Merck
Notes to the Group accounts

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, 2011. 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 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 rules take effect as of fiscal 2011:

- Revised version of IAS 24 "Related Party Disclosures"
- Amendment to IAS 32 "Financial Instruments: Presentation"
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- "Improvements to International Financial Reporting Standards" (issued by the IASB in May 2010)
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
- Amendment to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

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

The following rule takes effect as of fiscal 2012:

- Amendment to IFRS 7 "Financial Instruments: Disclosures"

From today's perspective we do not expect the new rule to have a material impact on the consolidated financial statements.

The following rules were published by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee, but not yet adopted by the EU as of the balance sheet date:

- IFRS 9 "Financial Instruments"
- IFRS 10 "Consolidated Financial Statements"
- IFRS 11 "Joint Arrangements"
- IFRS 12 "Disclosure of Interests in Other Entities"
- IFRS 13 "Fair Value Measurement"
- Amendment to IAS 1 "Presentation of Financial Statements"
- Amendment to IAS 12 "Income Taxes"
- Amendment to IAS 19 "Employee Benefits"
- Amendment to IAS 27 "Consolidated and Separate Financial Statements"
- Amendment to IAS 28 "Investments in Associates"
- Amendment to IAS 32 "Financial Instruments: Presentation"
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards"

→ Scope of consolidation

→ Amendment to IFRS 7 "Financial Instruments: Disclosures"
→ IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

The effects that IFRS 9, which is expected to be adopted as of 2015, 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, 228 (2010: 236) German and foreign companies were fully consolidated in the annual financial statements of the Merck Group. Of these companies, 206 (2010: 214) are located abroad. Four companies were consolidated for the first time within the scope of the acquisition of the microbiology business of Biotest AG, Dreieich, Germany. With the acquisition of Amnis Corporation, Seattle, WA (USA), two companies were added to the scope of consolidation. As of January 1, 2011, Beijing Skywing Technology Co., Ltd., Beijing, China was consolidated for the first time. A further three companies were consolidated for the first time due to their increased importance to the Merck Group. Eighteen companies were deconsolidated, nine of which were the result of a company merger, three companies were deconsolidated due to secondary importance, and two companies were liquidated. Three companies were deconsolidated due to divestment, two of which within the scope of the disposal of the Crop BioScience business as well as Serono Contracting Ltd., United Kingdom. In addition, Merck Capital Asset Management Limited, Malta, was deconsolidated in connection with the establishment of a Contractual Trust Arrangement (CTA) to externally finance the pension obligations of Merck KGaA. No companies were consolidated on a pro rata basis. The two associates included using the equity method were divested in 2011. This did not have a material impact on the consolidated financial statements.

Due to secondary importance, 25 (2010: 27) subsidiaries are not consolidated. The impact of each 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 shareholdings can be found in Note [56].

Acquisitions

At the end of December 2010, Merck acquired 100% of the shares in Beijing Skywing Technology Co., Ltd., Beijing, China. The acquired company, which is now part of the Merck Millipore division, is a leading supplier to the biopharmaceutical sector in China. The purchase price amounted to € 14.5 million. The first-time consolidation of Beijing Skywing Technology Co., Ltd. took place on January 1, 2011.

The microbiology business of Biotest AG, Dreieich, Germany, was acquired in the reporting period. The transaction closing and consequently the first-time consolidation of this business took place on August 1, 2011. The purchase price amounted to € 85.9 million. The ready-prepared culture media and tools of the acquired business complement the existing range of culture media and test systems of the Merck Millipore division.

On October 4, 2011, Merck acquired 100% of the shares in Amnis Corporation, Seattle, WA (USA). The acquisition expands the flow cytometry portfolio of the Merck Millipore division. The purchase price amounted to € 77.3 million. The first-time consolidation of Amnis Corporation took place on October 4, 2011.

In 2011, € 0.5 million was used to acquire non-controlling interests in a company that we had already fully consolidated.

→ Scope of consolidation

Acquisition-related costs totaling € 1.5 million (€ 0.3 million of which in 2010) were incurred in connection with the aforementioned acquisitions and were expensed in the income statement. Within the scope of the purchase price allocation, the acquired assets and liabilities were recognized at fair values in the balance sheet in accordance with IFRS 3.

The acquisitions had the following effects on the consolidated balance sheet:

€ million	Amnis Corporation	Microbiology business	Beijing Skywing	Total
Current assets				
Cash and cash equivalents, marketable securities and other financial assets	0.7	0.7	0.7	2.1
Inventories	2.8	9.2	1.6	13.6
Receivables	1.5	7.3	0.8	9.6
Other current assets	0.1	0.2	0.2	0.5
	5.1	**17.4**	**3.3**	**25.8**
Non-current assets				
Goodwill	50.3	34.6	6.5	91.4
Other intangible assets	26.9	46.5	5.8	79.2
Property, plant and equipment	0.2	16.6	0.6	17.4
Other non-current assets	–	0.1	–	0.1
Deferred tax assets	–	0.4	–	0.4
	77.4	**98.2**	**12.9**	**188.5**
Assets	**82.5**	**115.6**	**16.2**	**214.3**
Current liabilities				
Current financial liabilities	–	4.9	–	4.9
Other current liabilities	2.0	8.4	0.2	10.6
	2.0	**13.3**	**0.2**	**15.5**
Non-current liabilities				
Non-current financial liabilities	–	1.1	–	1.1
Provisions for pensions and other post-employment benefits	–	3.2	–	3.2
Other non-current liabilities	–	0.1	–	0.1
Deferred tax liabilities	3.2	12.0	1.5	16.7
	3.2	**16.4**	**1.5**	**21.1**
Liabilities	**5.2**	**29.7**	**1.7**	**36.6**
Net assets acquired/purchase price	**77.3**	**85.9**	**14.5**	**177.7**

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.

→ Scope of consolidation

With respect to the microbiology business of Biotest AG, intangible assets relate particularly to the measurement of the existing customer relationships, and to a lesser extent to technologies and brands. The gross value of the acquired receivables at the time of the acquisition amounted to € 7.3 million. The best possible estimate of the irrecoverable debts amounted to less than € 0.1 million. The deferred tax liabilities disclosed relate mainly to the write-up of intangible assets. The remaining difference between the purchase price of € 85.9 million and fair values of € 51.3 million was reported as goodwill. This mainly includes the expertise of the workforce, increases in market shares and future synergy effects. Synergies are primarily expected in the areas of administration, purchasing, production as well as by combining certain subsidiaries abroad. The fair value adjustments made as part of the purchase price allocation are still to be considered as preliminary as of December 31, 2011. Only the measurement of inventories in the balance sheet as of the date of first-time consolidation is final. For all other balance sheet items, the accounting analyses and calculations have not yet been completed. Therefore, adjustments to these items could still occur in 2012 based on new information. The purchase price for the acquired microbiology business includes a purchase price component of € 15.1 million that has not yet been paid.

Within the scope of the purchase price allocation for Amnis Corporation, intangible assets were identified mainly for technologies, and to a lesser extent also for brands. The gross amounts of the acquired receivables were € 1.5 million at the time of the acquisition; no irrecoverable debts were identified. Tax-loss carryforwards that Merck can make use of were taken into consideration. This led to a decline in deferred tax liabilities that arose particularly in connection with the write-up of intangible assets. The remaining difference between the purchase price of € 77.3 million and fair values of € 27.0 million was disclosed as goodwill, which mainly includes market share increases, the expertise of the workforce and synergies that are primarily expected in R&D. The fair values are still to be considered as preliminary. Adjustments relating to the valuations on the acquisition date could still result in 2012.

The impact of the acquisitions on total revenues and profit after tax was as follows:

€ million	Amnis Corporation	Microbiology business	Beijing Skywing	Total 2011
Total revenues	3.4	19.4	5.2	28.0
Profit after tax	0.0	–0.5	–0.5	–1.0

Profit after tax also included the amortization of the step-up of intangible assets 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. Had the microbiology business and Amnis Corporation been included in the consolidated financial statements of the Merck Group as of January 1, 2011, for the period from January 1 to December 31, 2011 total revenues and profit after tax would have amounted to € 10,311.1 million and € 627.6 million, respectively.

→ Scope of consolidation

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 was included for 12 months. The step-up of the acquired inventories to fair values – in accordance with the assumed inventory turnover period – was taken into consideration in full. The information on the hypothetical consolidation of the microbiology business of Biotest AG as well as Amnis Corporation as of January 1, 2011 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 microbiology business of Biotest AG as well as Amnis Corporation actually been consolidated as of January 1, 2011. Nor are these statements intended to project future events or results.

Divestment of the Crop BioScience business

The sale of our Crop BioScience business to Novozymes A/S, Denmark, took place in the first quarter of 2011. In the Group balance sheet as of December 31, 2010, the corresponding assets and liabilities were disclosed under "Assets held for sale" and "Liabilities directly related to assets held for sale". The Performance Materials division generated sales of around € 46 million with this business in 2010. We received the proceeds of € 208.2 million from the divestment in the first quarter of 2011. Merck generated a gain on the sale of € 157.1 million, which is disclosed in the income statement under "Exceptional items."

Based on the values on the closing date, the divestment of the Crop BioScience business had the following impact on the Group financial statements:

€ million	2011
Current assets	
Cash and cash equivalents	1.2
Inventories	5.0
Receivables	10.3
Other current assets	0.6
	17.1
Non-current assets	
Intangible assets	13.3
Property, plant and equipment	4.2
Other non-current assets	2.0
	19.5
Assets	**36.6**
Current liabilities	**1.4**
Non-current liabilities	**0.3**
Liabilities	**1.7**
Net assets	**34.9**
Selling price	**208.2**
Subtotal	**173.3**
Realized currency translation differences	**–3.5**
Transaction costs/provisions	**–12.7**
Gain on the divestment	**157.1**

Accounting policies

The accounting policies have remained unchanged in comparison with 2010.

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, 2011, 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.

→ Accounting policies

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.

Currency translation is based on the following key exchange rates:

	Average annual rate		Closing rate	
1 € =	2011	2010	Dec. 31, 2011	Dec. 31, 2010
British pound (GBP)	0.870	0.858	0.838	0.861
Chinese renminbi (CNY)	9.001	8.995	8.151	8.818
Japanese yen (JPY)	111.119	116.583	100.361	108.670
Swiss franc (CHF)	1.234	1.380	1.217	1.253
Taiwanese dollar (TWD)	40.938	41.787	39.170	38.938
U.S. dollar (USD)	1.393	1.329	1.294	1.336

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.

→ Accounting policies

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 that 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. Cash and cash equivalents are carried at nominal value.

→ Accounting policies

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.

→ Accounting policies

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 [43] 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 [41] for a detailed overview.

→ Accounting policies

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 an individualized long-term growth rate for the specific cash-generating unit.

→ Accounting policies

In the business plan, a long-term growth rate of 2.8% was used to measure the goodwill of the Merck Millipore division. The long-term growth rates used for the other divisions are as follows: Merck Serono 1.5%, Consumer Health Care 2.5%, and Performance Materials 1.0%. The use of division-specific long-term growth rates is suited to taking 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 7.0% (2010: 8.5%). 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 25 years
Operating and office equipment; other facilities	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 and recognized under "Land, land rights and buildings including buildings on third-party land". As of December 31, 2011, Merck had no assets of this category (2010: € 5.5 million).

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 the balance sheet date are used.

→ Accounting policies

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 as soon as 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. Subsequent to the establishment of a Contractual Trust Arrangement (CTA) in 2011 to cover the pension obligations of Merck KGaA, the bulk of the obligation is covered by funds. The smaller portion is covered by provisions reported in the balance sheet. 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 consolidated income statement

Notes to the consolidated income statement

(1) Sales

Sales are generated primarily from the sale of goods and to a limited degree also include revenues from services rendered. Merck Group sales totaled € 9,905.9 million in 2011, which represents an increase of 10.9% compared to 2010. Adjusted for the impact of foreign exchange rates and acquisitions, primarily as a result of the Millipore acquisition, organic growth amounted to 4.8%. Sales are presented by business sector, division and region in the Segment Reporting (see Note [35]).

(2) Royalty, license and commission income

In 2011, royalty and license income totaled € 354.2 million (2010: € 339.4 million) and mainly included royalty and license income from the products Avonex® (Biogen Idec), Humira® (Abbott), Enbrel® (Amgen), Puregon® (Merck & Co.) and Viibryd® (Forest Laboratories Inc.), as well as income from the active pharmaceutical ingredients bisoprolol and metformin.

In 2011, commission income totaled € 16.3 million (2010: € 22.3 million). This primarily consisted of cooperation and distribution agreements, such as for Ikorel® (Sanofi-Aventis) and Euthyrox® (Bracco). The breakdown of royalty, license and commission income by business sector and division is presented in the Segment Reporting (see Note [35]).

(3) Cost of sales

Cost of sales primarily 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 and, if necessary, inventory write-downs, 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. In 2010, this item included a one-time charge of € 85.8 million, which is attributable to the fair value measurement of the inventories acquired from Millipore. This amount was fully expensed in 2010 and consequently lowered the 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 compared to 2010 is due largely to the fact that the income statement in 2010 only reflects the costs of the Millipore companies for half a year. The breakdown of marketing and selling expenses by business sector and division is presented in the Segment Reporting (see Note [35]).

