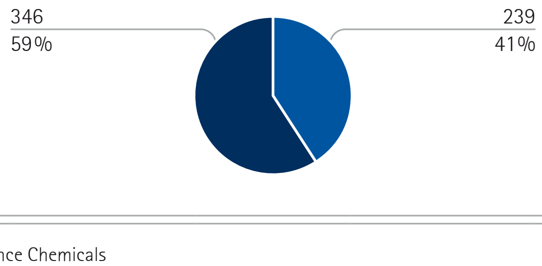
The Chemicals business sector's two divisions are Liquid Crystals and Performance & Life Science Chemicals. This sector generated 28% of the Group's total revenues and 48% of the operating result (without Corporate and Other). Both the Liquid Crystals division and the Pigments business within the Performance & Life Science Chemicals division have completely recovered from the downturns they experienced in last year's financial crisis.

Consequently, the Chemicals business sector's first-quarter total revenues jumped 34% to EUR 585 million. The gross margin improved by 75% to EUR 353 million as the business sector returned to full utilization of production capacity and inventories were reduced. The operating result was EUR 167 million in the first quarter of 2010 compared to an extremely low EUR 37 million in the year-ago quarter.

The German Chemical Industry Association (VCI) said in March that for 2010 it expected German chemical production to increase by 5.0% and sales of German chemicals to rise by 6.0%.

Chemicals | Total revenues by division – Q1

EUR million



LIQUID CRYSTALS

Total revenues for the Liquid Crystals division jumped 82% in the first quarter of 2010 to EUR 239 million from EUR 131 million in the year-ago quarter. With production costs remaining stable, the gross margin increased nearly three fold to EUR 163 million from EUR 56 million in the first quarter of 2009.

Liquid Crystals | Key figures – Q1

EUR million	1st quarter 2010	1st quarter 2009	Change in %
Total revenues	238.9	131.2	82.1
Gross margin	162.7	55.7	192.3
Research and development	–23.8	–22.2	6.9
Operating result	111.8	12.7	–
Exceptional items	–	–	–
Free cash flow	103.6	25.3	308.8
Underlying free cash flow	103.6	25.3	308.8
ROS in %	46.8	9.7	

These improvements are mainly due to the growing demand for Merck's patented Polymer Stabilized Vertical Alignment (PS-VA) liquid crystal technology. Flat-panel televisions made with PS-VA liquid crystals have improved moving picture quality, faster switching times, higher contrast and brightness, and lower energy consumption.

PS-VA is quickly becoming the preferred technology for high-end displays, gradually replacing the Vertical Alignment (VA) technology, which Merck developed some years ago and which is now facing competition leading to price and market-share pressures.

Global shipments of liquid crystal display (LCD) televisions are expected to increase 24% to more than 180 million units in 2010, the market research organization DisplaySearch said in March. The organization stated that it had raised its earlier prediction by more than 10 million units due to the strong demand for LCD-TVs in 2009 – despite the financial crisis – and because of new technology introductions such as 3D displays and LED backlighting.

Merck's Liquid Crystals division is already supplying LC materials for 3D vision glasses for 3D televisions. The division also makes phosphorus materials for LEDs (light-emitting diodes) under the brand name isiphor®.

Such technological advances are due to the division's investment in research and development, which rose 6.9% to EUR 24 million in the first quarter of 2010.

The Liquid Crystals division's first-quarter operating result rebounded to EUR 112 million compared to just EUR 13 million in the year-ago quarter. Likewise, the ROS soared to 46.8% from 9.7%.

The division's free cash flow jumped to EUR 104 million in the first quarter from EUR 25 million in the year-ago quarter.

PERFORMANCE & LIFE SCIENCE CHEMICALS

Total revenues of the Performance & Life Science Chemicals division increased 13% to a record EUR 346 million with all three subdivisions and all regions showing improvement, indicating that the division has made a full recovery from last year's financial crisis. Sales by the Pigments subdivision were especially high compared to last year as demand in both the automotive and cosmetics industries improved.

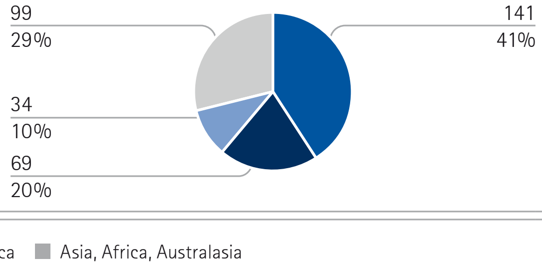
Performance & Life Science Chemicals | Key figures – Q1

EUR million	1st quarter 2010	1st quarter 2009	Change in %
Total revenues	345.6	305.0	13.3
Gross margin	190.2	146.4	29.9
Research and development	–14.3	–14.0	1.9
Operating result	54.9	24.5	124.2
Exceptional items	–	1.2	–
Free cash flow	22.7	–7.2	–
Underlying free cash flow	22.7	–7.2	–
ROS in %	15.9	8.0	

Production capacity is again being fully utilized and inventory adjustments have declined, leading to a gross margin of EUR 190 million, which is a 30% increase over the year-ago quarter. The division's investment in research and development was similar to the year-ago quarter at EUR 14 million. Like Merck's other divisions, Performance & Life Science Chemicals is a leader in its specialty areas as it continuously produces innovative products with the customer in mind.

Performance & Life Science Chemicals | Sales by Region – Q1

EUR million



For example, Merck's new foodproof® test kits can quickly detect pathogens, genetically modified organisms (GMOs) and spoilage bacteria. The new Merckoquant® test strips provide quick and reliable results of food, water and environmental analysis. These tests, along with many others such as the Singlepath® and Duopath® kits that are designed like easy-to-use pregnancy tests, represent the world's largest collection of test kits for the food and beverage industry.

Also of interest from this division is Merck's new anti-aging cosmetic ingredient RonaCare® Cyclopeptide, which mimics the natural regeneration processes of the skin.

The division broke ground at Merck's headquarters in Darmstadt for a EUR 30 million production plant for pharmaceutical raw materials. Its new materials research center, also in Darmstadt, is scheduled to open later this year.

With revenues and the gross margin increasing more than expenses, the division's operating result more than doubled to EUR 55 million in the first quarter of 2010 compared to EUR 25 million in the year-ago quarter. The division's free cash flow improved considerably in the first quarter, rising to EUR 23 million from EUR –7.2 million in the year-ago quarter. The ROS rose to 15.9% from 8.0%.

CORPORATE AND OTHER

The segment Corporate and Other includes corporate overhead costs incurred by Group holding companies, financial result, taxes and certain exceptional items that are not allocated to specific divisions. In addition, some costs associated with the planned acquisition of Millipore are included in this segment.

Corporate and Other | Key figures – Q1

EUR million	1st quarter 2010	1st quarter 2009	Change in %
Total revenues	–	–	–
Gross margin	–	–	–
Research and development	0.1	–0.4	–
Operating result	–51.5	–22.6	127.7
Exceptional items	–	–	–
Free cash flow	–120.4	–84.7	42.2
Underlying free cash flow	–108.6	–84.7	28.2

RISK REPORT

All issues concerning business-related risks, financial risks, legal risks, human resources risks, information technology risks and environmental and safety risks – as previously stated in the 2009 Annual Report – remain valid in the current reporting period.

Therefore, no issues have been identified that pose a risk to the continued existence of the Merck Group.