Q2 | 2011

Half-Year Financial Report

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HALF-YEAR MANAGEMENT REPORT OF THE MERCK GROUP AS OF JUNE 30, 2011

HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCK GROUP AS OF JUNE 30, 2011

MORE INFORMATION

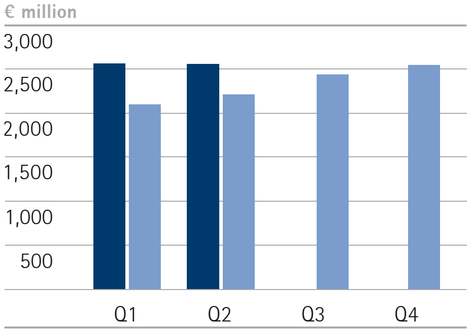
Cover photo: Research and development spending rose 9.0% to € 369 million in the second quarter of 2011.

AT A GLANCE

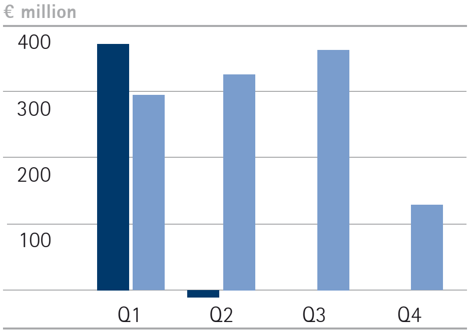
Key figures – 2nd quarter 2011

€ million	Pharma-ceuticals	Chemicals	Corporate and Other	Total	Change in %
Total revenues	1,598.2	957.2	–	2,555.4	15.7
Gross margin	1,266.5	528.4	–	1,795.0	6.2
Research and development	–307.1	–62.0	–	–369.1	9.0
Operating result	–137.3	150.6	–24.7	–11.4	–
Exceptional items	5.8	0.4	–17.3	–11.1	–
Earnings before interest and tax (EBIT)	–131.5	151.0	–42.0	–22.5	–
EBIT before depreciation and amortization (EBITDA)	349.3	256.0	–40.8	564.5	0.8
Return on sales in % (ROS: operating result/total revenues)	–8.6	15.7	–	–0.4	
Free cash flow	151.9	213.0	–111.7	253.2	–28.9
Underlying free cash flow	146.6	223.1	–111.7	258.1	–28.3
Underlying free cash flow on revenues (FCR) in %	9.2	23.3	–	10.1	

Total revenues by quarter



Operating result by quarter



■ 2011 ■ 2010

HIGHLIGHTS – 2nd QUARTER 2011

- Total revenues increase 16% to € 2.6 billion
- Series of one-time adjustments leads to operating result of € –11 million; Core operating result at € 315 million
- New Executive Board in place, selection of next level underway
- New guidance on Group operating result for 2011: ~ € 1 billion, or ~ € 1.4 billion excluding one-time items

MERCK GROUP

Total revenues of the Merck Group increased 16% to € 2,555 million in the second quarter from € 2,208 million in the year-ago quarter, boosted by the July 2010 acquisition of the Millipore Corporation, a leading life science company based in the United States. Acquisitions and divestments accounted for 13.7% points of the increase. Negative currency effects reduced revenues by 3.1%, resulting in an organic growth rate of 5.1%. For the first half of 2011, total revenues rose 19% to € 5,119 million.

Royalty, license and commission income, which is mainly attributable to the Merck Serono division, decreased 18% to € 86 million in the second quarter.

One-time inventory adjustments booked under cost of sales amounted to € 52 million in the second quarter, with € 39 million stemming from the Performance Materials division and the remainder from the Merck Serono division. Therefore, second-quarter cost of sales jumped 47%, leading to a gross margin increase of only 6.2% to € 1,795 million in the second quarter. For the first half of the year, the gross margin rose 13% to € 3,719 million.

Most figures for the Group continued to show significant variations in the second quarter of 2011 due to the fact that the Millipore acquisition closed on July 14, 2010, and there were no Millipore contributions in the first half of 2010. For example, marketing and selling expenses in the second quarter of 2011 rose 12% to € 605 million.

