NOTES

Preliminary remarks

The accompanying consolidated financial statements have been prepared with Merck KGaA, Darmstadt, 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, the general partner of Merck KGaA with an equity interest of 70.27% as of December 31, 2009. 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 have been prepared in accordance with consistent accounting policies. Pursuant to Section 315a of the German Commercial Code (HGB), 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 standard and amendments to standards as well as the following interpretations and amendment to an interpretation take effect as of fiscal 2009:
- IFRS 8 "Operating Segments"
- Revised IAS 1 "Presentation of Financial Statements"
- Revised IAS 23 "Borrowing Costs"
- Amendment to IAS 32 and IAS 1: "Puttable Financial Instruments and Obligations Arising on Liquidation"
- Amendment to IAS 39 and IFRS 7: "Reclassification of Financial Assets – Effective Date and Transition"
- 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"
- Amendment to IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures"
- "Improvements to International Financial Reporting Standards"
- Amendment to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement"
- IFRIC 13 "Customer Loyalty Programmes"
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

The new rules do not have any material effects on the consolidated financial statements.

The following amendments to standards and the following interpretations will take effect as of fiscal 2010:
- Amendment to IAS 27 "Consolidated and Separate Financial Statements"
- Amendment to IAS 32 "Financial Instruments: Presentation – Classification of Rights Issues"
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement: Eligible Hedged Items"
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards"

– Revised 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.

In addition, the following standard and amendments to standards were published by the International Accounting Standards Board (IASB) and the following interpretations and amendment to an interpretation were published by the International Financial Reporting Interpretations Committee (IFRIC), but not yet adopted by the EU:

– IFRS 9 “Financial Instruments”
– Revised IAS 24 “Related Party Disclosures”
– Amendment to IFRS 2 “Group Cash-settled Share-based Payment Transactions”
– “Improvements to International Financial Reporting Standards”
– Revised IFRS 1 “First-time Adoption of International Financial Reporting Standards”
– IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”
– Amendment to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

The effects that IFRS 9, which is expected to be adopted as of 2013, will have on the consolidated financial statements are currently being examined. At the current time we do not expect the other new rules to have any material effects on the consolidated financial statements.

SCOPE OF CONSOLIDATION

Including the parent company Merck KGaA, Darmstadt, 176 (2008: 178) German and foreign companies are fully consolidated in the annual financial statements of the Merck Group. Of these companies, 154 (2008: 157) are located abroad. One associate abroad is included using the equity method. In fiscal 2009, four companies were acquired and included in the consolidated financial statements. Nine companies were consolidated for the first time due to their formation or increased importance to the Merck Group, and 15 companies were deconsolidated, three of which were the result of a company merger. Nine companies were liquidated; three companies were deconsolidated due to secondary importance.
Due to secondary importance 32 (2008: 40) investments are not consolidated and are presented under non-current financial assets.

Acquisitions

At the beginning of September 2009, the acquisition of a 100% shareholding in Suzhou Taizhu China Group (“Taizhu”), a leading supplier of effect pigments located in Taicang near Shanghai, China, was completed. The agreed purchase price was € 26.3 million (including transaction costs of € 0.7 million). Taizhu is one of the largest companies in the Chinese market for effect pigments. The acquisition is of high importance to our Pigments business. Within the scope of the transaction, Merck has acquired Taizhu’s sales organization for the Chinese and international market, as well as the production site in Taicang.

In October 2009, Merck Specialities Private Ltd. acquired a 100% shareholding in Bangalore Genei (Bangalore, India) Private Ltd. The acquisition costs amounted to € 4.6 million, including transaction costs of less than € 0.1 million. By combining the activities of Bangalore Genei with its existing bioscience business, Merck will become a leading supplier of bioscience products in India.
On November 2, 2009, Aquacomp EAD, Sofia, Bulgaria, was acquired in full. The purchase price was € 2.8 million (including transaction costs of € 0.4 million). The company holds the marketing rights to Merck products in Bulgaria. It has since been renamed Merck EAD, Sofia, Bulgaria.

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

	Acquisitions		
€ million	Pre-acquisition book value	Adjustment	Fair value
Goodwill	0.0	17.0	17.0
Other intangible assets	0.0	4.7	4.7
Property, plant and equipment	6.3	0.7	7.0
Other non-current assets	0.0	0.0	0.0
Cash and cash equivalents	3.3	0.0	3.3
Other current assets	11.8	1.7	13.5
Current and non-current liabilities	10.2	1.6	11.8

The acquisition of Taizhu is responsible for € 13.1 million of the effect of adjusting goodwill totaling € 17.0 million. € 3.9 million resulted from the additional acquisitions mentioned. The adjustments of other intangible assets mainly include the purchase price allocation for trademarks, product rights as well as customer relationships and technical know-how.

Taking into account the acquisitions made in 2009, sales and operating result were impacted as follows in the reporting period:

€ million	Acquisitions/ First-time consolidations
Sales	5.1
Cost of sales	-4.5
Other income/expenses	-1.9
Operating result	-1.3

Assuming the hypothetical consolidation since the beginning of the year, the impact of acquisitions on sales is € 14.0 million.

Major companies of the Merck Group as of December 31, 2009 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	2,349.0	92.7	4,782.5	8,586
Ares Trading SA, Aubonne, Switzerland	100.00	2,513.8	234.7	433.5	60
Merck Serono SA, Coinsins, Switzerland	100.00	1,609.1	–29.2	5,431.9	1,928
Merck Serono S.p.A., Rome, Italy	99.74	1,062.3	53.4	306.8	625
Merck Santé S.A.S., Lyon, France	100.00	559.3	94.5	253.3	1,061
Merck Serono S.A.S., Lyon, France	100.00	465.6	12.2	42.6	255
Merck Serono GmbH, Darmstadt, Germany**	100.00	408.8	12.5	15.1	332
Merck S.L., Madrid, Spain	100.00	368.5	20.5	112.6	871
Merck Serono UK, West Drayton, United Kingdom	100.00	140.9	12.1	4.9	207
Merck CHC France Group, Lyon, France	100.00	110.3	8.6	33.9	206
Laboratoire Théramex S.A.M., Monaco	99.88	85.6	5.5	16.5	304
Merck AG, Zug, Switzerland, and Darmstadt, Germany	100.00	–	159.8	1,921.6	–
North America					
EMD Serono, Inc., Rockland, MA United States	100.00	861.0	24.0	168.0	872
EMD Chemicals, Inc., Gibbstown, NJ United States	100.00	217.7	–11.6	220.9	726
EMD Serono Canada Inc., Mississauga, Canada	100.00	75.3	3.0	11.1	144
Latin America					
Merck S.A., Rio de Janeiro, Brazil	100.00	264.1	18.4	102.8	1,012
Merck, S.A. de C.V., Estado de México, Mexico	100.00	179.0	28.6	77.5	1,035
Ares Trading Uruguay S.A., Montevideo, Uruguay	100.00	108.5	35.5	17.5	37
Merck S.A., Bogota, Colombia	100.00	101.2	17.4	37.4	515
Merck Quimica Argentina S.A.I.C., Buenos Aires, Argentina	100.00	76.6	–7.0	–1.4	360
Asia, Africa, Australasia					
Korean companies, South Korea	100.00	348.0	21.6	92.4	370
Taiwanese companies, Taiwan	100.00	336.4	18.2	108.0	400
Merck Ltd., Tokyo, Japan	100.00	231.4	12.5	108.4	477
Merck Pharmaceutical (HK), Ltd., Hong Kong, China	100.00	132.0	0.1	2.5	43
Merck Serono Co., Ltd., Tokyo, Japan	100.00	127.2	1.7	21.6	268
Merck Ltd., Mumbai, India	51.80	70.2	8.8	75.8	1,708

* Figures for the entire company unconsolidated, irrespective of the equity interest
** Established by the merger of Merck Pharma GmbH, Darmstadt, and Serono GmbH, Darmstadt, with Merck Serono GmbH, Darmstadt

A statement of all the Merck Group's equity interests is filed with the electronic Federal Gazette and can be accessed at www.ebundesanzeiger.de.

ACCOUNTING POLICIES

With the exception of the presentation changes described below, the accounting policies have remained unchanged in comparison with the previous year. In 2009, Merck started to report commission income as a part of total revenues, as this income now constitutes a fixed component of revenues from ordinary activities. Under commission income, we record income from activities performed by Merck for third parties on a commission basis, or income received by Merck from activities performed with partners on a cooperation basis. This income was so far reported together with commission expenses under marketing and selling expenses. This led to income of € 24.4 million (2008: € 31.6 million) in 2009. The previous year's presentation and key figures have been adjusted accordingly. Since 2009, write-downs of license rights recognized within the scope of the purchase price allocation for acquisitions have been reported under Amortization of intangible assets because these expenses are directly connected to ongoing business activities. Previously, these were reported under Exceptional items. In 2009, € 71.5 million (2008: € 42.9 million) was written down in this context. During fiscal 2009, Merck began to cover the pension obligations of Merck KGaA on a long-term basis. These assets are reported under a separate item in the balance sheet. For further explanations concerning financial assets to cover pension obligations, please see Note [24].

The preparation of the consolidated financial statements requires that assumptions and estimates be made to a certain extent. This affects in particular the amount and the presentation of assets and liabilities, information on contingent liabilities, as well as reported income and expenses. Corresponding scope for discretion results, for example, when performing impairment tests of intangible assets and of property, plant and equipment, as well as when recognizing and measuring provisions. In each case, the assumptions and estimates are based on the state of knowledge and data currently available, however the actual results may deviate from the expected values and lead to corresponding adjustments of book values for the relevant assets and liabilities. The assumptions and estimates relevant to the preparation of the consolidated financial statements are reviewed on an ongoing basis. The material assumptions and parameters for the estimates made are presented 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, 2009, which were prepared applying consistent accounting polices 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 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.

Interests in associates over which Merck has significant influence are – as far as they are material – included in accordance with IAS 28 using the equity method of accounting. 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 were adjusted by eliminating any intragroup profits. In accordance with IAS 12, deferred taxes are applied to consolidation measures.

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 generally 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. Business transactions that are conducted in currencies other than the functional 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 functional 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 net investments 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.
In 2009, the reporting currency of our subsidiary Merck Advanced Technologies Ltd., Seoul, South Korea, was changed from Korean won to U.S. dollars. This move reflects the fact that the transactions of this subsidiary are now primarily conducted in U.S. dollars.

Recognition of sales and other revenue

Sales are recognized net of related taxes as well as rebates, discounts and returns. They are deemed realized once the goods are delivered or the services have been rendered and the material opportunities and risks of ownership have been transferred to the purchaser. The amount of revenue can be reliably determined and payment is sufficiently probable. In addition to revenue from the sale of goods, sales also include revenue from services, but the volume involved is insignificant. Depending on the substance of the relevant agreements, commission income and license royalties are recognized either immediately or on an accrued basis if further contractual obligations exist. Dividend income is recognized when the shareholders' right to receive the dividend is established. This is normally the date of the dividend resolution. Interest income 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 (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.

