NOTES

Company information

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 ultimate parent company and general partner of Merck KGaA with an equity interest of 70.27% as of December 31, 2010. 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.

Reporting principles

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 IFRS Interpretations Committee have been applied.

The following amendments to standards and the following interpretations take effect as of fiscal 2010:

- Amendment to IAS 27 “Consolidated and Separate Financial Statements”
- Amendment to IAS 39 “Financial Instruments: Recognition and Measurement: Eligible Hedged Items”
- Revised version and subsequent amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards”
- Amendment to IFRS 2 “Share-based Payment”
- Revised version of IFRS 3 “Business Combinations ”
- “Improvements to International Financial Reporting Standards” (issued by the IASB in April 2009)
- 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”

The revised version of IFRS 3 was applied to the first-time consolidation of Millipore. The major consequence of this was recognizing acquisition-related costs as expenses. Details on the first-time consolidation of Millipore can be found under “Scope of consolidation”. The other new rules do not have any material effects on the consolidated financial statements.

The following amendments to standards as well as the following interpretation and amendment to an interpretation will take effect as of fiscal 2011:

- Revised version of IAS 24 "Related Party Disclosures"
- Amendment to IAS 32 "Financial Instruments: Presentation – Classification of Rights Issues"
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters"
- 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"

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), but not yet adopted by the EU:

- IFRS 9 "Financial Instruments"
- Amendment to IAS 12 "Income taxes"
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- Amendment to IFRS 7 "Financial Instruments: Disclosures"
- "Improvements to International Financial Reporting Standards" (issued by the IASB in May 2010)

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. We currently 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, 236 (2009: 176) German and foreign companies are fully consolidated in the annual financial statements of the Merck Group. Of these companies, 214 (2009: 154) are located abroad. Due to the first-time consolidation of Millipore, the number of fully consolidated companies increased by 62. Ten companies were consolidated for the first time due to their formation or increased importance to the Merck Group, and twelve companies were deconsolidated, four of which were the result of a company merger. Four companies were liquidated; one company was deconsolidated due to secondary importance. In addition, three companies were deconsolidated as a result of the Théramex divestment. No companies are currently consolidated on pro rata basis. With the first-time consolidation of Millipore, a further associate has been added. Consequently, two associates are now included using the equity method.

Due to secondary importance 27 (2009: 32) subsidiaries are not consolidated. The impact of these subsidiaries on sales, profit after tax, assets and equity is less than 1% relative to the entire Merck Group. The interests in subsidiaries not consolidated due to secondary importance are measured at cost and presented under non-current financial assets. A list of all the Merck Group's sharehold-ings can be found in Note [54].

Acquisition of Millipore

On July 14, 2010, Merck successfully completed the acquisition of 100% of the shares in Millipore Corporation, a leading life science company based in Billerica, Massachusetts, USA. The Millipore companies were then consolidated for the first time in the financial statements of the Merck Group. The combination with Millipore makes it possible to cover the entire value chain for pharmaceutical and biopharmaceutical customers. Offering integrated solutions that extend beyond the existing Merck Chemicals portfolio will create new growth opportunities for Merck. The total purchase purchase price amounted to EUR 5,137.1 million and was paid in cash. It consists of the payment of EUR 4,611.9 million for the outstanding shares as well as existing options from stock option plans and a payment of EUR 525.2 million to buy back the outstanding convertible bond of the Millipore Corporation. Acquisition-related costs of EUR 31.2 million were incurred, which were reported under “Other operating expenses” as project costs. On February 28, 2010 Merck had announced its intention to acquire Millipore for USD 107 in cash per share of Millipore common stock. The closing followed the approval of the acquisition by Millipore's shareholders at a special meeting held on June 3, 2010 and the satisfaction of other customary conditions, including antitrust clearance in the United States and Europe. Millipore was delisted from the New York Stock Exchange on July 26, 2010. Likewise, an application for deregistration from the U.S. Securities and Exchange Commission (SEC) was filed on July 26, 2010. The deregistration took effect on October 13, 2010.

Within the scope of the following overview of the purchase price allocation in accordance with IFRS 3, the acquired assets, liabilities and contingent liabilities have been recognized at fair values in the balance sheet:

EUR million	Fair value on the acquisition date
Current assets	
Cash and cash equivalents, marketable securities and other financial assets	300.0
Inventories	265.5
Receivables	257.0
Other current assets	13.8
	836.3
Non-current assets	
Goodwill	2,704.4
Other intangible assets	2,559.5
Property, plant and equipment	474.2
Investments at equity	2.2
Other non-current assets	3.2
Deferred tax assets	96.3
	5,839.8
Assets	**6,676.1**
Current liabilities	
Current financial liabilities	574.8
Other current liabilities	341.7
	916.5
Non-current liabilities	
Non-current financial liabilities	288.4
Provisions for pensions and other post-employment benefits	54.9
Other non-current liabilities	20.3
Deferred tax liabilities	790.2
	1,153.8
Liabilities	**2,070.3**
Net assets acquired	**4,605.8**
Non-controlling interest	**6.1**
Net assets acquired/purchase price	**4,611.9**
Equity-like purchase price components (convertible bond)	**525.2**
Purchase price including convertible bond	**5,137.1**

The most significant impact of the purchase price allocation on the balance sheet and the income statement results from the fair value adjustment of intangible assets and inventories. The adjustments to intangible assets relate mainly to the measurement of the existing customer relationships, technologies, trademarks and brands as well as ongoing development projects. The amortization of intangible assets resulting from the acquisition of Millipore is disclosed in the income statement under "Amortization of intangible assets". Additionally, fair value adjustments totaling EUR 85.8 million were made in respect of Millipore inventories acquired as part of the acquisition. The complete turnover of these inventories by December 31, 2010 led to additional cost of sales, which compares with the sales generated by the acquired inventories. As a result, sales of the acquired inventories did not generate any additional income. The gross amounts of the acquired receivables amounted to EUR 259.7 million as of the acquisition date. The best possible estimate of the irrecoverable debts was EUR 2.7 million. The deferred tax liabilities disclosed relate in particular to the step-up of intangible assets and inventories. The remaining difference between the purchase price, including the convertible bond, of EUR 5,137.1 million and fair values of EUR 2,432.7 million is reported as goodwill. Goodwill attributable to non-controlling interest was not capitalized. Goodwill attributable to the shareholders of Merck KGaA mainly includes the expertise of the workforce, market share increases, as well as synergies from combining the two companies, and amounts to EUR 2,704.4 million. Synergies are primarily expected in the areas of administration, purchasing, production as well as by combining certain subsidiaries abroad. Goodwill is being allocated equally in U.S. dollars and euros because we expect that the level of synergies and future positive earning contributions will be roughly equivalent in these two key currency zones. The fair value adjustments made as part of the purchase price allocation as of December 31, 2010 are still to be considered as preliminary. Only the measurement of inventories as of the first-time consolidation has been finalized. Accounting-relevant analyses and calculations have not yet been completed for all other balance sheet items. Therefore, adjustments to these items could occur in 2011 as a result of new information.

The impact of the consolidation of Millipore on total revenues as well as the operating result was EUR 640.4 million and EUR –20.8 million, respectively. The operating result also includes amortization of intangible assets remeasured within the scope of the purchase price allocation as well as higher cost of sales due to the step-up of the acquired inventories to fair values. Additionally, restructuring expenses and integration costs of EUR 87.3 million were incurred in 2010.

Had Millipore been included in the consolidated financial statements of the Merck Group as of January 1, 2010, for the period from January 1 to December 31, 2010, total revenues and profit after tax would have amounted to EUR 9,974 million and EUR 682 million, respectively. The calculation of these figures assumed that the adjustments of the book values as a result of the purchase price allocation would have been identical. Consequently, amortization of intangible assets is included for twelve months. The step-up of the acquired inventories to fair values – in accordance with the assumed inventory turnover period – has been taken into consideration in full. The information on the hypothetical consolidation of the Millipore Group as of January 1, 2010 in the consolidated financial statements of the Merck Group is required under IFRS and only intended for comparability purposes. The comparison does not necessarily present a development that would have resulted had the Millipore Group actually been consolidated as of January 1, 2010. Nor are these statements intended to project future events or results.

Further acquisitions

At the end of December 2010, Merck acquired 100% of the share capital in Beijing Skywing Technology Co., Ltd., Beijing, China. The acquired company, which has been assigned to the Merck Millipore division, is a leading supplier to the Chinese biopharmaceutical industry. The payment of the purchase price of EUR 13.6 million will be made in 2011 as contractually agreed. Therefore, a corresponding liability was recognized in the balance sheet as of December 31, 2010. The company will be consolidated for the first time in 2011.

Divestment of Théramex

Pursuant to a contract dated October 28, 2010, Merck sold Théramex, a Monaco-based pharmaceutical company specialized in women's health and gynecology, to Asaph Farmaceutische Onderneming B.V., Teva Italia S.r.l. and Teva Pharmaceuticals Ltd. (collectively "Teva"). Teva took over all the activities of Théramex, including 100% of the shares in two subsidiares, for EUR 269.3 million. The contract was subject to not only the customary closing conditions, but especially the condition precedent that antitrust clearance be obtained in the respective countries. Antitrust clearance from the French authorities was granted on December 20, 2010 as the final condition for the closing. The payment of the purchase price was made on January 5, 2011 as agreed. Consequently, a corresponding receivable was recognized in the balance sheet as of December 31, 2010. The sale includes the marketing rights to Théramex products in a number of countries, including Spain and Brazil. Merck Serono will continue to market Théramex products in certain other countries. Apart from the payment of the purchase price, Merck is entitled to certain performance-related milestone payments. Merck generated a gain of EUR 68.6 million from the sale, which was disclosed in the income statement under exceptional items. The divested business of Théramex contributed around EUR 84 million to Group sales in 2010.

The divestment of Théramex had the following effect on the consolidated balance sheet:

EUR million	2010
Current assets	
Cash and cash equivalents	9.2
Receivables	15.8
Inventories	22.4
Other current assets	2.0
	49.4
Non-current assets	
Goodwill	159.0
Property, plant and equipment	7.3
Other non-current assets	1.5
	167.8
Assets	**217.2**
Current liabilities	
Trade accounts payable	10.6
Other current liabilities	5.7
	16.3
Non-current liabilities	**8.3**
Liabilities	**24.6**
Net assets	**192.6**
Selling price / receivable	**269.3**
Gain before transaction costs	**76.7**
Transaction costs and other costs	**8.1**
Gain from divestment	**68.6**

ACCOUNTING POLICIES

With the exception of the presentation changes described below, the accounting policies have remained unchanged in comparison with 2009. In 2010, Merck started to report royalty, license and commission expenses separately in the income statement. These expenses were so far reported under marketing and selling expenses.

Assumptions and estimates

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. Changes to estimates are taken into account in the period in which the change was made as well as in later periods insofar as the change relates to both the reporting period and later periods. 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, 2010, 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 an impairment test if there are indications of impairment, or at least once a year.

In cases where a company was not acquired in full, the pro rata carrying value of the non-controlling interest is recognized.

When additional shares in non-controlling interest are acquired, the difference between the purchase price and the book value of this interest is recognized immediately in equity.

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 these 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, 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. Any currency translation differences arising during consolidation of Group companies are taken directly to equity. 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 2010, the reporting currency of our subsidiary Merck Serono S.A., Geneva, Switzerland, was changed from Swiss francs to euros. This move reflects the fact that the transactions of this subsidiary are now primarily conducted in the new reporting currency.

Currency translation is based on the following key exchange rates:

	Average annual rate		Closing rate	
1 EUR =	2010	2009	Dec. 31, 2010	Dec. 31, 2009
British pound (GBP)	0.858	0.895	0.861	0.888
Chinese renminbi (CNY)	8.995	9.545	8.818	9.807
Japanese yen (JPY)	116.583	130.329	108.670	133.283
Swiss franc (CHF)	1.380	1.506	1.253	1.485
Taiwanese dollar (TWD)	41.787	45.926	38.938	45.951
U.S. dollar (USD)	1.329	1.396	1.336	1.436

Recognition of sales and other revenue

Sales are recognized net of related taxes as well as revenue-lowering items. They are deemed realized once the goods have been 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. When sales are recognized, estimated amounts are set aside for expected revenue-lowering items, for example rebates, discounts and returns.

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, royalty, license and commission income is 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 division and region 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 achievement 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 non-derivative and derivative financial instruments.

Derivatives can be embedded in other financial instruments or in non-financial 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, independent 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 non-derivative 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 non-derivative 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 non-derivative 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 non-derivative 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 non-interest-bearing and low-interest receivables are measured at their present value. Merck primarily assigns trade receivables, loans, and miscellaneous other current and non-current 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 non-derivative 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 immediately 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 immediately in the income statement, including any amounts already recognized in equity. Reversals of impairment losses on previously impaired equity instruments are recognized immediately 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 determined 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 non-derivative 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 non-derivative current and non-current 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 classed in accordance with IFRS 7. See Note [42] 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 IFRS 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 equity 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 [40] 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 depreciation 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. 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 division as presented under Segment Reporting.

The carrying amounts of the cash-generating units are compared with their recoverable amounts and impairment losses are recognized where the 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. Initially, 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, with the exception of Merck Millipore. Business plans assuming growth rates of 3.8% were used to measure the goodwill of the Merck Millipore division in order to take the specific business and the imminent growth prospects thereof into account. The expected future cash flows are discounted using a weighted average cost of capital (WACC) of 8.5% (2009: 7.5%). A 10% reduction in future cash flows was assumed when calculating sensitivity. We regard greater volatility as unlikely based on our experience. Even if the actual future cash flows were 10% lower than the expected cash flows, there would be no need to record impairment losses for goodwill.

Any impairment losses on other intangible assets with indefinite useful lives are calculated in the same way as for goodwill.

