has been reported under Exceptional items and relates to the Merck Serono division.

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 interests	Available for sale securities	Total Dec. 31, 2008	Available for sale interests	Available for sale securities	Total Dec. 31, 2007
Fair values/ Book values	45.6	0.9	46.5	74.4	1.1	75.5
Amortized acquisition cost	-59.7	-0.9	-60.6	-73.5	-1.1	-74.6
Unrealized gains/losses	-14.1	-	-14.1	0.9	-	0.9

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

A statement of the Merck Group's equity interests is filed with the electronic Federal Gazette and can be accessed at www.ebundesanzeiger.de. Major companies of the Merck Group as of December 31, 2008 are presented in the following table:

Major companies of the Merck Group by region	Direct equity interest in %	Sales* € million	Profit after tax* € million	Net equity* € million	Employees
Germany/Europe					
Merck KGaA, Darmstadt, Germany	Parent company	2,367.8	63.0	4,720.5	9,068
Ares Trading SA, Aubonne, Switzerland	100.00	2,365.5	86.5	222.7	99
Laboratoires Serono SA, Coinsins, Switzerland	100.00	1,444.9	-115.6	8,628.0	640
Merck Serono S.p.A., Rome, Italy	96.72	1,128.2	67.1	298.9	647
Merck Lipha Santé S.A.S., Lyon, France	100.00	529.2	29.2	58.2	486
Merck Santé S.A.S., Lyon, France	100.00	489.1	99.2	295.9	1,145
Merck Pharma GmbH, Darmstadt, Germany	100.00	404.5	-	-	147
Merck Farma y Quimica S.L., Madrid, Spain	100.00	388.8	41.4	132.1	864
Merck Serono UK, West Drayton, United Kingdom	100.00	147.5	12.1	1.7	205
Merck CHC France Group, Lyon, France	100.00	104.2	7.2	44.4	211
Laboratoire Théramex S.A.M., Monaco	99.88	93.2	9.7	20.6	370
Seven Seas Group, Hull, United Kingdom	100.00	81.4	3.8	10.4	340
Merck AG, Zug, Switzerland and Darmstadt, Germany	100.00	-	74.0	1,761.9	-
North America					
EMD Serono US Group, Rockland, MA United States	100.00	689.2	13.1	227.8	810
EMD Chemicals, Inc., Gibbstown, NJ United States	100.00	231.3	4.0	244.6	950
EMD Serono Canada Inc., Mississauga, Canada	100.00	77.6	1.7	14.4	95
Latin America					
Merck S.A., Rio de Janeiro, Brazil	100.00	251.2	13.0	52.4	1,132
Merck, S.A. de C.V., Estado de México, Mexico	100.00	174.5	20.3	47.9	977
Merck Venezuela Group, Caracas, Venezuela	100.00	106.7	21.2	29.8	276
Ares Trading Uruguay S.A., Montevideo, Uruguay	100.00	93.4	39.6	20.6	23
Merck S.A., Bogota, Colombia	100.00	69.5	2.8	25.3	577
Merck Quimica Argentina S.A.I.C., Buenos Aires, Argentina	100.00	65.5	-2.8	6.0	356
Asia, Africa, Australasia					
Korean companies, South Korea	100.00	397.9	69.9	88.6	361
Merck Ltd., Tokyo, Japan	100.00	333.7	28.4	105.7	468
Taiwanese companies, Taiwan	100.00	327.8	30.6	89.6	390
Merck Pharmaceutical (HK) Co., Ltd., Hong Kong, China	100.00	123.1	3.5	2.5	37
Merck Ltd., Mumbai, India	51.00	61.2	9.6	72.3	1,072
PT Merck Tbk, Jakarta, Indonesia	86.65	44.7	7.0	21.5	782

* Figures for the entire company unconsolidated, irrespective of the equity interest

[26] Financial liabilities

This item comprises:

Current financial liabilities

€ million	Dec. 31, 2008	Dec. 31, 2007
Bank loans and overdrafts	101.2	126.6
Liabilities to related parties	98.2	93.5
Liabilities from derivatives (financial transactions)	41.5	40.0
Loans from third parties	15.3	22.9
Financial liabilities to other affiliates	7.2	7.1
Financial leasing liabilities	1.1	1.0
Commercial paper	–	7.0
Other financial liabilities	1.7	2.3
	266.2	300.4