Financial instruments: Principles

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A distinction is made between nonderivative and derivative financial instruments.
Derivatives can be embedded in other financial instruments or in nonfinancial instruments. Under IFRS, an embedded derivative must be separated from the host contract and accounted for separately at fair value if the economic characteristics of the embedded derivative are not closely related to the economic characteristics of the host contract. Merck did not have any separable embedded derivatives during the fiscal year. Issued compound financial instruments with both an equity and a liability component must be recognized separately depending on their characteristics. Merck was not a party to hybrid or compound financial instruments during the fiscal year. As a rule, Merck accounts for regular way purchases or sales of financial instruments at the settlement date and derivatives at the trade date.
Financial assets and financial liabilities are generally measured at fair value on initial recognition, if necessary including transaction costs. The fair value of a financial instrument is the amount which would be agreed by two willing parties in an arm's length transaction for that financial instrument. If quoted prices in an active market are available, they are used to measure the financial instrument. In other cases, generally accepted financial techniques using observable prices on the market or third-party valuations are used.
Financial assets are derecognized in part or in full if the contractual rights to the cash flows from the financial asset have expired or if control and substantially all the risks and rewards of ownership of the financial asset have been transferred to a third party. Financial liabilities are derecognized if the contractual obligations have been discharged, cancelled, or expire.

Financial instruments: Categories and classes of financial instruments

Financial assets and liabilities are classified into the following IAS 39 measurement categories and IFRS 7 classes. "Financial assets and financial liabilities at fair value through profit or loss" can be both nonderivative and derivative financial instruments. Financial instruments in this category are subsequently measured at fair value. Gains and losses on financial instruments in this measurement category are recognized directly in the income statement. This measurement category includes an option to designate nonderivative financial instruments as at "fair value through profit or loss" on initial recognition (fair value option) or as financial instruments held for trading. We did not apply the fair value option during the fiscal year.

Merck only assigns derivatives to the "held for trading" measurement category. Special accounting rules apply to derivatives that are designated as hedging instruments in a hedging relationship (hedge accounting).

"Held-to-maturity investments" are nonderivative financial assets with fixed or determinable payments and fixed maturity that are quoted in an active market. To be able to assign a financial asset to this measurement category, the entity must have the positive intention and ability to hold it to maturity.

These investments are subsequently measured at amortized cost. If there is objective evidence that such an asset is impaired, an impairment loss is recognized in profit or loss. Subsequent reversals of impairment losses are also recognized in profit or loss up to the amount of the original cost of the asset. At Merck, this measurement category is used for short-term securities and other current financial assets, as well as long-term investments.

"Loans and receivables" are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortized cost. If there is objective evidence that such assets are impaired, an impairment loss is recognized in the income statement. Subsequent reversals of impairment losses are also recognized in the income statement up to the amount of the original cost of the asset. Long-term noninterest-bearing and low-interest receivables are measured at their present value. Merck primarily assigns trade receivables, loans, and miscellaneous other current and noncurrent receivables to this measurement category. Merck uses a separate allowance account for impairment losses on trade and other receivables.

"Available-for-sale financial assets" are those nonderivative financial assets that are not assigned to the measurement categories "financial assets and financial liabilities at fair value through profit or loss", "loans and receivables" or "held-to-maturity investments". Financial assets in this category are subsequently measured at fair value. Changes in fair value are recognized directly in equity and are only transferred to the income statement when the financial asset is derecognized. If there is objective evidence that such an asset is impaired, an impairment loss is recognized directly in the income statement, including any amounts already recognized in comprehensive income. Reversals of impairment losses on previously impaired equity instruments are recognized directly in equity.

Reversals of impairment losses on previously impaired debt instruments are recognized in profit or loss up to the amount of the impairment loss. Any amount in excess of this is recognized directly in equity.

At Merck, this measurement category is used in particular for short-term securities and other current financial assets, as well as long-term financial investments and securities.

Financial assets in this category for which no fair value is available or fair value cannot be reliably measured are measured at cost less any cumulative impairment losses. Impairment losses on financial assets carried at cost may not be reversed.

"Other financial liabilities" are nonderivative financial liabilities that are subsequently measured at amortized cost. Differences between the amount received and the amount to be repaid are amortized to profit or loss over the maturity of the instrument. Merck primarily assigns financial liabilities, trade payables, and miscellaneous other nonderivative current and noncurrent liabilities to this category.

There were no reclassifications between the aforementioned measurement categories during the fiscal year.

The classes required to be disclosed in accordance with IFRS 7 consist of the measurement categories set out above. Additionally, cash and cash equivalents with an original maturity of up to 90 days, finance lease liabilities, and hedging derivatives used in hedge accounting are also classes in accordance with IFRS 7. See note [39] for a detailed overview.

Financial instruments: Derivative and hedge accounting

Merck uses derivatives solely to hedge recognized assets or liabilities and forecast transactions. Hedge accounting in accordance with IFRSs is applied to part of these hedges. A distinction is made between fair value hedge accounting and cash flow hedge accounting. As a rule, designation of a hedging relationship requires a hedged item (underlying) and a hedging instrument specifically assigned to that hedged item. At Merck, all hedges relate to existing or highly probable hedged items. Merck only uses derivatives as hedging instruments.

Changes in the fair value or cash flows of the hedged item and the hedging instrument must be effective at all times. In both cash flow and fair value hedges, the ineffective portion of the gain or loss on a hedging instrument is recognized in profit or loss. Merck uses the dollar offset method to measure hedge effectiveness. There are strict documentation requirements for hedge accounting. Derivatives that do not or no longer meet the documentation or effectiveness requirements for hedge accounting, or whose hedged item no longer exists, are reported as "financial assets and liabilities at fair value through profit or loss." Changes in fair value are then recognized in profit or loss.

As a rule, the purpose of a fair value hedge is to offset the exposure to changes in the fair value of recognized hedged items (financial assets or financial liabilities) through offsetting changes in the fair value of a hedging instrument. Offsetting gains and losses on the hedging instrument resulting from changes in fair value are recognized in profit or loss, net of deferred taxes. Offsetting gains and losses on the hedged item that are attributable to the hedged risk are also recognized in profit or loss, irrespective of the item's allocation to a measurement category. At Merck, cash flow hedges are normally a hedge of the exposure to variability in cash flows resulting from highly probable forecast transactions in foreign currencies. In cash flow hedges, the effective portion of the gains and losses on the hedging instrument is recognized in other comprehensive income until the hedged item occurs. This is also the case if the hedging instrument expires, is sold, or is terminated before the hedged transaction occurs. The ineffective portion of a cash flow hedge is always recognized in profit or loss. See note [37] for a detailed overview.

Other non-financial assets and liabilities

Other non-financial assets are carried at amortized cost. Impairment losses are recognized for any credit risks. Long-term non-interest-bearing and low-interest receivables are carried at their present value. Other non-financial liabilities are carried at the amount to be repaid.

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 depre ciation charges on production facilities, which are determined on the basis of normal capacity utilization of the production facilities.
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. Self-developed intangible assets are not capitalized. Intangible assets with indefinite useful lives acquired in the course of business combinations are recognized at fair value on the date of acquisition. This includes purchased goodwill and intangible assets used in products that have not yet reached market maturity. Intangible assets with indefinite useful lives are not amortized, however they are tested for impairment when a triggering event arises or at least once a year in accordance with IAS 36. Goodwill is tested for impairment either annually or if there are indications of impairment, and 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). The carrying amounts of the cash-generating units are compared with their recoverable amounts and impairment losses are recognized where recoverable amount is lower than the carrying 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 estimated using the discounted cash flow method. When measuring goodwill, Merck determines the recoverable amount by discounting expected cash flows and therefore uses the value in use method. Reference is made to existing forecasts that usually cover a period of four years. Cash flows for periods in excess of this are included using a long-term growth rate of 1.0% that is applied uniformly to all cash-generating units. The expected future cash flows are discounted using a weighted average cost of capital (WACC) of 7.5% after taxes (2008: 9.5%). A 10% reduction in future cash flows was assumed when calculating sensitivity. We regard greater volatility as unlikely based on our experience. If the actual future cash flows were 10% lower than the expected cash flows, this would lower the goodwill of the Consumer Health Care division by € 6 million. In this case, the cash-generating unit is a Group company.

Any impairment losses on other intangible assets with indefinite useful lives are calculated in the same way as for goodwill. Fair value less costs to sell was used to determine the recoverable amount of income from licensing agreements capitalized during the purchase price allocation for Serono. Future product cash flows that were calculated using external market data are discounted to their present value. The discount rate amounts to 8.25% (2008: 9.68%) and is determined on the basis of market data for a peer group of companies.

Impairment losses recognized on indefinite-lived intangible assets other than goodwill are reversed if the original reasons for impairment no longer apply. Intangible 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 other than software is reported separately. 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. Amortization of software is allocated to the functional areas in the income statement.

An impairment test is performed if there are indications of impairment. Impairment losses are determined using the same methodology as for indefinite-lived intangible assets. Impairment losses recognized on finite-lived intangible assets are reversed if the original reasons for impairment no longer apply.

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 capitalized if material. 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. If indications of a decline in value exist, an impairment test is performed. The determination of the possible need to recognize impairments proceeds in the same as for intangible assets. If the reasons for an impairment loss no longer exist, a write-up is recorded.

Investment property

Assets of this category are of minor importance to the Merck Group and are carried at cost.

Leasing

Where assets are leased and economic ownership lies with the Group company (finance lease), the asset is recognized at the present value of the lease payments or the lower 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.

Deferred taxes

Deferred tax assets and liabilities result from temporary differences of consolidated companies between the carrying amount of an asset or liability in the balance sheet and its tax base as well as from consolidation activities, as far as the carrying amount of the asset or liability is recovered or settled in future periods. 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.

Provisions

Provisions are recognized in the balance sheet if Merck has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be measured reliably. The carrying value of provisions takes into account the amounts required to cover future payment obligations, recognizable risks and uncertain obligations of the Merck Group to third parties. Measurement is based on the settlement amount with the highest probability or if the probabilities are equivalent, it is based on the expected value of the settlement amounts. Long-term provisions are discounted and carried at their present value as of the end of the reporting period. To the extent that reimbursement claims exist as defined in IAS 37, they are recognized separately as an asset if their realization is virtually certain.

Provisions for pensions and other post-employment benefits

Provisions for pensions and other post-employment benefits are recorded in the balance sheet in accordance with IAS 19. Depending on the legal, economic and fiscal circumstances prevailing in each country, different retirement benefit systems are provided for the employees of the Merck Group. As a rule, 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 disclosed here. The smaller portion is covered by funded pension commitments. These provisions also contain other post-employment benefits, such as accrued future healthcare costs for pensioners 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. Annual actuarial opinions are prepared for this purpose. 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 Comprehensive Income.

NOTES TO THE INCOME STATEMENT

[1] Sales

Sales are generated primarily from the sale of goods and to a limited degree include revenues from services rendered. Merck Group sales totaled € 7,377.7 million in 2009, which represents an increase of 2.4% over the previous year. Adjusted for the impact of currency and acquisitions, organic growth amounted to 2.7%.
Sales are presented by business sector, division and region under Segment Reporting.