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 patents, licenses and similar rights, 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 Serono and Millipore purchase price allocations, but also to a certain extent amortization of other intangible assets. Amortization of software is allocated to the functional costs 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. Depreciation of property, plant and equipment is based on the following useful lives:

Useful life of property, plant and equipment	Useful life
Production buildings	maximum of 33 years
Administration buildings	maximum of 40 years
Plant and machinery	6 to 20 years
Other facilities	3 to 10 years
Operating and office equipment	3 to 10 years

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 way 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. As of December 31, 2010, an investment property with a value of EUR 5.5 million (2009: EUR 5.3 million) was concerned. It was recognized under "Land, land rights and buildings including buildings on third-party land".

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 enacted and published 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 balance sheet date. 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 obligations. These provisions also contain other post-employment benefits, such as accrued future health care 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. Consequently, the balance sheet discloses the full scope of the obligations while avoiding the fluctuations in expenses that can result especially when the calculation parameters change. The actuarial gains and losses recorded in the respective reporting period are presented 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 EUR 8,928.9 million in 2010, which represents an increase of 21.0% compared to 2009. Adjusted for the impact of currency and acquisitions, primarily as a result of the Millipore acquisition, organic growth amounted to 8.5%. Sales are presented by business sector, division and region in the Segment Reporting.

[2] Royalty, license and commission income

In 2010, royalty and license income totaled EUR 339.4 million (2009: EUR 344.9 million) and mainly included royalty and license income from the products Avonex® (Biogen Idec), Humira® (Abbott), Enbrel® (Amgen), Puregon® (Merck & Co.) and vilazodone (Clinical Data), as well as income from the active pharmaceutical ingredients bisoprolol and metformin.
In 2010, commission income totaled EUR 22.3 million (2009: EUR 24.4 million). This primarily consisted of cooperation and distribution agreements, such as for Ikorel® (Sanofi-Aventis), Euthyrox® (Bracco) and Allergan products. The breakdown of royalty, license and commission income by business sector and division is presented in the Segment Reporting.

[3] Cost of sales

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. The Millipore inventories from the acquisition were stepped up by EUR 85.8 million to fair values as of the first-time consolidation. This amount was fully expensed in cost of sales in the second half of 2010 and had a one-time negative impact on gross margin.

[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 and logistics. The increase comparied to 2009 is due largely to the first-time consolidation of Millipore. The breakdown of marketing and selling expenses by business sector and division is presented in the Segment Reporting.

[5] Royalty, license and commission expenses

In 2010, royalty and license expenses amounted to EUR 179.5 million (2009: EUR 156.2 million) and commission expenses totaled EUR 297.5 million (2009: EUR 256.8 million). The breakdown of royalty, license and commission expenses by business sector and division is presented in the Segment Reporting.

[6] 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. The increase in administration expenses is due among other things to the first-time consolidation of Millipore as well as currency effects. The breakdown of administration expenses by business sector and division is presented in the Segment Reporting.

[7]
Other operating expenses and income

Other operating expenses and income comprise the following:

EUR million	2010	2009
Litigation	–89.2	–166.9
Project costs	–79.2	–69.3
Impairment losses	–65.5	–37.9
Restructuring and integration costs	–64.4	–14.5
Bonuses, fees and contributions	–52.8	–46.7
Non-income-related taxes	–23.7	–19.5
Write-downs of receivables	–19.7	–30.8
Special environmental protection costs	–10.7	–4.6
Losses on disposals of assets	–3.0	–5.5
Exchange rate differences from operating activities	–	–6.6
Other operating expenses	–118.6	–64.7
Total other operating expenses	**–526.8**	**–467.0**
Gains from disposals of assets	37.6	10.7
Payments for services performed	26.8	17.3
Exchange rate differences from operating activities	24.7	–
Release of write-downs of receivables	10.0	2.9
Write-ups	–	0.2
Other operating income	37.3	63.2
Total other operating income	**136.4**	**94.3**
Other operating expenses and income	**–390.4**	**–372.7**

Integration costs for Millipore totaled EUR 87.3 million, of which EUR 33.9 million was recorded under “Project costs”. This includes acquisition-related costs of EUR 31.2 million. A further EUR 53.4 million was recorded under “Restructuring and integration costs.” This amount includes impairment losses on property, plant and equipment amounting to EUR 5.7 million. In addition to the costs in connection with the acquisition of Millipore, 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. The increase in impairment losses compared to 2009 is primarily attributable to the termination of research projects and research collaborations, as well as altered market estimates and the resulting decline in expected sales. Property, plant and equipment accounted for impairment losses of EUR 18.0 million and intangible assets for EUR 47.5 million. Other operating expenses include, among other things, expenses for services performed for third parties as well as costs from ancillary business. Other operating income includes, among other things, income from ancillary business such as rental and leasing agreements as well as income from catering services. The breakdown of other operating expenses and income by business sector and division is presented in the Segment Reporting.

[8] Research and development

Research and development costs rose in 2010 by 3.9% to EUR 1,397.1 million. The increase relates entirely to the Chemicals divisions, including Merck Millipore. Reimbursements for R&D amounting to EUR 21.9 million (2009: EUR 13.3 million) were offset against research and development costs. The breakdown of research and development costs by business sector and division is presented in the Segment Reporting.

[9] Amortization of intangible assets

Due to the particular significance of the amortization of intangible assets, this item is disclosed separately in the income statement. It primarily comprises amortization and impairment losses in connection with the purchase price allocations resulting from the Serono and Millipore acquisitions. In 2010, this amount includes EUR 579.4 million for the amortization of intangible assets of Merck Serono and EUR 95.8 million for the first-time amortization of intangible assets of Merck Millipore. Additionally, impairment losses of EUR 134.0 million were incurred owing to a reassessment of the future sales potential of safinamide. The reassessment was based on the results of a Phase III study conducted by our development partner Newron, which led to a reevaluation of the market potential, especially with regard to the achievable indications. The decision also takes into account a delay in the project and an increase in R&D costs due to more stringent regulatory requirements. To a lesser extent this item also includes amortization of other intangible assets, for example from milestone payments. Amortization of software is allocated to functional costs instead.

[10] Investment result

EUR million	2010	2009
Investment result from associates (equity method)	0.9	0.1
Other investment income/expense	3.2	3.4
	4.1	**3.5**

[11] Exceptional items

Exceptional items comprise:

EUR million	2010	2009
Gain from divestment of Théramex	68.6	–
Litigation Dey Inc., USA	–67.2	–
Selling price adjustments for the Electronic Chemicals business	–1.2	–
Transaction costs divestment of the Crop BioScience business	–1.0	–
Exit cost Raptiva®	–	–39.7
Divestment of natural substances business in Brazil	–	10.6
Release of provisions	–	1.1
Exceptional items	**–0.8**	**–28.0**

The gain on the sale of Théramex amounting to EUR 68.6 million is recorded under this item. More information on this transaction can be found under "Scope of consolidation". In connection with litigation relating to our former subsidiary Dey Inc., USA, having allegedly reported certain price information falsely, a settlement payment was made to the U.S. Department of Justice in 2010. The resulting expenses of EUR 67.2 million were recorded as an exceptional item. Although Dey Inc. was transferred to Mylan, Inc., USA, as part of the sale of the Generics business in 2007, Merck remains liable to Mylan for the costs of this litigation (see Note [32]).

Transaction costs of EUR 1.0 million already incurred in 2010 in relation to the announced divestment of the Crop BioScience business are likewise included under this item.
In 2010, "Exceptional items" also include expenses of EUR 1.2 million related to the sale of the Electronic Chemicals business in 2005. This figure includes reimbursements of subsequent taxes to the buyer.
The breakdown of exceptional items by business sector and division is presented in the Segment Reporting.

[12] Financial result

The change in the financial result is mainly attributable to the interest expenses arising in connection with the financing of the Millipore acquisition.

EUR million	2010	2009
Interest income and similar income	33.0	33.6
Interest expenses and similar expenses	–208.9	–88.7
Interest component from currency hedging transactions	–11.8	–3.3
	–187.7	**–58.4**
Interest component of the additions to pension provisions and other non-current provisions	–72.2	–74.4
Exchange rate differences from financing activities	1.1	–3.8
Income from financial interests	7.2	2.1
	–251.6	**–134.5**

[13] Income tax

EUR million	2010	2009
Current taxes in the period	–329.8	–270.8
Current taxes in the period on exceptional items	–0.1	6.1
Taxes for previous periods	–8.8	–6.3
Deferred taxes in the period	120.5	166.2
Deferred taxes in the period on exceptional items	–1.4	–4.9
	–219.6	**–109.7**
Tax ratio	25.5%	22.6%
Tax ratio before exceptional items	25.3%	21.6%

The tax expense consists of corporation and trade income taxes for the companies domiciled in Germany as well as comparable income taxes for foreign companies. Changes in tax rates at individual companies resulted in total deferred tax expense of EUR –0.1 million (2009: EUR 2.6 million tax income).

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

EUR million	2010	2009
Change in deferred tax assets (balance sheet)	47.7	65.3
Change in deferred tax liabilities (balance sheet)	–617.0	132.7
Deferred taxes credited/debited to equity	–54.2	–38.9
Changes in scope of consolidation/currency translation/Other changes	742.6	2.2
Deferred taxes (income statement)	**119.1**	**161.3**

At EUR 693.9 million, "Changes in scope of consolidation/currency translation/Other changes" are mainly due to the first-time consolidation of Millipore. The other changes were primarily the result of fluctuations in the exchange rates of the U.S. dollar and the Swiss franc.

Tax loss carryforwards are structured as follows:

	Dec. 31, 2010			Dec. 31, 2009		
EUR million	Germany	Abroad	Total	Germany	Abroad	Total
Tax loss carryforwards	2.0	194.2	**196.2**	164.3	121.9	**286.2**
thereof:						
Including deferred tax asset	–	125.7	**125.7**	98.2	32.4	**130.6**
Deferred tax asset	–	39.2	**39.2**	14.5	8.3	**22.8**
thereof:						
Excluding deferred tax asset	2.0	68.5	**70.5**	66.1	89.5	**155.6**
Theoretical deferred tax asset	0.5	20.5	**21.0**	10.5	17.1	**27.6**

The decrease in tax loss carryforwards compared to 2009 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 benefits is probable in the foreseeable future.

The vast majority of the tax 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 from 2009 amounting to EUR 7.5 million were fully utilized in 2010. In 2010, the income tax expense was reduced by EUR 20.0 million (2009: EUR 15.6 million) due to the utilization of tax loss 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 EUR 1.5 million (2009: EUR 73.8 million) and to EUR 0.5 million (2009: EUR 90.5 million) for trade tax.

The additional theoretically possible deferred tax assets amounted to EUR 21.0 million (2009: EUR 27.6 million).

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

	Dec. 31, 2010		Dec. 31, 2009	
EUR million	Assets	Liabilities	Assets	Liabilities
Intangible assets	33.7	1,374.3	31.8	704.2
Property, plant and equipment	15.6	88.1	7.3	68.2
Current and non-current financial assets	5.9	19.3	2.6	15.7
Inventories	305.6	3.7	242.0	5.0
Current and non-current receivables/ Other assets	44.6	2.8	22.4	11.9
Provisions for pensions and other post-employment benefits	129.7	18.1	87.2	11.9
Current and non-current other provisions	169.4	15.2	172.0	9.4
Current and non-current liabilities	27.8	5.8	17.6	6.1
Tax loss carryforwards	39.2	–	22.8	–
Tax refund claims/Other	58.2	89.8	20.0	11.4
Offset deferred tax assets and liabilities	–236.6	–236.6	–80.3	–80.3
Total deferred taxes	**593.1**	**1,380.5**	**545.4**	**763.5**

Deferred tax liabilities of EUR 16.7 million (2009: EUR 11.4 million) were set up for temporary differences for interests in subsidiaries. These relate to planned dividend payments. Additionally, a deferred tax claim of EUR 3.0 million was recognized for the announced divestment of Crop BioScience. 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 EUR 553.9 million (2009: EUR 522.6 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 the income statement. The theoretical tax expense is determined by applying the statutory tax rate of 30.7% of a corporation headquartered in Darmstadt.

EUR million	2010	2009
Consolidated profit before tax	861.1	486.4
Exceptional items	–0.8	–28.0
Consolidated profit before tax and exceptional items	**861.9**	**514.4**
Tax rate	30.7%	30.7%
Theoretical tax expense before exceptional items	–264.6	–157.9
Tax rate differences	45.7	4.8
Tax effect of companies with a negative contribution to consolidated profit	–9.0	–3.5
Tax for other periods	–8.8	–6.3
Tax credits	22.9	28.1
Tax effect on tax loss carryforwards	25.8	39.3
Effect of non-deductible expenses/tax-free income/other tax effects	–30.1	–15.4
Tax expense before exceptional items	**–218.1**	**–110.9**
Tax ratio before exceptional items	25.3%	21.6%
Taxes on exceptional items	–1.5	1.2
Tax expense according to income statement	**–219.6**	**–109.7**
Tax ratio according to income statement	25.5%	22.6%

[14] Non-controlling interest

Non-controlling 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, Merck (Pvt.) Ltd., Pakistan, and Allergopharma J. Ganzer KG, Germany.

[15] Earnings per share

Basic earnings per share are calculated by dividing the net profit after non-controlling 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 EUR 168.0 million is divided into 64,621,126 shares. Accordingly, the general partner's capital of EUR 397.2 million is divided into 152,767,813 theoretical shares. Overall, the total capital thus amounts to EUR 565.2 million or 217,388,939 theoretical shares outstanding.

As of December 31, 2010 there were no potentially dilutive shares.