Non-current financial liabilities

€ million	Dec. 31, 2008	Dec. 31, 2007
Bonds	997.7	969.2
Loans from third parties	50.1	52.9
Bank loans and overdrafts	20.5	15.5
Financial leasing liabilities	8.4	8.9
Liabilities from derivatives (financial transactions)	3.4	0.1
	1,080.1	1,046.6

Credit facilities granted to the Merck Group are as follows:

€ million	Bank credit facilities	Utilization* as of Dec. 31, 2008	Interest	Due
Syndicated loan 2007	2,000.0	–	variable	2014
Bilateral credit facilities with banks	10.0	10.0	fix	2018
Bilateral credit facilities with banks	11.3	11.3	fix	2017
Various bank lines	455.4	101.2	fix/variable	< 1 year
	2,476.7	122.5		

* Booked disagios are not taken into account in the disclosure

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

In fiscal 2007, a € 2 billion multi-currency term loan and revolving credit facility was agreed. The 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 to banks are denominated in the following currencies:

in %	Dec. 31, 2008	Dec. 31, 2007
Euros	33.1	68.8
U.S. dollars	0.4	0.6
Pounds sterling	0.1	–
Swiss francs	–	–
Yen	–	1.8
Other currencies	66.4	28.8
	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 fixed to the six-month Euribor rate through interest rate swaps. Since the hedging instruments are based on the same fundamentals that determine the value of the underlying transaction, changes in the market interest rates lead to opposite changes in the value of the bond. The measurement of the bond reflects fair value taking into account disgios and transaction costs. The costs of issuing the bond are reflected in the book value and are distributed evenly over the term of the bond.

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 € 2 billion, which had not been utilized as of the reporting 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, 2008	Dec. 31, 2007
Liabilities due to associates	–	–
Liabilities due to other affiliates	0.9	0.3
Liabilities due to third parties	842.8	646.6
	843.7	646.9

Trade accounts payable include accrued amounts of € 521.0 million (2007: € 355.5 million) for outstanding invoices and accrued reductions in sales revenues.

[28] Other liabilities

This item comprises:

Other current liabilities

€ million	Dec. 31, 2008	Dec. 31, 2007
Other liabilities to associates	–	–
Other liabilities to other affiliates	1.6	1.5
Other liabilities to third parties	87.7	75.3
Advance payments received from customers	13.6	6.9
Liabilities to related parties	234.6	533.2
Liabilities from profit distributions	0.9	0.3
Liabilities from derivatives (operational)	8.8	1.9
Payroll liabilities	45.5	51.2
Deferred income	4.2	6.9
Accruals for personnel expenses	297.3	304.1
	694.2	981.3

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

Other non-current liabilities

€ million	Dec. 31, 2008	Dec. 31, 2007
Other liabilities to associates	–	–
Other liabilities to other affiliates	0.1	0.1
Other liabilities to third parties	4.6	25.6
Payroll liabilities	0.2	0.1
Deferred income	14.7	13.7
	19.6	39.5

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.

[29] Tax liabilities

Tax liabilities amount to € 347.2 million (2007: € 337.1 million). This item also includes provisions for tax liabilities amounting to € 245.5 million (2007: € 272.9 million).

[30] Provisions

Provisions developed as follows:

€ million	Restructuring	Personnel	Litigation	Other	Total
January 1, 2008	102.8	149.8	412.6	201.8	867.0
Exchange differences	0.1	2.9	5.8	1.6	10.4
Utilizations	-45.4	-63.5	-36.8	-62.6	-208.3
Additions	43.7	56.4	44.5	54.6	199.2
Release	-10.8	-4.8	-53.0	-9.3	-77.9
Changes in companies consolidated/Other	0.1	3.5	-0.2	-3.3	0.1
December 31, 2008	90.5	144.3	372.9	182.8	790.5
thereof current	58.8	53.4	17.0	97.9	227.1
thereof non-current	31.7	90.9	355.9	84.9	563.4

Provisions for restructuring: This item mainly includes provisions for severance payments for employees in connection with restructuring projects, 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, other 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 € 92.2 million on the balance sheet date. Although the company was divested 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 aforementioned legal disputes since the mentioned risk was not transferred to Mylan.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

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.