[2] Royalty and commission income

In 2009, royalty income totaled € 344.9 million (2008: € 356.4 million) and mainly included royalty income from the products Avonex® (Biogen Idec), Humira® (Abbott), Enbrel® (Amgen) and Puregon® (Merck & Co.), as well as income from the active pharmaceutical ingredients bisoprolol and metformin.
In 2009, commission income totaled € 24.4 million (2008: € 31.6 million). This primarily consisted of cooperation and distribution agreements, such as for Ikorel® (Sanofi-Aventis), Euthyrox® (Bracco) and Allergan products.

[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 as well as license and commission expenses. License expenses amounted to € 156.2 million (2008: € 186.2 million) and commission expenses totaled € 256.8 million (2008: € 165.2 million).

[5] Administration expenses

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

[6] Other operating expenses and income

Other operating expenses and income comprise the following:

€ million	2009	2008
Litigation	–166.9	–24.2
Project costs	–69.3	–58.0
Bonuses, fees and contributions	–46.7	–47.9
Exchange rate differences from operating activities	–6.6	–6.8
Restructuring	–14.5	–27.0
Write-downs of receivables	–27.9	–4.9
Impairment losses	–37.9	–10.5
Losses on disposals of assets	–5.5	–10.9
Special environmental protection costs	–4.6	–4.9
Other operating expenses	–84.2	–79.8
Total other operating expenses	**–464.1**	**–274.9**
Gains from disposals of assets	10.7	16.3
Write-ups	0.2	1.6
Other operating income	80.5	86.9
Total other operating income	**91.4**	**104.8**
Other operating expenses and income	**–372.7**	**–170.1**

In 2009, expenses totaling € 166.9 million were recorded for provisions for litigation. For more details, please see Note [29]. 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. Write-downs of receivables, the largest single item, include write-downs on receivables from hospitals in Greece. In 2009, impairment losses mainly include write-downs due to discontinued research activities. Impairment losses on intangible assets in connection with the Serono purchase price allocation are included in the income statement under amortization of intangible assets – a separate line item. See also Notes [8] and [21]. Other operating expenses also include expenses for services performed for third parties as well as costs of ancillary businesses and clearing balances.
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.

[7] Research and development

Research and development costs rose in 2009 by 8.9% to € 1,344.6 million. This rise was due to the large number of clinical trials that reached the final phase. Reimbursements for R&D amounting to € 13.3 million (2008: € 20.1 million) were offset against research and development costs.

[8] Amortization of intangible assets

Due to the particular significance of the amortization of intangible assets since having acquired Serono, this is reported under a separate item. This item primarily comprises amortization and impairment losses in connection with the allocation of the Serono purchase price. To a lesser extent this item also includes amortization of other intangible assets, for example from milestone payments. Amortization of software is not disclosed here, but is allocated to operating expenses instead. In 2009, this item includes impairment losses of € 71.5 million for the license rights to Puregon® and Enbrel® and capitalized as part of the Serono purchase price allocation. In 2008, such impairment losses, totaling € 42.9 million, were reported under Exceptional items.

[9] Investment result

€ million	2009	2008
Investment result from associates	0.1	0.2
Other investment income/expense	3.4	–0.1
	3.5	**0.1**

[10] Exceptional items

Exceptional items comprise:

€ million	2009	2008
Exit cost Raptiva®	–39.7	–
Divestment of natural substances business in Brazil	10.6	–25.7
Release of provisions	1.1	–
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	–	–45.8
Exceptional items	**–28.0**	**–400.0**

The exceptional items for 2009 include expenses of € 39.7 million to withdraw the psoriasis drug Raptiva® after the suspension of marketing authorization. This item also includes income totaling € 10.6 million from the divestment of the natural substances business of the Performance & Life Science Chemicals division in Brazil, along with a € 1.1 million adjustment associated with a prior exceptional item.

[11] Financial result

€ million	2009	2008
Interest income and similar income	33.6	36.6
Interest expenses and similar expenses	–88.7	–84.9
Interest component from currency hedging transactions	–3.3	–23.5
	–58.4	**–71.8**
Interest component of the addition to pension provisions and other provisions for personnel expenses	–74.4	–66.4
Exchange rate differences from financing activities	–3.8	–18.4
Income from financial interests	2.1	0.1
	–134.5	**–156.5**

[12] Income tax

€ million	2009	2008
Current taxes in the period	–270.8	–242.4
Current taxes in the period on exceptional items	6.1	2.6
Taxes for previous periods	–6.3	2.9
Deferred taxes in the period	166.2	–11.7
Deferred taxes in the period on exceptional items	–4.9	52.8
	–109.7	**–195.8**
Tax rate	22.6%	34.1%
Tax rate before exceptional items	21.6%	25.8%

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, total deferred tax income of € 2.6 million was recorded (2008: € 1.7 million tax expense).

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

€ million	2009	2008
Change in deferred tax assets (balance sheet)	65.3	15.9
Change in deferred tax liabilities (balance sheet)	132.7	–73.8
Deferred taxes credited/debited to equity	–38.9	17.9
Changes in scope of consolidation/currency translation/ Other changes	2.2	81.1
Deferred taxes (income statement)	**161.3**	**41.1**

Tax loss carryforwards are structured as follows:

	Dec. 31, 2009			Dec. 31, 2008		
€ million	Germany	Abroad	Total	Germany	Abroad	Total
Tax loss carry-forwards	164.3	121.9	**286.2**	121.6	288.1	**409.7**
thereof:						
Including deferred tax asset	98.2	32.4	**130.6**	–	29.2	**29.2**
Deferred tax asset	14.5	8.3	**22.8**	–	7.4	**7.4**
thereof:						
Excluding deferred tax asset	66.1	89.5	**155.6**	121.6	258.9	**380.5**
Theoretical deferred tax asset	10.5	17.1	**27.6**	18.5	34.2	**52.7**

The decrease in tax loss carryforwards compared with the previous year was 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.

Based on the tax planning data for subsequent fiscal years, deferred tax assets totaling € 16.1 million were recognized for tax loss carryforwards for individual companies of the Merck Group. The vast majority of the loss carryforwards either has 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 recognized, amounting to € 7.5 million. In 2009, the income tax burden was reduced by € 15.6 million (2008: € 7.5 million) due to the utilization of tax loss carryforwards and interest carryforwards from prior years for which no deferred tax asset had been recognized in prior periods.

The tax loss carryforwards accumulated in Germany for corporation tax amounted to € 73.8 million (2008: € 57.6 million) and to € 90.5 million (2008: € 64.0 million) for trade tax. The decline in additional theoretically possible deferred tax assets to € 27.6 million (2008: € 52.7 million) results mainly from the utilization of loss carryforwards without deferred tax assets and from the capitalization of deferred tax assets on tax loss carryforwards that were not recognized in previous periods.

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

	Dec. 31, 2009		Dec. 31, 2008	
€ million	Assets	Liabilities	Assets	Liabilities
Intangible assets	31.8	704.2	37.5	758.3
Property, plant and equipment	7.3	68.2	4.5	84.1
Current and non-current financial assets	2.6	15.7	2.3	28.1
Inventories	242.0	5.0	261.1	47.1
Current and non-current receivables/Other assets	22.4	11.9	28.7	9.1
Provisions for pensions and other post-employment benefits	87.2	11.9	58.6	10.3
Current and non-current other provisions	172.0	9.4	131.6	7.7
Current and non-current liabilities	17.6	6.1	22.3	9.1
Tax loss carryforwards	22.8	–	7.4	–
Tax refund claims/Other	20.0	11.4	0.3	16.6
Offset deferred tax assets and liabilities	–80.3	–80.3	–74.2	–74.2
Total deferred taxes	**545.4**	**763.5**	**480.1**	**896.2**

Deferred tax liabilities of € 11.4 million (2008: € 23.0 million) were set up for temporary 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.

In addition to deferred tax assets on tax loss carryforwards, deferred tax assets of € 522.6 million (2008: € 472.7 million) were recognized for other temporary differences.

The following table presents the tax reconciliation from theoretical tax expense to tax expense before exceptional items and tax expense according to income statement. 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 2008 resulted from the change in the consolidated contributions in relation to local tax rates.

€ million	2009	2008
Consolidated profit before tax	486.4	574.9
Exceptional items	–28.0	–400.0
Consolidated profit before tax and exceptional items	**514.4**	**974.9**
Theoretical tax rate	26.5%	29.6%
Theoretical tax expense before exceptional items	–136.3	–288.6
Tax effect of companies with a negative contribution to consolidated profit	–26.3	–41.1
Taxes for other periods	–6.3	2.9
Tax credits	28.1	66.6
Effect of non-deductible expenses/ tax-free income/tax allowances	29.9	9.0
Tax expense before exceptional items	**–110.9**	**–251.2**
Tax rate before exceptional items	21.6%	25.8%
Taxes on exceptional items	1.2	55.4
Tax expense according to income statement	**–109.7**	**–195.8**
Tax rate according to income statement	22.6%	34.1%

[13] Minority interest

Minority interest in net profit is primarily composed of the minority interests in the listed companies Merck Ltd., India, and PT Merck Tbk., Indonesia, as well as in Merck Ltd., Thailand, and Allergopharma J. Ganzer KG, Germany.

[14] 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. The share capital of € 168.0 million is divided into 64,621,126 shares. Accordingly, the general partner's capital of € 397.2 million is divided into 152,767,813 theoretical shares. Overall, the total capital thus amounts to € 565.2 million or 217,388,939 theoretical shares.

As of December 31, 2009 there were no potentially dilutive shares.

	2009	2008
Net profit after minority interest (€ million)	366.3	367.1
Weighted average number of theoretical shares outstanding (in millions)	217.4	217.4
Basic earnings per share (€)	**1.68**	**1.69**

NOTES TO THE BALANCE SHEET

[15] Cash and cash equivalents

This item comprises:

€ million	Dec. 31, 2009	Dec. 31, 2008
Cheques, cash and bank balances	282.9	329.1
Short-term cash investments	258.5	363.6
	541.4	**692.7**

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 € 4.5 million (2008: € 2.6 million).

[16] Marketable securities and financial assets

This item comprises the following categories:

€ million	Dec. 31, 2009	Dec. 31, 2008
Financial investments held to maturity	48.4	27.0
Available-for-sale financial investments	262.5	20.5
Financial investments held for trading	–	0.9
Short-term financial investments/loans to third parties	1,150.7	0.1
Derivative assets (financial transactions)	41.6	128.3
	1,503.2	**176.8**

The sharp increase in the value of securities and financial assets is attributable to the short-term investment of funds from the bonds issued.
Loans to third parties declined by € 1.3 million (2008: € 1.3 million) and were not past due.

[17] Trade accounts receivable

This item comprises:

€ million	Dec. 31, 2009	Dec. 31, 2008
Receivables from affiliates	0.6	–
Receivables from third parties	1,788.1	1,659.4
	1,788.7	**1,659.4**

Trade accounts receivable past due are as follows:

€ million	Dec. 31, 2009	Dec. 31, 2008
Neither impaired nor past due	1,327.8	1,209.5
Past due, but not impaired		
up to 3 months	214.8	236.9
up to 6 months	89.6	92.8
up to 12 months	68.7	73.8
over 1 year	87.6	46.0
Impaired	0.2	0.4
Book value	**1,788.7**	**1,659.4**

The corresponding write-downs developed as follows:

€ million	2009	2008
January 1	**–16.6**	**–46.7**
Additions (net)	-27.9	-4.9
Utilizations	1.9	36.3
Currency translation and other changes	-3.4	-1.3
December 31	**–46.0**	**–16.6**

Because of the increased risk of default, especially in Greece, Germany and Switzerland, write-downs were recorded for receivables. In Greece, receivables from state hospitals were written down by € 12.5 million.
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.