	2010	2009
Net profit after non-controlling interest (EUR million)	632.1	366.3
Weighted average number of theoretical shares outstanding (in millions)	217.4	217.4
Basic earnings per share (EUR)	**2.91**	**1.68**

NOTES TO THE BALANCE SHEET

[16] Cash and cash equivalents

This item comprises:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Cheques, cash and bank balances	233.6	282.9
Short-term cash investments	710.1	258.5
	943.7	**541.4**

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 EUR 8.6 million (2009: EUR 4.5 million).
Short-term cash investments mainly comprise fixed-term deposits with banks that have a very good credit rating. In 2010, the average interest rate on all investments was 1.8%.

[17] Marketable securities and financial assets

This item comprises the following categories:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Financial investments held to maturity	22.7	48.4
Available-for-sale financial investments	11.3	262.5
Short-term financial investments/loans to third parties	0.3	1,150.7
Derivative assets (financial transactions)	21.3	41.6
	55.6	**1,503.2**

The significant decline in marketable securities and financial assets is related to the financing of the Millipore acquisition.
Loans to third parties were neither adjusted (2009: EUR 1.3 million) nor past due. Owing to the receipt of a payment amounting to EUR 1.1 million in 2010, the adjustment reported in 2009 was restated by this amount. The balance of EUR 0.2 million was derecognized. Fair value adjustments of EUR –2.0 million, which were recognized in equity, were made on "available-for-sale financial investments" (2009: EUR +2.0 million).

[18] Trade accounts receivable

This item comprises:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Receivables from affiliates	0.3	0.6
Receivables from associates	0.8	–
Receivables from third parties	2,295.2	1,788.1
	2,296.3	**1,788.7**

The increase in trade accounts receivable resulted in particular from the first-time consolidation of the Millipore companies.

Trade accounts receivable past due are as follows:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Neither impaired nor past due	1,659.0	1,314.9
Past due, but not impaired		
up to 3 months	265.7	209.1
up to 6 months	107.4	80.4
up to 12 months	96.4	64.2
over 1 year	109.5	56.2
Impaired	58.3	63.9
Book value	**2,296.3**	**1,788.7**

The corresponding write-downs developed as follows:

EUR million	2010	2009
January 1	**–46 .0**	**–16.6**
Additions (net)	–10.8	–27.9
Utilizations	5.2	1.9
Currency translation and other changes	–7.3	–3.4
December 31	**–58.9**	**–46.0**

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.

[19] Inventories

This item comprises:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Raw materials and production supplies	189.7	174.1
Work in progress, finished goods and goods purchased for resale	1,483.8	1,193.8
Advance payments	–	–
	1,673.5	**1,367.9**

Write-downs of inventories amounted to EUR 138.7 million in 2010 (2009: EUR 141.7 million). As of balance sheet date, the fair value of inventories that were written down amounts to EUR 757.5 million (2009: EUR 526.3 million). In 2010, inventory write-ups of EUR 27.0 million were recorded. Inventories amounting to EUR 2,385.4 million (2009: EUR 2,029.3 million) w≠ere recognized as an expense in the reporting period. As of the balance sheet date, no inventories were used to secure liabilities.

[20] Other assets

Other receivables and other assets include an amount of EUR 269.3 million from the sale of Théramex (see "Scope of consolidation – Divestment of Théramex") and mainly prepayments as well as interest deferrals. In 2010, a separate line item was introduced for non-income-related taxes (mainly value added tax). The previous year's figures have been adjusted.

Other assets comprise the following:

EUR million	current	non-current	Dec. 31, 2010	current	non-current	Dec. 31, 2009
Receivables from third parties	385.6	2.1	387.7	76.5	2.1	78.6
Receivables from related parties	17.0	–	17.0	14.9	–	14.9
Receivables from affiliates	2.4	–	2.4	–	–	–
Other receivables	**405.0**	**2.1**	**407.1**	**91.4**	**2.1**	**93.5**
Receivables from non-income related taxes	72.8	36.0	108.8	83.3	54.5	137.8
Prepaid expenses	48.2	2.7	50.9	48.9	3.7	52.6
Refund claims on plan assets	18.8	–	18.8	15.2	–	15.2
Derivative assets (operational)	2.2	0.4	2.6	29.5	28.6	58.1
Other assets	17.7	11.7	29.4	7.3	10.6	17.9
	564.7	**52.9**	**617.6**	**275.6**	**99.5**	**375.1**

Other receivables from third parties past due are as follows:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Neither impaired nor past due	345.0	68.7
Past due, but not impaired		
up to 3 months	8.4	7.8
up to 6 months	4.8	1.3
up to 12 months	0.6	0.2
over 1 year	2.0	0.6
Impaired	26.9	–
Book value	**387.7**	**78.6**

A settlement payment was made to the U.S. Department of Justice in 2010 in connection with the litigation of our former subsidiary Dey, Inc., USA, which we sold to Mylan (see Note [32]). Insofar as this payment is tax-deductible, Merck is entitled to claim reimbursement from Mylan in the amount of the tax credit. The exact amount cannot be definitively determined at this point in time. Merck wrote down this claim by EUR 52.6 million to a residual value of EUR 26.9 million. The expense resulting from this write-down is recorded under "Exceptional items". Write-ups of other receivables from third parties were not necessary in either 2010 or 2009. With regard to other receivables that are neither impaired nor delayed, as of the reporting date there are no indications that the debtors will not meet their payment obligations.

[21]
Tax receivables

Tax receivables amounted to EUR 93.7 million (2009: EUR 55.3 million) and resulted from tax prepayments that exceed the actual amount of tax payable for 2010 and prior fiscal years, and from refund claims for prior years as well as withholding tax credits.

[22]
Assets held for sale and liabilities directly related to assets held for sale

Merck announced on December 20, 2010 the sale of the Crop BioScience business, which was part of the Performance Materials division, to Novozymes A/S, Denmark. The agreement is subject to customary regulatory approvals. The transaction is expected to close at the beginning of 2011. The Crop BioScience business generated sales of around EUR 46 million in 2010. For this item, EUR 36.7 million was disclosed in the consolidated balance sheet as of December 31, 2010 as assets held for sale and EUR 5.9 million as liabilities directly related to assets held for sale.

The following table presents this item in more detail:

EUR million	Dec. 31, 2010
Current assets	
Cash and cash equivalents	1.2
Inventories	4.6
Receivables	10.6
Other current assets	0.6
	17.0
Non-current assets	
Intangible assets	13.4
Property, plant and equipment	4.4
Other non-current assets	1.9
	19.7
Assets held for sale	**36.7**
Current liabilities	
Trade accounts payable	1.0
Other current liabilities	4.7
	5.7
Non-current liabilities	**0.2**
Liabilities directly related to assets held for sale	**5.9**

[23] Intangible assets

EUR million	Patents, licenses and similar rights, brands, trademarks and other: Finite useful life	Patents, licenses and similar rights, brands, trademarks and other: Indefinite useful life	Goodwill	Software	Advance payments	Total
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**
Acquisition cost January 1, 2010	**7,598.7**	**501.3**	**1,982.7**	**212.8**	**32.9**	**10,328.4**
Currency translation	704.5	37.0	89.4	14.5	1.7	847.1
Changes in scope of consolidation	2,534.9	9.3	2,545.3	11.3	–	5,100.8
Additions	23.0	20.8	–	17.3	43.1	104.2
Disposals	–10.1	–0.5	–	–27.2	–0.1	–37.9
Transfers	76.5	–76.3	4.9	48.4	–35.7	17.8
Reclassification to assets held for sale	–29.8	–	–	–0.3	–	–30.1
December 31, 2010	**10,897.7**	**491.6**	**4,622.3**	**276.8**	**41.9**	**16,330.3**
Accumulated amortization and impairment losses January 1, 2010	**–2,419.2**	**–138.9**	**–38.8**	**–133.1**	**–**	**–2,730.0**
Currency translation	–234.8	–10.3	0.2	–11.2	–	–256.1
Changes in scope of consolidation	1.2	–	–	2.2	–	3.4
Amortization and impairment losses	–701.7	–164.4	–	–40.1	–	–906.2
Disposals	7.7	–	–	26.3	–	34.0
Transfers	0.1	–	–3.6	–4.5	–	–8.0
Write-ups	–	–	–	–	–	–
Reclassification to assets held for sale	16.4	–	–	0.3	–	16.7
December 31, 2010	**–3,330.3**	**–313.6**	**–42.2**	**–160.1**	**–**	**–3,846.2**
Net carrying amount as of December 31, 2010	**7,567.4**	**178.0**	**4,580.1**	**116.7**	**41.9**	**12,484.1**

The changes in scope of consolidation include additions amounting to EUR 5,263.9 million (2009: EUR 20.6 million) and disposals of EUR 159.7 million (2009: EUR 0.2 million). The additions relate almost exclusively to the acquisition of Millipore. Details of this transaction are presented under "Scope of consolidation – Acquisition of Millipore". At the time of the acquisition, the goodwill of Millipore amounted to EUR 2,704.4 million and the fair value of the other intangible assets was EUR 2,559.5 million. The disposals from the scope of consolidation relate in particular to the divestment of Théramex.

The change in currency translation differences relative to 2009 is due mainly to the translation of intangible assets reported in U.S. dollars and Swiss francs into euros – the reporting currency of the Merck Group.

The net carrying amount of "Patents, licenses and similar rights, brands, trademarks and other" with finite useful lives amounting to EUR 7,567.4 million mainly include the recognized assets from the Millipore purchase price allocation in 2010 and the Serono purchase price allocation in 2007. The vast majority is attributable to technologies and know-how. The remaining useful lives of these assets range between 8 and 15.5 years. This item also includes licenses from this acquisition with remaining useful lives of between 2 and 7 years.

In fiscal 2010, impairment losses on intangible assets with finite useful lives totaled EUR 17.1 million. Of this amount, EUR 16.4 million was attributable to the Liquid Crystals business unit. This impairment was required due to amended market estimates and the related decline in sales expectations. This is reflected within "Other operating expenses" in the income statement. The changes in goodwill caused by currency effects resulted almost exclusively from translating the goodwill for Serono from Swiss francs into euros, the reporting currency of the Merck Group, and from translating the goodwill for Millipore, half of which is carried in U.S. dollars, into euros.

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 EUR 164.4 million result in fiscal 2010. Safinamide is responsible for EUR 134.0 million of this amount. Owing to a reassessment of the sales potential, this impairment resulted in a residual value of EUR 63.4 million. This is disclosed in the income statement under "Amortization of intangible assets". The reassessment was based on the results of a Phase III study conducted by our cooperation partner Newron, which led to a reevaluation of the market potential, especially as regards potential indications. The decision also takes into account a delay in the project and an increase in R&D costs due to more stringent requirements set by the U.S. Food and Drug Administration.

The other impairment losses amounting to EUR 17.2 million relate to write-offs of the capitalized assets related to the termination of research projects from the Merck Serono division and are recorded under "Other operating expenses". Owing to the outlicensing of an active ingredient attributable to an acquisition, its net present value was remeasured. This led to the need for an impairment loss of EUR 13.2 million in the Merck Serono division, which was recognized 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:

EUR million	Remaining useful life in years	Merck Serono	Consumer Health Care	Merck Millipore	Performance Materials	Total Dec. 31, 2010	Total Dec. 31, 2009
Patents, licenses and similar rights, brands, trademarks and other							
Finite useful life		**5,165.1**	**20.1**	**2,367.0**	**15.2**	**7,567.4**	**5,179.5**
Rebif®	11	3,296.5	–	–	–	3,296.5	3,221.5
Gonal-f®	8	759.6	–	–	–	759.6	765.2
Saizen®	9	276.6	–	–	–	276.6	275.3
Humira®	7	257.3	–	–	–	257.3	267.9
Avonex®	2.5	120.3	–	–	–	120.3	152.7
Enbrel®	2	74.9	–	–	–	74.9	109.1
Cladribine	10	51.7	–	–	–	51.7	–
Puregon®	4	45.8	–	–	–	45.8	51.3
Technologies	0.5 to 15.5	280.6	3.7	532.0	11.7	828.0	309.2
Brands	4.75 to 13.5	1.0	16.4	316.9	0.3	334.6	20.5
Customer relationships	0.5 to 16.5	0.8	–	1,518.1	3.2	1,522.1	6.8
Indefinite useful life		**167.8**	**–**	**8.7**	**1.5**	**178.0**	**362.4**
Safinamide	–	63.4	–	–	–	63.4	176.8
Cladribine	–	–	–	–	–	–	48.2
Other	–	104.4	–	8.7	1.5	114.6	137.4
Goodwill	**–**	**1,681.6**	**164.7**	**2,714.6**	**19.2**	**4,580.1**	**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.

[24] Property, plant and equipment

EUR million	Land, landrights 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, 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**
Acquisition cost January 1, 2010	**1,894.2**	**2,455.5**	**804.9**	**509.2**	**5,663.8**
Currency translation	129.1	78.1	21.9	41.6	270.7
Changes in scope of consolidation	240.5	109.4	14.6	75.8	440.3
Additions	14.1	33.2	37.8	311.1	396.2
Disposals	–12.8	–76.9	–38.8	–2.3	–130.8
Transfers	61.9	70.1	6.6	–155.6	–17.0
Reclassification to assets held for sale	–5.1	–5.5	–1.6	–0.9	–13.1
December 31, 2010	**2,321.9**	**2,663.9**	**845.4**	**778.9**	**6,610.1**
Accumulated depreciation and impairment losses January 1, 2010	**–741.3**	**–1,735.9**	**–568.5**	**–10.5**	**–3,056.2**
Currency translation	–42.9	–64.9	–17.0	–	–124.8
Changes in scope of consolidation	–	13.9	12.7	–	26.6
Depreciation and impairment losses	–97.0	–177.7	–77.0	–	–351.7
Disposals	10.5	75.3	35.4	0.4	121.6
Transfers	–5.1	–0.3	12.6	–	7.2
Write-ups	–	–	–	–	–
Reclassification to assets held for sale	3.3	4.1	1.3	–	8.7
December 31, 2010	**–872.5**	**–1,885.5**	**–600.5**	**–10.1**	**–3,368.6**
Net carrying amount as of December 31, 2010	**1,449.4**	**778.4**	**244.9**	**768.8**	**3,241.5**

The changes in scope of consolidation include additions amounting to EUR 474.2 million (2009: EUR 25.8 million) and disposals amounting to EUR 7.3 million (2009: 18.5 million) that are due to the acquisition of Millipore and the divestment of Theramex.
Impairment losses totaled EUR 23.7 million in fiscal 2010. These were particularly attributable to impairment losses on production units in the Merck Millipore, Consumer Health Care and Merck Serono divisions and are recorded under "Other operating expenses".
Property, plant and equipment amounting to EUR 8.1 million served as collateral (2009: EUR 8.1 million). Total government grants and subsidies during the fiscal year amounted to EUR 11.5 million (2009: EUR 5.4 million).
Property, plant and equipment also includes assets that are leased. The total value of capitalized leased assets amounted to EUR 11.6 million (2009: EUR 13.0 million) and the corresponding obligations amounted to EUR 7.1 million (2009: EUR 10.4 million) (see Note [28]).