(5) Royalty, license and commission expenses

In 2011, royalty and license expenses amounted to € 204.1 million (2010: € 179.5 million) and commission expenses totaled € 296.4 million (2010: € 297.5 million). The breakdown of royalty, license and commission expenses by business sector and division is presented in the Segment Reporting (see Note [35]).

(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 consolidation of the Millipore companies, which in 2010 were only reflected in the income statement for a six-month period. The breakdown of administration expenses by business sector and division is presented in the Segment Reporting (see Note [35]).

→ Notes to the consolidated income statement

(7) Other operating expenses and income

Other operating expenses and income can be broken down as follows:

€ million	2011	2010
Impairment losses	–185.5	–65.5
Write-downs of receivables	–123.7	–19.7
Restructuring and integration costs	–67.7	–64.4
Litigation	–61.1	–89.2
Premiums, fees and contributions	–52.0	–52.8
Project costs	–39.5	–79.2
Non-income-related taxes	–29.2	–23.7
Impairment losses on Greek sovereign bonds	–18.0	–
Expense for services performed	–17.8	–21.0
Other operating expenses	–130.1	–111.3
Total other operating expenses	**–724.6**	**–526.8**
Gains on disposals of assets	53.0	37.6
Payments for services performed	30.5	26.8
Exchange rate differences from operating activities	12.3	24.7
Release of write-downs of receivables	9.2	10.0
Other operating income	37.7	37.3
Total other operating income	**142.7**	**136.4**
Total other operating expenses and income	**–581.9**	**–390.4**

Owing to expected overcapacity at the Large-Scale Biotech production plant (LSB) currently being built at the Merck Serono Biotech Center in Switzerland, an impairment loss of € 165.1 million was recognized in 2011. The write-downs of receivables relate in 2011 mainly to receivables from state hospitals and health care organizations in Italy, Spain, Greece and Portugal and are due to the existing uncertainties in connection with the sovereign debt crisis in the eurozone. Integration costs amounting to € 37.9 million were incurred in respect of Millipore (2010: € 87.3 million). Of this amount, € 36.5 million was disclosed under "restructuring and integration costs" (2010: € 53.4 million) and € 1.4 million was disclosed under "project costs" (2010: € 33.9 million). Moreover, in 2011 restructuring and integration costs included expenses of € 12.8 million in connection with the decision to no longer further pursue the approval process for cladribine tablets. Initial measures in connection with the efficiency-enhancement and cost-reduction program were already taken in 2011. The resulting expenses of € 16.3 million were likewise recorded under "restructuring and integration costs."

Apart from the costs related to the Millipore acquisition, project costs mainly also include expenses incurred in connection with Group-wide IT projects. These include, for example, projects to harmonize IT applications and infrastructure throughout the Group.

Other operating expenses include, among other things, special environmental protection costs and non-allocatable personnel expenses. The breakdown of other operating expenses and income by business sector and division is presented in the Segment Reporting (see Note [35]).

→ Notes to the consolidated income statement

(8) Research and development

Research and development costs rose in 2011 by 8.6% to € 1,517.1 million. Nearly half of this increase is attributable to the consolidation of the Millipore companies, whose expenses were only reflected in the income statement for half a year in 2010. Reimbursements for R&D amounting to € 22.9 million (2010: € 21.9 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 (see Note [35]).

(9) Amortization of intangible assets

Due to the particular significance of the amortization of intangible assets to the Merck Group, this item is disclosed separately in the income statement. Amortization of intangible assets increased sharply to € 1,004.7 million in 2011 from € 818.6 million in 2010. This total mainly includes amortization of intangible assets in connection with the purchase price allocations for Serono and Millipore. The increase is due on the one hand to the fact that amortization of intangible assets from the purchase price allocation for the Merck Millipore division is included for a full year, whereas 2010 only included amortization for the second half of 2010. In addition, in 2011, the estimate of the remaining useful life of Rebif® was shortened by two years. As of the second quarter, this increased write-downs by a total of € 51.3 million in 2011. This item additionally includes the following impairment losses: Owing to our decision to no longer pursue the global approval process for cladribine tablets, the residual book value of € 50.4 million was written off. In connection with changes in the development plan for safinamide, a potential add-on therapy for Parkinson's disease, we wrote off the residual book value of € 63.4 million. Further impairments amounting to € 35.4 million resulted from the decision to discontinue the development of IMO-2055, a candidate for cancer treatment. In addition, owing to the termination of a further research project in the Merck Serono division, an additional impairment loss of € 9.0 million was recorded. Impairment losses of € 8.6 million on various patents in the Performance Materials division were recorded in 2011. Amortization of software is allocated to the respective operating expenses.

(10) Investment result

€ million	2011	2010
Investment result from associates (equity method)	–1,2	0.9
Other investment income/expense	0.2	3.2
	–1.0	**4.1**

→ Notes to the consolidated income statement

(11) Exceptional items

Exceptional items comprised:

€ million	2011	2010
Gain on the divestment of the Crop BioScience business/transaction costs	157.1	–1.0
Gain on the divestment of the Théramex business	18.6	68.6
Adjustment of previous exceptional items	9.4	–
Expenses for environmental protection measures	–28.9	–
Expenses for litigation Dey Inc., USA	–4.4	–67.2
Selling price adjustments for the Electronic Chemicals business	–	–1.2
Exceptional items	**151.8**	**–0.8**

In 2011, exceptional items included € 157.1 million from the divestment of the Crop BioScience business to Novozymes A/S as well as an additional gain of € 18.6 million from the sale of distribution rights in connection with the divestment of the Théramex business, which closed at the end of 2010. Furthermore, expenses of € 28.9 million were incurred for provisions set up for environmental protection measures. Additional expenses of € 4.4 million were recognized in connection with the Dey Inc., USA, litigation. Income from the adjustment of previous exceptional items resulted from the provisions set up in connection with the discontinuation of Raptiva®.

(12) Financial result

€ million	2011	2010
Interest income and similar income	57.8	33.0
Interest expenses and similar expenses	–227.2	–208.9
Interest component from currency hedging transactions	–17.0	–11.8
	–186.4	**–187.7**
Interest component of the additions to pension provisions and other non-current provisions	–67.4	–72.2
Exchange rate differences from financing activities	–30.4	1.1
Income/loss from financial interests	–1.6	7.2
	–285.8	**–251.6**

(13) Income tax

€ million	2011	2010
Current taxes in the period	–383.4	–329.8
Current taxes in the period on exceptional items	–38.6	–0.1
Taxes for previous periods	11,5	–8.8
Deferred taxes in the period	189.6	120.5
Deferred taxes in the period on exceptional items	–1.2	–1.4
	–222.1	**–219.6**

Tax ratio	26.1%	25.5%
Tax ratio before exceptional items	26.1%	25.3%

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. Taxes for other periods include trade tax refunds in Germany and risk provisioning, both of which relate to prior years.

In 2011, changes in tax rates in individual companies resulted in a deferred tax expense of € 3.0 million (2010: expense of € 0.1 million). One-time deferred tax income of € 22.2 million was recognized owing to change in applicable tax rates. In addition, one-time deferred tax income of € 14.2 million resulted from the revaluation of deferred tax liabilities in connection with the shorter amortization period for Rebif®.

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

€ million	2011	2010
Change in deferred tax assets (balance sheet)	136.9	47.7
Change in deferred tax liabilities (balance sheet)	60.9	–617.0
Deferred taxes credited/debited to equity	–13,3	–54.2
Changes in scope of consolidation/currency translation/Other changes	3.9	742.6
Deferred taxes (income statement)	**188.4**	**119.1**

Tax loss carryforwards are structured as follows:

	Dec. 31, 2011			Dec. 31, 2010		
€ million	Germany	Abroad	Total	Germany	Abroad	Total
Tax loss carryforwards	1.8	188.1	**189.9**	2.0	194.2	**196.2**
thereof: Including deferred tax asset	–	100.9	**100.9**	–	125.7	**125.7**
Deferred tax asset	–	35.1	**35.1**	–	39.2	**39.2**
thereof: Excluding deferred tax asset	1.8	87.2	**89.0**	2.0	68.5	**70.5**
Theoretical deferred tax asset	0.3	28.2	**28.5**	0.5	20.5	**21.0**

The decrease in tax loss carryforwards compared to 2010 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. In 2011, the income tax expense was reduced by € 25.7 million (2010: € 20.0 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 € 1.4 million (2010: € 1.5 million) and to € 0.4 million (2010: € 0.5 million) for trade tax.

The additional theoretically possible deferred tax assets amounted to € 28.5 million (2010: € 21.0 million).

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

	Dec. 31, 2011		Dec. 31, 2010	
€ million	Assets	Liabilities	Assets	Liabilities
Intangible assets	71.3	1,293.5	33.7	1.374.3
Property, plant and equipment	5.9	94.7	15.6	88.1
Current and non-current financial assets	14.9	21.1	5.9	19.3
Inventories	384.4	3.5	305.6	3.7
Current and non-current receivables/Other assets	32.4	20.7	44.6	2.8
Provisions for pensions and other post-employment benefits	130.8	14.2	129.7	18.1
Current and non-current other provisions	193.0	14.2	169.4	15.2
Current and non-current liabilities	74.1	6.0	27.8	5.8
Tax loss carryforwards	35.1	–	39.2	–
Tax refund claims/Other	29.2	92.8	58.2	89.8
Offset deferred tax assets and liabilities	–241.1	–241.1	–236.6	–236.6
Deferred taxes (balance sheet)	**730.0**	**1,319.6**	**593.1**	**1.380.5**

In addition to deferred tax assets on tax loss carryforwards, deferred tax assets of € 694.9 million (2010: € 553.9 million) were recognized for other temporary differences.

As of the balance sheet date, deferred tax liabilities for temporary differences for interests in subsidiaries as regards planned dividend payments amount to € 100.2 million (2010: € 102.8 million). Of this amount, € 83.5 million relates to deferred tax liabilities for non-distributed profits which had been accrued within the scope of the Millipore acquisition. In 2010, a deferred tax asset of € 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. Temporary differences relating to the retained earnings of subsidiaries amount to € 3,508.8 million.

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.

→ Notes to the consolidated income statement

€ million	2011	2010
Profit before income tax	851.1	861.1
Exceptional items	151.8	–0.8
Profit before tax and exceptional items	**699.3**	**861.9**
Tax rate	30.7%	30.7%
Theoretical tax expense before exceptional items	–214.7	–264.6
Tax rate differences	–5.1	45.7
Tax effect of companies with a negative contribution to consolidated profit	–3.2	–9.0
Tax for other periods	11.5	–8.8
Tax credits	38.2	22.9
Tax effect on tax loss carryforwards	25.7	25.8
Effect of non-deductible expenses/tax-free income/other tax effects	–34.7	–30.1
Tax expense before exceptional items	**–182.3**	**–218.1**
Tax ratio before exceptional items	26.1%	25.3%
Taxes on exceptional items	–39.8	–1.5
Tax expense according to income statement	**–222.1**	**–219.6**
Tax ratio according to income statement	26.1%	25.5%

(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, and Merck (Pvt.) Ltd., Pakistan.

(15) Earnings per share

Basic earnings per share are calculated by dividing the profit after tax attributable to the shareholders of Merck KGaA by the weighted average number of theoretical shares outstanding. The use of a theoretical number of shares takes into account the fact that the general partner's capital is not represented by shares. The share capital of € 168.0 million is divided into 64,621,126 shares. Accordingly, the general partner's capital of € 397.2 million is divided into 152,767,813 theoretical shares. Overall, the total capital thus amounts to € 565.2 million or 217,388,939 theoretical shares outstanding.

	2011	2010
Profit after tax attributable to Merck KGaA shareholders (€ million)	617.5	632.1
Weighted average number of theoretical shares outstanding (millions)	217.4	217.4
Basic earnings per share (€)	**2.84**	**2.91**

As of December 31, 2011 there were no potentially dilutive shares.

→ Notes to the consolidated balance sheet

Notes to the consolidated balance sheet

(16) Cash and cash equivalents

This item comprises:

€ million	Dec. 31, 2011	Dec. 31, 2010
Cheques, cash and bank balances	187.7	233.6
Short-term cash investments	750.1	710.1
	937.8	**943.7**

Changes in cash and cash equivalents as defined by IAS 7 are presented in the cash flow statement. This item includes short-term receivables due from related parties and affiliates amounting to € 8.2 million (2010: € 8.6 million).

Short-term cash investments mainly comprise fixed-term deposits with banks that have a very good credit rating.

