# Q3 | 2010

Quarterly Financial Report

# CONTENTS



**Cover photo:** Cultivation vessels for mammalian cells. As a research-based company, Merck invests significantly to develop cutting-edge innovations and products that sustainably improve the quality of life.

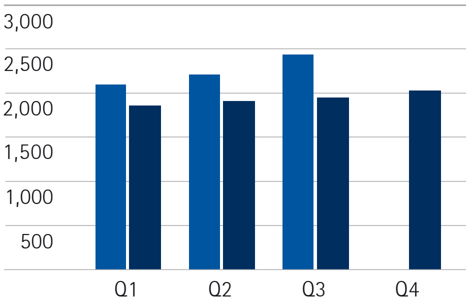
# AT A GLANCE

**Key figures – 3rd quarter 2010**

| EUR million | Pharma-ceuticals | Chemicals | Corporate and Other | Total | Change in % |
|---|---|---|---|---|---|
| Total revenues | 1,518.4 | 919.4 | – | 2,437.8 | 25.0 |
| Gross margin | 1,286.0 | 532.1 | – | 1,818.2 | 27.3 |
| Research and development | –285.1 | –63.5 | – | –348.6 | 4.7 |
| Operating result | 225.7 | 161.8 | –24.1 | 363.5 | 63.6 |
| Exceptional items | – | – | – | – | – |
| Earnings before interest and tax (EBIT) | 225.7 | 161.8 | –24.1 | 363.5 | 63.6 |
| EBIT before depreciation and amortization (EBITDA) | 423.4 | 301.2 | –22.9 | 701.7 | 54.0 |
| Return on sales in % (ROS: operating result/total revenues) | 14.9 | 17.6 | – | 14.9 | |
| Free cash flow | 418.1 | –4,673.0 | –127.9 | –4,382.9 | – |
| Underlying free cash flow | 418.1 | 267.3 | –124.6 | 560.7 | 30.6 |
| Underlying free cash flow on revenues (FCR) in % | 27.5 | 29.1 | – | 23.0 | |

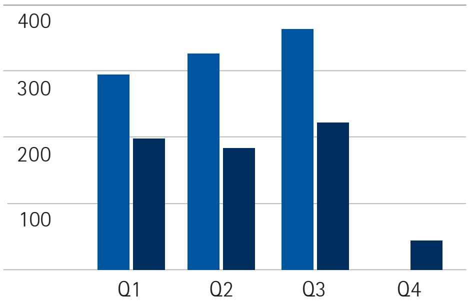
**Total revenues by quarter**

EUR million




**Operating result by quarter**

EUR million




2010 2009

# HIGHLIGHTS – 3rd QUARTER 2010

- Total revenues increase 25% to a record EUR 2.4 billion
- Profit after tax rises 45% to EUR 215 million
- Rebif® sales +6.8% to EUR 407 million; Erbitux® sales +17% to EUR 207 million
- Liquid Crystals revenues up 21% to EUR 255 million
- 2010 Group core operating result guidance lifted to 58%
- Millipore acquisition completed on July 14, figures consolidated in Q3, integration underway

# MERCK GROUP

Merck Group third-quarter total revenues increased 25% to a record EUR 2,438 million from EUR 1,950 million in the year-ago quarter, boosted by the EUR 5.1 billion acquisition of Millipore Corporation, Billerica, Massachusetts, USA, on July 14. The acquisition contributed 16 percentage points, positive currency effects 5.3 percentage points and organic growth 3.5 percentage points of the increase.

Royalty and commission income increased 3.5% to EUR 91 million in the third quarter, mainly stemming from the Merck Serono division.

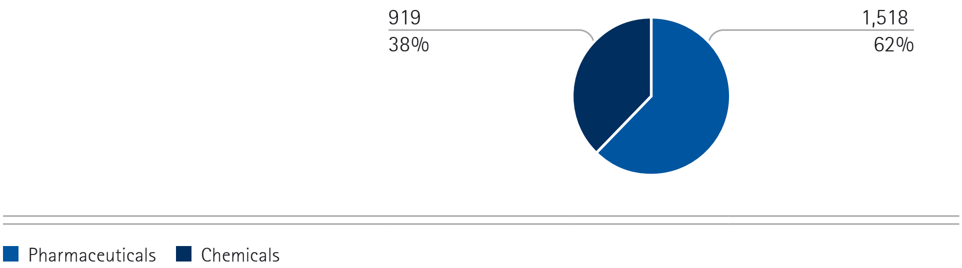
Cost of sales, which included a EUR 43 million write-off of the Millipore inventory step-up, increased at a lower rate than revenues. Therefore, the gross margin in the third quarter improved 27% to EUR 1,818 million from EUR 1,428 million in the year-ago quarter.

Marketing and selling expenses, including those of Millipore, rose by 29% to EUR 573 million in the third quarter. Royalty and commission expenses were up 10% to EUR 116 million, again mainly as a result of higher sales of the cancer treatment Erbitux® and higher royalty income, some of which must be passed on to the patent owners. In 2010, Merck began reporting royalty and commission expenses on a separate line in the income statement. In the past, these expenses were reported under marketing and selling expenses.

Administration expenses increased by 26% to EUR 128 million in the third quarter of 2010 from EUR 102 million in the year-ago quarter due to additional administration costs from Millipore and the currency impact.

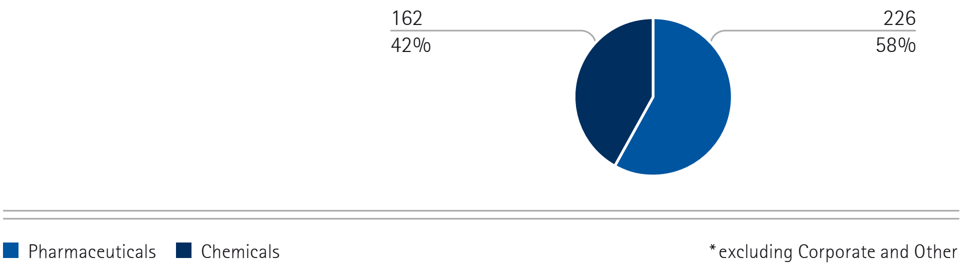
**Total revenues by business sector – Q3**

EUR million




**Operating result by business sector* – Q3**

EUR million




*excluding Corporate and Other

**Components of growth by division – Q3**

| Change in total revenues compared to last year in % | Merck Serono | Consumer Health Care | Merck Millipore | Performance Materials | Merck Group |
|---|---|---|---|---|---|
| Organic growth | 1.6 | 1.9 | 6.6 | 10.5 | 3.5 |
| Currency effects | 4.1 | –0.2 | 7.6 | 11.8 | 5.3 |
| Acquisitions /divestments | – | – | 138.9 | 0.4 | 16.2 |
| **Total** | **5.7** | **1.7** | **153.1** | **22.7** | **25.0** |

Other operating expenses and income increased by 19% to EUR –91 million, which included Millipore integration costs of EUR 21 million.

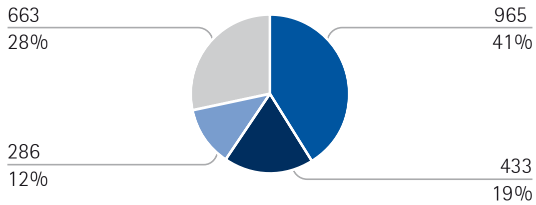
Research and development costs increased 4.7% to EUR 349 million in the third quarter of 2010. R&D spending for the Chemicals divisions, including Merck Millipore, rose but decreased for the Merck Serono division.

Amortization of intangible assets increased by 35% to EUR 198 million. This amount includes for the first time amortization of intangible assets from the Millipore purchase price allocation amounting to EUR 48 million.

With total revenues and gross margin rising faster than expenses, the operating result increased substantially by 64% in the third quarter to EUR 363 million from EUR 222 million in the year-ago quarter. Organically, meaning excluding Millipore and currency effects, the Group operating result rose by 97%.

**Merck Group | Sales by region – Q3**

EUR million




Europe   North America   Latin America   Asia, Africa, Australasia

The Group return on sales (ROS: operating result/total revenues) increased to 14.9% in the third quarter of 2010 compared to 11.4% in the year-ago quarter, boosted by the strong operating result of the Merck Serono division. Group core ROS (operating result excluding Serono- and Millipore-related amortization of intangible assets/total revenues) in the third quarter of 2010 was 25.6% compared to 18.9% in the year-ago quarter.

There were no exceptional items in the third quarter of 2010 or in the corresponding quarter of 2009.

Therefore, earnings before interest and tax (EBIT) in the third quarter of 2010 rose 64% to EUR 363 million compared to EUR 222 million in the year-ago quarter.

Due to interest on the financing for Millipore, Merck's financial result fell by more than 100% to EUR –74 million in the third quarter of 2010 compared to EUR –32 million in the year-ago quarter.

The Merck Group's third-quarter profit before tax increased 52% to EUR 289 million from EUR 190 million in the year-ago quarter. Merck's underlying tax rate rose to 25.8% for the third quarter of 2010 compared to very low 22.2% in the year-ago quarter.

Profit after tax in the third quarter of 2010 increased 45% to EUR 215 million from EUR 148 million in the third quarter of 2009.

Total assets of the Merck Group amounted to EUR 23,010 million as of September 30, 2010. This corresponds to an increase of EUR 6,297 million, or 38%, compared with December 31, 2009. The balance sheet structure is primarily influenced by the acquisition of Millipore and the financing thereof. To finance the acquisition, bonds with a total volume of EUR 3.2 billion were issued during 2010. Against this background, the equity ratio decreased from 56.9% at the beginning of the year to 45.8% as of September 30, 2010. Apart from profit after tax of EUR 596 million recognized in equity, positive currency translation differences also increased equity by around EUR 778 million.