The book values of capitalized leased assets were as follows:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Capitalized leased buildings	9.3	11.7
Capitalized leased vehicles	2.3	1.1
Capitalized leased other property, plant and equipment	–	0.2
	11.6	**13.0**

[25] Investments at equity

EUR million	2010	2009
Book value January 1	1.6	1.3
Additions	–	–
Share of profit	0.9	0.1
Disposals	–	–
Currency translation	0.3	0.2
Changes in scope of consolidation	2.2	–
Book value December 31	**5.0**	**1.6**

The changes in scope of consolidation reflect the first-time consolidation of Millipore.

[26] Non-current financial assets

EUR million	Investments in available-for-sale affiliates	Investments in available-for-sale companies	Securities available-for-sale financial investments	Securities financial investments held to maturity	Loans and other non-current financial assets	Total
Book value January 1, 2009	**45.6**	**25.5**	**0.9**	**10.1**	**15.3**	**97.4**
Currency translation	–	–	–0.1		0.1	–
Changes in scope of consolidation	–	–34.3	–	–	–	–34.3
Additions	9.6	35.6	1.1	–	4.3	50.6
Impairment losses	–1.9	–	–0.7	–		–2.6
Disposals	–	–4.2	–0.2	–10.1	–3.7	–18.2
Fair value adjustments of long-term investments taken directly to equity	25.5	–	–	–	–	25.5
Transfers	0.6	–0.6	–	–	–	–
Book value December 31, 2009	**79.4**	**22.0**	**1.0**	**–**	**16.0**	**118.4**
Book value January 1, 2010	**79.4**	**22.0**	**1.0**	**–**	**16.0**	**118.4**
Currency translation	–	–	–	–	0.2	0.2
Changes in scope of consolidation	–	–4,419.8	–	–	–	–4,419.8
Additions	9.2	4,628.0	6.8		22.4	4,666.4
Impairment losses	–	–	–	–	–	–
Disposals	–15.2	–201.7	–0.3	–	–4.1	–221.3
Fair value adjustments of long-term investments taken directly to equity	–13.6	–	–	–	–	–13.6
Transfers	1.1	–1.1	–	–	–	–
Book value December 31, 2010	**60.9**	**27.4**	**7.5**	**–**	**34.5**	**130.3**

As of December 31, 2010, non-current financial assets available-for-sale (investments) with a book value of EUR 57.2 million (2009: EUR 48.2 million) were carried at cost since fair value could not be reliably determined.

The changes in the scope of consolidation include additions of EUR 192.8 million (2009: 0.5 million) and disposals of EUR 4,612.6 million (2009: EUR 34.8 million). Additions to the scope of consolidation are due almost exclusively to the divestment and deconsolidation of Théramex. The disposals relate in particular to the acquisition and the first-time consolidation of Millipore. A detailed presentation of this item can be found under "Scope of consoldiatoin – Acquisition of MIlipore".

The following amounts arising from non-current financial assets classified as available-for-sale were recognized in equity as of the balance sheet date:

EUR million	Available-for-sale interests	Available-for-sale securities	Total Dec. 31, 2010	Available-for-sale interests	Available-for-sale securities	Total Dec. 31, 2009
Fair values/ Book values	88.3	7.5	95.8	101.4	1.0	102.4
Amortized acquisition cost	90.5	7.5	98.0	90.0	1.0	91.0
Unrealized gains/losses	–2.2	–	–2.2	11.4	–	11.4

[27] Financial assets covering pension obligations

EUR million	Available-for-sale financial assets	Financial assets held to maturity	Total
Book value January 1, 2009	**–**	**–**	**–**
Currency translation	–	–	–
Changes in scope of consolidation	–	–	–
Additions	187.2	61.1	248.3
Impairment losses	–	–	–
Disposals	–47.0	–	–47.0
Fair value adjustments of longterm investments taken directly to equity	8.3	–	8.3
Transfers	–	–	–
Book value December 31, 2009	**148.5**	**61.1**	**209.6**
Book value January 1, 2010	**148.5**	**61.1**	**209.6**
Currency translation	–	–	–
Changes in scope of consolidation	–	–	–
Additions	72.1	21.0	93.1
Impairment losses	–	–	–
Disposals	–60.2	–17.5	–77.7
Fair value adjustments of longterm investments taken directly to equity	–8.1	–	–8.1
Transfers	–	–	–
Book value December 31, 2010	**152.3**	**64.6**	**216.9**

In 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. Performance and risk controlling take place on a regular basis and include monthly performance measurements. In addition, the investment strategy and structure as well as the implementation thereof are reviewed for conformity with the objectives. 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 financial assets covering pension obligations classified as available-for-sale were recognized in equity as of the balance sheet date:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Fair values/Book values	152.3	148.5
Amortized acquisition cost	152.1	140.2
Unrealized gains/losses	0.2	8.3

[28] Financial liabilities

This item comprises:

EUR million	current	non-current	Dec. 31, 2010	current	non-current	Dec. 31, 2009
Bonds	25.3	4,948.3	4,973.6	499.4	1,490.9	1,990.3
Commercial paper	10.0	–	10.0	–	–	–
Bank loans and overdrafts	85.7	30.0	115.7	57.3	30.1	87.4
Liabilities to related parties	190.3	–	190.3	118.8	–	118.8
Loans from third parties and other financial liabilities	14.3	63.8	78.1	11.9	71.0	82.9
Liabilities from derivatives (financial transactions)	28.7	80.0	108.7	16.0	1.5	17.5
Finance lease	1.8	5.3	7.1	1.8	8.6	10.4
	356.1	**5,127.4**	**5,483.5**	**705.2**	**1,602.1**	**2,307.3**

Bank financing commitments vis-á-vis the Merck Group are as follows:

EUR million	Bank credit facilities	Utilization* as of Dec. 31, 2010	Interest	Due
Syndicated loan 2007	2,000.0	–	variable	2014
Bilateral credit facilities with banks	5.9	5.9	fixed	2012
Bilateral credit facilities with banks	9.1	9.1	fixed	2017
Bilaterial credit facilities with banks	15.0	15.0	fixed	2018
Various bank lines	294.8	85.7	fixed/variable	< 1 year
	2,324.8	**115.7**		

*Booked disagios are not taken into account in the disclosure

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

in %	Dec. 31, 2010	Dec. 31, 2009
Euros	30.0	56.0
U.S. dollars	0.1	5.6
Pounds sterling	0.2	0.4
Swiss francs	–	–
Yen	0.3	–
Other currencies	69.4	38.0
	100.0	**100.0**

In fiscal 2007, a EUR 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 EUR 5 billion. In 2010, this volume was increased to EUR 10 billion.

The following bonds were issued by the Merck Group:

Issuer	Nominal value	Maturity	Nominal interest rate	Issue price
Merck Financial Services GmbH, Germany	EUR 500 million	March 2010 – March 2012	2.125 %	99.775
Merck Finanz AG, Luxembourg	EUR 500 million	December 2005 – December 2012	* 2.2 %	99.716
Merck Financial Services GmbH, Germany	EUR 750 million	March 2009 – September 2013	4.875 %	99.697
Merck Financial Services GmbH, Germany	EUR 1,350 million	March 2010 – March 2015	3.375 %	99.769
Merck Financial Services GmbH, Germany	EUR 100 million	December 2009 – December 2015	** 3.615 %	100.000
Millipore Corporation, USA	EUR 250 million	June 2006 – June 2016	5.875 %	99.611
Merck Financial Services GmbH, Germany	EUR 60 million	November 2009 – November 2016	4.000 %	100.000
Merck Financial Services GmbH, Germany	EUR 70 million	December 2009 – December 2019	4.250 %	97.788
Merck Financial Services GmbH, Germany	EUR 1,350 million	March 2010 – March 2020	4.500 %	99.582

* made variable by interest rate swaps based on six-month EURIBOR and fixed in 2010 by interest rate futures based on six-month EURIBOR
** fixed by interest rate swaps

Moreover, the Millipore Corporation, USA, still has convertible bonds with a nominal volume of USD 27.2 million. The possibility to convert these bonds into shares no longer exists.
The bonds issued by Merck Financial Services GmbH in 2010 serve to finance the acquisition of Millipore Corporation, USA, and are admitted to trading on the regulated market of the Luxembourg Stock Exchange. In the fourth quarter of 2010, a bond issued by Merck KGaA with a volume of EUR 500 million matured and was repaid in full.
In order to meet short-term capital requirements, Merck KGaA issued a commercial paper program with a volume of EUR 2 billion, of which a nomimal amount of EUR 10.0 million had 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].

[29] Trade accounts payable

Trade accounts payable consist of the following:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Liabilities due to third parties	1,200.0	935.7
Liabilities due to affiliates	0.1	–
	1,200.1	**935.7**

Trade accounts payable include accrued amounts of EUR 648.1 million (2009: EUR 614.2 million) for outstanding invoices and accrued reductions in sales revenues.

[30] Other liabilities

This item comprises:

EUR million	current	non-current	Dec. 31, 2010	current	non-current	Dec. 31, 2009
Liabilities to related parties	260.6	–	260.6	173.8	–	173.8
Liabilities to affiliates	3.2	–	3.2	1.8	–	1.8
Accrued interests	103.5	–	103.5	14.3	–	14.3
Payroll liabilities	65.0	0.6	65.6	50.2	0.6	50.8
Liabilities from profit distributions	0.7	–	0.7	1.3	–	1.3
Other financial liabilities to third parties	48.7	4.0	52.7	58.7	1.8	60.5
Sundry other financial liabilities	**481.7**	**4.6**	**486.3**	**300.1**	**2.4**	**302.5**
Accruals for personnel expenses	443.0	–	443.0	293.6	–	293.6
Deferred income	29.0	27.2	56.2	14.6	13.1	27.7
Advance payments received from customers	12.6	–	12.6	5.1	1.4	6.5
Liabilities from derivatives (operational)	26.8	11.1	37.9	1.4	–	1.4
Liabilities from non-income related taxes	61.5	–	61.5	23.4	–	23.4
	1,054.6	**42.9**	**1,097.5**	**638.2**	**16.9**	**655.1**

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. Other financial liabilities due to third parties include liabilities due to insurance companies, contractually agreed payment obligations vis-à-vis other companies, and EUR 13.6 million for the acquisition of Beijing Skywing Technology Co. Ltd. (see "Scope of consolidation – Further acquisitions"). In 2010, a separate line was added for non-income-related taxes (mainly value added tax). The previous year's figures have been adjusted.

[31] Tax liabilities

Tax liabilities amounted to EUR 57.5 million (2009: EUR 72.8 million). Tax liabilities totaling EUR 368.4 million (2009: EUR 274.5 million) also include provisions for tax liabilities of EUR 310.9 million (2009: EUR 201.7 million).

[32] Provisions

Provisions developed as follows:

EUR million	Restructuring	Litigation	Personnel	Environmental protection	Other	Total
January 1, 2010	**45.8**	**519.2**	**140.5**	**72.1**	**173.8**	**951.4**
Additions	26.4	85.0	49.6	0.2	53.4	214.6
Utilizations	–30.4	–129.3	–33.6	–9.0	–44.7	–247.0
Release	–5.2	–8.5	–12.6	0,0	–57.4	–83.7
Exchange differences	0.8	16.0	1.2	0.5	4.2	22.7
Changes in scope of consolidation/Other	2.7	–0.4	26.6	6.6	5.2	40.7
December 31, 2010	**40.1**	**482.0**	**171.7**	**70.4**	**134.5**	**898.7**
thereof current	26.8	174.5	42.5	7.0	123.7	374.5
thereof non-current	13.3	307.5	129.2	63.4	10.8	524.2

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 EUR 482.0 million. In 2010, additional provisions for litigation were set up and charged to other operating expenses. Provisions for litigation take into account legal risks in connection with our former U.S. generics subsidiary Dey Inc., USA, 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. In this context, claims in a number of states were settled during the reporting period as well as in recent years. Moreover a settlement agreement was reached with the U.S. Department of Justice against payment of EUR 214.5 million. Taking into acount the existing provisions, this settlement payment led to expenses of EUR 67.2 million in 2010. These expenses have been recorded under "Exceptional items", as was the gain on the divestment of the Generics business. Merck is entitled to claim reimbursement from Mylan to the extent and in the amount that Mylan is able to claim the payment to the U.S. Department of Justice in its tax return. The exact amount cannot be definitively determined at this point in time. As of December 31, 2010 Merck wrote down this reimbursement claim by EUR 52.6 million.