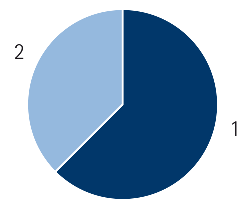
Royalty, license and commission expenses, mainly on third-party sales of Rebif® in the United States and Erbitux® in Japan, were little changed at € 118 million in the second quarter.

Administration expenses increased by 10% to € 126 million in the second quarter of 2011.

Total revenues by business sector – Q2

€ million / % of total revenues

1 Pharmaceuticals	1,598	63%
2 Chemicals	957	37%



Other operating expenses and income more than doubled in the second quarter of 2011 to € –270 million from € –109 million in the year-ago quarter. Besides Millipore integration costs, this includes among other items an impairment loss of € –161 million due to overcapacity at the Corsier-sur-Vevey Large Scale Biotech (LSB) production plant in Switzerland as well as a provision of € –20 million on the remaining costs associated with halting the development of cladribine, a drug candidate for the oral treatment of multiple sclerosis, as announced in June. Other operating expenses and income in the first half of 2011 rose 50% to € –368 million compared to the year-ago period.

Research and development spending rose 9.0% to € 369 million in the second quarter of 2011 mainly due to increases in the Chemicals divisions.

Components of growth by division – Q2

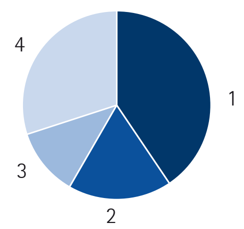
Change in total revenues compared to last year in %	Merck Serono	Consumer Health Care	Merck Millipore	Performance Materials	Merck Group
Organic growth	6.4	4.2	4.0	1.4	5.1
Currency effects	–2.9	–0.3	–2.7	–4.9	–3.1
Acquisitions /divestments	–1.5	–	137.6	–3.0	13.7
Total	**2.0**	**3.9**	**138.9**	**–6.5**	**15.7**

In the second quarter, amortization of intangible assets more than doubled to € –319 million from € –146 million. This amount includes amortization of intangible assets from the Millipore purchase price allocation amounting to € –46 million and € –263 million from Merck Serono. The latter figure includes € –63 million for the impairment of safinamide, a potential add-on therapy for the treatment of Parkinson's disease, € –17 million to shorten the amortization period for Rebif®, and an impairment loss of € –35 million on the discontinued cancer treatment candidate IMO-2055 that was in-licensed from Idera Pharmaceuticals in 2007. In addition, there was an impairment loss of € –8.6 million on the value of patents in the Performance Materials division.

Due to the various items mentioned above, the second-quarter operating result fell to € –11 million from € 326 million in the year-ago quarter. The second-quarter core operating result, which excludes Merck Serono- and Merck Millipore-related amortization of intangible assets and integration costs as well as impairment losses on intangible assets in the Performance Materials division, declined 37% to € 315 million from € 501 million in the very strong year-ago quarter. The first-half operating result was € 360 million – due to excellent results in the first quarter – compared to € 621 million in the first half of 2010. In the first half of 2011, the core operating result amounted to € 945 million compared to € 934 million in the first half of 2010.

Merck Group | Sales by region – Q2

€ million / % of sales		
1 Europe	1,007	40%
2 North America	435	18%
3 Latin America	292	12%
4 Asia, Africa, Australasia	735	30%



The Group return on sales (ROS: operating result/total revenues) decreased to –0.4% in the second quarter from 14.8% in the year-ago quarter. Group core ROS (operating result excluding Merck Serono- and Merck Millipore-related amortization of intangible assets and integration costs, as well as impairment losses on intangible assets in the Performance Materials division/total revenues) declined to 12.3% in the second quarter compared to 22.7% in the year-earlier quarter.

Exceptional items in the second quarter of 2011 totaled € –11 million, which mainly concerned adjustments for risks on discontinued businesses. Exceptional items in the second-quarter of 2010 totaled € –1.2 million.