[18] Inventories

This item comprises:

€ million	Dec. 31, 2009	Dec. 31, 2008
Raw materials and production supplies	174.1	253.6
Work in progress, finished goods and goods purchased for resale	1,193.8	1,152.3
Advance payments	–	1.5
	1,367.9	**1,407.4**

Write-downs of inventories amounted to € 141.7 million as of the balance sheet date (2008: € 93.5 million). The fair value of inventories that were written down amounts to € 526.3 million (2008: € 377.6 million). As of the balance sheet date, no inventories were used to secure liabilities.

[19] Other assets

Other receivables and other assets include refund claims in connection with non-income-related taxes (mainly value added tax), prepayments and interest deferrals.

Other assets comprise the following:

€ million	current	non-current	Dec. 31, 2009	current	non-current	Dec. 31, 2008
Receivables from third parties	159.8	56.6	216.4	138.4	50.6	189.0
Receivables from related parties	14.9	–	14.9	22.5	–	22.5
Receivables from affiliates	0.0	–	0.0	2.8	–	2.8
Receivables from associates	–	–	–	–	–	–
Other receivables	**174.7**	**56.6**	**231.3**	**163.7**	**50.6**	**214.3**
Derivative assets (operational)	29.5	28.6	58.1	47.0	–	47.0
Prepaid expenses	48.9	3.7	52.6	40.7	1.6	42.3
Refund claims on plan assets	15.2	–	15.2	19.9	–	19.9
Other assets	7.3	10.6	17.9	12.0	11.5	23.5
	275.6	**99.5**	**375.1**	**283.3**	**63.7**	**347.0**

Other receivables from third parties past due are as follows:

€ million	Dec. 31, 2009	Dec. 31, 2008
Neither impaired nor past due	206.5	172.3
Past due, but not impaired		
up to 3 months	7.8	12.6
up to 6 months	1.3	1.2
up to 12 months	0.2	0.7
over 1 year	0.6	2.2
Impaired	–	–
Book value	**216.4**	**189.0**

Write-downs or write-ups of other receivables from third parties were not necessary in either 2009 or 2008. 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.

[20] Tax receivables

Tax receivables amounted to € 55.3 million (2008: € 139.1 million) and resulted from tax prepayments that exceed the actual amount of tax payable for 2009 and prior fiscal years, and from refund claims for prior years as well as withholding tax credits.

[21] Intangible assets

€ million	Patents, licenses and similar rights, brands, trademarks and other: Finite useful life	Indefinite useful life	Goodwill	Software	Advance payments	Total
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 scope of consolidation	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 scope of consolidation	–	–	–	0.5	–	0.5
Amortization and 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**	**–**	**8,203.4**
Acquisition cost January 1, 2009	**7,540.6**	**543.0**	**1,971.3**	**177.9**	**17.2**	**10,250.0**
Currency translation	–5.9	–0.8	–0.7	1.5	–	–5.9
Changes in scope of consolidation	4.7	–	15.7	–	–	20.4
Additions	5.7	31.4	–	30.7	28.8	96.6
Disposals	–9.3	–11.9	–3.6	–15.7	–0.3	–40.8
Transfers	62.9	–60.4	–	18.4	–12.8	8.1
December 31, 2009	**7,598.7**	**501.3**	**1,982.7**	**212.8**	**32.9**	**10,328.4**
Accumulated amortization and impairment losses January 1, 2009	**–1,757.8**	**–129.3**	**–42.2**	**–117.3**	**–**	**–2,046.6**
Currency translation	–4.5	–0.1	–0.2	–0.3	–	–5.1
Changes in scope of consolidation	–	–	–	–	–	–
Amortization and impairment losses	–664.4	–21.1	–	–30.3	–	–715.8
Disposals	7.6	11.6	3.6	14.7	–	37.5
Transfers	–0.1	–	–	0.1	–	–
Write-ups	–	–	–	–	–	–
December 31, 2009	**–2,419.2**	**–138.9**	**–38.8**	**–133.1**	**–**	**–2,730.0**
Net carrying amount as of December 31, 2009	**5,179.5**	**362.4**	**1,943.9**	**79.7**	**32.9**	**7,598.4**

The change in currency translation differences relative to 2008 is due mainly to the translation of intangible assets reported in Swiss francs into euros – the Group reporting currency.

The net carrying amount of patents, licenses, similar rights with finite useful lives amounting to € 5,179.5 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 9 and 12 years. This item also includes licenses with remaining useful lives of between 3 and 8 years.

In fiscal 2009, impairment losses on intangible assets with finite useful lives totaled € 78.9 million. Of this total, € 71.5 million was attributable to the licensing rights to Enbrel® (Amgen) and Puregon® (Merck & Co.) capitalized as part of the Serono purchase price allocation, which were written down to the lower value in use due to new estimates on the amount and timing of royalty income. These issues are disclosed in a separate line item in the income statement under amortization of intangible assets.

Owing to amended market estimates and the subsequently sharply lower sales expectations, we recorded a write-off of € 6.9 million on patents and brands from the Liquid Crystals division. The remaining impairments totaling € 0.5 million were attributable to the Performance & Life Science Chemicals division. These impairment losses are recorded under other operating expenses.

The changes in goodwill caused by currency effects result almost exclusively from translating the goodwill for Serono from Swiss francs into euros, the reporting currency of the Merck Group. 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 € 21.1 million result in fiscal 2009. These were primarily due to the write-off of the capitalized assets related to the termination of various research projects from the Merck Serono division and are recorded under other operating expenses.

The book values of patents, licenses and similar rights, brands, trademarks and other as well as goodwill can be attributed to the divisions as follows:

€ million	Merck Serono	Consumer Health Care	Liquid Crystals	Performance & Life Science Chemicals	Total
Patents, licenses, similar rights, brands, trademarks and other					
Finite useful life	**5,120.6**	**24.5**	**14.4**	**20.0**	**5,179.5**
Rebif®	3,221.5	–	–	–	3,221.5
Gonal-f®	765.2	–	–	–	765.2
Saizen®	275.3	–	–	–	275.3
Avonex®	152.7	–	–	–	152.7
Humira®	267.9	–	–	–	267.9
Enbrel®	109.1	–	–	–	109.1
Puregon®	51.3	–	–	–	51.3
Other	277.6	24.5	14.4	20.0	336.5
Indefinite useful life	**338.7**	**–**	**17.6**	**6.1**	**362.4**
Safinamide	176.8	–	–	–	176.8
Cladribine	48.2	–	–	–	48.2
Other	113.7	–	17.6	6.1	137.4
Goodwill	**1,670.5**	**164.4**	**4.1**	**104.9**	**1,943.9**

Intangible assets with an indefinite useful life primarily relate to rights that Merck has acquired for products or technologies that are still in the research and development stage. Amortization will only begin once the products start to be marketed.

[22] 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, 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 scope of consolidation	–	–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 scope of consolidation	–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**
Acquisition cost January 1, 2009	**1,885.8**	**2,391.6**	**774.7**	**315.7**	**5,367.8**
Currency translation	0.8	3.0	1.5	2.6	7.9
Changes in scope of consolidation	3.5	2.9	2.2	–	8.6
Additions	26.9	48.3	45.2	346.9	467.3
Disposals	–60.5	–61.3	–52.3	–5.6	–179.7
Transfers	37.7	71.0	33.6	–150.4	–8.1
December 31, 2009	**1,894.2**	**2,455.5**	**804.9**	**509.2**	**5,663.8**
Accumulated depreciation and impairment losses January 1, 2009	**–720.4**	**–1,644.6**	**–547.4**	**–15.3**	**–2,927.7**
Currency translation	–1.2	–1.8	–1.3	–	–4.3
Changes in scope of consolidation	–0.4	–0.6	–0.3	–	–1.3
Depreciation and impairment losses	–73.7	–145.6	–66.3	–	–285.6
Disposals	54.1	57.1	46.5	4.8	162.5
Transfers	0.2	–0.4	0.2	–	–
Write-ups	0.1	–	0.1	–	0.2
December 31, 2009	**–741.3**	**–1,735.9**	**–568.5**	**–10.5**	**–3,056.2**
Net carrying amount as of December 31, 2009	**1,152.9**	**719.6**	**236.4**	**498.7**	**2,607.6**

Impairment losses totaled € 6.7 million in fiscal 2009. These were particularly attributable to impairment losses on production units in the Merck Serono and Performance & Life Science Chemicals divisions and are recorded under other operating expenses.
Property, plant and equipment amounting to € 8.1 million served as collateral (2008: € 9.1 million). Total government grants and subsidies during the fiscal year amounted to € 5.4 million (2008: € 7.1 million).
Property, plant and equipment also includes assets that are leased. The total value of capitalized leased assets amounted to € 13.0 million (2008: € 12.7 million) and the corresponding obligations amounted to € 10.4 million (2008: € 9.5 million) (see Note [25]).

The book values of capitalized leased assets were as follows:

€ million	Dec. 31, 2009	Dec. 31, 2008
Capitalized leased buildings	11.7	11.7
Capitalized leased vehicles	1.1	0.8
Capitalized leased other property, plant and equipment	0.2	0.2
	13.0	**12.7**

[23] Investments at equity

€ million	2009	2008
Book value January 1	1.3	1.4
Additions	–	–
Share of profit	0.1	0.2
Disposals	–	–
Currency translation	0.2	-0.3
Book value December 31	**1.6**	**1.3**

[24] Non-current financial assets and financial assets covering pension obligations