In addition, 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 allegedly 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 development of Rebif® and other products. A Merck subsidiary is discussing settlements of a civil claim by the U.S. 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 EUR 29.8 million (2009: EUR 12.3 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 financial performance indicators "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 achievement is too low, no payments are made.
With respect to provisions for defined-benefit pensions and other post-employment benefits, see Note [33].
Provisions for environmental protection exist in Germany and the United States.
Other provisions consist additionally of provisions for uncertain commitments in the context of contributions, levies and fees.

[33] 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 %	2010	2009
Discount rate	4.3	5.0
Future salary increases	2.7	2.9
Future pension increases	2.0	2.3
Staff turnover	3.4	2.0
Expected return on plan assets	4.9	4.9
Future increases in health care benefits	5.0	6.5

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:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Present value of benefit obligations funded by provisions	1,467.7	1,260.2
Present value of funded benefit obligations	888.1	617.5
Present value of all benefit obligations	**2,355.8**	**1,877.7**
Fair value of plan assets of all funds	–793.3	–582.6
Funded status	**1,562.5**	**1,295.1**
Other changes	0.3	1.2
Net liability recognized in the balance sheet	**1,562.8**	**1,296.3**
Refund claims on plan assets	18.8	15.2
Provisions for pensions and other post-employment benefits	**1,581.6**	**1,311.5**

In 2010, the following items were recognized in income:

EUR million	2010	2009
Current service cost	69.5	58.1
Past service cost	–0.1	–
Interest cost on pension obligations	99.6	93.1
Expected return on plan assets	–34.1	–25.6
Other effects	0.1	–10.8
Total amount recognized in income	**135.0**	**114.8**

At EUR 1,316.8 million (2009: EUR 1,136.1 million), the pension plans of the Group parent company Merck KGaA account for the bulk of the present value of pension obligations funded by provisions. 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 5.0%. If the rate of increase is one percentage point higher or lower, the measurement of the present value of the commitment would be either EUR 0.9 million higher or EUR 0.8 million lower. The expenses recognized in 2010 would have been EUR 0.1 million higher or lower.

The actual gain on plan assets amounted to EUR 61.0 million (2009: EUR 63.8 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:

EUR million	benefit obligations funded by provisions	funded benefit obligations	2010	benefit obligations funded by provisions	funded benefit obligations	2009
Present value of all defined obligations on January 1	1,260.2	617.5	1,877.7	1,051.5	534.4	1,585.9
Currency translation differences	2.8	71.2	74.0	2.6	11.4	14.0
Current service cost	35.4	34.1	69.5	27.3	30.8	58.1
Interest cost on pension obligations	66.3	33.3	99.6	64.6	28.5	93.1
Other effects recognized in income	0.1	0.1	0.2	0.7	–11.5	–10.8
Actuarial gains/losses	160.5	37.2	197.7	172.2	44.2	216.4
Pension payments in the reporting period	–56.6	–37.9	–94.5	–57.1	–29.7	–86.8
Transfers/Changes in scope of consolidation/ Other changes	–1.0	132.6	131.6	–1.6	9.4	7.8
Present value of all defined obligations on December 31	**1,467.7**	**888.1**	**2,355.8**	**1,260.2**	**617.5**	**1,877.7**

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

EUR million	2010	2009
Fair value of the plan assets on January 1	582.6	462.6
Currency translation differences	68.1	10.4
Expcected return on plan assets	34.1	25.6
Other effects recognized in income	0.1	–
Actuarial losses/gains	26.9	38.2
Employer contributions	36.4	64.1
Employee contributions	12.5	10.8
Pension payments in the reporting period	–37.1	–27.8
Transfers/Changes in scope of consolidation/Other changes	69.7	–1.3
Fair value of the plan assets on December 31	**793.3**	**582.6**

In 2010, actuarial gains (+) and losses (–) as well as the effects of limiting defined benefit assets in accordance with IAS 19.58 amounting to EUR –170.7 million (2009: EUR –178.1 million) were taken to equity, together with other effects totaling EUR –4.8 million (2009: EUR 14.5 million). Moreover, EUR –0.2 million (2009: EUR –0.5 million) was transferred to retained earnings. As of December 31, 2010, for the aforementioned reasons, a total of EUR –472.9 million (2009: EUR –297.2 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, 2010	Dec. 31, 2009
Debt instruments	41.6	43.3
Equity instruments	34.1	34.1
Real estate	14.4	12.0
Other assets	9.9	10.6

On average, the expected rate of return on debt instruments is 3.4%, on equity instruments 7.0% and on real estate 5.2%. The respective rates of return take into account country-specific conditions and are based, among other things, on interest and dividend income expected over the long term as well increases in the value of the investment portfolio after the deduction of directly allocable taxes and expenses.

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

EUR million as of Dec. 31	2010	2009	2008	2007	2006
Present value of the defined benefit obligations	2,355.8	1,877.7	1,585.9	1,665.9	1,607.2
Fair value of the plan assets	–793.3	–582.6	–462.6	–520.5	–346.2
Funded status	**1,562.5**	**1,295.1**	**1,123.3**	**1,145.4**	**1,261.0**

We expect that the direct payments to beneficiaries will amount to around EUR 83 million in 2011 (2010: EUR 72 million).
In 2011, employer contributions to plan assets will probably amount to around EUR 41 million (2010: EUR 24 million).
The cost of ongoing contributions in 2010 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 EUR 16.7 million in 2010 (2009: EUR 8.6 million). In addition, employer contributions of EUR 49.9 million (2009: EUR 48.3 million) were transferred to the German statutory pension insurance system and EUR 19.6 million (2009: EUR 8.2 million) to statutory pension insurance systems abroad.

[34] 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 actuarial income and losses.

The disclosure of non-controlling 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 net equity attributable to non-controlling interests mainly relates to the minority interests in Merck Ltd. India, Merck Ltd., Thailand, Merck S.A. France, and PT Merck Tbk, Indonesia.

In addition to the dividend payments to the shareholders of Merck KGaA and to minority shareholders in subsidiaries of the Merck Group, the appropriation of profits includes the transfer of profits from Merck & Cie to E. Merck KG in accordance with the company agreements. It also includes the reciprocal transfer of profits between E. Merck KG and Merck KGaA in accordance with the Articles of Association, which is as follows:

		2010		2009	
EUR million		E. Merck KG	Merck KGaA	E. Merck KG	Merck KGaA
Result of E. Merck KG		12.3	–	–2.9	–
Result of ordinary activities of Merck KGaA		–	709.4	–	309.2
Extraordinary result		–	–21.0	–	–
Adjustment for trade income tax in accordance with § 27 (1) Articles of Associaton of Merck KGaA		0.0	–	4.8	–
Trade income tax in accordance with § 30 (1) Articles of Association of Merck KGaA		–	–71.0	–	0.9
Basis for the appropriation of profits	**(100%)**	**12.3**	**617.4**	**1.9**	**310.1**
Profit transfer to E. Merck KG Ratio general partner's capital to total capital	(70.274%)	433.9	–433.9	217.9	–217.9
Profit transfer from E. Merck KG Ratio share capital to total capital	(29.726%)	–3.7	3.7	–0.6	0.6
Trade tax		0.0	–	–4.8	–
Corporate income tax		–	–16.7	–	–0.1
Net income		**442.5**	**170.5**	**214.4**	**92.7**

In accordance with the provisions of the Articles of Association, E. Merck KG has a 70.274% interest in the profit/loss of Merck KGaA while Merck KGaA has an interest of 29.726% in the profit/loss of E. Merck KG. Merck KGaA's profit from ordinary activities adjusted for trade income tax and extraordinary result, on which the appropriation of its profit is based, amounts to EUR 617.4 million (2009: EUR 310.1 million). Merck KGaA transferred EUR 433.9 million of its profit to E. Merck KG (2009: EUR 217.9 million). The profit/loss of E. Merck KG, on which the appropriation of profit/loss is based, amounts to EUR 12.3 million (2009: EUR 1.9 million). Consequently, this results in a profit transfer to Merck KGaA of EUR 3.7 million (2009: EUR 0.6 million).

Moreover, in 2010 EUR 43.0 million (2009: EUR 26.8 million) was transferred by Merck & Cie to E. Merck KG.

For 2009, a dividend of EUR 1.00 per share was distributed. The dividend proposal for fiscal 2010 will be EUR 1.25 per share, corresponding to a total dividend payment of EUR 80.8 million to shareholders.

The following table shows the development of transactions taken cumulatively and directly to the equity of shareholders of the parent company:

EUR million	Available-for-sale current and non-current financial assets	Derivative financial instruments	Exchange differences on translating foreign operations	Total
Balance as of January 1, 2009	**–15.0**	**64.1**	**525.4**	**574.5**
Gains/losses recognized immediately in equity	33.8	–16.6	–15.5	1.7
Changes in scope of consolidation/Others	–	–	–	–
Balance as of December 31, 2009	**18.8**	**47.5**	**509.9**	**576.2**
Balance as of January 1, 2010	**18.8**	**47.5**	**509.9**	**576.2**
Gains/losses recognized immediately in equity	–21.8	–108.6	834.6	704.2
Changes in scope of consolidation/Others	–0.1	–	0.1	–
Balance as of December 31, 2010	**–3.1**	**–61.1**	**1,344.6**	**1,280.4**

The increase in the currency translation difference results mainly from the decline in the value of the euro versus the Swiss franc and the U.S. dollar.

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 market 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.

With the acquisition of Millipore, the Chemicals business sector was reorganized. The new Merck Millipore division combines the acquired activities with large sections of the former Life Science Solutions business. The new Performance Materials division comprises the Liquid Crystals and Pigments & Cosmetics business units as well as the Advanced Technologies unit with its materials for LEDs (light-emitting diodes) and photovoltaics as well as other innovative technologies. Accordingly, the Merck Millipore and Performance Materials segments are reported within the Chemicals business sector in the Segment Reporting as of December 31, 2010. The previous year's figures have been adjusted.

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 segment Corporate and Other. The operating segments are described in detail in the sections about the divisions in the management report.

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)". The accounting standards used to calculate these performance indicators are the same as those used in external reporting (IFRS).

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

Neither in 2010 nor in 2009 did any single customer account for more than 10% of Group sales.

The following reconciliation applied to operating assets in the Segment Reporting:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Assets	22,388.0	16,712.6
Monetary assets (cash and cash equivalents, loans, securities)	–1,042.4	–2,119.7
Financial assets covering pensions	–216.9	–209.6
Non-operating receivables, tax receivables, deferred taxes and deferred pension payments	–723.1	–635.6
Assets held for sale	–36.7	–
Operating assets (gross)	**20,368.9**	**13,747.7**
Trade accounts payable	–1,200.1	–935.7
Other operating liabilities	–698.3	–465.3
Operating assets (net)	**18,470.5**	**12,346.7**

The Merck Millipore division accounted for EUR 0.9 million (2009: EUR 0.1 million) and the Corporate and Other segment for EUR 3.2 million (2009: EUR 3.4 million) of the investment result disclosed in the income statement.

NOTES TO THE CASH FLOW STATEMENT

[35] Net cash flows from operating activities

Tax payments in 2010 totaled EUR 336.1 million (2009: EUR 260.1 million). Tax refunds totaled EUR 18.7 million (2009: EUR 0.0 million). Interest paid totaled EUR 134.7 million (2009: EUR 76.9 million) and interest received totaled EUR 38.1 million (2009: EUR 26.6 million).

[36] Net cash flows from investing activities

A total of EUR 4,859.7 million was used for acquisitions and investments in other financial assets (2009: EUR 40.0 million). Of this amount, EUR 4,843.7 million (2009: EUR 23.5 million) was used for acquisitions. Investments in other financial assets totaled EUR 16.0 million (2009: EUR 16.5 million). Taking into consideration cash included in the acquisition, the payment of the Millipore purchase price involved cash outflows of EUR 4,837.1 million. A final payment of EUR 6.6 million was made for the Suzhou Taizhu China Group, which was acquired in 2009.

EUR million	Millipore	Suzhou Taizhu China Group	Total 2010
Purchase price	4,611.9	6.6	4,618.5
Equity-like purchase price components (convertible bond)	525.2	–	525.2
Purchase price including convertible bond	**5,137.1**	**6.6**	**5,143.7**
Cash and cash equivalents acquired	–300.0	–	–300.0
Acquisitions	**4,837.1**	**6.6**	**4,843.7**

The divestment of Théramex did not result in any cash inflows in 2010 since the purchase price payment was made in January 2011. Cash outflows within the scope of this divestment amounted to EUR 9.7 million. These comprised cash and cash equivalents of Théramex totaling EUR 9.2 million on the date of deconsolidation as well as transaction costs of EUR 0.5 million. This is disclosed in the cash flow statement under "Disposal of non-current assets". Net cash inflows from changes in other financial assets amounting to EUR 1,431.3 million were mainly the result of the sale of short-term securities and financial assets and were used to finance the acquisition of Millipore.

[37] 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:

EUR million	2010	2009
Dividends to shareholders	–64.6	–96.9
Dividends to shareholders of non-controlling interest	–21.5	–7.9
Dividend payments	**–86.1**	**–104.8**

EUR million	2010	2009
Profit transfer in accordance with the Articles of Association from E. Merck KG to Merck KGaA	3.7	0.6
Profit transfer in accordance with the Articles of Association from Merck KGaA to E. Merck KG	–433.9	–217.9
Changes in reserves of Merck KGaA by E. Merck KG	212.1	66.3
Profit transfer from Merck KGaA to E. Merck KG	**–218.1**	**–151.0**
Profit transfer from Merck & Cie to E. Merck KG	–43.0	–26.8
Profit transfer to E. Merck KG	**–261.1**	**–177.8**
Changes in financial liabilities to E. Merck KG	71.5	20.6
Changes in other liabilities to E. Merck KG	79.1	–53.2
Changes in liabilities to E. Merck KG	**150.6**	**–32.6**
Total cash transfers to and from E. Merck KG	**–110.5**	**–210.4**

Free cash flow after dividend payments and profit transfers totaled EUR –3,869.7 million (2009: EUR 529.8 million).