Within the scope of the purchase price allocation for the Millipore acquisition in accordance with IFRS 3, the acquired assets, liabilities and contingent liabilities have been recognized at fair values in the balance sheet. This primarily led to an increase of around EUR 5,206 million in intangible assets. This also includes goodwill of EUR 2,638 million stemming from the transaction. Goodwill mainly reflects future synergy effects and the expertise of the workforce. The fair value adjustments made in the third quarter of 2010 as part of the purchase price allocation are still to be considered as preliminary and may be changed within one year of the date of the acquisition.

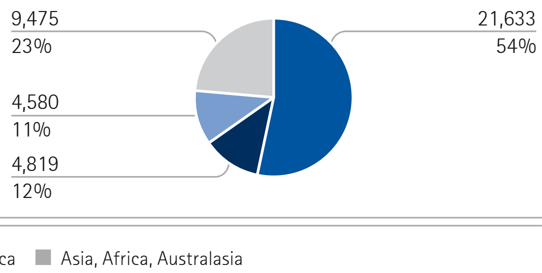
As a result of the acquisition, net financial debt increased to around EUR 4,670 million as of September 30. Thanks mainly to the positive cash flow development, net debt since the acquisition declined in the course of the third quarter.

The free cash flow of the Merck Group in the third quarter of 2010 totaled EUR -4,383 million (Q3 2009: EUR 399 million). This includes payments of EUR 4,934 million in connection with the acquisition of Millipore. The purchase price of EUR 5,137 million was lowered by cash of EUR 300 million included in the acquisition. Additional transaction-related payments amounted to EUR 97 million. A final payment of EUR 6.6 million was made for the Suzhou Taizhu China Group, which was acquired in 2009. Adjusted for these effects, underlying free cash flow was EUR 561 million, exceeding the year-earlier period (EUR 429 million) by EUR 131 million or 31%. The increase in underlying free cash flow is due mainly to the improvement in business in comparison with the year-ago period.

For the nine months from January to September, free cash flow amounted to EUR –3,832 million (year-ago period EUR 642 million). Underlying free cash flow (adjusted for acquisitions and divestments) was EUR 1,127 million. Compared with underlying free cash flow of EUR 673 million in the nine-month period of 2009, this corresponds to an increase of EUR 455 million or 68%.

Merck had 40,507 employees worldwide on September 30, 2010, an increase of 7,445 compared to 33,062 on December 31, 2009. Most of this gain can be attributed to the acquisition of Millipore.

**Number of employees as of September 30, 2010: 40,507**



# MERCK SHARES

The Merck share price rose 2.7% during the third quarter, from EUR 59.99 on June 30 to EUR 61.62 on September 30. The share price high during the third quarter was EUR 72.28, recorded on September 10. The low price for the quarter was EUR 58.11 on July 5. Germany's DAX Index, of which Merck is a member, rose 4.4% during the third quarter and the Bloomberg Europe Pharmaceuticals Index rose 9.6%.

**Share data**[1]

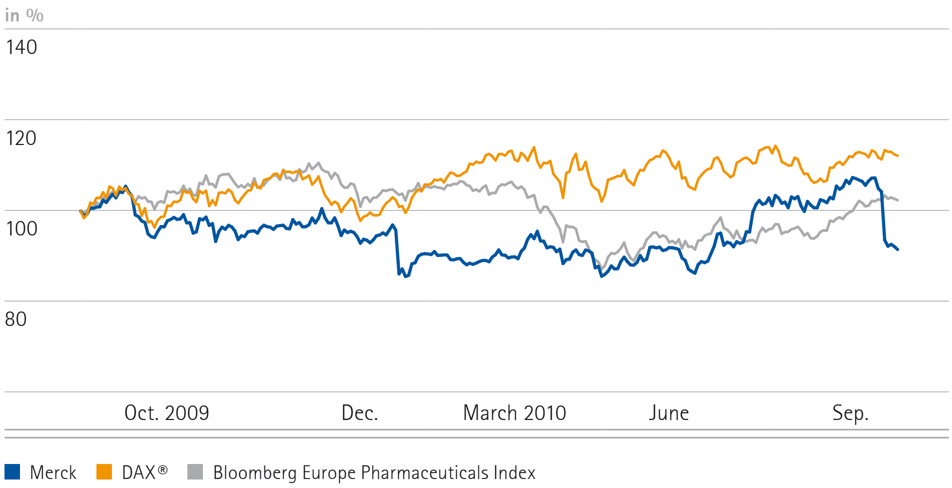
| | 3rd quarter 2010 | 2nd quarter 2010 |
|---|---|---|
| Earnings per share after tax and non-controlling interest in EUR | 0.97 | 0.84 |
| Share price high in EUR | (Sep. 10) 72.28 | (April 27) 64.32 |
| Share price low in EUR | (July 5) 58.11 | (May 25) 57.65 |
| Closing share price in EUR | (Sep. 30) 61.62 | (June 30) 59.99 |
| Actual number of shares in millions | 64.6 | 64.6 |
| Theoretical number[2] of shares in millions | 217.4 | 217.4 |
| Market capitalization[3] in EUR million | 13,396 | 13,041 |

[1] Share-price relevant figures relate to the closing price in XETRA trading on the Frankfurt Stock Exchange.

[2] The calculation of the theoretical number of shares is based on the fact that the general partner's equity capital is not represented by shares. As the share capital of EUR 168.0 million was divided into 64.6 million shares, the corresponding calculation resulted in 152.8 million theoretical shares for the general partner's capital of EUR 397.2 million on the balance sheet date September 30, 2010.

[3] Based on the theoretical number of shares as of September 30, 2010.

**The performance of Merck shares vs. the DAX®/Bloomberg Europe Pharmaceuticals Index**



# BUSINESS SECTORS

The Merck Group has two business sectors – Pharmaceuticals and Chemicals – each of which consists of two divisions.

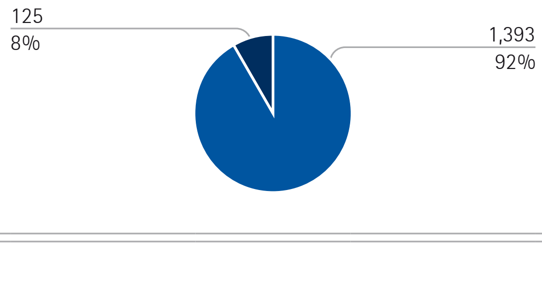
The Pharmaceuticals business sector's divisions are Merck Serono for innovative prescription medicines and Consumer Health Care for over-the-counter pharmaceutical products. The Pharmaceuticals business sector generated 62% of the company's total revenues and 58% of the Group operating result (excluding Corporate and Other) during the third quarter. Total revenues for the Pharmaceuticals sector increased by 5.3% to EUR 1,518 million during the third quarter.

The higher revenues recorded by the Pharmaceuticals business sector were due mainly to increased sales of the top products in the Merck Serono division, especially the biotechnology medicines Rebif® and Erbitux®. Despite higher costs for marketing and selling and commissions and royalties, the business sector's third-quarter operating result increased 56% to EUR 226 million compared to the year-ago quarter due to lower costs for production and research and development.

IMS Health, the world's leading provider of market intelligence for the pharmaceutical and healthcare industries, reported on October 6 that it expects the global pharmaceutical market to grow by 4% to 5% in 2010.

**Pharmaceuticals | Total revenues by division – Q3**

EUR million




Merck's Chemicals business sector was reorganized during the third quarter due to the acquisition of the U.S.-based life-science company Millipore, which closed on July 14. The new acquisition was combined with most of the Performance & Life Science Chemicals division to form the Merck Millipore division. This division has three business units – Bioscience, Process Solutions and Lab Solutions. The second Chemicals division is Performance Materials. It consists of two business units – Liquid Crystals and Pigments.

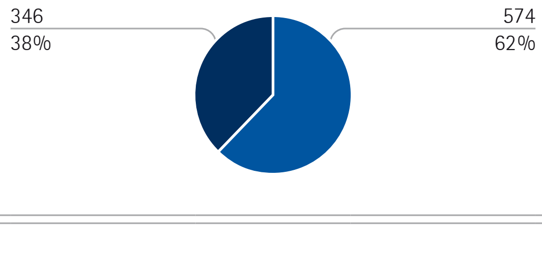
With the addition of Millipore, the Chemicals business sector contributed 38% of the Group's total revenues and 42% of the operating result (excluding Corporate and Other).

The Chemicals business sector's third-quarter total revenues jumped 81% to EUR 919 million largely due to the inclusion of Millipore sales but also because of strong growth in Merck's other chemicals businesses such as liquid crystals, lab solutions and effect pigments. In addition, Chemicals enjoyed a 9.9% boost from positive currency effects. Cost of sales, which included EUR 43 million in expenses for the preliminary purchase price allocation for the Millipore inventory step-up, still grew at a slower rate than revenues, so that the gross margin more than doubled to EUR 532 million. The business sector booked EUR 49 million for amortization of intangible assets, mainly for the Millipore acquisition. Therefore, the Chemicals business sector's operating result rose 74% to EUR 162 million.

The most recent report from the German Chemical Industry Association (VCI), dated July 7, forecast that for 2010 German chemical production would increase by 8.5% and sales of German chemicals would rise by 10%.

**Chemicals | Total revenues by division – Q3**

EUR million



# MERCK SERONO

Merck Serono, the division for innovative prescription pharmaceuticals, is the largest division of the Merck Group, accounting for 57% of total Group revenues and 92% of revenues within the Pharmaceuticals business sector.