	Investments in		Securities		Financial assets covering pensions			
€ million	available-for-sale affiliates	available-for-sale companies	available-for-sale financial investments	financial investments held to maturity	available-for-sale financial assets	financial assets held to maturity	Loans and other non-current financial assets	Total
Acquisition cost January 1, 2008	**94.7**	**27.4**	**5.6**	**11.7**	**–**	**–**	**16.2**	**155.6**
Currency translation	0.3	–	–	–1.6	–	–	–0.1	–1.4
Changes in scope of consolidation	–	–58.5	–	–	–	–	–	–58.5
Additions	19.0	57.2	0.1	–	–	–	6.2	82.5
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**
Accumulated depreciation and impairment losses January 1, 2008	**–20.3**	**–0.1**	**–4.5**	**–**	**–**	**–**	**–0.4**	**–25.3**
Currency translation	–	–	–	–	–	–	–	–
Changes in scope of consolidation	–	–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**
Net carrying amount as of December 31, 2008	**45.6**	**25.5**	**0.9**	**10.1**	**–**	**–**	**15.3**	**97.4**
Acquisition cost January 1, 2009	**110.6**	**25.7**	**5.2**	**10.1**	**–**	**–**	**15.6**	**167.2**
Currency translation	–	–	–0.1	–	–	–	–	–0.1
Changes in scope of consolidation	–	–34.3	–	–	–	–	–	–34.3
Additions	9.6	35.6	1.1	–	187.2	61.1	4.3	298.9
Disposals	–0.4	–4.2	–0.2	–10.1	–47.0	–	–3.9	–65.8
Transfers	0.6	–0.6	–	–	–	–	–	–
December 31, 2009	**120.4**	**22.2**	**6.0**	**–**	**140.2**	**61.1**	**16.0**	**365.9**
Accumulated depreciation and impairment losses January 1, 2009	**–65.0**	**–0.2**	**–4.3**	**–**	**–**	**–**	**–0.3**	**–69.8**
Currency translation	–	–	–	–	–	–	0.1	0.1
Changes in scope of consolidation	–	–	–	–	–	–	–	–
Depreciation and impairment losses	–1.9	–	–0.7	–	–	–	–	–2.6
Disposals	0.4	–	–	–	–	–	0.2	0.6
Fair value adjustments of long-term investments taken directly to equity	25.5	–	–	–	8.3	–	–	33.8
December 31, 2009	**–41.0**	**–0.2**	**–5.0**	**–**	**8.3**	**–**	**–**	**–37.9**
Net carrying amount as of December 31, 2009	**79.4**	**22.0**	**1.0**	**–**	**148.5**	**61.1**	**16.0**	**328.0**

As of December 31, 2009, non-current financial assets available-for-sale (investments) with a book value of € 48.2 million were carried at cost since fair value could not be reliably determined. During fiscal 2009, Merck began to cover the pension obligations of Merck KGaA with financial assets appropriated for this purpose. Covering pension obligations with underlying financial assets is long term and will be continuously expanded. These assets are actively being managed by an external service provider within the scope of asset management agreements. Merck is steering the investments via restrictions with respect to ratings and the choice of investments exist. Performance and risk controlling take place on a regular basis and include monthly performance measurements. In addition, the conformity of the investment strategy and structure with the objectives and the implementation thereof are reviewed. The strategic spread of assets is highly cautious, with approximately 75% invested in fixed-income securities. All investments will be denominated exclusively in euros.
These financial assets are primarily allocated to the measurement category "Available-for-sale financial assets", otherwise to the measurement category "Held-to-maturity investments". To ensure reporting transparency, we are disclosing these financial assets separately in the balance sheet.

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, 2009	Available-for-sale interests	Available-for-sale securities	Total Dec. 31, 2008
Fair values/ Book values	101.4	149.5	250.9	71.1	0.9	72.0
Amortized acquisition cost	90.0	141.2	231.2	85.2	0.9	86.1
Unrealized gains/losses	11.4	8.3	19.7	–14.1	–	–14.1

Available-for-sale securities amounting to € 149.5 million included investments of € 148.5 million to cover pension obligations. In 2008, no such investments existed.

[25] Financial liabilities

This item comprises:

€ million	current	non-current	Dec. 31, 2009	current	non-current	Dec. 31, 2008
Bonds	499.4	1,490.9	1,990.3	–	997.7	997.7
Bank loans and overdrafts	57.3	30.1	87.4	101.2	20.5	121.7
Liabilities to related parties	118.8	–	118.8	98.2	–	98.2
Loans from third parties and other financial liabilities	11.9	71.0	82.9	24.2	50.1	74.3
Liabilities from derivatives (financial transactions)	16.0	1.5	17.5	41.5	3.4	44.9
Finance lease	1.8	8.6	10.4	1.1	8.4	9.5
Commercial paper	–	–	–	–	–	–
	705.2	**1,602.1**	**2,307.3**	**266.2**	**1,080.1**	**1,346.3**

Credit facilities granted to the Merck Group are as follows:

€ million	Bank credit facilities	Utilization* as of Dec. 31, 2009	Interest	Due
Syndicated loan 2007	2,000.0	–	variable	2014
Bilateral credit facilities with banks	16.1	16.1	fix	2018
Bilateral credit facilities with banks	10.5	10.5	fix	2017
Various bank lines	206.5	61.4	fix/variable	1 – 2 years
	2,233.1	**88.0**		

*Booked disagios are not taken into account in the disclosure

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

in %	Dec. 31, 2009	Dec. 31, 2008
Euros	56.0	33.1
U.S. dollars	5.6	0.4
Pounds sterling	0.4	0.1
Swiss francs	–	–
Yen	–	–
Other currencies	38.0	66.4
	100.0	**100.0**

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 agreed with an international banking syndicate.
In 2009, Merck set up a debt issuance program that forms the contractual basis for the issue of bonds with a nominal volume of up to € 5 billion. Within the scope of this program, in 2009 Merck Financial Services GmbH, launched a euro benchmark bond in the European debt capital market. The issue volume of the bond, which has a maturity of 4.5 years and pays a coupon of 4.875% , was € 750 million. It was issued at a price of 99.697%.
In addition, under the debt issuance program, we made three private placements via Merck Financial Services GmbH. With a transaction volume of € 60 million and a maturity of seven years, the issue price of the first transaction was 100%. It pays a coupon of 4.000%. The transaction volume of the second bond was € 70 million. It has a maturity of ten years and pays a coupon of 4.250%. The third bond has a volume of € 100 million, a maturity of six years and an issue price of 100%. For this transaction, a variable coupon equivalent to the three-month Euribor +0.77% was agreed. The variable interest expense of the bond has been fixed via an interest rate swap. The bond is carried at amortized cost taking into account the transaction costs.
In 2007, Merck KGaA launched a euro Benchmark Bond for € 500 million in the European debt capital market. It has a maturity of three years. The bond pays a coupon of 4.75% and was issued at a price of 99.7%. It is carried at amortized cost.
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 variabilized to the six-month Euribor 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 bond is carried at fair value taking into account disagios 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 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 [47] Related-party disclosures.

[26] Trade accounts payable

Trade accounts payable consist of the following:

€ million	Dec. 31, 2009	Dec. 31, 2008
Liabilities due to third parties	935.7	842.8
Liabilities due to affiliates	0.0	0.9
Liabilities due to associates	–	–
	935.7	**843.7**

Trade accounts payable include accrued amounts of € 614.2 million (2008: € 521 million) for outstanding invoices and accrued reductions in sales revenues.

[27] Other liabilities

This item comprises:

€ million	current	non-current	Dec. 31, 2009	current	non-current	Dec. 31, 2008
Liabilities to related parties	173.8	–	173.8	234.6	–	234.6
Liabilities to third parties	96.4	1.8	98.2	87.7	4.6	92.3
Liabilities to affiliates	1.8	–	1.8	1.6	0.1	1.7
Liabilities from profit distributions	1.3	–	1.3	0.9	–	0.9
Liabilities to associates	–	–	–	–	–	–
Other sundry liabilities	**273.3**	**1.8**	**275.1**	**324.8**	**4.7**	**329.5**
Payroll liabilities	50.2	0.6	50.8	45.5	0.2	45.7
Accruals for personnel expenses	293.6	–	293.6	297.3	–	297.3
Deferred income	14.6	13.1	27.7	4.2	14.7	18.9
Advance payments received from customers	5.1	1.4	6.5	13.6	–	13.6
Liabilities from derivatives (operational)	1.4	–	1.4	8.8	–	8.8
	638.2	**16.9**	**655.1**	**694.2**	**19.6**	**713.8**

Liabilities to related parties exist vis-à-vis the general partner E. Merck KG and result from profit entitlements as of the balance sheet date. Liabilities due to third parties 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.

[28] Tax liabilities

Tax liabilities amounted to € 72.8 million (2008: € 101.7 million). Tax liabilities totaling € 274.5 million (2008: € 347.2 million) also include provisions for tax liabilities of € 201.7 million (2008: € 245.5 million).

[29] Provisions

Provisions developed as follows:

€ million	Restructuring	Litigation	Personnel	Environmental protection	Other	Total
January 1, 2009	**90.5**	**372.9**	**144.3**	**83.2**	**99.6**	**790.5**
Additions	2.2	179.2	71.5	0.0	133.0	385.9
Utilizations	–40.7	–23.0	–63.1	–13.3	–36.1	–176.2
Release	–6.4	–4.0	–17.1	–0.1	–23.1	–50.7
Exchange differences	0.3	–5.9	0.0	–0.3	–0.5	–6.4
Changes in scope of consolidation/Other	–0.1	0.0	4.9	2.6	0.9	8.3
December 31, 2009	**45.8**	**519.2**	**140.5**	**72.1**	**173.8**	**951.4**
thereof current	24.1	54.4	14.6	8.6	164.7	266.4
thereof non-current	21.7	464.8	125.9	63.5	9.1	685.0

Provisions for restructuring mainly include provisions for severance payments for employees in connection with restructuring projects, contractually agreed severance obligations and provisions for onerous contracts. The relevant provisions are recognized when detailed restructuring plans have been prepared and communicated.

As of the balance sheet date Merck recorded provisions for litigation amounting to € 519.2 million. In 2009, additional provisions for litigation were set up and charged to other operating expenses. Provisions consider litigation risks in connection with our former U.S. generics subsidiary Dey Inc. concerning allegedly false reporting of price information. Although Dey Inc. was divested within the scope of the sale of the Generics business to Mylan Inc., PA (USA) in 2007, Merck continues to be liable for costs incurring from the aforementioned legal disputes since the mentioned risk was not transferred to Mylan. Provisions exist in connection with a legal dispute with Italfarmaco S.p.A. (Italy) in which Italfarmaco S.p.a claims damages on account of an alleged wrongful termination of a license and supply agreement relating to the product Rebif® in Italy. As of the balance sheet date, provisions exist 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 the funding and developing Rebif® and other products. A Merck subsidiary is discussing a settlement of a civil claim by the United States Department of Justice under the False Claims Act in relation to sales of Rebif®. A provision was established for the potential settlement of this litigation.

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

Provisions for employee benefits include obligations from the Merck Long-Term Incentive Plan (LTIP) amounting to € 12.3 million (2008: € 5.9 million). Moreover, this item includes provisions for obligations for the partial early retirement program, other severance pay and anniversary bonuses. The LTIP offers eligible executives and employees of the Merck Group a long-term, profit-related compensation component. The program was resolved upon in 2008. The Executive Board is excluded. The amount paid depends on the achievement of the two ratios "Underlying Free Cash Flow on Revenues (FCR)" and "Return on Sales (ROS)" at the end of a three-year period. The plan has caps on potential future payments in the event of a high level of target achievement. By contrast, if the level of target of achievement is too low, no payments are made. With respect to provisions for defined-benefit pensions and other post-employment benefits, please see Note (30).

Provisions for environmental protection exist in Germany and the United States.

As of December 31, 2009, other provisions included provisions of € 64.5 million for currency risks from transactions in Venezuela. These were added in the course of the year. Other provisions consist additionally of provisions for uncertain commitments in the context of contributions, levies and fees.