[38] Cash and cash equivalents

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

[39] 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. The acquisition-related payments of EUR 4,941.9 million (2009: EUR 23.5 million) consist of acqusitions amounting to EUR 4,843.7 million (2009: EUR 23.5 million) as well as other payments amounting to EUR 98.2 million in connection with the acquisition of Millipore. This concerns acquisition-related costs and social insurance taxes in connection with the payments for options from the stock option plan. In 2010, we made payments totaling EUR 240.7 million (2009: EUR 15.7 million) in connection with the existing legal risks that we continue to be responsible for from the divestment of our former generics subsidiary, Dey Inc., of the United States. This includes the settlement payment to the U.S. Department of Justice amounting to EUR 214.5 million (see also Note [32]). Furthermore, EUR 9.7 million was recognized from the divestment of Théramex.

OTHER DISCLOSURES

[40] 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, interest rate futures 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	
EUR million	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Cash flow hedge	3,713.5	902.0	–102.0	57.6
Interest	100.0	100.0	–1.1	–0.3
Currency	3,613.5	802.0	–100.9	57.9
Fair value hedge	502.5	520.9	15.3	14.5
Interest	500.0	500.0	15.4	14.6
Currency	2.5	20.9	–0.1	–0.1
No hedge accounting	5,298.0	2,161.1	–18.1	8.8
Interest	1,500.0	–	–0.6	–
Currency	3,798.0	2,161.1	–17.5	8.8
	9,514.0	**3,584.0**	**–104.8**	**80.9**

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 bthe alance 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:

EUR million	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2010	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2009
Forward exchange contracts	4,454.0	2,960.0	7,414.0	2,598.3	385.7	2,984.0
Interest rate swaps	500.0	100.0	600.0	–	600.0	600.0
Interest rate futures	1,500.0	–	1,500.0	–	–	–
	6,454.0	**3,060.0**	**9,514.0**	**2,598.3**	**985.7**	**3,584.0**

The forward exchange contracts that are entered into to reduce the exchange rate risk with a total nominal volume of EUR 7,414.0 million primarily serve to hedge intercompany financing in foreign currency. These mainly served to hedge fluctuations in the exchange rates of the U.S. dollar (EUR 4,046.8 million), the Swiss franc (EUR 483.5 million), the Japanese yen (EUR 845.1 million), the Taiwanese dollar (EUR 533.2 million) and the British pound (EUR 494.7 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 EUR 3,713.5 million (2009: EUR 902.0 million) as of the balance sheet date and related mainly to the hedging of future sales in U.S. dollars, Taiwanese dollars and Japanese yen as well as costs in Swiss francs. The occurrence of hedged items is expected within the next 36 months. Moreover, we use forward exchange contracts to hedge financial investments and borrowings in foreign currency and designate them as cash flow hedges. During the fiscal year, expenses of EUR 125.3 million (2009: income totaling EUR 47.5 million) from the fair value measurement of derivatives was recognized in equity. EUR 17.2 million (2009: EUR 64.8 million) was transferred from equity and recognized as expense (2009: income).
The interest expense of the euro benchmark bond, which was issued in 2005 with a volume of EUR 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 income of EUR 0.2 million (2009: expense of EUR 15.2 million). This was offset by an expense in the same amount from the interest rate swap. Net interest payments on the bond and interest rate swaps were fixed in 2010 by forward exchange contracts based on the 6-month Euribor forward curve.
The interest expense of the private placement of EUR 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 EUR 1.1 million (2009: 0.3 million). This amount was recognized in equity at 100% effectiveness.

[41] 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 2011 in the key currencies:

EUR million as of Dec. 31, 2010	CHF	GBP	JPY	TWD	USD
Foreign exchange risk from balance sheet items	–80.9	74.9	206.6	70.4	2,804.9
Foreign exchange risk from contingent business and anticipated transactions in 2011	–467.9	114.2	291.3	421.5	1,147.1
Transaction-related foreign exchange position	**–548.8**	**189.1**	**497.9**	**491.9**	**3,952.0**
Position hedged by derivates	130.0	–75.0	–386.5	–346.6	–3,294.2
Open-end foreign exchange risk position	**–418.8**	**114.1**	**111.4**	**145.3**	**657.8**
Change in foreign exchange position due to a 10% appreciation of the euro	41.9	–11.4	–11.1	–14.5	–65.8
included in profit/loss	–4.9	–	3.5	4.5	8.4
recognized in equity	–	–	14.5	23.1	40.5

Furthermore, derivatives exist to hedge expected cash flows beyond the year 2011. These would lead to a change in equity amounting to EUR 20.0 million in Japanese yen. Due to the hedging of expected cash flows beyond the year 2010, this would have caused in 2009 a change in equity of EUR 11.5 million in the Japanese yen, EUR 4.1 million in the Taiwanese dollar, and EUR 18.5 million in U.S. dollars. The following table presents the corresponding net currency risk from expected and recognized transactions for 2010:

EUR 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

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 EUR 5,483.5 million (2009: EUR 2,307.3 million) and monetary deposits of EUR 1,346.5 million (2009: EUR 2,372.6 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 EUR 6.3 million (2009: EUR 10.3 million). This corresponds to an increase in interest income of EUR 9.1 million (2009: EUR 17.3 million) on financial assets and additional interest expense of EUR 2.8 million (2009: EUR 7.0 million) on financial liabilities. The resulting change in the market value of assets recognized at fair value would lower equity by EUR 6.8 million (2009: EUR 5.1 million).

Share price risks

The share portfolio of publicly listed companies amounting to EUR 60.0 million is generally exposed to a market value risk. A 10% change in the value of the stock market would impact equity by EUR 6.0 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 EUR 999.3 million (2009: EUR 2,044.6 million), Merck has at its disposal a multi-currency revolving credit line of EUR 2 billion to be used for business purposes with a remaining term of four years as well as bilateral credit facilities of EUR 324.8 million (2009: EUR 233.1 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 EUR 2 billion exists and a debt issuance program set up in 2009 with a volume of EUR 10 billion. Liquidity risks are regularly monitored and reported to the management. Our loan agreements do not contain any financial covenants.
Trade payables amounting to EUR 1,200.1 million (2009: EUR 935.7 million) as well as operating liabilities from derivatives amounting to EUR 37.9 million (2009: EUR 1.4 million) have a remaining term of less than one year. Out of other financial liabilities amounting to EUR 486.3 million (2009: EUR 302.5 million), EUR 481.7 million (2009: EUR 300.1 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:

EUR million as of Dec. 31, 2010	Book value	Cash flows 2011		Cash flows 2012–2016		Cash flows 2017–2023	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Debt securities and commercial paper	4,983.6	190.4	35.3	643.3	3,509.5	213.8	1,419.3
Bank loans and overdrafts	115.7	1.7	81.2	3.1	29.9	0.1	4.6
Liabilities to related parties	190.3	–	190.3	–	–	–	–
Loans from third parties and other financial liabilities	78.1	4.5	11.0	8.0	58.7	–	8.5
Liabilities from derivatives (financial transactions)	108.7	–	28.7	–	80.0	–	–
Financial leasing liabilities	7.1	0.1	0.7	0.2	4.1	–	2.3
	5,483.5	**196.7**	**347.2**	**654.6**	**3,682.2**	**213.9**	**1,434.7**

EUR million as of Dec. 31, 2009	Book value	Cash flows 2010		Cash flows 2011–2015		Cash flows 2016–2022	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
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.

[42] Other disclosures on financial instruments

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

		Subsequent measurement according to IAS 39				
EUR million	Book value Dec. 31, 2010	Amortized cost	At cost	Fair value	Carrying value according to IAS 17	Non-financial items
Assets						
Cash and cash equivalents	943.7	943.7	–	–	–	–
Marketable securities and financial assets	55.6	23.0	–	32.6	–	–
Held for trading (non-derivatives)	0.0	–	–	0.0	–	–
Non-hedging derivatives	0.0	–	–	0.0	–	–
Held to maturity	22.7	22.7	–	–	–	–
Loans and receivables	0.3	0.3	–	–	–	–
Available-for-sale	11.3	–	–	11.3	–	–
Hedging derivatives	21.3	–	–	21.3	–	–
Trade receivables	2,296.3	2,296.3	–	–	–	–
Loans and receivables	2,296.3	2,296.3	–	–	–	–
Current and non-current other assets	617.6	407.1	–	2.6	–	207.9
Non-hedging derivatives	1.3	–	–	1.3	–	–
Loans and receivables	407.1	407.1	–	–	–	–
Hedging derivatives	1.3	–	–	1.3	–	–
Non-financial items	207.9	–	–	–	–	207.9
Non-current financial assets	130.3	16.6	57.2	56.5	–	–
Non-hedging derivatives	0.0	–	–	0.0	–	–
Held to maturity	0.0	0.0	–	–	–	–
Loans and receivables	16.6	16.6	–	–	–	–
Available-for-sale	95.8	–	57.2	38.6	–	–
Hedging derivatives	17.9	–	–	17.9	–	–
Financial assets covering pensions	216.9	64.6	–	152.3	–	–
Held to maturity	64.6	64.6	–	–	–	–
Available-for-sale	152.3	–	–	152.3	–	–
Liabilities						
Current and non-current financial liabilities	5,483.5	5,367.7	–	108.7	7.1	–
Non-hedging derivatives	15.8	–	–	15.8	–	–
Other liabilities	5,367.7	5,367.7	–	–	–	–
Hedging derivatives	92.9	–	–	92.9	–	–
Finance lease	7.1	–	–	–	7.1	–
Trade accounts payable	1,200.1	1,200.1	–	–	–	–
Other liabilities	1,200.1	1,200.1	–	–	–	–
Current and non-current other liabilities	1,097.5	486.3	–	37.9	–	573.3
Non-hedging derivatives	3.5	–	–	3.5	–	–
Other liabilities	486.3	486.3	–	–	–	–
Hedging derivatives	34.4	–	–	34.4	–	–
Non-financial items	573.3	–	–	–	–	573.3

Fair value Dec. 31, 2010	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	Fair value Dec. 31, 2009
943.7	541.4	541.4	–	–	–	–	541.4
	1,503.2	1,199.1	–	304.1	–	–	
0.0	0.0	–	–	–	–	–	0.0
0.0	27.0	–	–	27.0	–	–	27.0
22.7	48.4	48.4	–	–	–	–	48.4
0.3	1,150.7	1,150.7	–	–	–	–	1,150.7
11.3	262.5	–	–	262.5	–	–	262.5
21.3	14.6	–	–	14.6	–	–	14.6
	1,788.7	1,788.7	–	–	–	–	
2,296.3	1,788.7	1,788.7	–	–	–	–	1,788.7
	375.1	93.5	–	58.1	–	223.5	
1.3	0.0	–	–	–	–	–	0.0
407.1	93.5	93.5	–	–	–	–	93.5
1.3	58.1	–	–	58.1	–	–	58.1
	223.5	–	–	–	–	223.5	
	118.4	15.9	48.2	54.3	–	–	
0.0	0.1	–	–	0.1	–	–	0.1
0.0	0.0	–	–	–	–	–	0.0
16.6	15.9	15.9	–	–	–	–	15.9
95.8	102.4	–	48.2	54.2	–	–	102.4
17.9	0.0	–	–	–	–	–	0.0
	209.6	61.1	–	148.5	–	–	
64.6	61.1	61.1	–	–	–	–	61.1
152.3	148.5	–	–	148.5	–	–	148.5
	2,307.3	2,279.4	–	17.5	10.4	–	
15.8	17.2	–	–	17.2	–	–	17.2
5,532.1	2,279.4	2,279.4	–	–	–	–	2,350.7
92.9	0.3	–	–	0.3	–	–	0.3
7.1	10.4	–	–	–	10.4	–	10.4
	935.7	935.7	–	–	–	–	
1,200.1	935.7	935.7	–	–	–	–	935.7
	655.1	302.5	–	1.4	–	351.2	–
3.5	1.1	–	–	1.1	–	–	1.1
486.3	302.5	302.5	–	–	–	–	302.5
34.4	0.3	–	–	0.3	–	–	0.3
	351.2	–	–	–	–	351.2	–

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 result of financial instruments by category are as follows:

		Net results			
2010 EUR million	Interest	Write-downs	Write-ups	Fair value changes	Disposal gains/losses
Financial instrument of the category					
Held for trading	–	–	–	18.3	–
Held to maturity	15.2	–0.2	0.0	–	1.5
Loans and receivables	5.2	–72.4	9.3	–	0.0
Available for sale	10.8	–2.1	0.0	–	0.0
Other liabilities	–195.7	–	–	–	–

		Net results			
2009 EUR million	Interest	Write-downs	Write-ups	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	–	1.3
Other liabilities	–92.9	–	–	–	–

In 2010, exchange rate gains of EUR 22.9 million resulting from receivables and payables in operating business were recognized (2009: losses of EUR –9.7 million). Income totaling EUR 1.8 million was recorded for hedging transactions in operating business (2009: EUR 3.1 million). Exchange rate gains of EUR 1.1 million (2009: losses of EUR 3.7 million) were booked for financial receivables/payables and measures to secure them. A gain of EUR 11.8 million (2009: loss of EUR –3.3 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 with standard market valuation 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:

EUR million as of Dec. 31, 2010	Assets	Liabilities
Prices quoted in an active market	**202.2**	**0.0**
thereof available-for-sale	202.2	–
Valuation technique including data from observable markets	**41.8**	**–146.6**
thereof available-for-sale	0.0	–
thereof hedging derivatives	40.5	–127.2
thereof non-hedging derivatives	1.3	–19.4
Valuation technique based on assumptions not supported by observable market data	**0.0**	**0.0**

EUR 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**

[43] Contingent liabilities

EUR million	Dec. 31, 2010	thereof subsidiaries	Dec. 31, 2009	thereof subisdiaries
Guarantees	105.0	–	69.0	–
Warranties	0.5	–	1.3	–
Other contingent liabilities	40.7	–	26.2	–

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, 2010, these amounted to EUR 54.0 million (2009: EUR 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.