**Merck Serono | Key figures**

| EUR million | 3rd quarter 2010 | 3rd quarter 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
|---|---|---|---|---|
| Total revenues | 1,393.5 | 1,318.6 | 4,250.7 | 3,952.3 |
| Gross margin | 1,199.8 | 1,099.4 | 3,605.1 | 3,327.0 |
| Research and development | –279.6 | –293.2 | –880.2 | –867.4 |
| Operating result | 209.5 | 123.4 | 551.1 | 423.8 |
| Exceptional items | – | – | – | –70.0 |
| Free cash flow | 410.4 | 313.2 | 859.3 | 681.0 |
| Underlying free cash flow | 410.4 | 313.2 | 859.3 | 681.0 |
| ROS in % | 15.0 | 9.4 | 13.0 | 10.7 |

Merck Serono's total revenues increased 5.7% to EUR 1,393 million in the third quarter of 2010 compared to EUR 1,319 million in the year-ago quarter, boosted by sales of Merck Serono's two leading products – the biological therapies Rebif®and Erbitux® – and a 4.1% positive currency effect. Regionally, sales rose significantly in Japan, Latin America and North America. New German health care reform legislation took effect in August, contributing to a decline in sales in Merck's home market. Sales in China were minimal during the third quarter as Merck deferred sales to local distributors due to the establishment of its own trading company in China and the resulting change in inventory policy. Sales should return to normal levels in the fourth quarter.

Royalty and commission income rose in the third quarter by 5.8% to EUR 88 million.

Global sales of Rebif® for the treatment of relapsing-remitting forms of multiple sclerosis rose 6.8% to EUR 407 million in the third quarter.

Sales of the targeted cancer treatment Erbitux® continued to climb, increasing by 17% in the third quarter to EUR 207 million.

Third-quarter sales of Gonal-f®, a recombinant hormone used in the treatment of infertility, increased by 3.9% to EUR 115 million, damped by the lack of sales in China, a major market for this product.

Sales of the recombinant growth hormone Saizen® for growth hormone deficiency rose by 17% to EUR 56 million in the third quarter. Sales of Merck's other leading growth hormone, Serostim® increased by 6.5% in the quarter.

Merck Serono's primary care products continue to contribute significantly to the division's overall sales. Total sales of the beta blocker bisoprolol, including the branded Concor® products such as Lodoz® and Concor®COR decreased 19% to EUR 84 million in the third quarter. Total sales of the Glucophage® (metformin) franchise of oral antidiabetic products rose 3.3% to EUR 79 million in the second quarter. Sales of thyroid medicines such as Euthyrox® were little changed at EUR 41 million in the third quarter.

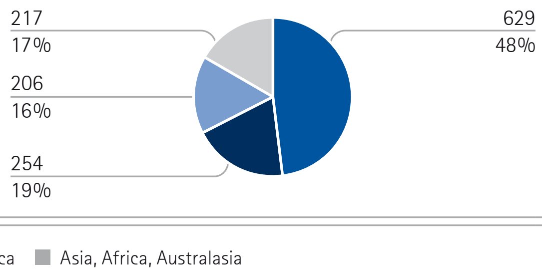
The division's gross margin rose by 9.1% to EUR 1,200 million in the third quarter as production costs declined. Marketing and selling costs rose 9.7% during the third quarter. Royalty and commission expenses were up 8.0% in the quarter due to higher third-party sales of Erbitux®, especially in Japan, and higher royalty income that leads to higher royalty payments.

The division has been receiving payments from Venezuela for 2009, albeit at the country's lower official rate, and booked the funds under other operating expenses and income. As it was unclear if these payments would ever be collected, the division had booked a provision in the third quarter of 2009.

Research and development spending by Merck Serono declined by 4.6% to EUR 280 million compared to EUR 293 million in the year-ago quarter. The division's R&D costs remained at about 20% of revenues due to the large number of expensive, late-stage clinical trials.

**Merck Serono | Sales by region – Q3**

EUR million




In July 2010, Russian health authorities granted marketing authorization for Cladribine Tablets for the treatment of relapsing-remitting multiple sclerosis. The Australian health authorities followed with a similar approval in September.

Merck's New Drug Application (NDA) for Cladribine Tablets was accepted in July by the U.S. Food and Drug Administration (FDA) and granted a priority review. However, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) issued a negative opinion regarding the marketing authorization application for Cladribine Tablets in September due to what it perceived as an unfavorable benefit-risk ratio. Merck has announced its intention to appeal that decision.

The division's charge for amortization of intangible assets from the 2007 acquisition of Serono amounted to EUR 148 million in the third quarter of 2010, similar to previous quarters.

With an improved gross margin and lower R&D costs the division's third-quarter operating result jumped 70% to EUR 210 million from EUR 123 million in the year-ago quarter, which was affected by the EUR -45 million provision for potential currency losses on transactions in Venezuela. The core operating result, which excludes Serono-related amortization of intangible assets, was EUR 358 million compared to EUR 269 million in the third quarter of 2009.

The division's third-quarter ROS was 15.0% compared to 9.4% in the year-ago quarter. Core ROS, which excludes Serono-related amortization of intangible assets, was 25.7% in the third quarter of 2010 compared to 20.5% in the year-ago quarter. Free cash flow was EUR 410 million in the third quarter of 2010 compared to EUR 313 million in the year-ago quarter.

# CONSUMER HEALTH CARE

The Consumer Health Care division increased total revenues by 1.7% to EUR 125 million in the third quarter with currency devaluations in Venezuela balanced by the stronger British pound and Indonesian rupiah. The division's only major market to show a decline was Latin America.

**Consumer Health Care | Key figures**

| EUR million | 3rd quarter 2010 | 3rd quarter 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
|---|---|---|---|---|
| Total revenues | 125.0 | 122.9 | 346.4 | 334.6 |
| Gross margin | 86.3 | 86.6 | 237.5 | 231.2 |
| Research and development | –5.5 | –4.2 | –16.4 | –12.8 |
| Operating result | 16.2 | 21.4 | 12.3 | 39.7 |
| Exceptional items | – | – | – | – |
| Free cash flow | 7.7 | 11.5 | 6.3 | 29.3 |
| Underlying free cash flow | 7.7 | 11.5 | 6.3 | 29.3 |
| ROS in % | 13.0 | 17.4 | 3.5 | 11.9 |

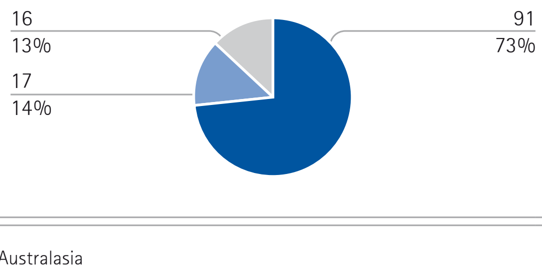
Global sales of Femibion®, the vitamins and minerals supplement for pregnant women and nursing mothers, jumped 40% compared to the year-ago quarter, boosted by high demand in Germany and Poland.

Sales of Bion® probiotic multivitamins rose 13%, driven by demand in France and Great Britain. Sales of strategic Mobility products such as Seven Seas® supplements, Kytta® and Flexagil® rose 7.5% during the third quarter. The vitamin C products marketed under the Cebion® brand recorded a 30% drop in sales, mostly as a result of Venezuela.

Poland and India led the demand for Nasivin® nasal spray, sales of which rose 24% during the third quarter.

**Consumer Health Care | Sales by region – Q3**

EUR million




Strategic-brand products, such as Seven Seas®, Kytta®, Kidabion®, Nasivin® and Cebion®, excluding the mail-order business, now account for 58% of the division's sales.

Despite higher production costs, the division's gross margin was steady at EUR 86 million in the third quarter. Marketing and selling costs, as well as research and development spending, rose again in the third quarter as the division continued to implement its strategy of focusing on strategic brands to drive growth.

Restructuring activities in China began in the third quarter and are expected to continue into the fourth quarter.

Therefore, the division's third-quarter operating result declined 24% to EUR 16 million from an atypical high of EUR 21 million in the year-ago quarter. The third-quarter ROS dropped to 13.0% compared to 17.4% in the year-ago quarter of 2009. Free cash flow for the third quarter was EUR 7.7 million compared to EUR 11.5 million in the year-ago quarter.

# MERCK MILLIPORE

Merck completed the acquisition of Millipore Corporation, a leading U.S.-based life science company, on July 14. The integration plan, which was already well underway at that point, called for combining Millipore with Merck's existing life science businesses to create a new division called Merck Millipore. This division has three business units – Bioscience, Process Solutions and Lab Solutions – and is the second-largest division after Merck Serono.

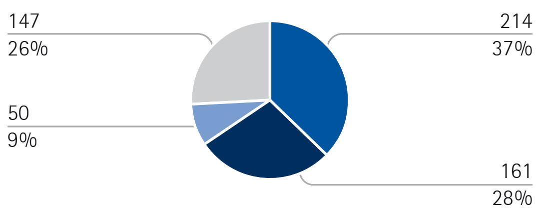
**Merck Millipore | Key figures**

| EUR million | 3rd quarter 2010 | 3rd quarter 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
|---|---|---|---|---|
| Total revenues | 573.7 | 226.7 | 1,085.3 | 695.5 |
| Gross margin | 295.7 | 104.0 | 565.2 | 324.8 |
| Research and development | –30.9 | –8.2 | –46.0 | –24.0 |
| Operating result | 10.0 | 20.2 | 45.2 | 74.6 |
| Exceptional items | – | – | – | – |
| Free cash flow | –4,831.9 | 43.7 | –4,791.2 | 104.6 |
| Underlying free cash flow | 101.8 | 43.7 | 142.6 | 104.6 |
| ROS in % | 1.7 | 8.9 | 4.2 | 10.7 |

Third-quarter total revenues of the Merck Millipore division rose to EUR 574 million. Of this sum, EUR 314 million is attributable to the new acquisition. Another 7.6% was due to positive currency effects and the remaining 6.6% stemmed from organic growth of the original Merck life science businesses.

**Merck Millipore | Sales by region – Q3**

EUR million



All three business units increased their total revenues, with sales in Japan and India rising significantly.

The Bioscience business unit supplies products to specialized life science research laboratories. It accounts for about 20% of the division's total revenues. Demand for instruments more than compensated for a slight softening in the antibodies business. Orders from the U.S. government and North American universities were above average during the quarter.

The Lab Solutions business unit supplies general laboratory applications to a variety of industries. It accounts for about 40% of the division's total revenues. Third-quarter sales improved for analytics for food and environmental testing as well as for microbiology and hygiene. Demand for reagents also grew.