[30] 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 %	2009	2008
Discount rate	5.0	5.8
Future salary increases	2.9	3.2
Future pension increases	2.3	2.3
Staff turnover	2.0	2.0
Expected return on plan assets	4.9	5.6
Future increases in health care benefits	6.5	6.8

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 fixed-income securities, stocks 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, 2009	Dec. 31, 2008
Present value of benefit obligations funded by provisions	1,260.2	1,051.5
Present value of funded benefit obligations	617.5	534.4
Present value of all benefit obligations	**1,877.7**	**1,585.9**
Fair value of plan assets of all funds	–582.6	–462.6
Funded status	**1,295.1**	**1,123.3**
Other changes	1.2	0.8
Net liability recognized in the balance sheet	**1,296.3**	**1,124.1**
Refund claims on plan assets	15.2	19.9
Provisions for pensions and other post-employment benefits	**1,311.5**	**1,144.0**

In 2009, the following items were recognized in income:

€ million	2009	2008
Current service cost	58.1	58.4
Past service cost	–	1.2
Interest cost on pension obligations	93.1	82.8
Expected return on plan assets	-25.6	–27.1
Other effects	-10.8	–3.3
Total amount recognized in income	**114.8**	**112.0**

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 6.5%. 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 2009 would have been € 0.1 million higher or lower.
The actual gain on plan assets amounted to € 63.8 million (2008: loss of € 70.6 million). Apart from the interest component stemming from interest expense on the pension obligations and the expected return on the plan assets, which are disclosed in the financial result, the relevant expense of defined benefit and defined contribution plans is distributed across the individual functional areas.

During the reporting period the present value of the benefit obligations changed as follows:

€ million	benefit obligations funded by provisions	funded benefit obligations	2009	benefit obligations funded by provisions	funded benefit obligations	2008
Present value of all defined benefit obligations on January 1	1,051.5	534.4	1,585.9	1,129.2	536.7	1,665.9
Currency translation differences	2.6	11.4	14.0	–2.7	–32.0	–34.7
Current service cost	27.3	30.8	58.1	31.3	27.1	58.4
Interest cost on pension obligations	64.6	28.5	93.1	58.4	24.4	82.8
Other effects recognized in income	0.7	–11.5	–10.8	–2.0	–5.9	–7.9
Actuarial gains/losses	172.2	44.2	216.4	–108.5	–15.0	–123.5
Pension payments in the reporting period	–57.1	–29.7	–86.8	–57.2	–24.8	–82.0
Transfers/Changes in scope of consolidation/ Other changes	–1.6	9.4	7.8	3.0	23.9	26.9
Present value of all defined benefit obligations on December 31	**1,260.2**	**617.5**	**1,877.7**	**1,051.5**	**534.4**	**1,585.9**

The fair value of the plan asset of all funds changed as follows in the reporting period:

€ million	2009	2008
Fair value of the plan assets on January 1	462.6	520.5
Currency translation differences	10.4	–25.5
Expected return on plan assets	25.6	27.1
Other effects recognized in income	–	–4.6
Actuarial losses/gains	38.2	–97.6
Employer contributions	64.1	44.4
Employee contributions	10.8	9.8
Pension payments in the reporting period	–27.8	–24.8
Transfers/Changes in scope of consolidation/Other changes	–1.3	13.3
Fair value of the plan assets on December 31	**582.6**	**462.6**

In the reporting period, actuarial gains (+) and losses (–) as well as the effects of limiting defined benefit assets in accordance with IAS 19.58 amounting to € –178.1 million (2008: € 31.7 million) were taken to equity, together with other effects totaling € 14.5 million (2008: € 0.0 million). Moreover, € –0.5 million was transferred to retained earnings. As of December 31, 2009, for the aforementioned reasons, a cumulative total of € –297.2 million (2008: € –133.1 million) was taken to equity for the benefit obligations presented here.

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, 2009	Dec. 31, 2008
Debt instruments	43.3	38.4
Equity instruments	34.1	34.4
Real estate	12.0	11.7
Other assets	10.6	15.5

On average, the expected rate of return on debt instruments is 3.8%, on equity instruments 7.4% and on real estate 5.3%. The respective rates of return take into account country-specific conditions and are based, among other things, on interest and dividend income expected over the long term as well increases in the value of the investment portfolio after the deduction of directly allocable taxes and expenses.

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

€ million as of Dec. 31	2009	2008	2007	2006	2005
Present value of the defined benefit obligations	1,877.7	1,585.9	1,665.9	1,607.2	1,491.4
Fair value of the plan assets	–582,6	–462.6	–520.5	–346.2	–276.5
Funded status	**1,295.1**	**1,123.3**	**1,145.4**	**1,261.0**	**1,214.9**

We expect that the payments to beneficiaries from pension plans funded by provisions will amount to around € 72 million in 2010 (2009: € 62 million). Contributions to plan assets will probably amount to around € 24 million (2009: € 24 million).
The cost of ongoing contributions in 2009 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 2009 (2008: € 8.6 million). In addition, employer contributions of € 48.3 million (2008: € 46.2 million) were transferred to the German statutory pension insurance system and € 8.2 million (2008: € 5.5 million) to statutory pension insurance systems abroad.

[31] 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.

As of the balance sheet date, the number of shares issued totaled 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 decreased equity in 2009 by € 20.1 million (2008: increased by € 878.0 million). Accordingly, as of December 31, 2009, cumulative currency translation differences in equity amounted to a gain of € 509.5 million (2008: gain of € 529.6 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 S.A. France, Merck Ltd., Thailand, and PT Merck Tbk, Indonesia.

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 adjusted for trade income tax, on which the appropriation of its profit is based, amounts to € 310.1 million. Merck KGaA transferred € 217.9 million of its profit to E. Merck KG (2008: € 126.5 million). In 2009, € 26.8 million was transferred from Merck & Cie KG to E. Merck KG (2008: € 34.9 million). The profit/loss of E. Merck KG, on which the appropriation of profit/loss is based, amounts to € 1.9 million (2008: € 5.9 million). Consequently, this results in a profit transfer to Merck KGaA of € 0.6 million (2008: € 1.8 million).

For 2008, a dividend of € 1.50 per share was distributed. The dividend proposal for fiscal 2009 will be € 1.00 per share, corresponding to a total dividend payment of € 64.6 million to shareholders.

The following tables show 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**

€ million	Available for sale current and non-current financial assets	Derivative financial instruments	Total
Balance as of January 1, 2009	**–15.0**	**64.1**	**49.1**
Fair value adjustments	37.9	47.5	85.4
Reclassification to income statement	–2.0	–64.8	–66.8
Reclassification to assets	–	–	–
Subsequent measurement in fiscal year	**35.9**	**–17.3**	**18.6**
Deferred taxes recognized in equity	–2.1	0.7	–1.4
Balance as of December 31, 2009	**18.8**	**47.5**	**66.3**

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 IFRS 8 is presented in "Segment Reporting". The segments presented correspond to the internal organizational and reporting structure of the Merck Group. Within the Merck Serono division, we focus on specialist therapeutic areas and markets innovative prescription drugs of chemical and biotechnological origin. The Consumer Health Care division comprises Merck's business with high-quality over-the-counter products for preventive health care and self-treatment of minor ailments. These two divisions form the Pharmaceuticals business sector. The Liquid Crystals division operates the business with materials for displays. The Performance & Life Science Chemicals division operates in three businesses: Laboratory Business consists of the range of laboratory chemicals including all the related analytical certificates. Life Science Solutions offers products and solutions using the latest technological expertise in chemical and biotechnological processes. Pigments develops and manufactures innovative effect pigments. The Liquid Crystals division and the Performance & Life Science Chemicals division form the Chemicals business sector.
The segment Corporate and Other mainly includes the income and expenses that cannot be allocated to the operating segments, e.g. expenses for central administrative functions.
The financial result and taxes on income are also allocated in full to the Corporate and Other segment. The operating segments are described in detail in the sections about the divisions. Apart from total revenues, the success of a segment is mainly determined by the division's operating result as well as free cash flow and the key figures derived from these such as "Underlying free cash flow on revenues (FCR)" and "Return on Sales (ROS)".
Transfer prices for intragroup sales are determined on an arm's-length basis. There were no significant intercompany relations between the business segments.

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

€ million	Dec. 31, 2009	Dec. 31, 2008
Assets	16,712.6	15,644.7
Monetary assets (cash and cash equivalents, loans, securities)	–2,119.7	–895.7
Financial assets covering pensions	–209.6	–
Non-operating receivables, tax receivables, deferred taxes and deferred pension payments	–635.6	–664.2
Operating assets (gross)	**13,747.7**	**14,084.8**
Trade accounts payable	–935.7	–843.7
Other operating liabilities	–465.3	–472.9
Operating assets (net)	**12,346.7**	**12,768.2**

The Performance & Life Science Chemicals division accounted for € 0.1 million (2008: € 0.2 million) and the Corporate and Other segment for € 3.4 million (2008: € –0.8 million) of the investment result disclosed in the income statement. In 2009, no portion of the investment was attributable to the Merck Serono division (2008: € 0.7 million).

NOTES TO THE CASH FLOW STATEMENT

[32] Net cash flows from operating activities

Tax payments in 2009 totaled € 260.1 million (2008: € 289.6 million). Interest expense totaled € 76.9 million (2008: € 95.7 million) and interest income totaled € 26.6 million (2008: € 49.9 million).

[33] Net cash flows from investing activities

A total of € 40.0 million was used for acquisitions and investments in other financial assets (2008: € 78.2 million). Of this amount, € 23.5 million (2008: € 51.9 million) was used for acquisitions. At € 26.3 million, the largest single acquisition was the Suzhou Taizhu China Group. Out of the total purchase price of € 26.3 million, € 19.4 million was paid in 2009. Investments in other financial assets totaled € 16.5 million (2008: € 26.3 million).

€ million	Suzhou Taizhu China Group	Bangalore Genei	Aquacomp EAD	Total
Purchase price	19.4	4.6	2.8	26.8
Cash and cash equivalents acquired	3.3	–	–	3.3
Net cash outflows	**16.1**	**4.6**	**2.8**	**23.5**

There were no cash inflows from divestments of Group companies in 2009.

[34] 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	2009	2008
Dividends to shareholders	–96.9	–206.8
Dividends to minority shareholders	–7.9	–5.7
Dividend payments	**–104.8**	**–212.5**

€ million	2009	2008
Profit transfer in accordance with the Articles of Association from E. Merck KG to Merck KGaA	0.6	1.8
Profit transfer in accordance with the Articles of Association from Merck KGaA to E. Merck KG	–217.9	–126.5
Changes in reserves of Merck KGaA by E. Merck KG	66.3	–80.3
Profit transfer from Merck KGaA to E. Merck KG	**–151.0**	**–205.0**
Profit transfer from Merck & Cie KG to E. Merck KG	–26.8	–34.9
Profit transfer to E. Merck KG	**–177.8**	**–239.9**
Changes in financial liabilities to E. Merck KG	20.6	4.7
Changes in other liabilities to E. Merck KG	–53.2	–295.7
Changes in liabilities to E. Merck KG	**–32.6**	**–291.0**
Cash transfer with E. Merck KG	**–210.4**	**–530.9**

Free cash flow after dividend payments and profit transfers totaled € 529.8 million (2008: € –14.0 million).