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

Other provisions: This item mainly 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 %	2008	2007
Discount rate	5.8	5.2
Future salary increases	3.2	3.2
Future pension increases	2.3	2.1
Staff turnover	2.0	2.1
Expected return on plan assets	5.6	5.9
Future increases in health care benefits	6.8	9.0

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, 2008	Dec. 31, 2007
Present value of benefit obligations funded by provisions	1,051.5	1,129.2
Present value of funded benefit obligations	534.4	536.7
Present value of all benefit obligations	1,585.9	1,665.9
Fair value of plan assets of all funds	-462.6	-520.5
Funded status	1,123.3	1,145.4
Other changes	0.8	10.3
Net liability recognized in the balance sheet	1,124.1	1,155.7
Deferred pension payments	19.9	29.8
Provisions for pensions and other post-employment benefits	1,144.0	1,185.5

In 2008, the following items were recognized in income:

€ million	2008	2007
Current service cost	58.4	61.6
Past service cost	1.2	-2.8
Interest cost on pension obligations	82.8	77.6
Expected return on plan assets	-27.1	-26.0
Other effects	-3.3	-4.1
Total amount recognized in income	112.0	106.3

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

The present value of commitments for future health care expenses of retirees in the United States is based on an expected future increase in health care costs of 6.8%. If the rate of increase is one percentage point higher or lower, the measurement of the present value of the commitment would be either € 0.7 million higher or € 0.6 million lower. The expenses recognized in 2008 would have been € 0.1 million higher or lower.

The actual loss on plan assets amounted to € 70.6 million (2007: return of € 18.2 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 2008, the present value of all defined obligations changed as follows:

€ million	2008	2007
Present value of all defined benefit obligations on January 1	1,665.9	1,607.2
Currency translation differences	-34.7	-28.9
Current service cost	58.4	61.6
Interest cost on pension obligations	82.8	77.6
Other effects recognized in income	-7.9	-4.1
Actuarial gains/losses	-123.5	-115.3
Pension payments in the reporting period	-82.0	-84.7
Transfers/Changes in companies consolidated/Other changes	26.9	152.5
Present value of all defined benefit obligations on December 31	1,585.9	1,665.9

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

€ million	2008	2007
Fair value of the plan assets on January 1	520.5	346.2
Currency translation differences	-25.5	-22.3
Expected return on plan assets	27.1	26.0
Other effects recognized in income	-4.6	-
Actuarial losses/gains	-97.6	-7.2
Employer contributions	44.4	50.1
Employee contributions	9.8	8.5
Pension payments in the reporting period	-24.8	-32.0
Transfers/Changes in companies consolidated/Other changes	13.3	151.1
Fair value of the plan assets on December 31	462.6	520.5

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 € 31.7 million (2007: € 102.4 million) were taken to equity. As of December 31, 2008, for the aforementioned reasons a cumulative total of € -133.1 million (2007: € -164.8 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, 2008	Dec. 31, 2007
Equity instruments	34.4	44.2
Debt instruments	38.4	39.7
Real estate	11.7	5.8
Other assets	15.5	10.3

On average, the expected rate of return on equity instruments is 8.3%, on debt instruments 4.3% and on real estate 4.5%. 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.

The development of pension plan assets was below expectations due to the generally sharp decline in the capital markets. A corresponding diversification spreads risks.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

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	2008	2007	2006	2005	2004
Present value of the defined benefit obligations	1,585.9	1,665.9	1,607.2	1,491.4	1,301.3
Fair value of the plan assets	-462.6	-520.5	-346.2	-276.5	-234.9
Funded status	1,123.3	1,145.4	1,261.0	1,214.9	1,066.4

It is expected that the payments to beneficiaries from unfunded pension plans will amount to around € 62 million in 2009 (2008: € 59 million) while payments to fund-financed pension plans will probably amount to around € 24 million in 2009 (2008: € 31 million).

The cost of ongoing contributions in 2008 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 € 8.6 million in 2008 (2007: € 13.5 million). In addition, employer contributions of € 46.2 million (2007: € 45.6 million) were transferred to the German statutory pension insurance system and € 5.5 million (2007: € 7.7 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.

During the reporting period a further 8,000 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 64,621,126. 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 increased equity in 2008 by € 878.0 million (2007: decreased by € 205.8 million). Accordingly, as of December 31, 2008, currency translation differences in equity amounted to a gain of € 529.6 million (2007: loss of € 348.4 million).