The Process Solutions business unit supplies products used in the production of biopharmaceutical drugs. It accounts for about 40% of the division's revenues. Sales growth in the third quarter was driven by biotech production orders, especially from smaller biotech accounts in all regions of the world.

Despite higher cost of sales of EUR 43 million for the inventory step-up from Millipore, the division's gross margin grew faster than revenues due to a favorable product mix and operational excellence, reaching EUR 296 million in the third quarter of 2010 from EUR 104 million in the year-ago quarter.

The division also booked EUR 48 million for amortization of intangible assets in connection with the preliminary purchase price allocation for the Millipore acquisition.

This led to a third-quarter operating result of EUR 10 million compared to EUR 20 million in the year-ago period.

Therefore, the division's third-quarter ROS amounted to 1.7% compared to 8.9% in the third quarter of last year. Core ROS (which excludes costs related to the integration and purchase price allocation of Millipore) was 21.2%.

The division's third-quarter free cash flow was EUR –4,832 million, including payments of EUR 4,934 million in connection with the Millipore acquisition, compared to EUR 44 million in the year-ago quarter. The underlying free cash flow for the third quarter of 2010 was EUR 102 million.

# PERFORMANCE MATERIALS

The new Performance Materials division comprises Merck's materials businesses and activities, i.e. Liquid Crystals, Pigments plus Advanced Technologies such as materials for OLEDs (organic light-emitting diodes), LEDs (light-emitting diodes), photovoltaics and other innovative technologies.

**Performance Materials | Key figures**

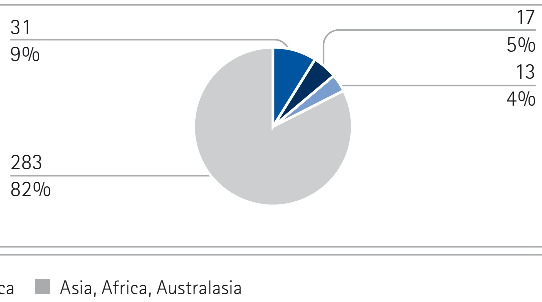
| EUR million | 3rd quarter 2010 | 3rd quarter 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
|---|---|---|---|---|
| Total revenues | 345.7 | 281.8 | 1.062.3 | 735.8 |
| Gross margin | 236.4 | 138.1 | 713.4 | 338.7 |
| Research and development | –32.5 | –27.2 | –92.1 | –82.1 |
| Operating result | 151.9 | 72.6 | 449.4 | 125.0 |
| Exceptional items | – | – | – | 1.2 |
| Free cash flow | 158.9 | 97.9 | 418.5 | 165.4 |
| Underlying free cash flow | 165.4 | 116.8 | 425.0 | 184.2 |
| ROS in % | 43.9 | 25.8 | 42.3 | 17.0 |

Total revenues of the division rose 23% in the third quarter to EUR 346 million from EUR 282 million in the year-ago quarter. Positive currency effects accounted for 12% of the revenue increase with 11% stemming from organic growth.

Merck's Liquid Crystals business accounts for 74% of the division's revenues. Revenues from Liquid Crystals rose 21% to EUR 255 million. This represented organic growth of 8.3% and positive currency effects of 13% as much of the sales are generated in U.S. dollars or Asian currencies. In the third-quarter, liquid crystal revenues were lower than the EUR 284 million recorded in the second quarter. This is due to the recent onset of an inventory correction in the LCD market with panel makers reducing their production, as well as slightly less favorable currency exchange rates.

**Performance Materials | Sales by region – Q3**

EUR million




The increase in revenues was again driven by high demand for liquid crystals based on Merck's patented Polymer Stabilized Vertical Alignment (PS-VA) technology, which offers better moving-picture quality, faster switching times, higher contrast and brightness, and lower power consumption – qualities desired by manufacturers of the latest generation of LCD televisions.

Merck's Liquid Crystals business also supplies LC materials for 3D televisions and tablet touch screens, among other applications.

Sales by the Pigments business were especially high during the third quarter compared to last year as demand in the automotive industry returned to, or even exceeded, levels prior to last year's economic crisis. This business also experienced a favorable currency tailwind.

The division's production costs decreased substantially, leading to a gross margin of EUR 236 million in the third quarter compared to EUR 138 million in the year-ago quarter. Production utilization was at a high level for both liquid crystals and pigments as the businesses have recovered from the slowdown in 2009.

Research and development costs rose by 20% to EUR 33 million, or 9.4% of total revenues, in the third quarter. This comparatively high R&D spending rate for a chemicals business is justified by high-margin technological advances. On September 23, the Chancellor of the Federal Republic of Germany Dr. Angela Merkel visited Merck's headquarters in Darmstadt for the inauguration of the new EUR 50 million Material Research Center, where these technological advances are being developed.

With a gross margin that increased faster than expenses, the operating result of the Performance Materials division more than doubled to EUR 152 million in the third quarter compared to EUR 73 million in the year-ago quarter. The division's ROS was 43.9% compared to 25.8% the third quarter of 2009.

The operating result for Liquid Crystals in the third quarter increased by 90% to EUR 137 million, leading to an ROS of 53.6% compared to 34.1% in the year-ago quarter.

The free cash flow for the Performance Materials division rose to EUR 159 million in the third quarter from EUR 98 million in the year-ago quarter. The third-quarter underlying free cash flow was EUR 165 million in 2010 and EUR 117 million in 2009.

# 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.

Transaction costs, purchase price allocation and amortization of intangible assets associated with the July 14 acquisition of Millipore have been allocated to the new Merck Millipore division.

**Corporate and Other | Key figures**

| EUR million | 3rd quarter 2010 | 3rd quarter 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
|---|---|---|---|---|
| Total revenues | – | – | – | – |
| Gross margin | – | – | – | – |
| Research and development | – | – | – | – |
| Operating result | –24.1 | –15.4 | –73.6 | –58.3 |
| Exceptional items | – | – | –1.2 | – |
| Free cash flow | –127.9 | –67.4 | –324.6 | –338.0 |
| Underlying free cash flow | –124.6 | –55.8 | –305.9 | –326.4 |

# 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 for the Merck Group in the current reporting period.

Explanations regarding the increase of intangible assets after the acquistion of Serono also apply to the acquisition of Millipore.

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

# REPORT ON EXPECTED DEVELOPMENTS

The Merck Group's total revenues and operating result continued to develop well in the third quarter of 2010. In fact, due to lower than previously anticipated research and development costs and cost of sales, the guidance for the core operating result of the Merck Serono division has been improved. Merck now expects the Merck Serono core operating result to rise by 26% rather than the previously forecast 12%.

On the other hand, late in the third quarter it became clear that Merck's Liquid Crystals business, which is part of the very dynamic electronic display industry, was slowing slightly. Display manufacturers have begun reducing production due to lower demand and some over-stocking effects. This, coupled with anticipated negative currency effects caused by the weaker U.S. dollar, has caused Merck to lower this business's previous full-year forecast. The company now expects Liquid Crystals total revenues to increase by 35% rather than 50% and the operating result to improve by 126% instead of 160%. Thus, the full-year return on revenues (ROS) for this business is expected to be 52% rather than the 54% previously mentioned.

The decline in sales and operating result of the Merck Millipore division is primarily due to anticipated negative currency effects.

**Merck Group forecast for 2010 including Millipore**

| | Growth in total revenues | | Growth in operating result | |
|---|---|---|---|---|
| in % | New | From Q2 | New | From Q2 |
| Merck Serono | 7.2% | 7.5% | 56% | 60% |
| Merck Serono, Core[1] | | | 26% | 12% |
| Consumer Health Care | 3% | 5% | –60% | –20% |
| Merck Millipore | 80% | 84% | –63% | |
| Merck Millipore, Core[2] | | | 167% | 190% |
| Performance Materials | 34% | 43% | 162% | 194% |
| Corporate and Other | | | –28% | –22% |
| Merck Group | 19% | 21% | 70% | 90% |
| Merck Group, Core[1,2] | | | 58% | 55% |

[1] Excludes costs related to the purchase of Serono (amortization of intangible assets)
[2] Excludes costs related to the purchase of Millipore (write-offs of step-up inventories, amortization of intangible assets, EUR 66 million transaction and integration costs during 2010)

Mainly due to the revised forecasts for the Merck Serono division and the Liquid Crystals business, plus a detailed examination of Millipore after its July 14 acquisition, Merck now expects the Group full-year operating result to increase by 70% rather than the previous guidance of 90%. The Group core operating result should increase by 58% compared to the previously stated 55%.