[44] Other financial obligations

Other financial obligations comprise the following:

EUR million	Dec. 31, 2010	thereof subsidiaries	Dec. 31, 2009	thereof subisdiaries
Obligations to acquire intangible assets	1,003.6	–	1,207.5	–
Orders for capital expenditure on property, plant and equipment	179.2	–	211.0	–
Future operating lease payments	208.8	–	133.3	–
Long-term purchase commitments	315.2	–	326.6	–
Other financial obligations	18.2	–	18.6	–
	1,725.0	**–**	**1,897.0**	**–**

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 EUR 1,003.6 million (2009: EUR 1,207.5 million) for the acquisition of intangible assets.

The possible maturities of these obligations are as follows:

EUR million as of Dec. 31, 2010	potential due date in 1 year	potential due date in 1–5 years	potential due date over 5 years	Total
Obligations to acquire intangible assets	32.9	219.3	751.4	**1,003.6**

EUR million as of Dec. 31, 2009	potential due date in 1 year	potential due date in 1–5 years	potential due date over 5 years	Total
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:

EUR million as of Dec. 31, 2010	Remaining maturity less than 1 year	Remaining maturity 1 to 5 years	Remaining maturity more than 5 years	Total
Present value of future payments from finance leases	1.8	3.0	2.3	7.1
Interest component of finance leases	0.3	0.3	–	0.6
Future finance lease payments	2.1	3.3	2.3	**7.7**
Future operating lease payments	50.3	130.3	28.2	**208.8**

EUR million as of Dec. 31, 2009	Remaining maturity less than 1 year	Remaining maturity 1 to 5 years	Remaining maturity more than 5 years	Total
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**

Operating lease agreements relate mainly to market-typical leasing arrangements to lease operating and office equipment.

[45] Personnel expenses/ Headcount

Personnel expenses comprise the following:

EUR million	2010	2009
Wages and salaries	2,145.5	1,764.1
Compulsory social security contributions and special financial assistance	319.3	266.7
Pension expenses	132.1	98.1
	2,596.9	**2,128.9**

As of December 31, 2010, the Merck Group had 40,562 employees (2009: 33,062).
The average number of employees during the year was 36,347 (2009: 32,850).

The breakdown of personnel by function is as follows:

Average number of employees	2010	2009
Production	8,327	6,956
Logistics	1,927	1,773
Marketing and sales	11,541	10,582
Administration	4,378	3,750
Research & Development	4,116	3,627
Infrastructure and Other	6,058	6,162
Total	**36,347**	**32,850**

[46]
Material costs

Material costs in 2010 amounted to EUR 1,246 million (2009: EUR 1,052 million), and are reported under cost of sales.

[47]
Auditors' fees

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

	2010		2009	
Cost in EUR million for	Merck Group	thereof KPMG AG and related parties	Merck Group	thereof KPMG AG and related parties
Audits of financial statements	8.1	3.4	5.2	2.2
Other audit-related services	0.2	–	0.4	0.3
Tax consultancy services	0.4	0.2	0.3	0.1
Other services	0.6	0.5	1.0	0.9
	9.3	**4.1**	**6.9**	**3.5**

The increase in the costs of the auditors is mainly due to the first-time and subsequent audits of the Millipore companies. Related parties to KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft are those companies affiliated with KPMG Europe LLP as of December 31, 2010.

[48]
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 website www.merck.de/investors → Corporate Governance in February 2010 and thus made permanently available.

[49]
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 Selbstmedikation GmbH, Darmstadt
Merck Shared Services Europe GmbH, Darmstadt
Merck Serono GmbH, Darmstadt

[50] 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, 2010, there were liabilities by Merck KGaA, Merck Financial Services GmbH and Merck & Cie, Altdorf, to E. Merck KG in the amount of EUR 450.9 million (2009: EUR 292.6 million). In addition, as of December 31, 2010, Merck KGaA had receivables in the amount of EUR 12.3 million (2009: EUR 10.7 million) from E. Merck KG and from E. Merck Beteiligungen KG in the amount of EUR 4.7 million (2009: EUR 4.2 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. These financial payables of EUR 190.3 million (2009: EUR 118.8 million) are subject to standard market interest rates.

From January to December 2010, Merck KGaA and Merck Shared Services Europe GmbH performed services for E. Merck KG with a value of EUR 1.1 million (2009: EUR 1.2 million), for E. Merck Beteiligungen KG with a value of EUR 0.4 million (2009: EUR 0.4 million), and for Emanuel Merck Vermögens KG with a value of EUR 0.2 million (2009: EUR 0.1 million). During the same period, E. Merck KG performed services for Merck KGaA with a value of EUR 0.5 million (2009: EUR 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 2010, companies of the Merck Group supplied goods with a value of EUR 1.1 million (2009: EUR 0.3 million) to associates. As of December 31, 2010, companies of the Merck Group had receivables from associates amounting to EUR 0.8 million (2009: EUR 0.0 million) There were no further material transactions with associates.

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.

[51] 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 2010, fixed salaries of EUR 3.5 million (2009: EUR 3.5 million) and variable compensation of EUR 6.2 million (2009: EUR 3.7 million) were recorded for members of the Executive Board of Merck KGaA. Furthermore, additions to pension provisions of E. Merck KG include current service costs of EUR 2.1 million (2009: EUR 1.6 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 EUR 1.25 per share, the compensation of the Supervisory Board amounting to EUR 528 thousand (2009: EUR 435 thousand) consists of a fixed portion of EUR 123 thousand (2009: EUR 123 thousand) and a variable portion of EUR 405 thousand (2009: EUR 312 thousand).

Further details can be found in the Compensation Report on pages 111 to 117.

[52] Information on preparation and approval

The Executive Board of Merck KGaA prepared the consolidated financial statements on February 8, 2011 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.

[53] Subsequent events

In January 2011, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) confirmed its previous position and adopted a final negative opinion regarding our marketing authorization application for cladribine tablets in Europe.

On February 7, 2011, all the conditions for the closing of the divestment of the Crop BioScience activities were fulfilled. At a selling price of EUR 208 million, the pre-tax gain on the sale is expected to be around EUR 160 million. As of December 31, 2010, the activities were recorded in the Group financial statements as assets and liabilities held for sale.

[54] List of shareholdings

The following table presents the list of shareholdings of the Merck Group as of December 31, 2010.