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, Merck Serono S.A., Switzerland, PT Merck Tbk, Indonesia and Merck Ltd., Thailand.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

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 KG in accordance with the company agreements and the reciprocal transfer of profits between E. Merck KG and Merck KGaA in accordance with the Articles of Association. In accordance with the capital ratios, E. Merck KG has a 70.27% interest in the profit/loss of Merck KGaA while Merck KGaA has an interest of 29.73% in the profit/loss of E. Merck KG. Merck KGaA's profit from ordinary activities less trade income tax, on which the appropriation of its profit is based, amounts to € 180.0 million. Merck KGaA transferred € 126.5 million of its profit to E. Merck KG (2007: € 65.1 million). In 2008, € 34.9 million was transferred from Merck & Cie KG (2007: € 30.4 million). The profit/loss of E. Merck KG, on which the appropriation of profit/loss is based, amounts to € 5.9 million (2007: € -7.2 million). Consequently, this results in a profit transfer to Merck KGaA of € 1.8 million (2007: € -2.1 million).

For 2007, a dividend of € 1.20 plus a bonus of € 2.00 per share was distributed. The dividend proposal for fiscal 2008 will be € 1.50 per share, corresponding to a total dividend payment of € 96.9 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, 2008	0.9	0.1	1.0
Fair value adjustments	-45.4	53.9	8.5
Reclassification to income statement	29.6	20.6	50.2
Reclassification to assets	-	-	-
Subsequent measurement in fiscal year	-15.8	74.5	58.7
Deferred taxes recognized in equity	-0.1	-10.5	-10.6
Balance as of December 31, 2008	-15.0	64.1	49.1

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 could be issued from the approved contingent capital. A total of 2,153,500 options were granted in two tranches. Each option entitled the bearer to acquire one share of Merck KGaA, provided that the exercise requirements are met. The term of the program for both tranches was 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 was at least 30% higher than the option exercise price. The exercise price was 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. It was possible to exercise these options from 2002 to 2006. When granted, the second tranche included 1,387,000 options. These stock options could be exercised from May 2004 to April 8, 2008 at an exercise price of € 32.73, provided that Merck's share price was not below € 42.55. 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 in the second tranche is presented in the following table:

	2008	2007
Outstanding options as of January 1	20,000	40,310
Options exercised during the period	8,000	20,310
Options forfeited during the period	12,000	0
Outstanding options as of December 31	0	20,000
thereof exercisable as of December 31	0	20,000
Recognized capital increase (in € million)	0.2	0.7

The weighted average price of Merck KGaA's shares in XETRA trading at the time of exercise of the stock options was € 81.05 in 2008.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

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.

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.

The reconciliation of operating assets included in “Segment Reporting” is as follows:

€ million	Dec. 31, 2008	Dec. 31, 2007
Assets	15,644.7	14,922.3
Monetary assets (cash and equivalents, loans, securities)	–895.7	–1,020.5
Non-operating receivables, tax receivables, deferred taxes and accruals and deferred pension payments	–664.2	–567.0
Trade accounts payable	–843.7	–646.9
Other operating liabilities	–472.9	–481.1
Operating assets of discontinued operations	–	–26.9
Operating assets	12,768.2	12,179.9

The Merck Serono division accounted for € 0.7 million (2007: € 0.3 million) and the Performance & Life Science Chemicals division for € 0.2 million (2007: € 0.2 million) of the investment result disclosed in the income statement. Losses of € 0.8 million were attributable to the segment Corporate and Other in 2008 (2007: € 0.2 million).

Notes to the cash flow statement

[33] Net cash flows from operating activities

Tax payments in 2008 totaled € 289.6 million (2007: € 209.0 million). Interest expense totaled € 95.7 million (2007: € 302.8 million) and interest income totaled € 49.9 million (2007: € 51.6 million). The increase in trade accounts receivable is due to the fact that the program to sell receivables was discontinued in 2008.

[34] Net cash flows from investing activities

A total of € 78.2 million was used for acquisitions and investments in other financial assets. Of this amount, € 6.9 million was used to acquire SeQuant AB, of Umea, Sweden, € 4.6 million to acquire Litec-LLL GmbH of Greifswald, Germany, and € 30.2 million to acquire Bio-Fyt Pharma N.V., of Sint-Jans-Molenbeek, Belgium. In addition, additional holdings in PT Merck Tbk of Jakarta, Indonesia, were acquired for € 10.2 million. Investments in other financial assets totaled € 26.3 million.

€ million	SeQuant AB	Litec-LLL GmbH	PT Merck Tbk	Bio-Fyt Pharma N.V.
Purchase price	6.9	5.6	10.2	32.6
Cash and cash equivalents acquired	-	-1.0	-	-2.4
Net cash outflows	6.9	4.6	10.2	30.2

There were no cash inflows from disposals of Group companies in 2008.