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2010

## INCOME STATEMENT

| EUR million | 3rd Quarter 2010 | 3rd Quarter 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
|---|---|---|---|---|
| **Sales** | **2,347.0** | **1,862.3** | **6,472.6** | **5,445.6** |
| Royalty and commission income* | 90.8 | 87.7 | 272.1 | 272.6 |
| **Total revenues** | **2,437.8** | **1,950.0** | **6,744.7** | **5,718.2** |
| Cost of sales | –619.7 | –521.9 | –1,623.5 | –1,496.4 |
| **Gross margin** | **1,818.2** | **1,428.1** | **5,121.2** | **4,221.8** |
| Marketing and selling expenses* | –573.3 | –446.2 | –1,581.7 | –1,366.8 |
| Royalty and commission expenses* | –115.8 | –105.2 | –355.3 | –303.8 |
| Administration expenses | –128.0 | –102.0 | –347.5 | –316.9 |
| Other operating expenses and income | –91.0 | –76.8 | –335.4 | –206.6 |
| Research and development | –348.6 | –332.8 | –1,034.6 | –986.3 |
| Amortization of intangible assets | –198.2 | –147.0 | –484.7 | –440.8 |
| Investment result | 0.3 | 4.1 | 2.5 | 4.2 |
| **Operating result** | **363.5** | **222.2** | **984.4** | **604.8** |
| Exceptional items | – | – | –1.2 | –68.8 |
| **Earnings before interest and tax (EBIT)** | **363.5** | **222.2** | **983.2** | **536.0** |
| Financial result | –74.2 | –31.7 | –191.1 | –103.0 |
| **Profit before tax** | **289.3** | **190.5** | **792.2** | **433.0** |
| Income tax | –74.8 | –42.3 | –196.2 | –114.8 |
| **Profit after tax** | **214.5** | **148.1** | **596.0** | **318.2** |
| Non-controlling interest | –3.7 | –3.7 | –10.4 | –8.7 |
| **Net profit after non-controlling interest** | **210.8** | **144.4** | **585.6** | **309.5** |
| **Earnings per share (in EUR)** | | | | |
| basic | 0.97 | 0.66 | 2.69 | 1.42 |
| diluted | 0.97 | 0.66 | 2.69 | 1.42 |

* Figures for 2009 have been adjusted for the disclosure of commission income as well as royalty and commission expenses

# BALANCE SHEET

| EUR million | Sep. 30, 2010 | December 31, 2009 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 1,387.6 | 541.4 |
| Marketable securities and financial assets | 95.2 | 1,503.2 |
| Trade accounts receivable | 2,257.3 | 1,788.7 |
| Inventories | 1,773.5 | 1,367.9 |
| Other current assets | 306.3 | 275.6 |
| Tax receivables | 61.0 | 55.3 |
| | **5,880.8** | **5,532.1** |
| **Non-current assets** | | |
| Intangible assets | 12,855.5 | 7,598.4 |
| Property, plant and equipment | 3,212.5 | 2,607.6 |
| Investments at equity | 4.8 | 1.6 |
| Non-current financial assets | 167.2 | 118.4 |
| Financial assets covering pensions | 216.6 | 209.6 |
| Other non-current assets | 84.9 | 99.5 |
| Deferred tax assets | 587.5 | 545.4 |
| | **17,129.0** | **11,180.5** |
| **Total assets** | **23,009.8** | **16,712.6** |
| **Current liabilities** | | |
| Current financial liabilities | 1,073.9 | 705.2 |
| Trade accounts payable | 1,062.9 | 935.7 |
| Other current liabilities | 946.9 | 638.2 |
| Tax liabilities | 343.7 | 274.5 |
| Current provisions | 424.2 | 266.4 |
| | **3,851.6** | **2,820.0** |
| **Non-current liabilities** | | |
| Non-current financial liabilities | 5,079.0 | 1,602.1 |
| Other non-current liabilities | 24.8 | 16.9 |
| Non-current provisions | 619.4 | 685.0 |
| Provisions for pensions and other post-employment benefits | 1,504.1 | 1,311.5 |
| Deferred tax liabilities | 1,398.8 | 763.5 |
| | **8,626.1** | **4,379.0** |
| **Net equity** | | |
| Equity capital | 565.2 | 565.2 |
| Reserves | 9,908.1 | 8,894.9 |
| Non-controlling interest | 58.8 | 53.5 |
| | **10,532.1** | **9,513.6** |
| **Total liabilities and stockholders' equity** | **23,009.8** | **16,712.6** |

# SEGMENT REPORTING – PHARMACEUTICALS

| | Merck Serono | | | | Consumer Health Care | | | |
|---|---|---|---|---|---|---|---|---|
| EUR million | Q3 2010 | Q3 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 | Q3 2010 | Q3 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
| Sales | 1,305.9 | 1,235.9 | 3,991.3 | 3,695.5 | 124.7 | 122.8 | 344.9 | 333.0 |
| Royalty and commission income* | 87.6 | 82.8 | 259.5 | 256.8 | 0.3 | 0.1 | 1.5 | 1.6 |
| Total revenues | 1,393.5 | 1,318.6 | 4,250.7 | 3,952.3 | 125.0 | 122.9 | 346.4 | 334.6 |
| Gross margin | 1,199.8 | 1,099.4 | 3,605.1 | 3,327.0 | 86.3 | 86.6 | 237.5 | 231.2 |
| Marketing and selling expenses* | –345.6 | –315.0 | –1,046.8 | –970.7 | –55.5 | –51.3 | –175.3 | –151.7 |
| Royalty and commission expenses* | –110.4 | –102.3 | –340.4 | –295.4 | –0.3 | –0.3 | –1.0 | –1.1 |
| Administration expenses | –66.9 | –63.8 | –198.2 | –196.6 | –6.9 | –6.3 | –18.8 | –18.9 |
| Other operating expenses and income | –39.4 | –58.1 | –159.3 | –141.0 | –0.9 | –2.3 | –10.7 | –4.2 |
| Research and development | –279.6 | –293.2 | –880.2 | –867.4 | –5.5 | –4.2 | –16.4 | –12.8 |
| Operating result | 209.5 | 123.4 | 551.1 | 423.8 | 16.2 | 21.4 | 12.3 | 39.7 |
| Exceptional items | – | – | – | –70.0 | – | – | – | – |
| Earnings before interest and tax (EBIT) | 209.5 | 123.4 | 551.1 | 353.8 | 16.2 | 21.4 | 12.3 | 39.7 |
| Net operating assets** | – | – | 10,672.8 | 10,015.9 | – | – | 343.6 | 336.0 |
| Segment liabilities** | – | – | –1,143.6 | –1,078.2 | – | – | –78.2 | –76.9 |
| Capital spending on property, plant and equipment | 53.8 | 71.9 | 161.8 | 192.9 | 1.1 | 1.7 | 3.4 | 6.9 |
| Investments in intangible assets | 11.9 | 22.0 | 35.3 | 53.4 | 0.2 | 0.1 | 1.0 | 1.0 |
| Depreciation | –194.2 | –188.8 | –564.5 | –563.1 | –2.8 | –3.0 | –8.8 | –7.0 |
| Impairment losses | –0.8 | –0.9 | –18.0 | –0.9 | – | – | – | – |
| Net cash flows from operating activities | 471.7 | 401.3 | 1,046.8 | 920.5 | 8.6 | 11.7 | 10.8 | 34.5 |
| Net cash flows from investing activities | –61.3 | –88.1 | –187.5 | –239.4 | –0.9 | –0.1 | –4.5 | –5.2 |
| Free cash flow | 410.4 | 313.2 | 859.3 | 681.0 | 7.7 | 11.5 | 6.3 | 29.3 |
| Underlying free cash flow | 410.4 | 313.2 | 859.3 | 681.0 | 7.7 | 11.5 | 6.3 | 29.3 |
| FCR in % | 29.5 | 23.8 | 20.2 | 17.2 | 6.1 | 9.4 | 1.8 | 8.8 |
| ROS in % | 15.0 | 9.4 | 13.0 | 10.7 | 13.0 | 17.4 | 3.5 | 11.9 |

| | **Pharmaceuticals** | | | |
|---|---|---|---|---|
| EUR million | Q3 2010 | Q3 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
| Sales | 1,430.6 | 1,358.6 | 4,336.2 | 4,028.5 |
| Royalty and commission income* | 87.8 | 82.9 | 261.0 | 258.4 |
| Total revenues | 1,518.4 | 1,441.5 | 4,597.1 | 4,286.9 |
| Gross margin | 1,286.0 | 1,186.0 | 3,842.6 | 3,558.3 |
| Marketing and selling expenses* | –401.1 | –366.2 | –1,222.1 | –1,122.5 |
| Royalty and commission expenses* | –110.7 | –102.6 | –341.3 | –296.5 |
| Administration expenses | –73.7 | –70.1 | –217.0 | –215.5 |
| Other operating expenses and income | –40.3 | –60.4 | –170.0 | –145.2 |
| Research and development | –285.1 | –297.4 | –896.6 | –880.1 |
| Operating result | 225.7 | 144.8 | 563.4 | 463.5 |
| Exceptional items | – | – | – | –70.0 |
| Earnings before interest and tax (EBIT) | 225.7 | 144.8 | 563.4 | 393.5 |
| Net operating assets** | – | – | 11,016.4 | 10,351.9 |
| Segment liabilities** | – | – | –1,221.7 | –1,155.1 |
| Capital spending on property, plant and equipment | 54.9 | 73.6 | 165.2 | 199.7 |
| Investments in intangible assets | 12.2 | 22.1 | 36.2 | 54.4 |
| Depreciation | –196.9 | –191.8 | –573.3 | –570.1 |
| Impairment losses | –0.8 | –0.9 | –18.0 | –0.9 |
| Net cash flows from operating activities | 480.4 | 413.0 | 1,057.6 | 955.0 |
| Net cash flows from investing activities | –62.3 | –88.2 | –192.0 | –244.7 |
| Free cash flow | 418.1 | 324.8 | 865.6 | 710.3 |
| Underlying free cash flow | 418.1 | 324.8 | 865.6 | 710.3 |
| FCR in % | 27.5 | 22.5 | 18.8 | 16.6 |
| ROS in % | 14.9 | 10.0 | 12.3 | 10.8 |

* Figures for 2009 have been adjusted for the disclosure of commission income as well as royalty and commission expenses.
** Actual year as at September 30, 2010 – previous year as at December 31, 2009.