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
I. Fully consolidated companies				
Germany				
Germany	Merck KGaA	Darmstadt	Parent company	
Germany	Allergopharma J. Ganzer KG	Reinbek	95.00	
Germany	Cape June Ltd. & Co. KG	Frankfurt	100.00	
Germany	Chemische Fabrik Lehrte Dr. Andreas Kossel GmbH	Lehrte	100.00	100.00
Germany	Chemitra GmbH	Darmstadt	100.00	100.00
Germany	Emedia Export Company mbH	Gernsheim	100.00	
Germany	Litec-LLL GmbH	Greifswald	100.00	100.00
Germany	Merck Biosciences GmbH	Schwalbach/Ts.	100.00	
Germany	Merck China Chemicals Holding GmbH	Darmstadt	100.00	
Germany	Merck Consumer Health Care Holding GmbH	Darmstadt	100.00	100.00
Germany	Merck Export GmbH	Darmstadt	100.00	100.00
Germany	Merck Financial Services GmbH	Darmstadt	100.00	100.00
Germany	Merck Holding GmbH	Gernsheim	100.00	100.00
Germany	Merck Internationale Beteiligungen GmbH	Darmstadt	100.00	
Germany	Merck Schuchardt OHG	Hohenbrunn	100.00	100.00
Germany	Merck Selbstmedikation GmbH	Darmstadt	100.00	
Germany	Merck Serono GmbH	Darmstadt	100.00	100.00
Germany	Merck Shared Services Europe GmbH	Darmstadt	100.00	100.00
Germany	Merck Versicherungsvermittlung GmbH	Darmstadt	100.00	100.00
Germany	Merck Verwaltungsgesellschaft mbH	Darmstadt	100.00	100.00
Germany	Merck Vierte Allgemeine Beteiligungsgesellschaft mbH	Gernsheim	100.00	
Germany	Millipore GmbH	Schwalbach/Ts.	100.00	
Germany	Solvent Innovation GmbH	Darmstadt	100.00	100.00
Other European countries				
Switzerland	Allergopharma AG	Therwil	100.00	
Switzerland	Ares Trading SA	Aubonne	100.00	
Switzerland	Horizon North SA	Geneva	100.00	
Switzerland	Horizon South SA	Geneva	100.00	
Switzerland	Merck & Cie	Altdorf	98.87	98.87
Switzerland	Merck (Schweiz) AG	Zug	100.00	
Switzerland	Merck AG	Zug	100.00	20.87
Switzerland	Merck Biosciences AG	Läufelfingen	100.00	
Switzerland	Merck Eprova AG in liquidation	Schaffhausen	100.00	
Switzerland	Merck Serono SA	Coinsins	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Switzerland	Millipore AG	Zug	100.00	
Switzerland	SeroMer Holding SA	Chéserex	100.00	
Switzerland	Serono Technologies SA	Geneva	100.00	
France	Delahardt S.A.S.	Molsheim	100.00	
France	Laboratoire Médiflor S.A.S.	Lyon	100.00	
France	Merck Chimie S.A.S.	Fontenay s/Bois	100.00	
France	Merck Médication Familiale S.A.S.	Lyon	100.00	
France	Merck S.A.	Lyon	99.76	88.94
France	Merck Santé S.A.S.	Lyon	100.00	
France	Merck Serono Biodevelopment S.A.S.	Lyon	100.00	
France	Merck Serono S.A.S.	Lyon	100.00	
France	Millipore S.A.S.	Molsheim	100.00	
United Kingdom	Baird & Tatlock Ltd.	Hull	100.00	
United Kingdom	BioAnaLab Ltd.	London	100.00	
United Kingdom	Bioprocessing Ltd.	London	100.00	
United Kingdom	Bioprocessing Corp. Ltd.	London	100.00	
United Kingdom	British Cod Liver Oils Ltd.	Hull	100.00	
United Kingdom	Celliance Ltd.	Edinburgh	100.00	
United Kingdom	Chemicon Europe Ltd.	London	100.00	
United Kingdom	E. Merck Ltd.	Hull	100.00	
United Kingdom	Hofels Pure Foods Ltd.	Hull	100.00	
United Kingdom	Lamberts Healthcare Ltd.	Tunbridge Wells	100.00	
United Kingdom	Lipha Pharmaceuticals Ltd.	Hull	100.00	
United Kingdom	Marfleet Refining Company Ltd.	Hull	100.00	
United Kingdom	Merck Biosciences Ltd.	Nottingham	100.00	
United Kingdom	Merck Chemicals Ltd.	Nottingham	100.00	
United Kingdom	Merck Consumer Health Care Ltd.	Hull	100.00	
United Kingdom	Merck Cross Border Trustees Ltd.	Hull	100.00	
United Kingdom	Merck Investments Ltd.	Hull	100.00	
United Kingdom	Merck Ltd.	Hull	100.00	
United Kingdom	Merck Pension Trustees Ltd.	Hull	100.00	
United Kingdom	Merck Serono Europe Ltd.	London	100.00	
United Kingdom	Merck Serono Ltd.	Feltham	100.00	
United Kingdom	Merck Services U.K. Ltd.	Hull	100.00	
United Kingdom	Millipore (U.K.) Ltd.	London	100.00	
United Kingdom	Millipore UK Holdings LLP	London	100.00	
United Kingdom	New Era Laboratories Ltd.	Hull	100.00	
United Kingdom	Phillips Yeast Products Ltd.	Hull	100.00	
United Kingdom	Rona Laboratories Ltd.	Hull	100.00	
United Kingdom	Serologicals European Holding Ltd.	London	100.00	
United Kingdom	Serologicals Global Holding Company Ltd.	London	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
United Kingdom	Serologicals UK Holding Company Ltd.	London	100.00	
United Kingdom	Serono Contracting Ltd.	Hull	100.00	
United Kingdom	Serono Ltd.	Feltham	100.00	
United Kingdom	Seven Seas Healthcare Ltd.	Hull	100.00	
United Kingdom	Seven Seas Ltd.	Hull	100.00	
United Kingdom	Seven Seas Pension Trustees Ltd.	Hull	100.00	
United Kingdom	Upstate Ion Channel Discovery Group Ltd.	London	100.00	
United Kingdom	Upstate Ltd.	London	100.00	
Italy	Allergopharma S.p.A.	Milan	100.00	
Italy	Baker Italia S.p.A.	Rome	100.00	
Italy	Istituto di Ricerche Biomediche Antoine Marxer RBM S.p.A.	Colleretto Giacosa	100.00	
Italy	Merck S.p.A.	Milan	100.00	
Italy	Merck Serono S.p.A.	Rome	99.74	
Italy	Millipore S.p.A.	Milan	100.00	
Spain	Merck, S.L.	Madrid	100.00	
Spain	Millipore Iberica S.A.	Madrid	100.00	
Belgium	Merck Consumer Healthcare N.V.-S.A.	Overijse	100.00	
Belgium	Merck N.V.-S.A.	Overijse	100.00	
Belgium	Millipore S.A./N.V.	Brussels	100.00	
Bulgaria	Merck Bulgaria EAD	Sofia	100.00	
Denmark	Millipore A/S	Copenhagen	100.00	
Denmark	Survac ApS	Frederiksberg	100.00	100.0
Estonia	Merck Serono OÜ	Tallin	100.00	
Finland	Merck OY	Espoo	100.00	
Finland	Millipore OY	Espoo	100.00	
Greece	Merck A.E.	Marousi	100.00	
Ireland	Millipore Cork	Carrigtwohill	100.00	
Ireland	Millipore Dublin International Finance Company	Dublin	100.00	
Ireland	Millipore Ireland Ltd.	Carrigtwohill	100.00	
Ireland	Seven Seas (Ireland) Ltd.	Dublin	100.00	
Ireland	Tullagreen Holdings Ltd.	Dublin	100.00	
Croatia	Merck d.o.o.	Zagreb	100.00	
Latvia	Merck Serono SIA	Riga	100.00	
Lithuania	Merck Serono, UAB	Kaunas	100.00	
Luxembourg	Merck Re S.A.	Luxembourg	100.00	
Luxembourg	Merck-Finanz AG	Luxembourg	100.00	100.00
Luxembourg	Millilux S.a.r.L.	Luxembourg	100.00	
Luxembourg	Millinvest S.a.r.L.	Luxembourg	100.00	
Luxembourg	Millipart S.a.r.L.	Luxembourg	100.00	
Luxembourg	Millipore International Holdings, S.a.r.L.	Luxembourg	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Malta	Merck Capital Asset Management Ltd.	St. Julians	100.00	
Malta	Merck Capital Holding Ltd.	St. Julians	100.00	
Malta	Merck Capital Ltd.	St. Julians	100.00	
Netherlands	Merck B.V.	Schiphol-Rijk	100.00	
Netherlands	Millipore B.V.	Amsterdam Zuidoost	100.00	
Netherlands	Millipore International Holding Company B.V.	Amsterdam Zuidoost	100.00	
Netherlands	Millipore Ireland B.V.	Amsterdam Zuidoost	100.00	
Netherlands	Serono Tri Holdings B.V.	Schiphol-Rijk	100.00	
Norway	Millipore AS	Oslo	100.00	
Austria	Allergopharma Vertriebsgesellschaft m.b.H.	Vienna	100.00	
Austria	Arcana Life-Science-Produkte GmbH	Vienna	100,00	
Austria	Merck Gesellschaft mbH	Vienna	100.00	
Austria	Merck KGaA & Co. Werk Spittal	Spittal	100.00	99.00
Austria	Millipore GesmbH	Vienna	100.00	
Poland	Merck Sp.z o.o.	Warsaw	100.00	
Poland	Millipore Sp.z.o.o.	Warsaw	100.00	
Portugal	Merck, S.A.	Lisbon	100.00	
Romania	Merck Romania S.R.L.	Bucarest	100.00	
Russia	Merck LLC	Moscow	100.00	
Sweden	Merck AB	Stockholm	100.00	
Sweden	Merck SeQuant AB	Umea	100.00	
Sweden	Millipore AB	Solna	100.00	
Serbia	Merck d.o.o. Beograd	Belgrade	100.00	
Slovakia	Merck Pharma s.r.o.	Bratislava	100.00	
Slovakia	Merck spol.s.r.o.	Bratislava	100.00	
Slovenia	Merck d.o.o.	Ljubljana	100.00	
Czech Republic	Merck spol.s.r.o.	Prague	100.00	
Czech Republic	Millipore s.r.o.	Prague	100.00	
Czech Republic	Merck Pharma k.s.	Prague	100.00	80.00
Turkey	Merck Ilac Ecza ve Kimya Ticaret AS	Istanbul	100.00	
Hungary	Merck Kft.	Budapest	100.00	
Hungary	Millipore Kft.	Budapest	100.00	
North America				
United States	Celliance Lawrence, Inc.	Wilmington	100.00	
United States	Concord Investments Corp.	Rockland	100.00	
United States	EMD Chemicals Inc.	Gibbstown	100.00	
United States	EMD Crop BioScience Inc.	Brookfield	100.00	
United States	EMD Serono Biotech Center, Inc.	Billerica	100.00	
United States	EMD Serono Holding Inc.	Rockland	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
United States	EMD Serono Research Center, Inc.	Billerica	100.00	
United States	EMD Serono Research Institute, Inc.	Rockland	100.00	
United States	EMD Serono, Inc.	Rockland	100.00	
United States	EMD Shared Services America Corp.	Quincy	100.00	
United States	Millipore Asia Ltd.	Wilmington	100.00	
United States	Millipore Corp.	Billerica	100.00	
United States	Millipore Pacific Ltd.	Wilmington	100.00	
United States	Millipore UK Holdings I, LLC	Wilmington	100.00	
United States	Millipore UK Holdings II, LLC	Wilmington	100.00	
United States	Randolph Diagnostics Development, Inc.	Rockland	100.00	
United States	Serono Laboratories Inc.	Rockland	100.00	
United States	Upstate USA, Inc.	New York	100.00	
Puerto Rico	Millipore Corp., Puerto Rico Branch	Cidra	100.00	
Canada	EMD Chemicals Canada Inc.	Oakville	100.00	
Canada	EMD Crop BioScience Canada Inc.	Oakville	100.00	
Canada	EMD Inc.	Mississauga	100.00	
Canada	Millipore (Canada) Ltd.	Toronto	100.00	
Bermuda	Millipore Bioscience Caribe Ltd.	Hamilton	100.00	
Bermuda	Minerva Insurance Co. Ltd.	Hamilton	100.00	
Latin America				
Argentina	Merck Crop BioScience Argentina S.A.	Buenos Aires	99.95	99.95
Argentina	Merck Quimica Argentina S.A.I.C.	Buenos Aires	100.00	
Brazil	Merck S.A.	Rio de Janeiro	100.00	
Brazil	Millipore Industria e Comercio Ltda.	Sao Paulo	100.00	
Chile	Merck S.A.	Santiago de Chile	100.00	
Ecuador	Merck C.A.	Quito	100.00	
Guatemala	Merck, S.A.	Guatemala City	100.00	
Colombia	Merck S.A.	Bogota	100.00	
Mexico	Merck, S.A. de C.V.	Mexico City	100.00	
Mexico	Millipore S.A. de C.V.	Mexico City	100.00	
Mexico	Serono de Mexico S.A. de C.V.	Mexico City	100.00	
Panama	Mesofarma Corporation	Panama City	100.00	
Peru	Merck Peruana S.A.	Lima	100.00	
Uruguay	ARES Trading Uruguay S.A.	Montevideo	100.00	
Venezuela	Merck S.A.	Caracas	100.00	
Venezuela	Representaciones MEPRO S.A.	Caracas	100.00	
Asia, Africa, Australasia				
China	Merck Chemicals (Shanghai) Co., Ltd.	Shanghai	100.00	
China	Merck Consumer Health Care Shanghai Trading Co., Ltd.	Shanghai	100.00	
China	Merck Ltd.	Hong Kong	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
China	Merck Pharmaceutical (HK) Ltd.	Hong Kong	100.00	
China	Merck Serono (Beijing) Pharmaceutical R&D Co., Ltd.	Beijing	100.00	
China	Merck Serono Co., Ltd.	Beijing	100.00	
China	Merck Song-Jiang Ltd.	Shanghai	100.00	
China	Millipore (Shanghai) Trading Co., Ltd.	Shanghai	100.00	
China	Millipore China Ltd.	Hong Kong	100.00	
China	Shanghai Yayang International Co., Ltd.	Shanghai	100.00	
China	Suzhou Taizhu Technology Development Co., Ltd.	Taicang	100.00	
India	Merck Ltd.	Mumbai	51.80	
India	Merck Specialities Pvt. Ltd.	Mumbai	100.00	
India	Millipore India Pvt. Ltd.	Bangalore	100.00	
Indonesia	P.T. Merck Tbk.	Jakarta	86.65	
Israel	Inter-Lab Ltd.	Yavne	100.00	
Israel	InterPharm Industries Ltd.	Yavne	100.00	
Israel	InterPharm Laboratories Ltd.	Yavne	100.00	
Israel	Merck Serono Ltd.	Herzlia Pituach	100.00	
Japan	Merck Ltd.	Tokyo	100.00	18.00
Japan	Merck Serono Co., Ltd.	Tokyo	100.00	
Japan	Nihon Millipore K.K.	Tokyo	100.00	
Malaysia	Merck Sdn Bhd	Petaling Jaya	100.00	
Malaysia	Millipore Asia Ltd., Malaysia Branch	Kuala Lumpur	100.00	
Pakistan	Merck (Pvt.) Ltd.	Karachi	75.00	26.00
Pakistan	Merck Pharmaceuticals (Pvt.) Ltd.	Karachi	75.00	
Pakistan	Merck Specialities (Pvt.) Ltd.	Karachi	100.00	
Philippines	Merck Inc.	Makati City	100.00	
Singapore	Merck Pte. Ltd.	Singapore	100.00	
Singapore	Millipore Singapore Pte. Ltd.	Singapore	100.00	
South Korea	Merck Advanced Technologies Ltd.	Pyungtaek-shi	100.00	
South Korea	Merck Ltd.	Seoul	100.00	
South Korea	Millipore Korea Ltd.	Seoul	100.00	
Taiwan	Merck Display Technologies Ltd.	Taipei	100.00	
Taiwan	Merck Ltd.	Taipei	100.00	
Taiwan	Millipore Asia Ltd., Taiwan Branch	Taipei	100.00	
Thailand	Merck Ltd.	Bangkok	45.11	
United Arab Emirates	Merck Serono Middle East FZ-LLC	Dubai	100.00	
Vietnam	Merck Vietnam Ltd.	Ho Chi Minh City	100.00	
Egypt	Merck Ltd.	Cairo	100.00	
Mauritius	Millipore Mauritius Ltd.	Cyber City	100.00	
South Africa	Merck (Pty) Ltd.	Modderfontein	100.00	
South Africa	Merck Pharmaceutical Manufacturing (Pty) Ltd.	Wadeville	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Tunisia	Merck Promotion SARL	Tunis	100.00	
Tunisia	Merck SARL	Tunis	100.00	
Australia	Chemicon Australia Pty. Ltd.	Sydney	100.00	
Australia	Merck Pty. Ltd.	Kilsyth	100.00	
Australia	Merck Serono Australia Pty. Ltd.	Sydney	100.00	
Australia	Millipore Australia Pty. Ltd.	Sydney	100.00	
New Zealand	Merck Ltd.	Manukau City	100.00	
II. Associates included at equity				
Latin America				
Chile	Tecnigen S.A.	Santiago de Chile	36.00	
Asia, Africa, Australasia				
South Africa	Microsep (Pty) Ltd.	Sandton	24.50	
III. Companies not consolidated due to secondary importance				
Germany				
Germany	Merck 11. Allgemeine Beteiligungs GmbH	Darmstadt	100.00	100.00
Germany	Merck Patent GmbH	Darmstadt	100.00	
Germany	Merck Sechste Allgemeine Beteiligungs-gesellschaft mbH	Darmstadt	100.00	
Germany	Merck Wohnungs- und Grundstücksver-waltungsgesellschaft mbH	Darmstadt	100.00	100.00
Other European countries				
France	Financière du 8ème S.A.S.	Lyon	100.00	
France	Gonnon S.A.S.	Lyon	100.00	
United Kingdom	Biovation Ltd.	Aberdeen	100.00	
United Kingdom	Merck UK Limited Partnership	Poole	100.00	
United Kingdom	Nature´s Best Health Products Ltd.	Tunbridge Wells	100.00	
Denmark	Merck A/S	Hellerup	100.00	
Ireland	Merck Serono (Ireland) Ltd.	Dublin	100.00	
Netherlands	Merck Holding Netherlands B.V.	Schiphol-Rijk	100.00	
Norway	Merck AS	Lorenskog	100.00	
Austria	Eurodrug Chemisch-pharmazeutische Produkte GmbH	Vienna	100.00	
Austria	Merck Vermögensverwaltungs-GmbH	Vienna	100.00	
Portugal	Laboratorio dos Produtos Sigma S.A.	Lisbon	100.00	
Portugal	Laquifa Laboratorios S.A.	Lisbon	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Latin America				
British Virgin Islands	Axebury Ltd.	Tortola	100.00	
Dominican Republic	Merck Dominicana S.A.	Santo Domingo	100.00	
Curacao	Applied Research Systems ARS Holding N.V.	Curacao	100.00	
Curacao	CMIP (Curacao) B.V.	Curacao	100.00	
Asia, Africa, Australasia				
China	Beijing Skywing Technology Co. Ltd.	Beijing	100.00	
Indonesia	P.T. Merck Specialities	Jakarta	100.00	
Morocco	Merck Maroc S.A.R.L.	Casablanca	100.00	
South Africa	Merck Chemicals (Pty) Ltd. (in liquidation)	Modderfontein	100.00	
South Africa	Serono South Africa Ltd.	Johannesburg	100.00	
Australia	E. Merck Pty. Ltd.	Kilsyth	100.00	

IV. Associates not included at equity due to secondary importance

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Germany				
Germany	pharma mall Gesellschaft für Electronic Commerce mbH	Böhnen	16.67	
Other European countries				
Switzerland	Vaximm Holding AG	Basel	25.00	
Italy	BioIndustry Park del Canavese S.p.A.	Colleretto Giacosa	13.30	
North America				
United States	Tioga Pharmaceuticals, Inc.	San Diego	17.22	17.22

AUDITOR'S REPORT

"We have audited the consolidated financial statements prepared by Merck Kommanditgesellschaft auf Aktien, Darmstadt, comprising the balance sheet, income statement, the statement of comprehensive income, the cash flow statement, statement of changes in net equity, and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) HGB [Handelsgesetzbuch "German Commercial Code"] and supplementary provisions of the articles of association are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a (1) HGB and 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/Main, February 9, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Nonnenmacher	Jenal
Wirtschaftsprüfer	Wirtschaftsprüfer