[35] Cash and cash equivalents

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

[36] Free cash flow and underlying free cash flow

Free cash flow and underlying free cash flow are indicators 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. In the reconciliation of free cash flow to underlying free cash flow, cash flows for both acquisitions and for divestments are taken into account. In 2009, we made payments totaling € 15.7 million (2008: € 111.0 million) that were associated with the divestment of the Generics business.

OTHER DISCLOSURES

[37] Derivative financial instruments

Merck uses derivative financial instruments exclusively to hedge currency and interest rate positions, and thereby reduce currency and interest rate risks. Foreign currency risks from recognized transactions are largely hedged. Merck currently uses marketable forward exchange contracts and interest rate swaps as hedging instruments. Depending on the nature of the hedging transaction, hedged items are disclosed either in the operating result or, in the case of financial transactions, in the financial result.

The strategy to hedge interest rate and currency fluctuations arising from future transactions is set by a Merck Group currency and interest rate committee, which meets on a regular basis. A review period of up to 36 months normally serves as the basis for entering into currency derivative contracts. Extensive guidelines regulate the use of derivatives. There is a ban on speculation. Derivative transactions are subject to continuous risk management procedures. Trading, settlement and control functions are strictly separated. Derivative financial contracts are only entered into with banks that have a good credit rating.

The following derivative financial positions were held as of the balance sheet date:

	Nominal volume		Fair value	
€ million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008
Cash flow hedge	902.0	936.9	57.6	74.6
Interest	100.0	–	–0.3	–
Currency	802.0	936.9	57.9	74.6
Fair value hedge	520.9	553.5	14.5	2.0
Interest	500.0	500.0	14.6	–0.6
Currency	20.9	53.5	–0.1	2.6
No hedge accounting	2,161.1	3,283.9	8.8	44.9
Currency	2,161.1	3,283.9	8.8	44.9
	3,584.0	**4,774.3**	**80.9**	**121.5**

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, 2009	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2008
Forward exchange contracts	2,598.3	385.7	2,984.0	4,003.6	270.7	4,274.3
Interest rate swaps	–	600.0	600.0	–	500.0	500.0
	2,598.3	**985.7**	**3,584.0**	**4,003.6**	**770.7**	**4,774.3**

The forward exchange contracts that are entered into to reduce the exchange rate risk with a total nominal volume of € 2,984.0 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 (€ 1,336.8 million), the Swiss franc (€ 593.8 million), the Japanese yen (€ 401.5 million), the Taiwanese dollar (€ 177.1 million) and the British pound (€ 210.1 million).
Forecast transactions are only in a cash flow hedging relationship if the occurrence can be assumed to be highly probable. The nominal volume of hedged future transactions amounted to € 902.0 million (2008: € 936.9 milion) 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 costs in Swiss francs. The occurrence of hedged items is expected within the next 36 months.
During the fiscal year, income of € 47.5 million (2008: € 53.9 million) from the fair value measurement of derivatives was recognized in equity. € 64.8 million (2008: € 20.6 million) was transferred from equity and recognized as income (2008: expense).
Due to planned payments that did not materialize, cash flow hedges with a nominal volume of € 28.4 million (€ 79.4 million) were removed from hedge accounting in 2009. Expenses of € 2.6 million (€ 10.9 million) were thus recognized in the financial result. All of the designated hedges as of the balance sheet date were effective.
The interest expense of the euro benchmark bond, which was issued in 2005 with a volume of € 500 million and a coupon of 3.75% was variabilized to the six-month Euribor through interest rate swaps and is measured as a fair value hedge. The fair value measurement of the bond led to an expense of € 15.2 million (2008: € 6.7 million). This was offset by the same amount of income from the interest rate swap.
The interest expense of the private placement of € 100 million made in the context of the debt issuance program in 2009 was fixed by an interest rate swap of 3-month Euribor plus 0.77%, which was carried in the balance sheet as a cash flow hedge. The fair value measurement of the interest rate swap led to an expense of € 0.3 million. This amount was recognized in equity at 100% effectiveness.

[38] 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.
More information on the management of financial risks is provided in the Risk Report, which can be found in the Management Report.

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 2010:

€ million as of Dec. 31, 2009	CHF	GBP	JPY	TWD	USD
Foreign exchange risk from balance sheet items	–167.8	154.7	156.9	57.9	–345.9
Foreign exchange risk from contingent business and anticipated transactions in 2010	–281.3	78.2	158.0	290.1	672.9
Transaction related foreign exchange position	**–449.1**	**232.9**	**314.9**	**348.0**	**327.0**
Position hedged by derivatives	176.0	–172.1	–262.4	–136.1	–7.5
Open-end foreign exchange risk position	**–273.1**	**60.8**	**52.5**	**211.9**	**319.5**
Change in foreign exchange position due to a 10% appreciation of the euro	27.3	–6.1	–5.2	–21.2	–31.9
included in profit/loss	–0.8	–0.3	–0.9	2.4	12.6
recognized in equity	–	2.0	11.4	5.4	22.8

Furthermore, derivatives exist to hedge expected cash flows beyond the year 2010. These would lead to a change in equity amounting to € 11.5 milion im Japanese yen, € 4.1 million in Taiwanese dollars and € 18.5 million in U.S. dollars. In 2008, this would have caused a € 24.6 million change in equity due to the hedging of expected cash flows in Japanese yen beyond the year 2009.

The following table presents the corresponding net currency risk from expected and recognized transactions for 2008:

€ million as of Dec. 31, 2008	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
included in profit/loss	–2.0	1.6	1.1	–0.7	2.9
recognized in equity	–19.0	4.1	17.4	7.6	47.0

Translation risks: Many Merck companies are located 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 € 2.307.3 million(2008: € 1,301.4 million) and monetary deposits of € 2,372.6 million (2008: € 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 € 10.3 million. This corresponds to an increase in interest income of € 17.3 million (2008: € 5.9 million) on financial assets and additional interest expense of € 7.0 million (2008: € 6.9 million) on financial liabilities. The resulting change in the market value of assets recognized at fair value would lower equity by € 5.1 million. In 2008, this interest rate change would have changed the net result by € –1.0 million, while the equity would not have been impacted.

Share price risks

The share portfolio of publicly listed companies amounting to € 74.9 million is generally exposed to a market value risk. A 10% change in the value of the stock market would impact equity by € 7.5 million. These changes in value are recognized in income at the time of disposal.

Liquidity risks

The liquidity risk, meaning 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 € 2,044.6 million (2008: € 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 € 233.1 million (2008: € 467.7 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 and a debt issuance program set up in 2009 with a volume of € 5 billion. Liquidity risks are regularly monitored and reported to the management. Our loan agreements do not contain any financial covenants. Trade payables amounting to € 935.7 million (2008: € 843.7 million) as well as operating liabilities from derivatives amounting to € 1.4 million (2008: € 8.8 million) have a remaining term of less than one year. Out of other financial liabilities amounting to € 275.1 million (2008: € 329.5 million), € 273.3 million (2008: € 324.8 million) are due within one year.

The following tables present the contractually set payments such as repayments and interest on financial liabilities and derivative financial instruments with a negative market value:

		Cash flows 2009		Cash flows 2010–2014		Cash flows 2015–2020	
€ million as of Dec. 31, 2008	Book value	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment
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
Liabilities to related parties	98.2	–	98.2	–	–	–	–
Loans from third parties and other financial liabilities	74.3	3.5	24.2	6.2	40.0	–	10.1
Liabilities from derivatives (financial transactions)	44.9	1.7	40.9	4.9	3.4	–	–
Financial leasing liabilities	9.5	0.1	5.1	0.2	4.4	–	–
	1,346.3	**56.3**	**270.3**	**90.6**	**1,060.5**	**0.6**	**18.0**

		Cash flows 2010		Cash flows 2011–2015		Cash flows 2016–2022	
€ million as of Dec. 31, 2009	Book value	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment
Debt securities and commercial paper	1,990.3	83.6	500.0	170.9	1,350.0	14.1	130.0
Bank loans and overdrafts	87.4	1.6	63.8	3.5	14.8	0.4	5.2
Liabilities to related parties	118.8	–	118.8	–	–	–	–
Loans from third parties and other financial liabilities	82.9	4.2	11.9	8.4	61.2	0.1	9.7
Liabilities from derivatives (financial transactions)	17.5	2.1	16.0	10.6	1.2	–	–
Financial leasing liabilities	10.4	0.7	5.9	0.3	4.5	–	–
	2,307.3	**92.2**	**716.4**	**193.7**	**1,431.7**	**14.6**	**144.9**

Credit risks

Merck is only subject to a very low credit risk, meaning the unexpected loss of payment funds or income. Financial contracts are only entered into with banks with good ratings and the broad-based business structure of the Merck Group means that there is no particular concentration of credit risks. The credit risk with customers is continuously monitored by analyzing the age structure of trade accounts receivable. The theoretically maximum default risk corresponds to the book values.

[39] Other disclosures on financial instruments

The following table presents the reconciliation of the balance sheets items to the classes of financial instruments in accordance with IFRS 7:

€ million	Book value Dec. 31, 2009	Subsequent measurement according to IAS 39				
		Amortized cost	At cost	Fair value	Carrying value according to IAS 17	Non-financial items
Assets						
Cash and cash equivalents	541.4	541.4	–	–	–	–
Marketable securities and financial assets	1,503.2	1,199.1	–	304.1	–	–
Held for trading (non-derivatives)	0.0	–	–	–	–	–
Non-hedging derivatives	27.0	–	–	27.0	–	–
Held to maturity	48.4	48.4	–	–	–	–
Loans and receivables	1,150.7	1,150.7	–	–	–	–
Available-for-sale	262.5	–	–	262.5	–	–
Hedging derivatives	14.6	–	–	14.6	–	–
Trade receivables	1,788.7	1,788.7	–	–	–	–
Loans and receivables	1,788.7	1,788.7	–	–	–	–
Current and non-current other assets	375.1	231.3	–	58.1	–	85.7
Non-hedging derivatives	0.0	–	–	–	–	–
Loans and receivables	231.3	231.3	–	–	–	–
Hedging derivatives	58.1	–	–	58.1	–	–
Non-financial items	85.7	–	–	–	–	85.7
Non-current financial assets	118.4	15.9	48.2	54.3	–	–
Non-hedging derivatives	0.1	–	–	0.1	–	–
Held to maturity	0.0	–	–	–	–	–
Loans and receivables	15.9	15.9	–	–	–	–
Available-for-sale	102.4	–	48.2	54.2	–	–
Hedging derivatives	0.0	–	–	–	–	–
Financial assets covering pensions	209.6	61.1	–	148.5	–	–
Held to maturity	61.1	61.1	–	–	–	–
Available-for-sale	148.5	–	–	148.5	–	–
Liabilities						
Current and non-current financial liabilities	2,307.3	2,279.4	–	17.5	10.4	–
Non-hedging derivatives	17.2	–	–	17.2	–	–
Other liabilities	2,279.4	2,279.4	–	–	–	–
Hedging derivatives	0.3	–	–	0.3	–	–
Finance lease	10.4	–	–	–	10.4	–
Trade accounts payable	935.7	935.7	–	–	–	–
Other liabilities	935.7	935.7	–	–	–	–
Current and non-current other liabilities	655.1	275.1	–	1.4	–	378.6
Non-hedging derivatives	1.1	–	–	1.1	–	–
Other liabilities	275.1	275.1	–	–	–	–
Hedging derivatives	0.3	–	–	0.3	–	–
Non-financial items	378.6	–	–	–	–	378.6