The decline in other financial assets is due to the withdrawal of € 497.9 million from a monetary investment for financing purposes.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

[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	2008		2007	
Dividend payments				
Dividends to shareholders	-206.8		-67.8	
Dividends to minority shareholders	-5.7	-212.5	-9.2	-77.0
Net profits transferred by Merck KGaA to E. Merck KG				
Profit transfer in accordance with the Articles of Association from E. Merck KG to Merck KGaA	1.8		-2.1	
Profit transfer in accordance with the Articles of Association from Merck KGaA to E. Merck KG	-126.5		-65.1	
Withdrawals by E. Merck KG from the reserves/profit carried forward by Merck KGaA	-80.3	-205.0	-438.2	-505.4
Profit transfer from Merck & Cie KG to E. Merck KG		-34.9		-30.4
Total dividend payments and profit transfers		-452.4		-612.8

Free cash flow after dividend payments and profit transfers totaled € -14.0 million (2007: € -2,085.9 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 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 36 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 derivative 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. Derivative contracts are only entered into with banks that have a good credit rating and they 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:

€ million	Nominal volume		Fair value	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Cash flow hedge	936.9	760.9	74.6	0.1
Fair value hedge	53.5	102.1	2.6	-0.2
Without hedge accounting	3,283.9	2,064.2	44.9	4.7
Total forward exchange contracts	4,274.3	2,927.2	122.1	4.6
Interest rate swaps	500.0	500.0	-0.6	-28.3
	4,774.3	3,427.2	121.5	-23.7

The nominal volume is the aggregate of all buy and sell amounts relating to derivative 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 contract were closed out as of balance sheet date. Transactions are recognized at fair value 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, 2008	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2007
Forward exchange contracts	4,003.6	270.7	4,274.3	2,717.0	210.2	2,927.2
Interest rate swaps	-	500.0	500.0	-	500.0	500.0
	4,003.6	770.7	4,774.3	2,717.0	710.2	3,427.2

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

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 in the case of financial transactions.

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

€ million	Nominal volume		Fair value	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Cash flow hedge	936.9	760.9	74.6	0.1
Fair value hedge	53.5	102.1	2.6	-0.2
Interest rate swap	500.0	500.0	-0.6	-28.3
	1,490.4	1,363.0	76.6	-28.4

The forward exchange contracts that are entered into to reduce the exchange rate risk with a total nominal volume of € 4,274.3 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 (€ 1,116.0 million), the Swiss franc (€ 2,046.9 million), the Japanese yen (€ 706.4 million) and the British pound (€ 281.9 million).

Forecast transactions are only cash flow-hedged if the occurrence can be assumed to be highly probable. The nominal volume of hedged future transactions amounted to € 936.9 million as of the balance sheet date and related mainly to the hedging of future sales in U.S. dollars, Taiwanese dollars and Japanese yen as well as future costs in Swiss francs. The occurrence of hedged items is expected within the next 36 months. During the fiscal year, gains of € 53.9 million from the fair value measurement of derivatives were recognized in equity. € 20.6 million was transferred from equity to expenses.

Due to planned payments that did not materialize, cash flow hedges with a nominal volume of € 79.4 million were removed from hedge accounting in 2008. Expenses of € 10.9 million were thus recognized in the financial result.

The interest expense of the euro benchmark bond, which was issued in 2005 with a volume of € 500.0 million and a coupon of 3.75% was fixed to the six-month Euribor rate through interest rate swaps and is measured as a fair value hedge.

[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 2009 in the most important currencies:

€ million as of Dec. 31	CHF	GBP	JPY	TWD	USD
Foreign exchange risk from balance sheet items	-464.6	136.3	185.4	6.6	-329.4
Foreign exchange risk from contingent business and anticipated transactions	-234.4	70.0	241.0	176.4	722.4
Transaction-related foreign exchange position	-699.0	206.3	426.4	183.0	393.0
Position hedged by derivatives	674.5	-193.3	-370.4	-75.6	-169.4
Open-end foreign exchange risk position	-24.6	13.0	56.0	107.4	223.6
Change in foreign exchange position due to a 10% appreciation of the euro	2.5	-1.3	-5.6	-10.7	-22.4

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 of € 1,301.4 million and monetary deposits of € 756.4 million. 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 € -1.0 million. This corresponds to an increase in interest income of € 5.9 million on financial assets and additional interest expense of € 6.9 million on financial liabilities.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

Liquidity risks

The liquidity risk, i.e. the risk that Merck cannot meet its financial obligations, is limited by effective cash management and by establishing the required financial flexibility. Apart from liquid assets of € 869.5 million, Merck has at its disposal a multi-currency revolving credit line of € 2 billion to be used for business purposes with a remaining term of six years as well as bilateral credit facilities of € 476.7 million. There are no indications that the availability of credit lines already extended will be restricted. Moreover, a commercial paper program with a volume of € 2 billion exists. Liquidity risks are regularly monitored and reported to the management.