(17) Marketable securities and financial assets

This item comprises the following categories:

€ million	Dec. 31, 2011	Dec. 31, 2010
Financial investments held to maturity	27.3	22.7
Available-for-sale financial investments	307.9	11.3
Short-term financial investments/loans to third parties	760.0	0.3
Derivative assets (financial transactions)	21.9	21.3
	1,117.1	**55.6**

The significant increase in marketable securities and financial assets resulted mainly from short-term financial investments with an original maturity of more than 90 days, which included fixed-term deposits of € 760.0 million (2010: € 0.3 million). There were no write-downs or payments past due. As of December 31, 2011, the balance sheet item "available-for-sale financial investments" mainly includes commercial paper amounting to € 247.3 million as well as Greek sovereign bonds with a book value of € 10.9 million. The nominal value of the Greek sovereign bonds is € 43.2 million. We received these securities within the scope of an exchange of receivables that were due from Greek hospitals. In fiscal 2011, the first tranche amounting to € 12.4 million was repaid. Additionally, an impairment loss of € 18.0 million was recognized on remaining Greek sovereign bonds and reported under "Other operating expenses". Moreover, fair value adjustments of € +1.3 million, which were recognized in equity, were made on "available-for-sale financial investments" (2010: € –2.0 million).

→ Notes to the consolidated balance sheet

(18) Trade accounts receivable

This item comprises:

€ million	Dec. 31, 2011	Dec. 31, 2010
Receivables from affiliates	–	0.3
Receivables from associates	–	0.8
Receivables from third parties	2,328.3	2,295.2
	2,328.3	**2,296.3**

Trade accounts receivable past due are as follows:

€ million	Dec. 31, 2011	Dec. 31, 2010
Neither past due nor impaired	1,676.0	1,659.0
Past due, but not impaired		
up to 3 months	196.5	265.7
up to 6 months	29.2	107.4
up to 12 months	17.7	96.4
over 1 year	10.4	109.5
Impaired	398.5	58.3
Book value	**2,328.3**	**2,296.3**

The corresponding write-downs developed as follows:

€ million	2011	2010
January 1	**–58.9**	**–46.0**
Additions (net)	–113.8	–10.8
Utilizations	23.6	5.2
Currency translation and other changes	0.1	–7.3
December 31	**–149.0**	**–58.9**

In fiscal 2011, trade receivables in Italy and Portugal with a nominal value of € 124.1 million were sold for € 118.8 million. Sufficient write-downs were recorded for these trade receivables in previous years. The sold receivables do not involve any further rights of recovery vis-à-vis Merck.

Net additions to write-downs relate mainly to receivables from state hospitals and health care organizations in Italy, Spain, Greece and Portugal. The sharp increase compared to 2010 is attributable to the existing uncertainties in connection with the sovereign debt crisis in the eurozone. The measurement of the respective receivables takes into account country-specific risk discounts as well as the age structure.

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.

→ Notes to the consolidated balance sheet

(19) Inventories

This item comprises:

€ million	Dec. 31, 2011	Dec. 31, 2010
Raw materials and production supplies	288.9	189.7
Work in progress, finished goods and goods purchased for resale	1,402.2	1,483.8
	1,691.1	**1,673.5**

Write-downs of inventories amounted to € 116.0 million in 2011 (2010: € 138.7 million). As of the balance sheet date, the residual book value of inventories that were written down amounts to € 894.8 million (2010: € 757.5 million). In 2011, inventory write-ups of € 0.7 million were recorded (2010: € 27.0 million). Inventories amounting to € 2,788.3 million (2010: € 2,385.4 million) were 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 assets comprised the following:

€ million	current	non-current	Dec. 31, 2011	current	non-current	Dec. 31, 2010
Receivables from third parties	81.5	2.5	84.0	385.6	2.1	387.7
Receivables from related parties	6.2	–	6.2	17.0	–	17.0
Receivables from affiliates	0.4	–	0.4	2.4	–	2.4
Other receivables	**88.1**	**2.5**	**90.6**	**405.0**	**2.1**	**407.1**
Receivables from non-income related taxes	85.0	40.7	125.7	72.8	36.0	108.8
Prepaid expenses	37.1	3.6	40.7	48.2	2.7	50.9
Refund claims on plan assets	17.3	–	17.3	18.8	–	18.8
Derivative assets (operational)	2.6	–	2.6	2.2	0.4	2.6
Other assets	20.1	8.1	28.2	17.7	11.7	29.4
	250.2	**54.9**	**305.1**	**564.7**	**52.9**	**617.6**

The decline in other receivables resulted mainly from the receipt of the payment of our selling price receivable amounting to € 269.3 million from the sale of Théramex in 2010. Other assets mainly included prepayments as well as accrued interest income.

→ Notes to the consolidated balance sheet

Other receivables from third parties past due were as follows:

€ million	Dec. 31, 2011	Dec. 31, 2010
Neither past due nor impaired	69.0	345.0
Past due, but not impaired		
up to 3 months	4.7	8.4
up to 6 months	5.6	4.8
up to 12 months	0.4	0.6
over 1 year	4.3	2.0
Impaired	–	26.9
Book value	**84.0**	**387.7**

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. 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 and depends on the assessment made by the tax authorities. Merck had written down this claim by € 52.6 million to a residual book value of € 26.9 million on December 31, 2010. In 2011, we received a partial payment in connection with this issue, which corresponded to the outstanding book value. The remaining claim was written off.

In 2011, we recognized impairments of € 0.7 million on other receivable from third parties (2010: € 0.0 million). Write-ups of other receivables from third parties were not necessary in either 2011 or 2010. 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 € 72.7 million (2010: € 93.7 million) and resulted from tax prepayments that exceed the actual amount of tax payable for 2011 and prior fiscal years, and from refund claims for prior years as well as withholding tax credits.

→ Notes to the consolidated balance sheet

(22) Assets held for sale and liabilities directly related to assets held for sale

As of December 31, 2011, there were no assets held for sale and liabilities directly related to assets held for sale. In the consolidated balance sheet as of December 31, 2010, the values for the Crop BioScience business were disclosed under this item. The sale of this business to Novozymes A/S closed in the first quarter of 2011. The following table presents this item in more detail:

€ million	Dec. 31, 2011	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**

→ Notes to the consolidated balance sheet

(23) Intangible assets

€ 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, 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**
Acquisition cost January 1, 2011	**10,897.7**	**491.6**	**4,622.3**	**276.8**	**41.9**	**16,330.3**
Currency translation	60.6	–0.3	45.1	1.9	–0.1	107.2
Changes in scope of consolidation	79.1	–	91.4	0.1	–	170.6
Additions	8.1	31.2	–	11.8	28.6	79.7
Disposals	–0.3	–0.3	–	–6.5	–0.4	–7.5
Transfers	11.9	–9.0	–	48.1	–44.0	7.0
Reclassification to assets held for sale	–	–	–	–	–	–
December 31, 2011	**11,057.1**	**513.2**	**4,758.8**	**332.2**	**26.0**	**16,687.3**
Accumulated amortization and impairment losses January 1, 2011	**–3,330.3**	**–313.6**	**–42.2**	**–160.1**	**–**	**–3,846.2**
Currency translation	–16.7	–0.1	–0.2	–1.4	–	–18.4
Changes in scope of consolidation	–	–	–	–	–	–
Amortization and impairment losses	–898.1	–111.4	–	–51.5	–	–1,061.0
Disposals	0.3	0.3	–	6.0	–	6.6
Transfers	–0.2	–0.5	–	–3.3	–	–4.0
Write-ups	–	–	–	–	–	–
Reclassification to assets held for sale	–	–	–	–	–	–
December 31, 2011	**–4,245.0**	**–425.3**	**–42.4**	**–210.3**	**–**	**–4,923.0**
Net carrying amount as of December 31, 2011	**6,812.1**	**87.9**	**4,716.4**	**121.9**	**26.0**	**11,764.3**

→ Notes to the consolidated balance sheet

The changes in scope of consolidation include additions amounting to € 170.6 million (2010: € 5,263.9 million). The additions relate to the acquisitions of the microbiology business of Biotest AG as well as Amnis Corporation, Seattle, WA (USA), and the first-time consolidation of Beijing Skywing Technology Co., Ltd., Beijing, China. Details of these transactions are presented under "Scope of consolidation – Acquisitions." In 2010, changes in the scope of consolidation included disposals of € 159.7 million.

The net carrying amount of "Patents, licenses and similar rights, brands, trademarks and other" with finite useful lives amounting to € 6,812.1 million mainly includes 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 7.0 and 14.5 years. This item also includes licenses from this acquisition with remaining useful lives of between 1.0 and 6.0 years. In response to the increasing market impact of oral therapies for multiple sclerosis, the amortization period of Rebif® was shortened by two years. In 2011, this led to higher expenses of € 51.3 million as of the second quarter due to amortization. In fiscal 2012, this change will increase amortization by a total of € 68.4 million.

In fiscal 2011, impairment losses on intangible assets with finite useful lives totaled € 59.0 million. Of this amount, € 50.4 million was attributable to the Merck Serono division for cladribine, and € 8.6 million to the Performance Materials division. These impairments are disclosed in the income statement under "Amortization of intangible assets".

The changes in goodwill caused by foreign exchange rates resulted almost exclusively from translating the goodwill for Millipore, half of which is carried in U.S. dollars, into the reporting currency.

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 € 111.4 million on intangible assets resulted in fiscal 2011. Within the Merck Serono division, € 63.4 million of this amount was attributable to safinamide and € 35.4 million to the cancer drug candidate IMO-2055, which we will not be developing further. In addition, an impairment loss of € 9.0 million was incurred in connection with the termination of a further research project. This is disclosed in the income statement under "Amortization of intangible assets."

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

€ million	Remaining useful life in years	Merck Serono	Consumer Health Care	Merck Millipore	Performance Materials	Total Dec. 31, 2011	Total Dec. 31, 2010
Patents, licenses and similar rights, brands, trademarks and other							
Finite useful life		**4,480.9**	**21.4**	**2,304.0**	**5.8**	**6,812.1**	**7,567.4**
Rebif®	8.0	2,944.9	–	–	–	2,944.9	3,296.5
Gonal-f®	7.0	664.6	–	–	–	664.6	759.6
Saizen®	8.0	245.9	–	–	–	245.9	276.6
Humira®	6.0	223.7	–	–	–	223.7	257.3
Avonex®	1.5	72.2	–	–	–	72.2	120.3
Enbrel®	1.0	38.0	–	–	–	38.0	74.9
Puregon®	3.0	34.4	–	–	–	34.4	45.8
Cladribine	–	–	–	–	–	–	51.7
Technologies	1.0–14.5	255.1	1.8	528.8	3.5	789.2	828.0
Brands	2.6–12.5	0.5	19.6	313.3	–	333.4	334.6
Customer relationships	0.8–15.5	1.6	–	1,461.9	2.3	1,465.8	1,522.1
Indefinite useful life		**87.5**	**–**	**–**	**0.4**	**87.9**	**178.0**
Safinamide	–	–	–	–	–	–	63.4
Other	–	87.5	–	–	0.4	87.9	114.6
Goodwill	**–**	**1,681.7**	**164.7**	**2,846.1**	**23.9**	**4,716.4**	**4,580.1**

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.

→ Notes to the consolidated balance sheet

(24) Property, plant and equipment

€ million	Land, land rights and buildings, including buildings on third-party land	Plant and machinery	Other facilities, operating and office equipment	Construction in progress and advance payments to vendors and contractors	Total
Acquisition cost January 1, 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**
Acquisition cost January 1, 2011	**2,321.9**	**2,663.9**	**845.4**	**778.9**	**6,610.1**
Currency translation	27.3	3.7	3.4	–0.6	33.8
Changes in scope of consolidation	0.6	5.1	2.5	1.1	9.3
Additions	32.7	34.3	42.9	262.0	371.9
Disposals	–23.6	–41.2	–27.7	–1.8	–94.3
Transfers	117.1	159.4	48.7	–310.6	14.6
Reclassification to assets held for sale	–	–	–	–	–
December 31, 2011	**2,476.0**	**2,825.2**	**915.2**	**729.0**	**6,945.4**
Accumulated depreciation and impairment losses January 1, 2011	**–872.5**	**–1,885.5**	**–600.5**	**–10.1**	**–3,368.6**
Currency translation	–7.4	2.1	–2.6	–	–7.9
Changes in scope of consolidation	2.9	–	–	–	2.9
Depreciation and impairment losses	–96.2	–175.0	–85.9	–165.1	–522.2
Disposals	14.8	37.0	26.3	0.9	79.0
Transfers	3.4	–20.2	–0.7	–0.1	–17.6
Write-ups	0.8	1.4	0.2	–	2.4
Reclassification to assets held for sale	–	–	–	–	–
December 31, 2011	**–954.2**	**–2,040.2**	**–663.2**	**–174.4**	**–3,832.0**
Net carrying amount as of December 31, 2011	**1,521.8**	**785.0**	**252.0**	**554.6**	**3,113.4**

→ Notes to the consolidated balance sheet

The changes in scope of consolidation include additions amounting to € 17.4 million (2010: € 474.2 million) and disposals amounting to € 5.2 million (2010: 7.3 million). The additions are due mainly to the acquisition of the microbiology business of Biotest AG. Deconsolidations are due to the divestment of Serono Contracting Ltd., United Kingdom.

Impairment losses totaled € 167.4 million in fiscal 2011. Of this amount, € 165.1 million was attributable to the Large-Scale Biotech (LSB) production facility of the Merck Serono division in Corsier-sur-Vevey, Switzerland and is reported under "Other operating expenses".