# SEGMENT REPORTING – CHEMICALS*

| | Merck Millipore | | | | Performance Materials | | | |
|---|---|---|---|---|---|---|---|---|
| EUR million | Q3 2010 | Q3 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 | Q3 2010 | Q3 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
| Sales | 571.8 | 224.2 | 1,079.7 | 688.8 | 344.6 | 279.5 | 1,056.7 | 728.3 |
| Royalty and commission income** | 1.9 | 2.4 | 5.6 | 6.6 | 1.1 | 2.3 | 5.6 | 7.5 |
| Total revenues | 573.7 | 226.7 | 1,085.3 | 695.5 | 345.7 | 281.8 | 1,062.3 | 735.8 |
| Gross margin | 295.7 | 104.0 | 565.2 | 324.8 | 236.4 | 138.1 | 713.4 | 338.7 |
| Marketing and selling expenses** | –141.3 | –57.2 | –271.7 | –171.8 | –29.9 | –23.3 | –85.5 | –72.6 |
| Royalty and commission expenses** | –3.2 | –2.0 | –6.5 | –4.9 | –1.9 | –0.6 | –7.5 | –2.3 |
| Administration expenses | –27.0 | –10.2 | –50.6 | –32.8 | –9.8 | –7.3 | –28.2 | –25.9 |
| Other operating expenses and income | –35.7 | –5.9 | –97.6 | –15.9 | –9.2 | –5.6 | –46.5 | –26.6 |
| Research and development | –30.9 | –8.2 | –46.0 | –24.0 | –32.5 | –27.2 | –92.1 | –82.1 |
| Operating result | 10.0 | 20.2 | 45.2 | 74.6 | 151.9 | 72.6 | 449.4 | 125.0 |
| Exceptional items | – | – | – | – | – | – | – | 1.2 |
| Earnings before interest and tax (EBIT) | 10.0 | 20.2 | 45.2 | 74.6 | 151.9 | 72.6 | 449.4 | 126.2 |
| Net operating assets*** | – | – | 6,493.1 | 781.2 | – | – | 1,259.1 | 1,176.3 |
| Segment liabilities*** | – | – | –348.7 | –111.5 | – | – | –145.3 | –118.7 |
| Capital spending on property, plant and equipment | 23.6 | 13.1 | 45.5 | 37.4 | 19.5 | 14.1 | 42.9 | 53.5 |
| Investments in intangible assets | 2.1 | 0.7 | 4.3 | 3.6 | 0.7 | 0.4 | 2.1 | 5.0 |
| Depreciation | –70.3 | –11.8 | –95.5 | –34.0 | –24.5 | –20.5 | –69.5 | –63.1 |
| Impairment losses | –1.6 | – | –1.6 | – | – | –7.8 | –16.4 | –8.0 |
| Net cash flows from operating activities | 29.9 | 56.1 | 95.5 | 143.1 | 184.0 | 131.2 | 468.0 | 242.3 |
| Net cash flows from investing activities | –4,861.8 | –12.4 | –4,886.7 | –38.5 | –25.2 | –33.3 | –49.5 | –77.0 |
| Free cash flow | –4,831.9 | 43.7 | –4,791.2 | 104.6 | 158.9 | 97.9 | 418.5 | 165.4 |
| Underlying free cash flow | 101.8 | 43.7 | 142.6 | 104.6 | 165.4 | 116.8 | 425.0 | 184.2 |
| FCR in % | 17.8 | 19.3 | 13.1 | 15.0 | 47.9 | 41.4 | 40.0 | 25.0 |
| ROS in % | 1.7 | 8.9 | 4.2 | 10.7 | 43.9 | 25.8 | 42.3 | 17.0 |

| | Chemicals | | | |
|---|---|---|---|---|
| EUR million | Q3 2010 | Q3 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
| Sales | 916.4 | 503.7 | 2,136.4 | 1,417.1 |
| Royalty and commission income** | 3.0 | 4.8 | 11.1 | 14.2 |
| Total revenues | 919.4 | 508.5 | 2,147.5 | 1,431.3 |
| Gross margin | 532.1 | 242.1 | 1,278.6 | 663.5 |
| Marketing and selling expenses** | –171.3 | –80.4 | –357.2 | –244.4 |
| Royalty and commission expenses** | –5.1 | –2.6 | –14.0 | –7.2 |
| Administration expenses | –36.8 | –17.5 | –78.9 | –58.6 |
| Other operating expenses and income | –45.0 | –11.6 | –144.1 | –42.5 |
| Research and development | –63.5 | –35.4 | –138.0 | –106.2 |
| Operating result | 161.8 | 92.8 | 494.6 | 199.6 |
| Exceptional items | – | – | – | 1.2 |
| Earnings before interest and tax (EBIT) | 161.8 | 92.8 | 494.6 | 200.8 |
| Net operating assets*** | – | – | 7,752.2 | 1,957.4 |
| Segment liabilities*** | – | – | –494.1 | –230.2 |
| Capital spending on property, plant and equipment | 43.1 | 27.2 | 88.5 | 90.9 |
| Investments in intangible assets | 2.8 | 1.0 | 6.4 | 8.6 |
| Depreciation | –94.8 | –32.3 | –164.9 | –97.1 |
| Impairment losses | –1.6 | –7.8 | –18.0 | –8.0 |
| Net cash flows from operating activities | 213.9 | 187.4 | 563.5 | 385.5 |
| Net cash flows from investing activities | –4,886.9 | –45.8 | –4,936.2 | –115.5 |
| Free cash flow | –4,673.0 | 141.6 | –4,372.7 | 269.9 |
| Underlying free cash flow | 267.3 | 160.5 | 567.6 | 288.8 |
| FCR in % | 29.1 | 31.6 | 26.4 | 20.2 |
| ROS in % | 17.6 | 18.2 | 23.0 | 13.9 |

* As a result of the acquisition of Millipore, the Chemicals business sector was reorganized. The previous year's figures have been adjusted.
** Figures for 2009 have been adjusted for the disclosure of commission income as well as royalty and commission expenses.
*** Actual year as at September 30, 2010 – previous year as at December 31, 2009.

# SEGMENT REPORTING – CORPORATE AND OTHER/MERCK GROUP

| | Corporate and Other | | | |
|---|---|---|---|---|
| EUR million | Q3 2010 | Q3 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
| Sales | – | – | – | – |
| Royalty and commission income* | – | – | – | – |
| Total revenues | – | – | – | – |
| Gross margin | – | – | – | – |
| Marketing and selling expenses* | –1.0 | 0.5 | –2.4 | 0.1 |
| Royalty and commission expenses* | – | –0.1 | – | - |
| Administration expenses | –17.4 | –14.4 | –51.6 | –42.8 |
| Other operating expenses and income | –5.7 | –4.8 | –21.3 | –18.9 |
| Research and development | – | – | – | – |
| Operating result | –24.1 | –15.4 | –73.6 | –58.3 |
| Exceptional items | – | – | –1.2 | – |
| Earnings before interest and tax (EBIT) | –24.1 | –15.4 | –74.8 | –58.3 |
| Net operating assets** | – | – | 25.1 | 37.4 |
| Segment liabilities** | – | – | –17.6 | –15.7 |
| Capital spending on property, plant and equipment | 0.3 | 0.1 | 0.6 | - |
| Investments in intangible assets | 1.6 | 2.2 | 4.9 | 7.6 |
| Depreciation | –1.2 | –0.4 | –2.3 | –1.3 |
| Impairment losses | – | – | – | – |
| Net cash flows from operating activities | –136.2 | –64.8 | –318.1 | –329.9 |
| Net cash flows from investing activities | 48.8 | –35.9 | 1,384.8 | –1,076.2 |
| Free cash flow | –127.9 | –67.4 | –324.6 | –338.0 |
| Underlying free cash flow | –124.6 | –55.8 | –305.9 | –326.4 |
| FCR in % | – | – | – | – |
| ROS in % | – | – | – | – |

| | Merck Group | | | |
|---|---|---|---|---|
| EUR million | Q3 2010 | Q3 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
| Sales | 2,347.0 | 1,862.3 | 6,472.6 | 5,445.6 |
| Royalty and commission income* | 90.8 | 87.7 | 272.1 | 272.6 |
| Total revenues | 2,437.8 | 1,950.0 | 6,744.7 | 5,718.2 |
| Gross margin | 1,818.2 | 1,428.1 | 5,121.2 | 4,221.8 |
| Marketing and selling expenses* | –573.3 | –446.2 | –1,581.7 | –1,366.8 |
| Royalty and commission expenses* | –115.8 | –105.2 | –355.3 | –303.8 |
| Administration expenses | –128.0 | –102.0 | –347.5 | –316.9 |
| Other operating expenses and income | –91.0 | –76.8 | –335.4 | –206.6 |
| Research and development | –348.6 | –332.8 | –1,034.6 | –986.3 |
| Operating result | 363.5 | 222.2 | 984.4 | 604.8 |
| Exceptional items | – | – | –1.2 | –68.8 |
| Earnings before interest and tax (EBIT) | 363.5 | 222.2 | 983.2 | 536.0 |
| Net operating assets** | – | – | 18,793.7 | 12,346.7 |
| Segment liabilities** | – | – | –1,733.3 | –1,401.0 |
| Capital spending on property, plant and equipment | 98.3 | 101.0 | 254.2 | 290.6 |
| Investments in intangible assets | 16.5 | 25.4 | 47.6 | 70.7 |
| Depreciation | –292.9 | –224.5 | –740.5 | –668.3 |
| Impairment losses | –2.4 | –8.7 | –36.0 | –8.9 |
| Net cash flows from operating activities | 558.0 | 535.5 | 1,302.9 | 1,010.5 |
| Net cash flows from investing activities | –4,900.5 | –169.8 | –3,743.4 | –1,436.4 |
| Free cash flow | –4,382.9 | 399.0 | –3,831.7 | 642.2 |
| Underlying free cash flow | 560.7 | 429.5 | 1,127.3 | 672.7 |
| FCR in % | 23.0 | 22.0 | 16.7 | 11.8 |
| ROS in % | 14.9 | 11.4 | 14.6 | 10.6 |

* Figures for 2009 have been adjusted for the disclosure of commission income as well as royalty and commission expenses.
** Actual year as at September 30, 2010 – previous year as at December 31, 2009.