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, 2008	Cash Flows 2009		Cash Flows 2010 – 2014		Cash Flows 2015 – 2020	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Debt securities and commercial paper	997.7	42.5	–	76.2	1,000.0	–	–
Bank loans and overdrafts	121.7	8.5	101.9	3.1	12.7	0.6	7.9
Other financial liabilities	67.1	3.5	17.0	6.2	40.0	–	10.1
Miscellaneous other liabilities	105.4	–	105.4	–	–	–	–
Financial leasing liabilities	9.5	0.1	5.1	0.2	4.4	–	–
Derivative financial liabilities	44.9	1.7	40.9	4.9	3.4	–	–
	1,346.3	56.3	270.3	90.6	1,060.5	0.6	18.0

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 banks with good ratings. On the other hand, the broad-based business structure of the Merck Group means that there is no particular concentration of credit risks with respect to customers or specific countries.

The credit risk with customers is continuously monitored by analyzing the age structure of trade accounts receivable.

[40] Other disclosures on financial instruments

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

€ million	Book value Dec. 31, 2008	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	692.7	692.7	-	-	-
Trade receivables	1,659.4	1,659.4	-	-	-
Loans	15.5	15.5	-	-	-
Other receivables	214.3	214.3	-	-	-
Other designated financial assets of the category					
Held to maturity	37.1	37.1	-	-	-
Available for sale	67.0	-	18.0	41.4	7.6
Held for trading	0.9	-	-	-	0.9
Derivative financial assets					
Unhedged derivatives	90.6	-	-	-	90.6
Hedged derivatives	84.7	-	-	83.5	1.2
Liabilities					
Debt securities and commercial paper	997.7	498.6	-	-	499.1
Bank loans and overdrafts	121.7	121.7	-	-	-
Other financial liabilities	172.5	172.5	-	-	-
Trade accounts payable	843.7	843.7	-	-	-
Miscellaneous other liabilities	342.9	342.9	-	-	-
Financial leasing liabilities	9.5	-	-	-	-
Derivative financial liabilities					
Unhedged derivatives from financing transactions	45.7	-	-	-	45.7
Other unhedged derivatives	-	-	-	-	-
Hedged derivatives	8.1	-	-	8.9	-0.8
thereof aggregated by category acc. to IAS 39					
Loans and receivables	2,581.9	2,581.9	-	-	-
Assets of the category					
Held to maturity	37.1	37.1	-	-	-
Available for sale	67.0	-	18.0	41.4	7.6
Held for trading	91.5	-	-	-	91.5
Liabilities of the category					
Carried at amortized cost	1,979.4	1,979.4	-	-	-
Carried at fair value, included in profit/loss	544.8	-	-	-	544.8

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

Balance sheet measurement according to IAS 39								
Carrying value according to IAS 17	Fair value Dec. 31, 2008	Book value Dec. 31, 2007	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, 2007
-	692.7	426.6	426.6	-	-	-	-	426.6
-	1,659.4	1,378.3	1,378.3	-	-	-	-	1,378.3
-	15.4	515.1	515.1	-	-	-	-	515.1
-	214.3	196.3	196.3	-	-	-	-	196.3
-	37.1	51.0	51.0	-	-	-	-	51.0
-	67.0	86.4	-	23.7	62.7	-	-	86.4
-	0.9	0.7	-	-	-	0.7	-	0.7
-	90.6	16.1	-	-	-	16.1	-	16.1
-	84.7	2.1	-	-	1.2	0.9	-	2.1
-	1,005.5	976.1	504.8	-	-	471.3	-	977.3
-	119.6	142.2	142.2	-	-	-	-	141.6
-	172.3	178.7	178.7	-	-	-	-	182.0
-	843.7	646.9	646.9	-	-	-	-	646.9
-	342.5	642.8	642.8	-	-	-	-	641.7
9.5	9.5	9.9	-	-	-	-	9.9	8.9
-	45.7	10.7	-	-	-	10.7	-	10.7
-	-	0.9	-	-	-	0.9	-	0.9
-	8.1	30.5	-	-	1.1	29.4	-	30.5
-	2,581.8	2,516.3	2,516.3	-	-	-	-	2,516.3
-	37.1	51.0	51.0	-	-	-	-	51.0
-	67.0	86.4	-	23.7	62.7	-	-	86.4
-	91.5	16.8	-	-	-	16.8	-	16.8
-	1,984.5	2,115.4	2,115.4	-	-	-	-	2,118.2
-	544.8	482.9	-	-	-	482.9	-	482.9