Property, plant and equipment amounting to € 3.2 million served as collateral (2010: € 8.1 million). Total government grants and subsidies during the fiscal year amounted to € 14.8 million (2010: € 11.5 million).

Property, plant and equipment also includes assets that are leased. The total value of capitalized leased assets amounted to € 16.5 million (2010: € 11.6 million) and the corresponding obligations amounted to € 11.8 million (2010: € 7.1 million) (see Note [28]).

The book values of capitalized leased assets were as follows:

€ million	Dec. 31, 2011	Dec. 31, 2010
Capitalized leased land and buildings	14.1	9.3
Capitalized leased vehicles	1.2	2.3
Capitalized leased other property, plant and equipment	1.2	–
	16.5	**11.6**

(25) Investments at equity

€ million	2011	2010
Book value January 1	5.0	1.6
Additions	–	–
Share of profit	0.7	0.9
Impairment losses	–1.7	–
Disposals	–3.8	–
Currency translation	–0.2	0.3
Changes in scope of consolidation	–	2.2
Book value December 31	**–**	**5.0**

Impairment losses include a decline in the value of an associated company within the Merck Millipore division that is disclosed in the income statement under "Investment result." Investments at equity were divested during fiscal 2011.

→ Notes to the consolidated balance sheet

(26) Non-current financial assets

	Investments in		Securities			
€ million	available-for-sale affiliates	available-for-sale companies	available-for-sale financial investments	financial investments held to maturity	Loans and other non-current financial assets	Total
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**
Book value January 1, 2011	**60.9**	**27.4**	**7.5**	**–**	**34.5**	**130.3**
Currency translation	–	–	–	–	–	–
Changes in scope of consolidation	–	92.7	–	–	–	92.7
Additions	12.9	150.0	–	–	5.2	168.1
Impairment losses	–14.9	–	–	–	–	–14.9
Disposals	–39.3	–257.7	–0.7	–	–21.0	–318.7
Fair value adjustments of long-term investments taken directly to equity	2.5	–	–	–	0.3	2.8
Transfers	–	–	–	–	–	–
Book value December 31, 2011	**22.1**	**12.4**	**6.8**	**–**	**19.0**	**60.3**

As of December 31, 2011, the book value of non-current financial assets amounting to € 60.3 million included non-current financial assets available-for-sale (investments) with a book value of € 32.6 million (2010: € 57.2 million) that were carried at cost since fair value could not be reliably determined.

Changes in the scope of consolidation totaling € 92.7 million include first-time consolidations of € 164.9 million (2010: € 4,612.6 million) and deconsolidations of € 257.6 million (2010: € 192.8 million). The first-time consolidations relate almost exclusively to the acquisition of the microbiology business of Biotest AG as well as Amnis Corporation, Seattle, WA (USA), and the first-time consolidation of Beijing Skywing Technology Co. Ltd., Beijing, China. The deconsolidations relate to Merck Capital Asset Management, Malta, as well as the divestments of our Crop BioScience business and Serono Contracting Ltd., United Kingdom. A detailed presentation of this item can be found under "Scope of consolidation".

→ Notes to the consolidated balance sheet

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

€ million	Available-for-sale investments	Available-for-sale securities	Total Dec. 31, 2011	Available-for-sale investments	Available-for-sale securities	Total Dec. 31, 2010
Fair values/Book values	34.5	6.8	41.3	88.3	7.5	95.8
Amortized acquisition cost	34.2	6.8	41.0	90.5	7.5	98.0
Unrealized gains/losses	0.3	–	0.3	–2.2	–	–2.2

(27) Financial assets covering pension obligations

€ million	Available-for-sale financial assets	Financial assets held to maturity	Total
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 long-term investments taken directly to equity	–8.1	–	–8.1
Transfers	–	–	–
Book value December 31, 2010	**152.3**	**64.6**	**216.9**
Book value January 1, 2011	**152.3**	**64.6**	**216.9**
Currency translation	–	–	–
Changes in scope of consolidation	–153.1	–65.8	–218.9
Additions	4.5	1.2	5.7
Impairment losses	–	–	–
Disposals	–2.2	–	–2.2
Fair value adjustments of long-term investments taken directly to equity	–1.5	–	–1.5
Transfers	–	–	–
Book value December 31, 2011	–	–	–

In connection with the establishment of a Contractual Trust Arrangement (CTA), which is being used to cover the pension obligations of Merck KGaA, the financial assets appropriated for this purpose were transferred to the CTA in December 2011. At the time of the transfer, the book value of the financial assets amounted to € 218.9 million.

→ Notes to the consolidated balance sheet

(28) Financial liabilities

This item comprised:

€ million	current	non-current	Dec. 31, 2011	current	non-current	Dec. 31, 2010
Bonds	1,004.7	3,893.7	4,898.4	25.3	4,948.3	4,973.6
Commercial paper	–	–	–	10.0	–	10.0
Bank loans and overdrafts	106.9	20.3	127.2	85.7	30.0	115.7
Liabilities to related parties	199.2	–	199.2	190.3	–	190.3
Loans from third parties and other financial liabilities	17.2	66.0	83.2	14.3	63.8	78.1
Liabilities from derivatives (financial transactions)	63.9	155.6	219.5	28.7	80.0	108.7
Finance leases	2.5	9.3	11.8	1.8	5.3	7.1
	1,394.4	**4,144.9**	**5,539.3**	**356.1**	**5,127.4**	**5,483.5**

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

€ million	Bank credit facilities	Utilization* as of Dec.31, 2011	Interest	Due
Syndicated loan 2007	2,000.0	–	variable	2014
Bilateral credit facilities with banks	43.7	43.7	fixed	2012
Bilateral credit facilities with banks	7.7	7.7	fixed	2017
Bilateral credit facilities with banks	13.1	13.1	fixed	2018
Various bank lines	324.7	63.2	fixed / variable	< 1 year
	2,389.2	**127.7**		

* 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, 2011	Dec. 31, 2010
Euros	19.0	51.7
U.S. dollars	0.8	1.3
Yen	1.2	–
Chinese renminbi	47.0	13.4
Venezuelan bolivar	18.7	–
Other currencies	13.3	33.6
	100.0	**100.0**

→ Notes to the consolidated balance sheet

In 2009, Merck created a Debt Issuance Program that forms the contractual basis for issuing bonds with a nominal volume of up to € 5 billion. In 2010, this volume was increased to € 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	€ 500 million	March 2010 – March 2012	2.125%	99.775
Merck Finanz AG, Luxembourg	€ 500 million	December 2005 – December 2012	*2.317%	99.716
Merck Financial Services GmbH, Germany	€ 750 million	March 2009 – September 2013	4.875%	99.697
Merck Financial Services GmbH, Germany	€ 1,350 million	March 2010 – March 2015	3.375%	99.769
Merck Financial Services GmbH, Germany	€ 100 million	December 2009 – December 2015	**3.615%	100.000
Millipore Corporation, USA	€ 250 million	June 2006 – June 2016	5.875%	99.611
Merck Financial Services GmbH, Germany	€ 60 million	November 2009 – November 2016	4.000%	100.000
Merck Financial Services GmbH, Germany	€ 70 million	December 2009 – December 2019	4.250%	97.788
Merck Financial Services GmbH, Germany	€ 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

Within the scope of the Millipore acquisition, Merck took over a convertible bond with a nominal value of US$ 550 million. In 2010, the majority of investors exercised the conversion right that resulted in the course of the acquisition. Millipore Corporation, USA, repaid the remaining outstanding interests with a nominal volume of US$ 27.2 million in 2011 for an amount of € 20.8 million.

To meet short-term capital requirements, Merck KGaA has a commercial paper program with a volume of € 2 billion, which had not been utilized as of the reporting date.

In addition, a € 2 billion multi-currency term loan and revolving credit facility from fiscal 2007 is available. The loan has a term of seven years and was agreed with an international banking syndicate. This credit line had not been utilized as of the reporting date.

Liabilities from financial leasing represent the discounted amount of future payments arising from finance leases. This item primarily relates to liabilities from finance leases for buildings. Information on liabilities due to related parties can be found in Note [52].

(29) Trade accounts payable

Trade accounts payable consisted of the following:

€ million	Dec. 31, 2011	Dec. 31, 2010
Liabilities due to third parties	1,100.5	1,200.0
Liabilities due to affiliates	0.3	0.1
	1,100.8	**1,200.1**

Trade accounts payable included accrued amounts of € 647.2 million (2010: € 648.1 million) for outstanding invoices and accrued reductions in sales revenues.

→ Notes to the consolidated balance sheet

(30) Other liabilities

This item comprised:

€ million	current	non-current	Dec. 31, 2011	current	non-current	Dec. 31, 2010
Liabilities to related parties	319.3	–	319.3	260.6	–	260.6
Liabilities to affiliates	0.6	–	0.6	3.2	–	3.2
Accrued interest	104.2	–	104.2	103.5	–	103.5
Payroll liabilities	64.4	1.1	65.5	65.0	0.6	65.6
Liabilities from profit distributions	1.6	–	1.6	0.7	–	0.7
Other financial liabilities to third parties	39.0	2.7	41.7	48.7	4.0	52.7
Sundry other financial liabilities	**529.1**	**3.8**	**532.9**	**481.7**	**4.6**	**486.3**
Accruals for personnel expenses	425.6	–	425.6	443.0	–	443.0
Deferred income	24.2	1.6	25.8	29.0	27.2	56.2
Advance payments received from customers	9.8	0.1	9.9	12.6	–	12.6
Liabilities from derivatives (operational)	64.5	36.6	101.1	26.8	11.1	37.9
Liabilities from non-income related taxes	48.9	1.5	50.4	61.5	–	61.5
	1,102.1	**43.6**	**1,145.7**	**1,054.6**	**42.9**	**1,097.5**

Liabilities to related parties existed vis-à-vis the general partner E. Merck KG and resulted from profit entitlements as of the balance sheet date. Other financial liabilities due to third parties also include liabilities due to insurance companies, as well as contractually agreed payment obligations vis-à-vis other companies.

(31) Tax liabilities

Tax liabilities amounted to € 80.0 million (2010: € 57.5 million). Tax liabilities totaling € 399.4 million (2010: € 368.4 million) also include provisions for tax liabilities of € 319.4 million (2010: € 310.9 million).

→ Notes to the consolidated balance sheet

(32) Provisions

Provisions developed as follows:

€ million	Restruc-turing	Litigation	Personnel	Environ-mental protection	Other	Total
January 1, 2011	**40.1**	**482.0**	**171.7**	**70.4**	**134.5**	**898.7**
Additions	18.8	146.6	50.0	30.4	176.2	422.0
Utilizations	–18.3	–118.8	–80.1	–13.2	–35.8	–266.2
Release	–2.7	–47.1	–17.9	–1.9	–30.5	–100.1
Currency translation	–	13.7	0.5	–	8.9	23.1
Changes in scope of consolidation/Other	0.1	–2.7	3.8	2.4	3.9	7.5
December 31, 2011	**38.0**	**473.7**	**128.0**	**88.1**	**257.2**	**985.0**
thereof current	26.5	60.9	31.8	6.2	240.1	365.5
thereof non-current	11.5	412.8	96.2	81.9	17.1	619.5

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 a pharmaceutical, chemical and life science company with global production operations, Merck is exposed to a multitude of litigation risks. These include in particular risks in the areas of product liability, competition and antitrust law, pharmaceutical law, patent law, tax law, and environmental protection. We are engaged in legal proceedings and government investigations, the outcome of which cannot currently be predicted. Appropriate provisions to cover these risks are disclosed on the relevant balance sheet date. Nevertheless, decisions by courts or government agencies – which, as experience has shown, involve uncertainties – or settlement agreements could lead to additional expenses or cash outflows that could have material effects on the financial and earnings position of the Merck Group. As of the balance sheet date, Merck recorded provisions for litigation amounting to € 473.7 million (2010: € 482.0 million). In 2011, additional provisions for litigation were set up and charged to other operating expenses. Provisions for litigation take into account the material litigation risks described in the following. Our former generics subsidiary Dey Inc., USA, is alleged to have falsely reported price information. Although Dey Inc. was divested within the context 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 connection, claims were settled in a number of U.S. states as well as with the U.S. Department of Justice in previous years. In 2011, one settlement agreement was reached in a further U.S. state.

The legal dispute with the Italian company Italfarmaco S.p.A. 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 was settled in 2011 out of court. The remaining provisions were released insofar as they do not relate to outstanding legal fees.

Moreover, 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.

→ Notes to the consolidated balance sheet

Furthermore, provisions exist for patent litigation with Biogen Idec in connection with Rebif® in the United States. In addition, provisions exist in connection with the marketing of Rebif® in the United States.

As of the balance sheet date, provisions were also set up for litigation with the federal state of São Paulo, Brazil. The federal state of São Paulo is demanding compensation from the Brazilian company Merck S.A., Brazil, in connection with the marketing of the product Raptiva®. Merck withdrew Raptiva® from the market in early 2009.