		Subsequent measurement according to IAS 39					
Fair value Dec. 31, 2009	Book value Dec. 31, 2008	Amortized cost	At cost	Fair value	Carrying value according to IAS 17	Non-financial items	Fair value Dec. 31, 2008
541.4	692.7	692.7	–	–	–	–	692.7
	176.8	27.1	–	149.7	–	–	
0.0	0.9	–	–	0.9	–	–	0.9
27.0	90.6	–	–	90.6	–	–	90.6
48.4	27.0	27.0	–	–	–	–	27.0
1,150.7	0.1	0.1	–	–	–	–	0.0
262.5	20.5	–	–	20.5	–	–	20.5
14.6	37.7	–	–	37.7	–	–	37.7
	1,659.4	1,659.4	–	–	–	–	
1,788.7	1,659.4	1,659.4	–	–	–	–	1,659.4
	347.0	214.3	–	47.0	–	85.7	
0.0	0.0	–	–	–	–	–	0.0
231.3	214.3	214.3	–	–	–	–	214.3
58.1	47.0	–	–	47.0	–	–	47.0
	85.7	–	–	–	–	85.7	
	97.4	25.4	25.5	46.5	–	–	
0.1	0.0	–	–	–	–	–	0.0
0.0	10.1	10.1	–	–	–	–	10.1
15.9	15.3	15.3	–	–	–	–	15.3
102.4	72.0	–	25.5	46.5	–	–	72.0
0.0	0.0	–	–	–	–	–	0.0
	–	–	–	–	–	–	
61.1	–	–	–	–	–	–	–
148.5	–	–	–	–	–	–	–
	1,346.3	1,291.9	–	44.9	9.5	–	
17.2	44.9	–	–	44.9	–	–	44.9
2,350.7	1,291.9	1,291.9	–	–	–	–	1,300.9
0.3	0.0	–	–	–	–	–	0.0
10.4	9.5	–	–	–	9.5	–	9.5
	843.7	843.7	–	–	–	–	
935.7	843.7	843.7	–	–	–	–	843.7
	713.8	329.5	–	8.8	–	375.5	
1.1	0.7	–	–	0.7	–	–	0.7
275.1	329.5	329.5	–	–	–	–	329.1
0.3	8.1	–	–	8.1	–	–	8.1
	375.5	–	–	–	–	375.5	

The net result of financial instruments comprises the impact of financial instruments on income. This includes mainly measurement results from currency translation, the adjustment to fair value, write-downs and write-ups as well as the recognition of premiums and discounts. Dividends and interest are not recognized in the net result of financial instruments, except for in the category "held for trading". Interest paid and earned is only included in the category "Financial assets and liabilities at fair value through profit/loss".
The net results of financial instruments by category are as follows:

		Net results			
2008 in € million	Interest	Write-downs	Write-up	Fair value changes	Disposal gains/losses
Financial Instrument of the category					
Held for trading	–	–	–	74.5	–
Held to maturity	3.8	0.0	0.0	–	1.1
Loans and receivables	29.5	–10.1	5.2	–	0.0
Available for sale	2.1	–29.7	0.0	–45.4	29.4
Other liabilities	–68.1	–	–	–	–

		Net results			
2009 in € million	Interest	Write-downs	Write-up	Fair value changes	Disposal gains/losses
Financial Instrument of the category					
Held for trading	–	–	–	18.6	–
Held to maturity	1.1	0.0	0.0	–	0.0
Loans and receivables	30.6	–30.8	2.9	–	0.0
Available for sale	1.9	–2.6	0.0	0.0	1.3
Other liabilities	–92.9	–	–	–	–

In 2009, exchange rate losses of € 9.7 million resulting from receivables and payables in operating business were recognized (2008: gains of € 11.4 million). Income totaling € 3.1 million was recorded for hedging transactions in operating business (2008: expenses of € 18.2 million). Exchange rate losses of € 3.7 million (2008: losses of € 18.4 million) were booked for financial receivables/payables and measures to secure them. A loss of € 3.3 million (2008: € 23.5 million) was booked for hedging of financing transactions.

The fair value of stocks and bonds used to cover pension obligations and to manage liquidity are mainly based on the official market prices and market values quoted on the balance sheet date. The fair value of interest-bearing securities is determined by discounting future cash flows using market interest rates. Forward exchange contracts are carried at fair value. They are measured using market mid spot rates and maturity-related interest premiums or discounts in relation to traded market prices. The fair value of interest rate swaps held for interest rate hedging purposes is determined using standard market valution models using interest rate curves available in the market. Compared with the previous year, there were no changes in the method used to determine fair value.

The fair values of the financial instruments disclosed in our balance sheet were determined as follows:

€ million as of Dec. 31, 2009	Assets	Liabilities
Prices quoted in an active market	**213.4**	**0.0**
thereof available-for-sale	213.4	0.0
Valuation technique including data from observable markets	**351.7**	**–18.9**
thereof available-for-sale	251.8	0.0
thereof hedging derivatives	72.8	–0.6
thereof non-hedging derivatives	27.1	–18.3
Valuation technique based on assumptions not supported by observable market data	**0.0**	**0.0**

[40] Contingent liabilities

€ million	Dec. 31, 2009	thereof subsidiaries	Dec. 31, 2008	thereof subsidiaries
Guarantees	69.0	–	71.2	–
Warranties	1.3	–	1.4	–
Other contingent liabilities	26.2	–	27.9	–

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 as well as to secure the supply of products to public hospitals. As of December 31, 2009, these amounted to € 43.0 million. 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.

[41] Other financial obligations

Other financial obligations comprise the following:

€ million	Dec. 31, 2009	thereof subsidiaries	Dec. 31, 2008	thereof subsidiaries
Obligations to acquire intangible assets	1,207.5	–	1,643.1	–
Orders for capital expenditure on property, plant and equipment	211.0	–	265.1	–
Future operating lease payments	133.3	–	147.4	–
Long-term purchase commitments	8.8	–	8.3	–
Other financial obligations	18.6	–	22.6	–
	1,579.2	**–**	**2,086.5**	**–**

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 € 1,207.5 million (2008: € 1,643.1 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, 2009
Obligations to acquire intangible assets	60.4	309.1	838.0	**1,207.5**

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, 2009
Present value of future payments from finance leases	1.8	8.6	–	10.4
Interest component of finance leases	0.1	0.4	–	0.5
Future finance lease payments	1.9	9.0	–	**10.9**
Future operating lease payments	25.1	70.8	37.4	**133.3**

[42] Personnel expenses/ Headcount

Personnel expenses comprise the following:

€ million	2009	2008
Wages and salaries	1,764.1	1,668.3
Compulsory social security contributions and special financial assistance	266.7	254.2
Pension expenses	98.1	93.0
	2,128.9	**2,015.4**

As of December 31, 2009, the companies of the Merck Group had 33,062 employees (2008: 32,800). The average number of employees during the year was 32,850 (2008: 31,971).

[43] Material costs

Material costs amounted to € 1,182 million (2008: € 1,089 million).

[44] Auditors' fees

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

	2009		2008	
Cost in € million for	Merck Group	thereof KPMG AG and related parties	Merck Group	thereof KPMG AG and related parties
Audits of financial statements	5.2	2.2	5.6	2.6
Other audit-related services	0.4	0.3	0.2	0.0
Tax consultancy services	0.3	0.1	0.4	0.2
Other services	1.0	0.9	0.8	0.6
	6.9	**3.5**	**7.0**	**3.4**

Related parties to KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft are those companies affiliated with KPMG Europe LLP as of December 31, 2009.

[45] 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/corporategovernance) in February 2009 and thus made permanently available.

[46] Companies opting for exemption under Section 264 (3) HGB

The following companies, which have been consolidated in these financial statements, have opted for exemption under Section 264 (3) of the German Commercial Code (HGB):
Chemische Fabrik Lehrte Dr. Andreas Kossel GmbH, Lehrte
Merck Export GmbH, Darmstadt
Merck Pharma GmbH, Darmstadt
Merck Selbstmedikation GmbH, Darmstadt
Merck Shared Services Europe GmbH, Darmstadt
Serono GmbH, Darmstadt
Merck Serono GmbH, Darmstadt

Merck Pharma GmbH, Darmstadt, and Serono GmbH, Darmstadt, were merged with Merck Serono GmbH, Darmstadt.

[47] Related-party disclosures

Related parties in respect of the Merck Group are E. Merck KG as well as Emanuel Merck Vermögens KG and E. Merck Beteiligungen KG. 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, 2009, there were liabilities by Merck Financial Services GmbH, Merck KGaA and Merck & Cie KG, Altdorf, to E. Merck KG in the amount of € 292.6 million (2008: € 332.8 million). In addition, as of December 31, 2009 Merck KGaA had receivables in the amount of € 10.7 million (2008: € 18.0 million) from E. Merck KG and from E. Merck Beteiligungen KG in the amount of € 4.2 million (2008: € 4.5 million). 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 Financial Services GmbH (in 2008: Merck KGaA).

These financial payables of € 118.8 million (2008: € 98.2 million) are subject to standard market interest rates. From January to December 2009, Merck KGaA and Merck Shared Services Europe GmbH performed services for E. Merck KG with a value of € 1.2 million (2008: € 1.2 million), for E. Merck Beteiligungen KG with a value of € 0.4 million (2008: € 0.5 million), and for Emanuel Merck Vermögens KG with a value of € 0.1 million (2008: € 0.1 million). During the same period, E. Merck KG performed services for Merck KGaA with a value of € 0.5 million (2008: € 0.5 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. There were no further material transactions with these pension funds.

From January to December 2009, companies of the Merck Group supplied goods with a value of € 0.3 million (2008: € 0.3 million) to associates. There were no further material transactions with associates in 2009.

There were no additional material transactions such as, for example, the provision of services or the extension of loans, between the 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 members of their immediate families.

(48)
Executive Board and Supervisory Board compensation

The compensation 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 2009, fixed salaries of € 3.5 million (2008: € 2.4 million) and variable compensation of € 4.0 million (2008: € 9.9 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 € 1.6 million (2008: € 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 dividend of € 1.00 per share, the compensation of the Supervisory Board amounting to € 435 thousand (2008: € 586 thousand) consists of a fixed portion of € 123 thousand (2008: € 116 thousand) and a variable portion of € 312 thousand (2008: € 470 thousand).

[49]
Information on preparation and approval

The Executive Board of Merck KGaA prepared the consolidated financial statements on January 28, 2010 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, January 28, 2010

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, the statement of comprehensive income, the cash flow statement, statement of changes in net equity including minority interest, and the notes to the consolidated financial statements together with the group management report, for the business year from January 1 to December 31, 2009. 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 as well as the supplementary provisions of the Articles of Association are the responsibility of the Executive Board of the company. 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 the Executive Board, 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 as well as the supplementary provisions of the Articles of Association 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."

Frankfurt am Main, February 1, 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Bernd Erle
Wirtschaftsprüfer

Manfred Jenal
Wirtschaftsprüfer