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

	Interest	Subsequent measurement		Disposal
2008 in € million		Write-downs	Write-up	gains/losses
Loans and receivables	29.5	-10.1	5.2	-
Assets of the category				
Held to maturity	3.8	-	-	1.1
Available for sale	2.1	-	-	-0.2
Held for trading	-	-29.7	-	-
Liabilities of the category				
Carried at amortized cost	-68.1	-	-	-
Held for trading	-	-	-	-
2007 in € million				
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	-	-	-	-

In 2008, exchange rate gains of € 11.4 million resulting from receivables and payables in operating business were recognized (2007: € 3.8 million). Expenses totaling € 18.2 million were recorded for hedging transactions in operating business (2007: income of € 7.7 million). Exchange rate losses of € 18.4 million (2007: exchange rate gains of € 8.5 million) were booked for financial receivables/payables. A loss of € 23.5 million (2007: € 2.5 million) was booked for hedging of financing transactions.

The interest expense of the bond has been made variable through interest rate swaps. The fair value measurement of the bond led to an expense of € 27.4 million (2007: € 6.7 million). This was offset by the same amount of income from an interest rate swap.

[41] Contingent liabilities

€ million	Dec. 31, 2008	thereof subsidiaries	Dec. 31, 2007	thereof subsidiaries
Bills endorsed and in circulation	0.1	-	0.1	-
Guarantees	71.2	-	57.4	-
Warranties	1.4	-	0.7	-
Other contingent liabilities	27.8	-	34.1	-

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

Most of the guarantees issued exist in connection with our pharmaceutical business in Italy, where pursuant to tax legislation, guarantees must be given for reimbursements of tax receivables from the Italian fiscal authorities exist as well as to secure the supply of products to public hospitals. Other contingent liabilities include, among other things, collateral security given on property, plant and equipment, for example buildings and potential obligations from legal disputes, for which the probability of an outflow of resources did not suffice to recognize a provision as of the balance sheet date.

[42] Other financial obligations

Other financial obligations comprise the following:

€ million	Dec. 31, 2008	thereof subsidiaries	Dec. 31, 2007	thereof subsidiaries
Obligations to acquire intangible assets	1,643.1	–	1,247.7	–
Orders for capital expenditure on property, plant and equipment	265.1	–	76.3	–
Future rental payments	70.0	–	62.9	–
Future operating lease payments	77.4	–	87.4	–
Long-term purchase commitments	8.3	–	0.3	–
Other financial obligations	22.6	–	30.9	–
	2,086.5	–	1,505.5	–

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 € 1,643.1 million (2007: € 1,247.7 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, 2008
Obligations to acquire intangible assets	50.8	405.6	1,186.7	1,643.1

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, 2008
Present value of future payments from finance leases	1.1	8.4	–	9.5
Interest component of finance leases	0.1	0.1	–	0.2
Future finance lease payments	1.2	8.5	–	9.7
Future operating lease payments	22.8	47.2	7.4	77.4

[43] Personnel expenses/Headcount

Personnel expenses comprise the following:

€ million	2008	2007
Wages and salaries	1,668.3	1,586.8
Compulsory social security contributions and special financial assistance	254.2	225.1
Pension expenses	93.0	121.5
(in both years excluding Discontinued Operations (Generics))	2,015.4	1,933.4

As of December 31, 2008, the companies of the Merck Group had 32,800 employees (2007: 30,968). The average number of employees during the year was 31,971 (2007: 30,791).

[44] Material costs

Material costs amounted to € 1,089 million in 2008 (2007: € 1,045 million - excluding Generics).