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 € 33.7 million (2010: € 29.8 million). The LTIP offers eligible executives and employees of the Merck Group a long-term, profit-related compensation component. 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. Moreover, this item includes provisions for obligations for the partial early retirement program, other severance pay and anniversary bonuses.

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 was based on the following actuarial parameters:

	Germany		Other countries	
in %	2011	2010	2011	2010
Discount rate	4.5	4.5	3.8	4.0
Future salary increases	2.5	2.5	2.8	3.0
Future pension increases	1.8	1.8	3.0	3.2
Staff turnover	1.9	1.9	7.7	7.3
Expected return on plan assets	4.5	–	4.4	4.9
Future cost increases for health care benefits	–	–	5.0	5.0

There 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, liquid assets, stocks and real estate. They do not include financial instruments issued by Merck Group companies or real estate used by Group companies.

→ Notes to the consolidated balance sheet

The balance sheet item "Provisions for pensions and other post-employment benefits" can be broken down as follows:

€ million	Dec. 31, 2011	Dec. 31, 2010
Present value of benefit obligations funded by provisions	167.1	1,467.7
Present value of funded benefit obligations	2,322.8	888.1
Present value of all benefit obligations	**2,489.9**	**2,355.8**
Fair value of plan assets of all funds	–1,370.3	–793.3
Funded status	**1,119.6**	**1,562.5**
Other changes	–	0.3
Net liability recognized in the balance sheet	**1,119.6**	**1,562.8**
Refund claims on plan assets	17.3	18.8
Provisions for pensions and other post-employment benefits	**1,136.9**	**1,581.6**

Within the scope of a Contractual Trust Arrangement (CTA) of Merck KGaA, liquid assets amounting to € 520.0 million were transferred to a trustee, Merck Pensionstreuhand e.V., Darmstadt, in December 2011. The trustee used € 218.1 million of these liquid assets to acquire Merck Capital Asset Management Limited, Malta, which holds the financial assets being used to cover pension obligations and previously disclosed separately in the balance sheet. These financial assets are thus part of the plan assets. Accordingly, benefit obligations of Merck KGaA were reclassified from the category "funded by provisions" to the category "funded".

In 2011, the following items were recognized in income:

€ million	2011	2010
Current service cost	81.9	69.5
Past service cost	0.3	–0.1
Interest cost on pension obligations	100.2	99.6
Expected return on plan assets	–39.1	–34.1
Other effects	–1.0	0.1
Total amount recognized in income	**142.3**	**135.0**

The present value of commitments for future health care expenses of retirees in the United States is based on an expected future increase in health care costs of 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 € 0.9 million higher or € 0.8 million lower. The expenses recognized in 2011 would have been € 0.1 million higher or lower.

→ Notes to the consolidated balance sheet

The actual gain on plan assets amounted to € 26.2 million (2010: gain of € 61.0 million). Apart from the interest component stemming from the interest expense on the pension obligations and the expected return on the plan assets, which are disclosed in the financial result, the relevant expense of defined benefit and defined contribution plans is distributed across the individual functional areas.

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

€ million	benefit obligations funded by provisions	funded benefit obligations	2011	benefit obligations funded by provisions	funded benefit obligations	2010
Present value of all defined obligations on January 1	1,467.7	888.1	2,355.8	1,260.2	617.5	1,877.7
Currency translation differences	–0.5	25.0	24.5	2.8	71.2	74.0
Current service cost	9.0	72.9	81.9	35.4	34.1	69.5
Interest cost on pension obligations	7.0	93.2	100.2	66.3	33.3	99.6
Other effects recognized in income	–0.2	–0.7	–0.9	0.1	0.1	0.2
Actuarial gains/losses	0.7	14.1	14.8	160.5	37.2	197.7
Pension payments in the reporting period	–6.3	–95.7	–102.0	–56.6	–37.9	–94.5
Reclassification Merck KGaA due to CTA	–1,310.6	1,310.6	–	–	–	–
Transfers/Changes in scope of consolidation/Other changes	0.3	15.3	15.6	–1.0	132.6	131.6
Present value of all defined obligations on December 31	**167.1**	**2,322.8**	**2,489.9**	**1,467.7**	**888.1**	**2,355.8**

In 2011, actuarial losses from pension obligations included experience adjustments (losses) amounting to € 9.6 million (2010: gains of € 10.0 million).

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

€ million	2011	2010
Fair value of the plan assets on January 1	793.3	582.6
Currency translation differences	23.2	68.1
Expected return on plan assets	39.1	34.1
Other effects recognized in income	–	0.1
Actuarial gains/losses	–12.9	26.9
Funding CTA Merck KGaA	520.0	–
Employer contributions	39.3	36.4
Employee contributions	14.1	12.5
Pension payments in the reporting period	–42.1	–37.1
Transfers/Changes in scope of consolidation/Other changes	–3.7	69.7
Fair value of the plan assets of all funds on December 31	**1,370.3**	**793.3**

The actuarial losses of € 12.9 million (2010: gains of € 26.9 million) correspond to the experience adjustments for the plan assets.

→ Notes to the consolidated balance sheet

In 2011, actuarial gains (+) and losses (–) as well as the effects of limiting defined benefit assets in accordance with IAS 19.58 amounting to € –27.7 million (2010: € –170.7 million) were taken to equity, together with other effects totaling € –2.8 million (2010: € –4.8 million). Moreover, € 0.2 million (2010: € –0.2 million) was transferred to retained earnings. As of December 31, 2011, for the aforementioned reasons, a total of € –503.2 million (2010: € –472.9 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:.

in %	Dec. 31, 2011	Dec. 31, 2010
Debt instruments	43.3	41.6
Equity instruments	15.9	34.1
Real estate	11.2	14.4
Other assets	29.6	9.9
	100.0	100.0

On average, the expected rate of return on debt instruments is 3.6%, on equity instruments 5.5% and on real estate 4.8%. The respective rates of return take into account country-specific conditions and are based, among other things, on interest and dividend income expected over the long term as well increases in the value of the investment portfolio after the deduction of directly allocable taxes and expenses.

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

€ million as of Dec. 31	2011	2010	2009	2008	2007
Present value of the defined benefit obligations	2,489.9	2,355.8	1,877.7	1,585.9	1,665.9
Fair value of the plan assets of all funds	–1,370.3	–793.3	–582.6	–462.6	–520.5
Funded status	**1,119.6**	**1,562.5**	**1,295.1**	**1,123.3**	**1,145.4**

We expect that the direct payments to beneficiaries will amount to around € 60 million in 2012. Employer contributions to plan assets will probably amount to around € 39 million in 2012.

The cost of ongoing contributions in 2011 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 € 19.1 million in 2011 (2010: € 16.7 million). In addition, employer contributions of € 56.4 million (2010: € 49.9 million) were transferred to the German statutory pension insurance system and € 28.9 million (2010: € 19.6 million) to statutory pension insurance systems abroad.

(34) 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 subscribed capital of the company is divided into 64,621,125 no-par value bearer shares as well as one registered share. 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 gains 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, PT Merck Tbk, Indonesia, and Merck (Pvt.) Ltd., Pakistan.

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:

		2011		2010	
€ million		E. Merck KG	Merck KGaA	E. Merck KG	Merck KGaA
Result of E. Merck KG		2.7	–	12.3	–
Result of ordinary activities of Merck KGaA		–	1,326.9	–	709.4
Extraordinary result		–	–20.5	–	–21.0
Adjustment for trade income tax in accordance with Art. 27 (1) Articles of Association of Merck KGaA		–	–	–	–
Trade income tax in accordance with Art. 30 (1) Articles of Association of Merck KGaA		–	29.1	–	–71.0
Basis for the appropriation of profits	**(100%)**	**2.7**	**1,335.5**	**12.3**	**617.4**
Profit transfer to E. Merck KG Ratio general partner's capital to total capital	(70.274%)	938.5	–938.5	433.9	–433.9
Profit transfer from E. Merck KG Ratio share capital to total capital	(29.726%)	–0.8	0.8	–3.7	3.7
Trade tax		–	–	–	–
Corporation tax		–	–23.6	–	–16.7
Net income		**940.4**	**374.2**	**442.5**	**170.5**

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 € 1,335.5. million (2010: € 617.4 million). Merck KGaA transferred € 938.5 million of its profit to E. Merck KG (2010: € 433.9 million). The profit/loss of E. Merck KG, on which the appropriation of profit/loss is based, amounts to € 2.7 million (2010: € 12.3 million). Consequently, this results in a profit transfer to Merck KGaA of € 0.8 million (2010: € 3.7 million).

Moreover, in 2011 € 44.3 million (2010: € 43.0 million) was transferred by Merck & Cie to E. Merck KG.

For 2010, a dividend of € 1.25 per share was distributed. The dividend proposal for fiscal 2011 will be € 1.50 per share, corresponding to a total dividend payment of € 96.9 million to shareholders.

→ Segment reporting

(35) Segment reporting

The classification of asset and income figures as well as of other key figures by business sector or by region is in accordance with IFRS 8. The reportable 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.

The Merck Millipore life science division comprises the activities of the Millipore Corporation, which was acquired in 2010, and the majority of our former Performance & Life Science Chemicals division. The Performance Materials division consists mainly of the Liquid Crystals and Pigments & Cosmetics business units. As of 2011, the Cosmetic Actives business field is reported under the Performance Materials division. As of December 31, 2010, and in fiscal 2010, this business field was still part of the Merck Millipore division. The business field generated sales of € 68.1 million and an operating result of € –3.9 million in 2010. The previous year's figures have been adjusted accordingly.

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 Corporate and Other. The fields of activity 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 2011 nor in 2010 did any single customer account for more than 10% of Group sales.

→ Segment reporting

Information by business sector and division

€ million	Merck Serono 2011	Merck Serono 2010	Consumer Health Care 2011	Consumer Health Care 2010	Pharmaceuticals 2011	Pharmaceuticals 2010
Sales	5,564.4	5,409.0	494.2	469.7	6,058.6	5,878.7
Royalty, license and commission income	355.6	344.5	2.0	2.3	357.6	346.8
Total revenues	5,920.0	5,753.5	496.2	472.0	6,416.2	6,225.5
Gross margin	4,888.3	4,792.8	338.7	316.9	5,227.0	5,109.7
Marketing and selling expenses	–1,414.4	–1,451.4	–233.0	–235.9	–1,647.4	–1,687.3
Royalty, license and commission expenses	–478.5	–456.2	–3.7	–1.2	–482.2	–457.4
Administration expenses	–257.8	–269.9	–23.7	–24.7	–281.5	–294.6
Other operating expenses and income	–408.8	–169.6	–5.1	–12.1	–413.9	–181.7
Research and development	–1,225.4	–1,167.1	–22.9	–24.9	–1,248.3	–1,192.0
Operating result	304.2	565.1	46.1	13.9	350.3	579.0
Exceptional items	25.1	68.6	–	–	25.1	68.6
Earnings before interest and tax (EBIT)	329.3	633.7	46.1	13.9	375.4	647.6
Net operating assets	9,207.2	10,359.7	321,1	310.8	9,528.3	10,670.5
Segment liabilities	–1,163.6	–1,268.9	–80.7	–86.4	–1,244.3	–1,355.3
Capital spending on property, plant and equipment	197.0	247.7	5.2	6.9	202.2	254.6
Investments in intangible assets	53.0	85.1	6.2	1.3	59.2	86.4
Depreciation and amortization	–840.8	–766.5	–11.3	–11.6	–852.1	–778.1
Impairment losses	–344.4	–171.0	–0.3	–7.1	–344.7	–178.1
Net cash flows from operating activities	1,374.0	1,590.1	48.6	46.6	1,422.6	1,636.7
Net cash flows from investing activities	101.3	–292.0	–8.8	–1.1	92.5	–293.1
Free cash flow	1,475.3	1,298.1	39.8	45.5	1,515.1	1,343.6
Underlying free cash flow	1,205.2	1,307.8	39.8	45.5	1,245.0	1,353.3
FCR in %	20.4	22.7	8.0	9.6	19.4	21.7
ROS in %	5.1	9.8	9.3	2.9	5.5	9.3

*As of 2011, the Cosmetic Actives business field is reported under the Performance Materials division (previously it was reported under the Merck Millipore division). The figures for 2010 have been adjusted accordingly.