# CASH FLOW STATEMENT

| EUR million | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
|---|---|---|
| **Profit after tax** | **596.0** | **318.2** |
| Depreciation/amortization and impairment losses (non-current assets) | 776.5 | 676.8 |
| Changes in inventories | –72.1 | 21.0 |
| Changes in trade accounts receivable | –161.7 | –126.5 |
| Changes in trade accounts payable | –24.6 | 16.4 |
| Changes in provisions | 85.2 | 112.1 |
| Changes in other assets and liabilities | 113.6 | –3.2 |
| Neutralization of gain/loss on disposals of assets | –3.2 | –5.4 |
| Other non-cash income and expenses | –6.7 | 1.2 |
| **Net cash flows from operating activities** | **1,302.9** | **1,010.5** |
| | | |
| Purchase of intangible assets | –47.6 | –70.7 |
| Purchase of property, plant and equipment | –254.2 | –290.6 |
| Acquisitions and investments of non-current financial assets | –4,856.8 | –32.8 |
| Disposal of non-current assets | 21.7 | 25.8 |
| Purchase/sale of marketable securities | 2.1 | - |
| Changes in financial assets covering pensions | –6.7 | - |
| Changes in other financial investments | 1,397.9 | –1,068.1 |
| **Net cash flows from investing activities** | **–3,743.4** | **–1,436.4** |
| | | |
| Dividend payments | –73.1 | –104.7 |
| Profit transfers to E. Merck KG and changes in reserves | –163.8 | –54.1 |
| Changes in liabilities to related parties | –9.8 | –133.1 |
| Bonds issued | 3,181.7 | 746.0 |
| Changes in current and non-current financial liabilities | 356.0 | –30.3 |
| **Net cash flows from financing activities** | **3,291.0** | **423.9** |
| | | |
| **Changes in cash and cash equivalents** | **850.5** | **–2.0** |
| Changes in cash and cash equivalents due to currency translation | –4.3 | –3.5 |
| Cash and cash equivalents as of January 1 | 541.4 | 692.7 |
| **Cash and cash equivalents as of September 30** | **1,387.6** | **687.1** |

# FREE CASH FLOW

| EUR million | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
|---|---|---|
| **Net cash flows from operating activities** | **1,302.9** | **1,010.5** |
| Purchase of intangible assets | –47.6 | –70.7 |
| Purchase of property, plant and equipment | –254.2 | –290.6 |
| Acquisitions and investments of non-current financial assets | –4,856.8 | –32.8 |
| Disposal of non-current assets | 21.7 | 25.8 |
| Purchase/sale of marketable securities | 2.1 | – |
| **Free cash flow** | **–3,831.7** | **642.2** |
| | | |
| Acquisition-related payments | 4,940.3 | 18.9 |
| Payments related to divestments | 18.7 | 11.6 |
| **Underlying free cash flow** | **1,127.3** | **672.7** |

# STATEMENT OF COMPREHENSIVE INCOME

| | Jan.–Sep. 2010 | | | Jan.–Sep. 2009 | | |
|---|---|---|---|---|---|---|
| EUR million | Before tax amount | Tax expense/ benefit | Net-of-tax amount | Before tax amount | Tax expense/ benefit | Net-of-tax amount |
| **Profit** | **792.2** | **–196.2** | **596.0** | **433.0** | **–114.8** | **318.2** |
| Gains / losses arising on remeasuring available-for-sale financial assets | –2.0 | 0.3 | –1.7 | 24.1 | –1.7 | 22.4 |
| Effective portion of gains / losses on hedging instruments in a cash flow hedge | –56.6 | 10.2 | –46.4 | 12.8 | –2.0 | 10.8 |
| Actuarial gains and losses from defined benefit pension commitments and similar obligations | –93.6 | 18.3 | –75.3 | –88.6 | 16.5 | –72.1 |
| Exchange differences on translating foreign operations | 778.0 | – | 778.0 | –157.0 | – | –157.0 |
| **Gains / losses recognized immediately in equity** | **625.8** | **28.8** | **654.6** | **–208.7** | **12.8** | **–195.9** |
| **Comprehensive income** | **1,418.0** | **–167.4** | **1,250.6** | **224.3** | **–102.0** | **122.3** |
| of which attributable to shareholders of the Group | | | 1,235.2 | | | 117.3 |
| of which attributable to non-controlling interest | | | 15.4 | | | 5.0 |

# STATEMENT OF CHANGES IN NET EQUITY INCLUDING NON-CONTROLLING INTEREST

| | Equity capital | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|
| EUR million | General partner's equity Merck KGaA | Subscribed capital Merck KGaA | Capital reserves (share premium) Merck KGaA | Retained earnings/ Net retained profit | Gains/losses recognized immediately in equity | Equity attributable to share-holders of Merck KGaA | Non-controlling interest | Equity |
| **Balance as of January 1, 2009** | **397.2** | **168.0** | **3,813.7** | **4,818.2** | **308.3** | **9,505.4** | **57.6** | **9,563.0** |
| Profit after tax | – | – | – | 309.5 | – | 309.5 | 8.7 | 318.2 |
| Dividend payments | – | – | – | –96.9 | – | –96.9 | –7.8 | –104.7 |
| Profit transfers to/from E. Merck KG including changes in reserves | – | – | – | –54.1 | – | –54.1 | – | –54.1 |
| Gains/losses recognized immediately in equity | – | – | – | – | –193.2 | –193.2 | –2.7 | –195.9 |
| Changes in scope of consolidation/Other | – | – | – | –2.4 | – | –2.4 | –1.0 | –3.4 |
| **Balance as of September 30, 2009** | **397.2** | **168.0** | **3,813.7** | **4,974.3** | **115.1** | **9,468.3** | **54.8** | **9,523.1** |
| **Balance as of January 1, 2010** | **397.2** | **168.0** | **3,813.7** | **4,909.6** | **171.6** | **9,460.1** | **53.5** | **9,513.6** |
| Profit after tax | – | – | – | 585.6 | – | 585.6 | 10.4 | 596.0 |
| Dividend payments | – | – | – | –64.6 | – | –64.6 | –8.4 | –73.0 |
| Profit transfers to/from E. Merck KG including changes in reserves | – | – | – | –163.9 | – | –163.9 | – | –163.9 |
| Gains/losses recognized immediately in equity | – | – | – | - | 649.6 | 649.6 | 5.0 | 654.6 |
| Changes in scope of consolidation/Other | – | – | – | 6.5 | - | 6.5 | –1,7 | 4,8 |
| **Balance as of September 30, 2010** | **397.2** | **168.0** | **3,813.7** | **5,273.2** | **821.2** | **10,473.3** | **58.8** | **10,532.1** |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2010

These consolidated financial statements have been prepared with Merck KGaA, Darmstadt, which manages the operations of the Merck Group, as parent company.

**Accounting policies**

The unaudited interim financial statements of the Merck Group dated September 30, 2010 comply with IAS 34. They have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force on the reporting date and adopted by the European Union. In accordance with IAS 34, a condensed scope of reporting as compared with the consolidated financial statements as of December 31, 2009 was selected. With the exception of the disclosure changes described in the following, the accounting policies have remained unchanged in comparison with the previous year. In the consolidated financial statements as of December 31, 2009, Merck started to disclose commission income as a part of total revenues. Furthermore, for the first time in Q1 2010, a separate line "royalty and commission expenses" was added to the Income Statement. In the quarterly reports issued in 2009, royalty and commissions expenses as well as commission income were reported within marketing and selling expenses. The previous year's presentation and key figures have been adjusted accordingly. The notes to the consolidated financial statements of the Merck Group for 2009, particularly the accounting policies, thus apply accordingly.

Income tax includes the taxes on taxable profit paid in the individual countries plus the change in deferred taxes. The income tax in the interim financial statements is calculated based on the income of the consolidated companies and the currently valid tax rate as a best possible estimate.

The preparation of the interim financial statements requires that assumptions and estimates be made to a certain extent. The assumptions and estimates are based on the state of knowledge and the data currently available.

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 of IFRS 1 "First-time Adoption of International Financial Reporting Standards" and subsequent amendment to this standard
- Amendment to IFRS 2 "Share-based payment"
- Revised version of IAS 3 "Business Combinations"
- "Improvements to International Financial Reporting Standards"
- IFRIC 12 "Service Concession Arrangements"

- IFRIC 15 "Agreements for the Construction of Real Estate"
- FRIC 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 "Acquisition of Millipore" and "Notes to the Cash Flow Statement". The other new rules do not have any material effects on the interim financial statements.

**Scope of consolidation**

As of September 30, 2010, a total of 237 (December 31, 2009: 176) companies are fully consolidated. Due to the first-time consolidation of Millipore, the number of fully consolidated companies increased by 62. Furthermore, seven newly established companies have been added to the scope of consolidation. Eight companies have been liquidated or merged and thus deconsolidated.

No companies are consolidated on a 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.

**Acquisition of Millipore**

On July 14, 2010, Merck KGaA 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 consolidated in the financial statements of the Merck Group for the first time as of this date. The purchase price totaled EUR 5,137.1 million and was paid in cash. It consists of a 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. 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 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 as follows:

| EUR million | Fair value on the acquisition date |
|---|---|
| **Current assets** | |
| Cash and cash equivalents, securities and other financial assets | 300.0 |
| Inventories | 265.5 |
| Other current assets | 270.8 |
| | **836.3** |
| **Non-current assets** | |
| Goodwill | 2,637.6 |
| Other intangible assets | 2,568.8 |
| Property, plant and equipment | 483.9 |
| Financial assets | 2.2 |
| Other non-current assets | 100.5 |
| | **5,793.0** |
| **Assets** | **6,629.3** |
| **Current liabilities** | |
| Current financial liabilities | 574.8 |
| Other current liabilities | 344.1 |
| | **918.9** |
| **Non-current liabilities** | |
| Non-current financial liabilities | 288.4 |
| Provisions for pensions and other post-employment benefits | 56.4 |
| Other non-current liabilities | 749.1 |
| | **1,093.9** |
| **Liabilities** | **2,012.8** |
| **Net assets acquired** | **4,616.5** |
| Non-controlling interest | –4.6 |
| **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 fair values of existing customer relationships, technologies as well as brands. 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 around

EUR 85.8 million were made in respect of Millipore inventories acquired as part of the acquisition. This amount will be fully expensed in the income statement for 2010 under "Cost of sales" in accordance with the assumed inventory turnover time. The step-up of intangible assets and inventories in particular has resulted in deferred tax liabilities that account for the majority of the fair value of EUR 749.1 million reported under other non-current liabilities. The remaining difference between the purchase price of EUR 5,137.1 million and fair values of EUR 2,499.5 million will be reported as goodwill. This mainly includes future synergy effects as well as the expertise of the workforce amounting to EUR 2,637.6 million. Synergies are primarily expected in the areas of administration, purchasing, production as well as by combining certain subsidiaries abroad.