Earnings before interest and tax (EBIT) in the second quarter of 2011 fell to € –22 million compared to € 325 million in the year-ago quarter. First-half EBIT declined 18% to € 507 million from € 620 million in the first half of 2010.

Merck's financial result improved by 4.7% to € –75 million in the second quarter of 2011 from € –78 million in the year-ago quarter due to lower interest expenses.

The Merck Group's second-quarter profit before tax was € –97 million compared to € 247 million in the year-ago quarter. Merck's underlying tax ratio was just 12.9% for the second quarter of 2011 compared to 24.2% in the year-ago quarter. Due to higher deferred tax income, the actual tax benefits in the second quarter of 2011 amounted to € 13 million compared to a tax burden of € 60 million in the corresponding quarter of 2010.

Profit after tax in the second quarter of 2011 fell to € –84 million from € 187 million in the second quarter of 2010.

Total assets of the Merck Group as of June 30, 2011, amounted to € 21,890 million, which was 2.2% less than the amount of € 22,388 million recorded on December 31, 2010.

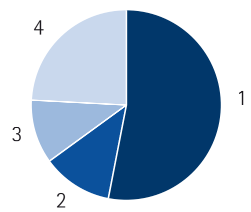
The equity ratio rose to 47.3% as of June 30, 2011 from 46.3% at the beginning of 2011. Net financial debt as of June 30, 2011, declined by € 700 million to € 3,784 million from € 4,484 million at the end of 2010.

The free cash flow of the Merck Group was € 253 million in the second quarter of 2011 as compared with € 356 million in the year-ago quarter. Free cash flow for the first half of 2011 improved from € 551 million to € 899 million. Underlying free cash flow (free cash flow excluding acquisitions and divestments) was € 258 million in the second quarter compared to € 360 million in the year-ago quarter. Free cash flow on revenues (FCR: underlying free cash flow/total revenues) declined to 10.1% in the quarter under review from 16.3% in the year-ago quarter. Underlying free cash flow amounted to € 444 million in the first half of 2011 compared to € 567 million in the first half of 2010.

Merck had 40,487 employees worldwide on June 30, 2011, compared to 40,562 on December 31, 2010.

Number of employees as of June 30, 2011: 40,487

1	Europe	21,565	53%
2	North America	4,860	12%
3	Latin America	4,283	11%
4	Asia, Africa, Australasia	9,779	24%



MERCK SHARES

The Merck share price rose 17.7% during the second quarter, from € 63.68 on March 31 to € 74.94 on June 30. The share price high during the second quarter was € 78.21, recorded on May 13. The low price for the quarter was € 64.04 on April 11. Germany's DAX® Index, of which Merck is a member, rose 4.8% during the second quarter and the Bloomberg Europe Pharmaceuticals Index rose 8.4%.

Share data[1]

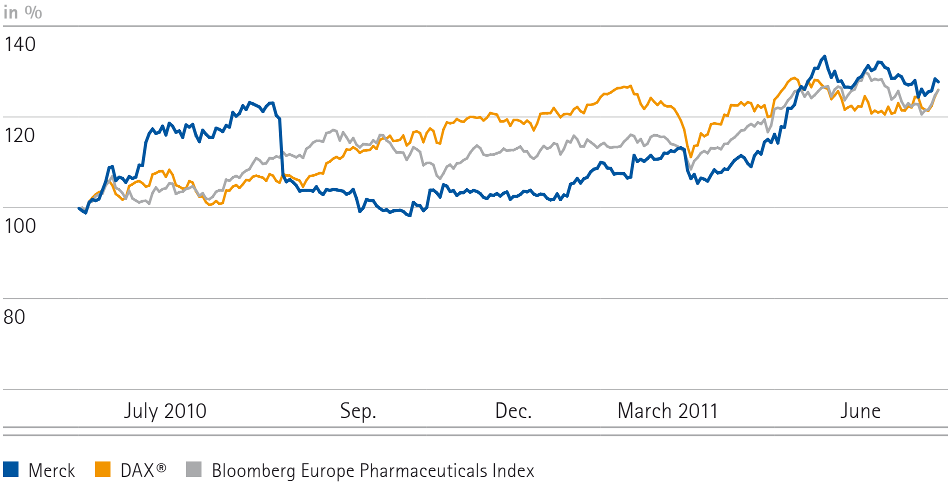
	Q2 – 2011	Q1 – 2011
Share price high in €	(May 13) 78.21	(March 11) 66.47
Share price low in €	(April 11) 64.04	(Jan. 17) 59.78
Closing share price in €	(June 30) 74.94	(March 31) 63.68
Actual number of shares in millions	64.6	64.6
Theoretical number[2] of shares in millions	217.4	217.4
Market capitalization[3] in € million	16,291	13,843