Information by country and region

€ million	Germany 2011	Germany 2010	France 2011	France 2010	Switzerland 2011	Switzerland 2010	Rest of Europe 2011	Rest of Europe 2010
Sales by customer location	825.8	779.4	731.2	714.2	139.0	111.4	2,263.0	2,141.8
Sales by company location	1,394.5	1,315.0	853.6	810.4	168.0	149.9	1,946.2	1,819.4
Total revenues	1,430.7	1,333.2	862.6	821.6	382.3	364.6	1,955.0	1,836.3
Intangible assets	226.8	184.0	325.7	343.9	5,984.1	6,701.0	2,383.7	2,452.1
Property, plant and equipment	1,070.7	1,088.5	152.6	140.0	855.5	987.3	390.5	399.5
Research and development	–677.9	–649.7	–50.0	–49.4	–609.2	–566.4	–41.2	–32.8
Number of employees	10,900	10,340	3,002	2,916	2,323	2,407	5,605	6,016

→ Segment reporting

Merck Millipore*		Performance Materials*		Chemicals		Corporate and Other		Group	
2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
2,382.6	1,605.4	1,464.7	1,444.8	3,847.3	3,050.2	–	–	9,905.9	8,928.9
10.2	7.2	2.7	7.7	12.9	14.9	–	–	370.5	361.7
2,392.8	1,612.6	1,467.4	1,452.5	3,860.2	3,065.1	–	–	10,276.4	9,290.6
1,387.5	844.5	873.6	951.0	2,261.1	1,795.5	–	–	7,488.1	6,905.2
–608.1	–409.1	–133.3	–135.2	–741.4	–544.3	–4.2	–2.9	–2,393.0	–2,234.5
–16.0	–9.4	–2.3	–10.2	–18.3	–19.6	–	–	–500.5	–477.0
–106.7	–73.2	–35.7	–41.7	–142.4	–114.9	–80.9	–68.7	–504.8	–478.2
–104.6	–135.5	–32.0	–52.0	–136.6	–187.5	–31.4	–21.2	–581.9	–390.4
–134.5	–74.5	–134.3	–130.6	–268.8	–205.1	–	–	–1,517.1	–1,397.1
226.1	47.9	524.9	576.1	751.0	624.0	–116.2	–89.5	985.1	1,113.5
–	–	157.1	–1.0	157.1	–1.0	–30.4	–68.4	151.8	–0.8
226.1	47.9	682.0	575.1	908.1	623.0	–146.6	–157.9	1,136.9	1,112.7
6,608.6	6,435.6	1,331.0	1,289.7	7,939.6	7,725.3	–1.3	74.7	17,466.6	18,470.5
–335.4	–361.4	–131.7	–166.8	–467.1	–528.2	–22.9	–14.9	–1,734.3	–1,898.4
105.3	75.1	64.1	64.3	169.4	139.4	0.3	2.2	371.9	396.2
12.0	6.9	2.7	3.9	14.7	10.8	5.8	7.0	79.7	104.2
–283.7	–168.5	–102.5	–102.4	–386.2	–270.9	–5.4	–3.2	–1,243.7	–1,052.2
–1.8	–10.7	–9.5	–16.7	–11.3	–27.4	–	–0.2	–356.0	–205.7
404.0	252.7	564.8	610.4	968.8	863.1	–1,120.2	–717.2	1,271.2	1,782.6
–263.3	–4,924.6	128.6	–68.2	–134.7	–4,992.8	–853.8	1,403.5	–896.0	–3,882.4
140.6	–4,671.9	693.4	542.2	834.0	–4,129.7	–912.7	–736.4	1,436.4	–3,522.5
308.7	263.4	492.6	548.8	801.3	812.2	–651.7	–495.7	1,394.6	1,669.8
12.9	16.3	33.6	37.8	20.8	26.5	–	–	13.6	18.0
9.4	3.0	35.8	39.7	19.5	20.4	–	–	9.6	12.0

North America		Latin America		Asia		Africa, Australasia		Group	
2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
1,789.1	1,529.6	1,196.7	1,080.6	2,674.4	2,305.5	286.7	266.4	9,905.9	8,928.9
1,781.2	1,512.6	1,167.3	1,054.0	2,418.6	2,114.9	176.5	152.7	9,905.9	8,928.9
1,781.9	1,514.8	1,171.9	1,055.9	2,515.5	2,211.5	176.5	152.7	10,276.4	9,290.6
2,599.6	2,537.9	11.4	15.4	232.7	249.2	0.3	0.6	11,764.3	12,484.1
366.0	358.6	82.1	79.7	190.7	181.1	5.3	6.8	3,113.4	3,241.5
–95.2	–56.8	–10.9	–7.3	–28.6	–31.4	–4.1	–3.3	–1,517.1	–1,397.1
4,962	4,909	4,198	4,546	9,019	8,681	667	747	40,676	40,562

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

€ million	Dec. 31, 2011	Dec. 31, 2010
Assets	22,120.1	22,388.0
Monetary assets (cash and cash equivalents, loans, securities)	–2,082.7	–1,042.4
Financial assets covering pensions	–	–216.9
Non-operating receivables, tax receivables, deferred taxes and deferred pension payments	–836.5	–723.1
Assets held for sale	–	–36.7
Operating assets (gross)	**19,200.9**	**20,368.9**
Trade accounts payable	–1,100.8	–1,200.1
Other operating liabilities	–633.5	–698.3
Operating assets (net)	**17,466.6**	**18,470.5**

The Merck Millipore division accounted for € –1.2 million (2010: € 0.9 million) and the Corporate and Other segment for € 0.2 million (2010: € 3.2 million) of the investment result disclosed in the income statement.

Notes to the consolidated cash flow statement

(36) Net cash flows from operating activities

Tax payments in 2011 totaled € 436.0 million (2010: € 336.1 million). Tax refunds totaled € 78.3 million (2010: € 18.7 million). Interest paid totaled € 238.7 million (2010: € 134.7 million). This increase was due to the first interest payment for the bonds issued in 2010 in connection with the Millipore acquisition. Interest received totaled € 75.5 million (2010: € 38.1 million). Within the scope of a Contractual Trust Arrangement (CTA), € 520.0 million was transferred to a trustee, Merck Pensionstreuhand e.V., Darmstadt. This led to a corresponding decline in pension provisions and to a decrease in cash flows from operating activities. In 2011, provisions for litigation risks amounting to € 118.8 million were used. This lowered free cash flow by the same amount.

(37) Net cash flows from investing activities

A total of € 171.5 million was used for acquisitions and investments in other financial assets (2010: € 4,859.7 million). Of this amount, € 161.0 million (2010: € 4,843.7 million) was used for acquisitions. Investments in other financial assets totaled € 10.5 million (2010: € 16.0 million). The major acquisitions in fiscal 2011 were:

€ million	Amnis Corporation	Microbiology business	Other	Total 2011
Purchase price paid	77.3	70.8	15.0	163.1
Cash and cash equivalents acquired	–0.7	–0.7	–0.7	–2.1
Acquisitions	**76.6**	**70.1**	**14.3**	**161.0**

→ Notes to the consolidated cash flow statement

The divestment of Théramex in December 2010 led to in cash inflows of € 270.2 million in 2011, mainly as a result of the payment of our purchase price receivable. Cash inflows from the divestment of the Crop BioScience business amounted to € 200.9 million. The sale of Merck Capital Asset Management Limited, Malta, to Merck Pensionstreuhand e.V., Darmstadt, resulted in cash inflows of € 218.1 million.

Net cash outflows from changes in other financial assets amounting to € 1,057.7 million mainly results from short-term monetary deposits and the purchase of short-term securities and financial assets.

(38) Net cash flows from financing activities

Disclosed dividend payments and transfers of profits in accordance with the Articles of Association were broken down as follows in the fiscal year:

€ million	2011	2010
Dividends to shareholders	–80.8	–64.6
Dividends to shareholders of non-controlling interest	–6.0	–21.5
Dividend payments	**–86.8**	**–86.1**

€ million	2011	2010
Profit transfer in accordance with the Articles of Association from E. Merck KG to Merck KGaA	0.8	3.7
Profit transfer in accordance with the Articles of Association from Merck KGaA to E. Merck KG	–938.5	–433.9
Changes in reserves of Merck KGaA by E. Merck KG	655.5	212.1
Profit transfer from Merck KGaA to E. Merck KG	**–282.2**	**–218.1**
Profit transfer from Merck & Cie to E. Merck KG	–44.3	–43.0
Profit transfer to E. Merck KG	**–326.5**	**–261.1**
Changes in financial liabilities to E. Merck KG	8.9	71.5
Changes in other liabilities to E. Merck KG	68.4	79.1
Changes in liabilities to E. Merck KG	**77.3**	**105.6**
Total cash transfers to and from E. Merck KG	**–249.2**	**–110.5**

(39) Cash and cash equivalents

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

(40) Free cash flow and underlying free cash flow

Free cash flow and underlying free cash flow are calculated as follows:

€ million	2011	2010
Net cash flows from operating activities	**1,271.2**	**1,782.6**
Purchase of intangible assets	–79.7	–104.2
Purchase of property, plant and equipment	–366.3	–396.2
Acquisitions	–161.0	–4,843.7
Investments in financial assets	–10.5	–16.0
Disposal of non-current assets	787.4	54.8
Purchase/sale of marketable securities	–4.7	0.2
Free cash flow	**1,436.4**	**–3,522.5**
External financing of pension obligations Merck KGaA (CTA)	301.9	–
Acquisition-related payments	168.1	4,941.9
Payments related to divestments of business	–511.8	250.4
Underlying free cash flow	**1,394.6**	**1,669.8**

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, the net payments for the external financing of the pension obligations of Merck KGaA (CTA) amounting to € 301.9 million as well as cash flows for both acquisitions and divestments are taken into account. The acquisition-related payments of € 168.1 million (2010: € 4,941.9 million) consist of acquisitions amounting to € 161.0 million (2010: € 4,843.7 million) as well as further payments amounting to € 7.1 million. These relate mainly to payments made in 2011 in connection with the acquisition of Millipore. In 2011, we received payments totaling € 200.9 million from the divestment of the Crop BioScience business, € 270.2 million from the divestment of Théramex, and € 40.7 million in connection with the divestment of the Generics business in 2006.

Other disclosures

(41) Derivative financial instruments

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

The strategy to hedge interest rate and foreign exchange rate fluctuations arising from future transactions is set by a Merck Group financial risk 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. Related default risks are continuously monitored.

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

	Nominal volume		Fair value	
€ million	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Cash flow hedge	6,493.9	3,713.5	–276.7	–102.0
Interest	850.0	100.0	–30.2	–1.1
Currency	5,643.9	3,613.5	–246.5	–100.9
Fair value hedge	500.0	502.5	5.4	15.3
Interest	500.0	500.0	5.4	15.4
Currency	–	2.5	–	–0.1
No hedge accounting	1,996.3	5,298.0	–24.4	–18.1
Interest	750.0	1,500.0	–16.6	–0.6
Currency	1,246.3	3,798.0	–7.8	–17.5
	8,990.2	**9,514.0**	**–295.7**	**–104.8**

The fair values for derivatives stated here does not include accrued interest (clean price).

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 the balance sheet date. Transactions are recognized at fair value on the basis of quoted prices or current market data provided by a recognized information service.
The maturity structure of the hedging transactions (nominal volume) is as follows as of the balance sheet date:

€ million	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2011	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2010
Foreign exchange contracts	3,934.2	2,956.0	6,890.2	4,454.0	2,960.0	7,414.0
Interest rate swaps	500.0	1,100.0	1,600.0	500.0	100.0	600.0
Interest rate futures	500.0	–	500.0	1,500.0	–	1,500.0
	4,934.2	**4,056.0**	**8,990.2**	**6,454.0**	**3,060.0**	**9,514.0**

The forward exchange contracts that are entered into to reduce the exchange rate risk with a total nominal volume of € 6,180.4 million and currency options with a total nominal volume of € 709.8 million primarily serve to hedge intercompany financing in foreign currency as well as to hedge future cash flows. These mainly served to hedge fluctuations in the exchange rates of the U.S. dollar (€ 4,483.5. million), the Swiss franc (€ 432.1 million), the Japanese yen (€ 758.7 million) and the Taiwanese dollar (€ 306.2 million).

Future 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 € 2,829.8 million (2010: € 3,613.5 million) as of the balance sheet date and related to both the hedging of future sales in U.S. dollars, Taiwanese dollars and Japanese yen and costs in Swiss francs as well as hedging of future interest rate risks in euros. The occurrence of hedged foreign exchange 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. In addition, to refinance bonds maturing in 2012 and 2015, we entered into forward interest rate swap contracts with a nominal value of € 750 million to hedge the current interest rate level. The measurement thereof is disclosed in equity at 100% effectiveness. In addition, interest rate hedge contracts with a nominal volume of € 250 million for bonds due in 2012 were fully recognized as an expense since refinancing is no longer expected. The resulting expenses from the fair value of the hedge amounting to €14.8 million were reported in the financial result. During the fiscal year, expenses of € 50.1 million (2010: income of € 125.3 million) from the fair value measurement of derivatives were recognized in equity. € 12.3 million (2010: € 17.2 million) was transferred from equity and recognized as an expense (2010: expense).

The interest expense of the euro benchmark bond, which was issued in 2005 with a volume of € 500 million and a coupon of 3.75% was variabilized to the six-month Euribor through interest rate swaps and is measured as a fair value hedge. In 2011, the fair value measurement of the bond led to income of € 10.0 million (2010: income of € 0.2 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 2011 by forward exchange contracts based on the six-month Euribor forward curve. The interest expense of the private placement of € 100 million made in the context of the debt issuance program in 2009 was fixed by an interest rate swap of three-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 a fair value decline of € 3.7 million (2010: € 1.1 million). This amount was recognized in equity at 100% effectiveness. In 2011, no ineffectiveness for hedging transactions was recognized in income.