[45] Auditors' fees

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

Cost in € for	2008		2007	
	Merck Group	thereof Germany	Merck Group	thereof Germany
Audits of financial statements	5.6	1.7	8.3	3.9
Other audit-related services	0.2	0.0	0.4	0.1
Tax consultancy services	0.4	0.1	0.4	0.1
Other services	0.8	0.6	2.2	1.7
	7.0	2.4	11.3	5.8

In 2007, the costs for audits included special expenses for audits in connection with the acquisition of Serono.

[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.merck.de/investors -> Corporate governance) in February 2008 and thus made permanently available.

72 Income Statement	76 Cash Flow Statement	78 Statement of Changes in Net Equity including Minority Interest
73 Balance Sheet	77 Free Cash Flow	
74 Segment Reporting	77 Statement of Recognized Income and Expense	79 Notes

[47] Companies opting for exemption under Section 264 (3) of the German Commercial Code
The following companies, which have been consolidated in these financial statements, have opted for exemption under Section 264 (3) of the German Commercial Code:

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

[48] Related-party disclosures

Related parties in respect of the Merck Group are E. Merck KG as well as the companies Emanuel Merck Vermögens KG and E. Merck Beteiligungen KG (until and including December 31, 2008: 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 KG as well as close members of their families are also related parties.

As of December 31, 2008, there were liabilities by Merck KGaA and Merck & Cie KG, Altdorf, to E. Merck KG in the amount of € 332.8 million (2007: € 626.6 million). In addition, Merck KGaA was owed receivables in the amount of € 18.0 million (2007: € 20.8 million) by E. Merck KG as of December 31, 2008. The balances result mainly from the profit transfers by Merck & Cie to E. Merck KG, the reciprocal profit transfers between Merck KGaA and E. Merck KG, as well as the extension of loans by E. Merck KG to Merck KGaA as well as the extension of loans by Merck KGaA to E. Merck KG. These financial payables of € 98.2 million (2007: € 93.5 million) are subject to standard market interest rates. From January to December 2008, Merck KGaA performed services for E. Merck KG with a value of € 1.2 million (2007: € 1.1 million). In exchange, E. Merck KG performed services for Merck KGaA with a value of € 0.5 million (2007: € 0.5 million). As of December 31, 2008, Merck KGaA had receivables from E. Merck Beteiligungen KG in the amount of € 4.5 million (2007: € 5.8 million). From January to December 2008, Merck KGaA and Merck Shared Services Europe GmbH performed services for E. Merck Beteiligungen KG with a value of € 0.5 million (2007: € 0.3 million). In addition, Merck KGaA performed services for Emanuel Merck Vermögens KG with a value of € 0.1 million (2007: € 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 under Provisions for pensions and other post-employment benefits of the Notes. There were no further material transactions with these pension funds.

From January to December 2008, companies of the Merck Group supplied goods with a value of € 0.3 million (2007: € 3.9 million) to associates. During the same period, associates provided no services to companies of the Merck Group (2007: € 5.2 million). There were no further material transactions with associates.

The remuneration of the Executive Board of Merck KGaA is largely paid by the general partner, E. Merck KG, and recorded as an expense in its income statement. For January to December 2008, fixed salaries of € 2.4 million (2007: € 3.0 million) and variable compensation of € 9.9 million (2007: € 21.9 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. Furthermore, additions to pension provisions of E. Merck KG include current service costs of € 2.0 million (2007: € 2.0 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 € 1.50 dividend per share, the remuneration of the Supervisory Board amounting to € 586 thousand (2007: € 964 thousand) consists of a fixed portion of € 116 thousand (2007: € 95 thousand) and a variable portion of € 470 thousand (2007: € 869 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 Executive Board and the Board of Partners of E. Merck KG or close members of their families did not take place in 2008.

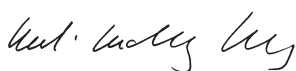
[49] Information on preparation and approval

The Executive Board of Merck KGaA prepared the consolidated financial statements on February 5, 2009 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the responsibility to examine the consolidated financial statements and to declare whether it approves them.

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, February 5, 2009



Karl-Ludwig Kley



Michael Becker



Bernd Reckmann



Elmar Schnee

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, 2008. 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). 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."

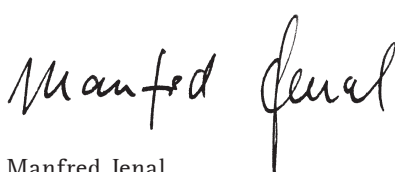
Mannheim, February 6, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)



Dr. Bernd Erle
Wirtschaftsprüfer



Manfred Jenal
Wirtschaftsprüfer