The fair value adjustments made in the third quarter of 2010 as part of the purchase price allocation are still to be considered as preliminary and may be made within one year of the date of the acquisition. Changes to fair values are still possible, especially as a result of detailed additional information.

The impact of the consolidation of Millipore on total revenues as well as operating result in the third quarter of 2010 was EUR 313.6 million and EUR -7.6 million, respectively. In addition, restructuring and integration costs amounted to EUR 21.0 million in the third quarter.

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 September 30, 2010 total revenues and the operating result would have amounted to EUR 7,430 million and EUR 1,005 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 nine 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.[1)]

**Segment reporting**

The segment report presents the assets, income and other key figures by operating segment. Segmentation was performed in accordance with the internal reporting of the Merck Group. The operating segments are described in detail in the sections about the divisions in the interim management report. Expenses and income as well as assets and cash flows are fully allocated to the reported divisions and, to the extent they relate to corporate functions, to the segment Corporate and Other. The financial result and income taxes as well as the resulting cash flows are reported in full in the "Corporate and Other" segment. We determine the transfer prices of intragroup transactions in accordance with market values. There were no significant intercompany relations between the business segments.

With the successful acquisition of Millipore, the Chemicals business sector has been restructured. The new Merck Millipore division includes the acquired activities of the Millipore Group along with the vast majority of the former Life Science Solutions business. The new Performance Materials division comprises the Liquid Crystals and Pigments businesses as well as the remaining activities of the Life Science Solutions business. Accordingly, the Merck Millipore and Performance Materials segments are included under the Chemicals business sector in Segment Reporting as of September 30, 2010. The previous year's figures have been adapted to reflect the new divisional structure.

[1)] 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 actually been consolidated as of January 1, 2010. Nor are these statements intended to project future events or results.

Operating assets have been reconciliated in the segment reporting as follows:

| EUR million | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Assets | 23,009.8 | 16,712.6 |
| Monetary assets (cash and cash equivalents, loans, securities) | –1,577.3 | –2,119.7 |
| Financial assets covering pension obligations | –216.6 | –209.6 |
| Non-operating receivables, tax receivables, deferred taxes and refund receivables from plan assets | –688.8 | –635.6 |
| **Operating assets (gross)** | **20,527.1** | **13,747.7** |
| Trade accounts payable | –1,062.9 | –935.7 |
| Other operating liabilities | –670.5 | –465.3 |
| **Operating assets (net)** | **18,793.7** | **12,346.7** |

## Notes to the Cash Flow Statement

A total of EUR 4,856.8 million was used for acquisitions and investments in other non-current assets. Acquisitions were responsible for EUR 4,843.7 million and investments in other non-current assets for EUR 13.1 million of this amount. Taking into consideration the acquired cash, the payment of the Millipore purchase price involved cash outflows of EUR 4,837.1 million. Additionally, further payments in connection with the acquisition of Millipore amounting to EUR 96.6 million were incurred that were directly expensed and disclosed in the Income Statement. 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 |
|---|---|---|---|
| Purchase price | 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** |
| Other payments | 96.6 | – | 96.6 |
| **Acquisition-related payments** | **4,933.7** | **6.6** | **4,940.3** |

## Earnings per share

Basic earnings per share equal net profit after non-controlling interest divided by the weighted average number of outstanding theoretical shares. The calculation of the theoretical number of shares is based on the fact that the general partner's equity capital is not represented by shares. The share capital of EUR 168.0 million is divided into 64,621,126 shares. The general partner's capital amounts to EUR 397.2 million or 152,767,813 theoretical shares. This results in a total of EUR 565.2 million or 217,388,939 outstanding theoretical shares.

| | Q3 2010 | Q3 2009 | Jan.–Sep. 2010 | Jan.–Sep. 2009 |
|---|---|---|---|---|
| Net profit after non-controlling interest (EUR million) | 210.8 | 144.4 | 585.6 | 309.5 |
| Weighted average number of theoretical shares outstanding (in millions) | 217.4 | 217.4 | 217.4 | 217.4 |
| **Basic earnings per share (EUR)** | **0.97** | **0.66** | **2.69** | **1.42** |

As of September 30, 2010, there were no potentially dilutive shares. Diluted earnings per share corresponded to basic earnings per share.

### Financing

In March 2010, Merck Financial Services GmbH issued a euro bond in three tranches, comprising a two-year issue with a volume of EUR 0.5 billion, a five-year issue with a volume of EUR 1.35 billion, and a ten-year issue with a volume of EUR 1.35 billion. The two-year tranche, which was priced at 99.775%, pays a coupon of 2.125%. The five-year tranche, which was priced at 99.769%, pays a coupon of 3.375%. The ten-year tranche, which was priced at 99.582%, pays a coupon of 4.500%. The bonds are admitted to trading on the regulated market of the Luxembourg Stock Exchange and are issued under the Euro Medium Term Note (EMTN) program. The issue proceeds were used to finance the announced acquisition of Millipore Corporation of the United States.

### Related-party disclosures

As of September 30, 2010, there were liabilities by Merck KGaA, Merck Financial Services GmbH and Merck & Cie, Altdorf, to E. Merck KG in the amount of EUR 277 million. In addition, as of September 30, 2010, there were receivables by Merck KGaA to E. Merck KG in the amount of EUR 4.0 million and to E. Merck Beteiligungen KG in the amount of EUR 2.9 million. The balances result mainly from the profit transfers by Merck & Cie to E. Merck KG as well as the reciprocal profit transfers between Merck KGaA and E. Merck KG as well as from the extension of loans by E. Merck KG to Merck Financial Services GmbH. They included financial payables of EUR 114 million, which are subject to standard market interest rates. From January to September 2010, Merck KGaA and Merck Shared Services Europe GmbH performed services for E. Merck KG with a value of EUR 1.0 million, for E. Merck Beteiligungen KG with a value of EUR 0.4 million, and for Emanuel Merck Vermögens KG with a value of EUR 0.1 million. During the same period, E. Merck KG performed services for Merck KGaA with a value of EUR 0.5 million. From January to September 2010, companies of the Merck Group supplied goods with a value of EUR 0.7 million to associates. As of September 30, 2010, companies of the Merck Group had receivables from associates amounting to EUR 0.6 million.

### Subsequent events

Merck had no material subsequent events.

# RESPONSIBILITY STATEMENT

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

Darmstadt, October 26, 2010

Karl-Ludwig Kley

Michael Becker

Bernd Reckmann

Elmar Schnee

# EXECUTIVE BOARD OF MERCK KGAA

Dr. Karl-Ludwig Kley, Chairman
Dr. Michael Becker | Dr. Bernd Reckmann | Elmar Schnee

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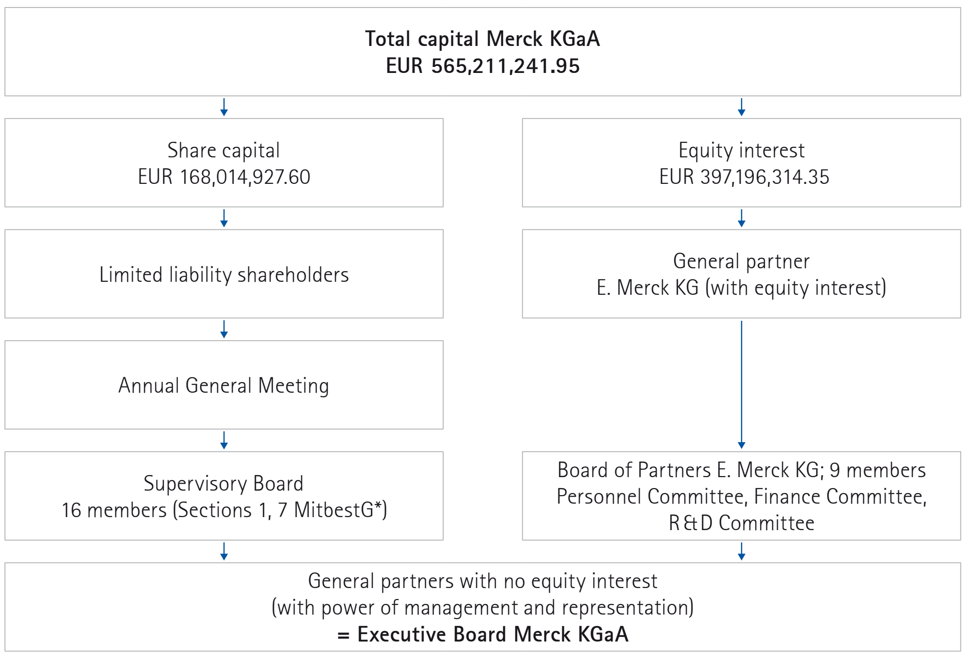
Osman Ulusoy*

* Employee representative

# CAPITAL STRUCTURE OF MERCK KGAA AS OF SEPTEMBER 30, 2010

(for more information, please see the Annual Report for 2009, p. 83 et seq.)




*German Co-Determination Act

# FINANCIAL CALENDAR 2011

**Annual Report 2010:**
Monday, February 21

**Annual General Meeting:**
Friday, April 8

**Quarterly Financial Report:**
Q1 – Thursday, April 28

**Half-Year Financial Report:**
Q2 – Wednesday, July 27

**Quarterly Financial Report:**
Q3 – Wednesday, October 26

# PUBLICATION CONTRIBUTORS

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Corporate Communications
Frankfurter Str. 250, 64293 Darmstadt, Germany
Tel.: +49 (0) 6151-72 0, fax: +49 (0) 6151-72 5577
E-mail: corpcom@merck.de
Website: www.merck.de

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