(42) 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. Merck uses scenario analyses to assess existing risks and possible effects of foreign currencies, interest and credit defaults. Merck is not subject to any material risk clusters from financial transactions. The Risk Report included in the Management Report provides further information on the management of financial risks.

Foreign exchange risks

Transaction risks: Owing to its international business focus, Merck is subject to foreign exchange risks within the scope of both ordinary business and financing activities. Different strategies are used to limit or exclude these risks.

In principle, foreign exchange risks from financing activities are eliminated as far as possible through the use of forward exchange contracts. Foreign exchange 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 foreign exchange risk from expected and recognized transactions in 2012 in the key currencies:

€ million as of Dec. 31, 2011	CHF	GBP**	JPY	TWD	USD
Foreign exchange risk from balance sheet items	–119.0	–	191.0	62.4	2,462.3
Foreign exchange risk from contingent business and expected transactions in 2012	–471.7	–	322.0	459.0	843.5
Transaction-related foreign exchange position	**–590.7**	**–**	**513.0**	**521.4**	**3,305.8**
Position hedged by derivatives	201.4	–	–437.4	–203.9	–2,991.0
Open-end foreign exchange risk position	**–389.3**	**–**	**75.6**	**317.5**	**314.7**
Change in foreign exchange position due to a 10% appreciation of the euro*	38.9	–	–7.6	–31.7	–31.5
included in profit/loss	–4.7	–	2.3	0.1	1.8
recognized in equity	–3.5	–	22.3	14.0	51.1

*A 10% devaluation of the euro would have an opposite effect of the same amount.
** Since 2011, the net foreign exchange risk from GBP is no longer considered a material risk factor for Merck and is therefore no longer presented.

Furthermore, derivatives exist to hedge expected cash flows beyond the year 2012. If the euro were to appreciate by 10%, these would lead to an increase in equity amounting to € 21.5 million in Japanese yen and € 60.4 million in U.S. dollars. Due to the hedging of expected cash flows beyond the year 2011, this would have caused in 2010 a change in equity of € 20.0 million in Japanese yen.

The following table presents the corresponding net foreign exchange rate risk from expected and recognized transactions for 2010:

€ 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 expected 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 derivatives	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

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 € 5,539.3 million (2010: € 5,483.5 million) and monetary deposits of € 2,115.2 million (2010: € 1,346.5 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 lead to income of € 10.3 million (2010: € 6.3 million). A parallel shift in interest rates by –100 basis points would lead to an expense of € –9.7 million (2010: € 5.6 million). This corresponds to a change in interest income of € 15.7 million (2010: € 9.1 million) or € –14.8 million (2010: € –8.4 million) on financial assets and additional interest expense of € 5.4 million (2010: € 2.8 million) or a decline in interest expense of € 5.1 million (2010: € 2.8 million) on financial liabilities. The resulting change in the market value of assets and derivative financial instruments recognized at fair value would increase equity by € 11.1 million (2010: lowered by € 6.8 million) or lower it by € 11.8 million (2010: increased by € 6.8 million).

Share price risks

The share portfolio of publicly listed companies amounting to € 8.7 million is generally exposed to a market value risk. A 10% change in the value of the stock market would impact equity by € 0.9 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 establishing the required financial flexibility and by effective cash management. Apart from liquid assets of € 2,054.9 million (2010: € 999.3 million), Merck has at its disposal a multi-currency revolving credit line of € 2 billion to be used for business purposes with a remaining term of three years as well as bilateral credit facilities of € 389.8 million (2010: € 324.8 million). There are no indications that the availability of credit lines already extended will be restricted.

Moreover, a commercial paper program with a volume of € 2 billion and a debt issuance program set up in 2009 with a volume of € 10 billion exist. Liquidity risks are regularly monitored and reported to the management. Our loan agreements do not contain any financial covenants.

Trade payables amounting to € 1,100.8 million (2010: € 1,200.1 million) have a remaining term of less than one year. With respect to operating liabilities from derivatives amounting to € 101.1 million (2010: € 37.9 million), € 64.5 million (2010: € 26.8 million) is short-term. Out of other financial liabilities amounting to € 532.9 million (2010: € 486.3 million), € 529.1 million (2010: € 481.7 million) is 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:

→ Other disclosures

€ million as of Dec. 31, 2011	Book value	Cash flows 2012		Cash flows 2013–2017		Cash flows 2018–2023	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Debt securities and commercial paper	4,898.4	179.1	1,000.0	518.2	2,490.5	141.3	1,420.0
Bank loans and overdrafts	127.2	1.4	110.0	2.0	16.4	–	1.0
Liabilities to related parties	199.2	0.2	199.2	–	–	–	–
Loans from third parties and other financial liabilities	83.2	4.9	15.3	8.0	63.0	–	4.4
Liabilities from derivatives (financial transactions)	219.5	–	63.9	–	155.6	–	–
Financial leasing liabilities	11.8	0.4	2.5	0.8	7.6	–	1.7
	5,539.3	**186.0**	**1,390.9**	**529.0**	**2,733.1**	**141.3**	**1,427.1**

€ 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**

Credit risks

Merck is only subject to a relatively 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 particularly high concentration of credit risks with respect to either customers or individual countries. The credit risk with customers is continuously monitored by analyzing the age structure of trade accounts receivable. The financial crisis is leading to an increased risk of default in individual eurozone countries. Merck continuously reviews and monitors open positions vis-a-vis all trading partners in the affected countries and makes adjustments to its default risks as necessary. The theoretically maximum default risk corresponds to the book values.

→ Other disclosures

(43) 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				
€ million	Book value Dec. 31, 2011	Amortized cost	At cost	Fair value	Carrying value according to IAS 17	Non-financial items
Assets						
Cash and cash equivalents	937.8	937.8	–	–	–	–
Marketable securities and financial assets	1,117.1	787.3	–	329.8	–	–
Held for trading (non-derivatives)	–	–	–	–	–	–
Non-hedging derivatives	6.4	–	–	6.4	–	–
Held to maturity	27.3	27.3	–	–	–	–
Loans and receivables	760.0	760.0	–	–	–	–
Available-for-sale	307.9	–	–	307.9	–	–
Hedging derivatives	15.5	–	–	15.5	–	–
Trade receivables	2,328.3	2,328.3	–	–	–	–
Loans and receivables	2,328.3	2,328.3	–	–	–	–
Current and non-current other assets	305.1	90.6	–	2.6	–	211.9
Non-hedging derivatives	0.6	–	–	0.6	–	–
Loans and receivables	90.6	90.6	–	–	–	–
Hedging derivatives	2.0	–	–	2.0	–	–
Non-financial items	211.9	–	–	–	–	211.9
Non-current financial assets	60.3	18.6	32.6	9.1	–	–
Non-hedging derivatives	–	–	–	–	–	–
Held to maturity	–	–	–	–	–	–
Loans and receivables	18.6	18.6	–	–	–	–
Available-for-sale	41.3	–	32.6	8.7	–	–
Hedging derivatives	0.4	–	–	0.4	–	–
Financial assets covering pensions	–	–	–	–	–	–
Held to maturity	–	–	–	–	–	–
Available-for-sale	–	–	–	–	–	–
Liabilities						
Current and non-current financial liabilities	5,539.3	5,308.0	–	219.5	11.8	–
Non-hedging derivatives	27.8	–	–	27.8	–	–
Other liabilities	5,308.0	5,308.0	–	–	–	–
Hedging derivatives	191.7	–	–	191.7	–	–
Finance lease	11.8	–	–	–	11.8	–
Trade accounts payable	1,100.8	1,100.8	–	–	–	–
Other liabilities	1,100.8	1,100.8	–	–	–	–
Current and non-current other liabilities	1,145.7	532.9	–	101.1	–	511.7
Non-hedging derivatives	3.6	–	–	3.6	–	–
Other liabilities	532.9	532.9	–	–	–	–
Hedging derivatives	97.5	–	–	97.5	–	–
Non-financial items	511.7	–	–	–	–	511.7

The fair values of derivatives stated here do not include accrued interest (clean price).

→ Other disclosures

		Subsequent measurement according to IAS 39					
Fair value Dec. 31, 2011	Book value Dec. 31, 2010	Amortized cost	At cost	Fair value	Carrying value according to IAS 17	Non-financial items	Fair value Dec. 31, 2010
937.8	943.7	943.7	–	–	–	–	943.7
	55.6	23.0	–	32.6	–	–	
–	–	–	–	–	–	–	–
6.4	–	–	–	–	–	–	–
27.3	22.7	22.7	–	–	–	–	22.7
760.0	0.3	0.3	–	–	–	–	0.3
307.9	11.3	–	–	11.3	–	–	11.3
15.5	21.3	–	–	21.3	–	–	21.3
–	2,296.3	2,296.3	–	–	–	–	–
2,328.3	2,296.3	2,296.3	–	–	–	–	2,296.3
	617.6	407.1	–	2.6	–	207.9	
0.6	1.3	–	–	1.3	–	–	1.3
90.6	407.1	407.1	–	–	–	–	407.1
2.0	1.3	–	–	1.3	–		1.3
	207.9	–	–	–	–	207.9	
	130.3	16.6	57.2	56.5	–	–	
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
18.6	16.6	16.6	–	–	–	–	16.6
41.3	95.8	–	57.2	38.6	–	–	95.8
0.4	17.9	–	–	17.9	–	–	17.9
	216.9	64.6	–	152.3	–	–	
–	64.6	64.6	–	–	–	–	64.6
–	152.3	–	–	152.3	–	–	152.3
–	5,483.5	5,367.7	–	108.7	7.1	–	
27.8	15.8	–	–	15.8	–	–	15.8
5,548.1	5,367.7	5,367.7	–	–	–	–	5,532.1
191.7	92.9	–	–	92.9	–	–	92.9
11,8	7.1	–	–	–	7.1	–	7.1
	1,200.1	1,200.1	–	–	–	–	
1,100.8	1,200.1	1,200.1	–	–	–	–	1,200.1
	1,097.5	486.3	–	37.9	–	573.3	
3.6	3.5	–	–	3.5	–	–	3.5
532.9	486.3	486.3	–	–	–	–	486.3
97.5	34.4	–	–	34.4	–	–	34.4
	573.3	–	–	–	–	573.3	

→ Other disclosures

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," which at Merck only includes derivatives that are not hedged.

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

		Net results			
2011 € million	Interest	Write-downs	Write-ups	Fair value changes	Disposal gains/losses
Financial instrument of the category					
Held for trading	–	–	–	–57.5	–
Held to maturity	4.7	–	–	–	0.8
Loans and receivables	37.5	–123.7	9.2	–	–
Available-for-sale	9.5	–38.3	0.9	–	26.9
Other liabilities	–209.2	–	–	–	–

		Net results			
2010 € 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	–	–	1.5
Loans and receivables	5.2	–72.4	9.3	–	–
Available-for-sale	10.8	–2.1	–	–	–
Other liabilities	–195.7	–	–	–	–

In 2011, taking into account the relevant economic hedging transactions, foreign exchange gains of € 12.3 million resulting from receivables and payables in operating business were recognized (2010: € 24.7 million). Foreign exchange losses of € 30.4 million (2010: gains of € 1.1 million) were booked for financial receivables/payables and measures to secure them. Losses of € 17.1 million (2010: gains of € 11.8 million) were booked for hedging of financial transactions.

→ Other disclosures

The fair value of stocks and bonds is 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 and currency options are carried at fair value. They are measured using spot middle rates, foreign exchange volatilites and maturity-related interest premiums or discounts in relation to traded market prices applying recognized mathematical principles. The fair value measurement of interest rate forward contracts is based on an objective third-party assessment. 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 2010, there were no changes in the method used to determine fair values.

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

€ million as of Dec. 31, 2011	Assets	Liabilities
Prices quoted in an active market (Level 1)	**58.4**	**–**
thereof available-for-sale	58.4	–
Valuation technique including data from observable markets (Level 2)	**283.1**	**–320.6**
thereof available-for-sale	258.2	–
thereof hedging derivatives	17.9	–289.2
thereof non-hedging derivatives	7.0	–31.4
Valuation technique based on assumptions not supported by observable market data (Level 3)	**–**	**–**

€ million as of Dec. 31, 2010	Assets	Liabilities
Prices quoted in an active market (Level 1)	**202.2**	**–**
thereof available-for-sale	202.2	–
Valuation technique including data from observable markets (Level 2)	**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 (Level 3)	**–**	**–**

→ Other disclosures

(44) Capital management

The objective of capital management is to secure the financial flexibility in order to maintain long-term business operations and to realize strategic options. Maintaining a stable investment grade rating, ensuring liquidity, limiting financial risks as well as optimizing the costs of capital are the objectives of our financial policy and set important framework conditions for capital management. Merck prefers to borrow capital via the capital markets and has a debt issuance program that enables rapid access to the capital market. In addition, we have both a commercial paper program with a volume of € 2 billion for short-term financing on the capital market as well as a syndicated credit facility of € 2 billion with a term of until October 2014.

The responsible committees of the Merck Group decide on the capital structure of the balance sheet, the equity base, the appropriation of net retained profit, the dividend level, financing of investments, as well as the assumption and repayment of debt.

(45) Contingent liabilities

€ million	Dec. 31, 2011	thereof subsidiaries	Dec. 31, 2010	thereof subsidiaries
Guarantees	101.0	–	105.0	–
Warranties	0.7	–	0.5	–
Other contingent liabilities	43.4	–	40.7	–

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, 2011, these amounted to € 53.8 million (2010: € 54.0 million). Other contingent liabilities include, among other things, 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.

(46) Other financial obligations

Other financial obligations comprise the following:

€ million	Dec. 31, 2011	thereof subsidiaries	Dec. 31, 2010	thereof subsidiaries
Obligations to acquire intangible assets	950.5	–	1,003.6	–
Orders for capital expenditure on property, plant and equipment	84.9	–	179.2	–
Future operating lease payments	178.3	–	208.8	–
Long-term purchase commitments	281.4	–	315.2	–
Other financial obligations	19.1	–	18.2	–
	1,514.2	**–**	**1,725.0**	**–**

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 € 950.5 million (2010: € 1,003.6 million) for the acquisition of intangible assets.

Our expectations regarding the potential maturities of these obligations are as follows:

€ million *as of Dec. 31, 2011*	within 1 year	1 - 5 years	more than 5 years	Total
Obligations to acquire intangible assets	42.6	120.2	787.7	**950.5**

€ million *as of Dec. 31, 2010*	within 1 year	1 - 5 years	more than 5 years	Total
Obligations to acquire intangible assets	32.9	219.3	751.4	**1,003.6**

Other financial obligations are carried at nominal value. The maturities of liabilities from lease agreements are composed as follows:

€ million *as of Dec. 31, 2011*	within 1 year	1 - 5 years	more than 5 years	Total
Present value of future payments from finance leases	2.5	7.6	1.7	11.8
Interest component of finance leases	0.4	0.8	–	1.2
Future finance lease payments	2.9	8.4	1.7	**13.0**
Future operating lease payments	**50.7**	**104.9**	**22.7**	**178.3**

€ million *as of Dec. 31, 2010*	within 1 year	1 - 5 years	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**

Operating lease agreements relate mainly to market-typical leasing arrangements to lease operating and office equipment. The payments resulting from operating lease agreements amounted to € 75.6 million (2010: € 72.0 million) and were recorded as an expense in 2011.

(47) Personnel expenses/Headcount

Personnel expenses comprise the following:

€ million	2011	2010
Wages and salaries	2,458.7	2,145.5
Compulsory social security contributions and special financial assistance	347.4	319.3
Pension expenses	167.6	132.1
	2,973.7	**2,596.9**

As of December 31, 2011, the Merck Group had 40,676 employees (2010: 40,562). The average number of employees during the year was 40,570 (2010: 36,347). The increase in the average number of employees is due mainly to the consolidation of Millipore.

The breakdown of personnel by function is as follows:

Average number of employees	2011	2010
Production	9,317	8,327
Logistics	2,054	1,927
Marketing and Sales	12,322	11,541
Administration	4,696	4,378
Research & Development	4,632	4,116
Infrastructure and Other	7,549	6,058
	40,570	**36,347**

(48) Material costs

Material costs in 2011 amounted to € 1,453 million (2010: € 1,246 million) and are reported under cost of sales.

(49) Auditors' fees

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

	2011		2010	
€ million	Merck Group	thereof KPMG AG	Merck Group	thereof KPMG AG
Audits of financial statements	7.2	1.7	8.1	2.4
Other audit-related services	0.1	–	0.2	–
Tax consultancy services	0.5	0.2	0.4	0.2
Other services	0.7	0.3	0.6	0.5
	8.5	**2.2**	**9.3**	**3.1**

(50) 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.merckgroup.com/investors → Corporate Governance in February 2011 and thus made permanently available.

→ Other disclosures

(51) 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

(52) 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 Executive Board 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, 2011, there were liabilities by Merck KGaA, Merck Financial Services GmbH and Merck & Cie, Altdorf, to E. Merck KG in the amount of € 518.5 million (2010: € 450.9 million). In addition, as of December 31, 2011, Merck KGaA had receivables from E. Merck KG in the amount of € 0.1 million (2010: € 12.3 million) and from E. Merck Beteiligungen KG in the amount of € 6.1 million (2010: € 4.7 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. They included financial payables of € 199.2 million (2010: € 190.3 million) which were subject to standard market interest rates.

From January to December 2011, Merck KGaA performed services for E. Merck KG with a value of € 1.1 million (2010: € 1.1 million), for E. Merck Beteiligungen KG with a value of € 0.0 million (2010: € 0.4 million), and for Emanuel Merck Vermögens KG with a value of € 0.2 million (2010: € 0.2 million). During the same period, E. Merck KG performed services for Merck KGaA with a value of € 0.5 million (2010: € 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 2011, companies of the Merck Group supplied goods with a value of € 2.3 million (2010: € 1.1 million) to associates. As of December 31, 2011, companies of the Merck Group had no receivables from associates (2010: € 0.8 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 granting of loans, between companies of the Merck Group and members of the Executive Board and the Supervisory Board of Merck KGaA, the Executive Board and the Board of Partners of E. Merck KG or members of their immediate families.

(53) 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 2011, fixed salaries of € 5.5 million (2010: € 3.5 million) and variable compensation of € 13.9 million (2010: € 6.4 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 € 1.1 million (2010: € 2.1 million) for members of the Executive Board of Merck KGaA.

Subject to the approval of the Annual General Meeting on the proposed distribution of a dividend of € 1.50 per share, the compensation of the Supervisory Board amounting to € 0.6 million (2010: € 0.5 million) consists of a fixed portion of € 0.1 million (2010: € 0.1 million) and a variable portion of € 0.5 million (2010: € 0.4 million).

Further individualized information and details can be found in the Compensation Report on pages 103 et seq.

(54) Information on preparation and approval

The Executive Board of Merck KGaA prepared the consolidated financial statements on February 14, 2012 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.

(55) Subsequent events

On February 3, 2012, Merck announced the signing of a global agreement with Threshold Pharmaceuticals, Inc., South San Francisco, CA (USA), to co-develop and commercialize TH-302, Threshold's small molecule hypoxia-targeted drug.

Under the terms of the agreement, Merck will receive co-development rights, exclusive global commercialization rights and will provide Threshold an option to co-commercialize the therapeutic in the United States. In exchange, Threshold will receive an upfront payment of € 19 million (US$ 25 million) and could receive up to € 26.5 million (US$ 35 million) in additional development milestones during 2012. Threshold is also eligible to receive a € 15 million (US$ 20 million) milestone payment based on positive results from its randomized Phase II trial in pancreatic cancer.

In the United States, Threshold will have primary responsibility for development of TH-302 in the soft tissue sarcoma indication. Threshold and Merck will jointly develop TH-302 in all other cancer indications being pursued. Merck will pay 70% of worldwide development costs for TH-302.

Subject to FDA approval in the United States, Merck will initially be responsible for commercialization of TH-302 with Threshold receiving a tiered, double-digit royalty on sales. Under the royalty-bearing portion of the agreement, Threshold retains the option to co-promote TH-302 in the United States. Additionally, Threshold retains the option to co-commercialize TH-302 allowing the company to participate in up to 50% of the profits in the United States, based on certain revenue tiers. Outside of the United States, Merck will be solely responsible for the commercialization of TH-302 with Threshold receiving a tiered, double-digit royalty on sales in these territories.

→ List of shareholdings

(56) List of shareholdings

The following table presents the list of shareholdings of the Merck Group as of December 31, 2011.

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	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	heipha Dr. Müller GmbH	Eppelheim	100.00	100.00
Germany	IHS-Intelligent Healthcare Solutions Ltd. & Co. KG	Frankfurt	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	
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 Serono SA	Coinsins	100.00	

→ List of shareholdings

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Switzerland	Millipore AG	Zug	100.00	
Switzerland	SeroMer Holding SA	Chéserex	100.00	
France	Biotest S.a.r.l.	Buc	100.00	
France	Delahardt S.A.S.	Molsheim	100.00	
France	Laboratoire Médiflor S.A.S.	Lyon	100.00	
France	Merck Biodevelopment 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	99.77	88.95
France	Merck Santé 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	Amnis Europe Ltd.	London	100.00	
United Kingdom	Baird & Tatlock Ltd.	Hull	100.00	
United Kingdom	BioAnaLab Ltd.	London	100.00	
United Kingdom	Bioprocessing Corp. Ltd.	London	100.00	
United Kingdom	Bioprocessing 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	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	

→ List of shareholdings

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
United Kingdom	Serologicals UK Holding Company Ltd.	London	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	Merck A/S	Hellerup	100.00	
Denmark	Millipore A/S	Copenhagen	100.00	
Denmark	Survac ApS	Frederiksberg	100.00	100.00
Estonia	Merck Serono OÜ	Tallinn	100.00	
Finland	Merck OY	Espoo	100.00	
Finland	Millipore OY	Espoo	100.00	
Greece	Merck A.E.	Maroussi	100.00	
Ireland	Merck Millipore Ltd.	Carrigtwohill	100.00	
Ireland	Merck Serono (Ireland) Ltd.	Dublin	100.00	
Ireland	Millipore Cork	Carrigtwohill	100.00	
Ireland	Millipore Dublin International Finance Company	Dublin	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	Millipart S.a.r.L.	Luxembourg	100.00	
Luxembourg	Millipore International Holdings, S.a.r.L.	Luxembourg	100.00	

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Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Malta	Merck Capital Holding Ltd.	St. Julians	100.00	99.92
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	Merck AS	Oslo	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. (in liquidation)	Warsaw	100.00	
Portugal	Merck, S.A.	Lisbon	100.00	
Romania	Merck Romania S.R.L.	Bucharest	100.00	
Russia	Merck LLC	Moscow	100.00	
Sweden	Merck AB	Solna	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 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. (in liquidation)	Prague	100.00	
Turkey	Merck Ilac Ecza ve Kimya Ticaret AS	Istanbul	100.00	
Hungary	Merck Kft.	Budapest	100.00	
Hungary	Millipore Kft. (in liquidation)	Budapest	100.00	
North America				
United States	Amnis Corp.	Seattle	100.00	
United States	EMD Holding Corp.	Rockland	100.00	
United States	EMD Millipore Corp.	Billerica	100.00	
United States	EMD Serono Biotech Center, Inc.	Billerica	100.00	
United States	EMD Serono Holding Inc.	Rockland	100.00	
United States	EMD Serono Research Center, Inc.	Billerica	100.00	
United States	EMD Serono Research Institute, Inc.	Billerica	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	

→ List of shareholdings

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
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	
Puerto Rico	EMD 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 Química Argentina S.A.I.C.	Buenos Aires	100.00	
Brazil	Merck S.A.	Rio de Janeiro	100.00	
Brazil	Millipore Industria e Comercio Ltda.	São 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.	Bogotá	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	Beijing Skywing Technology Co., Ltd.	Beijing	100.00	
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	
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	

→ List of shareholdings

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
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	Biotest K.K.	Tokyo	100.00	
Japan	Merck Ltd.	Tokyo	100.00	15.89
Japan	Merck Serono Co., Ltd.	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	
Tunisia	Merck Promotion SARL	Tunis	100.00	
Tunisia	Merck SARL	Tunis	100.00	
Australia	Merck Pty. Ltd.	Kilsyth	100.00	
Australia	Merck Serono Australia Pty. Ltd.	Sydney	100.00	
New Zealand	Merck Ltd.	Manukau City	100.00	

→ List of shareholdings

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
II. Companies not consolidated due to secondary importance				
Germany				
Germany	Merck 11. Allgemeine Beteiligungs GmbH	Darmstadt	100.00	100.00
Germany	Merck Financial Trading 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 Grundstücks-verwaltungsgesellschaft 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	Merck Services U.K. Ltd.	Hull	100.00	
United Kingdom	Merck UK Limited Partnership	Poole	100.00	
United Kingdom	Nature's Best Health Products Ltd.	Tunbridge Wells	100.00	
Netherlands	Merck Holding Netherlands B.V.	Schiphol-Rijk	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	

→ List of shareholdings

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Latin America				
Curaçao	Applied Research Systems ARS Holding N.V.	Curaçao	100.00	
Curaçao	CMIP (Curaçao) B.V.	Curaçao	100.00	
Dominican Republic	Merck Dominicana, S.R.L.	Santo Domingo	100.00	
Asia, Africa, Australasia				
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	Chemicon Australia Pty. Ltd.	Kilsyth	100.00	
Australia	E. Merck Pty. Ltd.	Kilsyth	100.00	
Australia	Merck Australia Pty. Ltd.	Kilsyth	100.00	
III. Associates not included at equity due to secondary importance				
Other European countries				
Switzerland	Vaximm AG	Basel	22.76	

Auditor's Report

We have audited the consolidated financial statements prepared by Merck Kommanditgesellschaft auf Aktien, Darmstadt, comprising the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Net Equity, and the Notes to the Group accounts, together with the Group Management Report for the business year from January 1 to December 31, 2011. 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 15, 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Rolf Nonnenmacher
Wirtschaftsprüfer

Manfred Jenal
Wirtschaftsprüfer