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

[2] The calculation of the theoretical number of shares is based on the fact that the general partner's equity capital is not represented by shares. As the share capital of € 168.0 million was divided into 64.6 million shares, the corresponding calculation resulted in 152.8 million theoretical shares for the general partner's capital of € 397.2 million on the balance sheet date June 30, 2011.

[3] Based on the theoretical number of shares as of June 30, 2011.

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



BUSINESS SECTORS

The pharmaceutical, chemical and life science businesses of Merck are organized into two business sectors – Pharmaceuticals and Chemicals – each of which consists of two divisions.

The Pharmaceuticals business sector's divisions are Merck Serono for innovative prescription medicines and Consumer Health Care for over-the-counter pharmaceutical products. The Pharmaceuticals business sector generated 63% of the company's total revenues during the second quarter. Total revenues for the Pharmaceuticals business sector increased by 2.2% to € 1,598 million during the second quarter and by 2.1% to € 3,142 million in the first half of 2011.

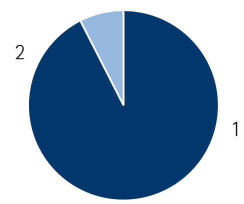
The Pharmaceuticals business sector was affected by inventory adjustments and an array of one-time expenses from the Merck Serono division during the second quarter. Details can be found in the discussion of the division's performance below. As a result, the Pharmaceuticals business sector's second-quarter operating result fell to € –137 million in the second quarter from € 158 million in the year-ago quarter. The first-half operating result was € 19 million compared to € 338 million in the year-ago period.

IMS Health, the world's leading provider of market intelligence for the pharmaceutical and healthcare industries, predicted in its most recent report (May 18, 2011) that global spending for medicines would slow to a compound annual growth rate of 3% to 6% over the next five years. This compares with a 6.2% annual growth over the past five years. Lower levels of spending growth for medicines in the U.S., the ongoing impact of patent expiries in developed markets, continuing strong demand in emerging markets, and policy-driven changes in several countries are among the key factors that will influence future growth, according to IMS Health.

Pharmaceuticals | Total revenues by division – Q2

€ million / % of total revenues of the business sector

1	Merck Serono	1,480	93%
2	Consumer Health Care	118	7%



The Chemicals business sector was reorganized last year after the July 14 acquisition of the U.S.-based life-science company Millipore. Millipore was combined with most of the Performance & Life Science Chemicals division to form the Merck Millipore division. This division has three business units – Bioscience, Lab Solutions, and Process Solutions. The second Chemicals division is Performance Materials. It consists of two business units – Liquid Crystals and Pigments & Cosmetics.

The Chemicals business sector accounted for 37% of the Group's total revenues in the second quarter.

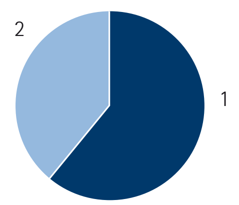
This business sector's total revenues rose by 49% to € 957 million in the second quarter and by 61% to € 1,977 million in the first half of 2011. This was largely due to the inclusion of Millipore sales as well as a solid performance by the Performance Materials division. The Merck Millipore division booked € 46 million for amortization of intangible assets from the Millipore acquisition and the Performance Materials division had inventory adjustments of € –39 million plus impairments of € –8.6 million on the value of various patents. Therefore, the Chemicals business sector's operating result declined 9.3% to € 151 million in the second quarter but rose 18% to € 391 million in the first half of 2011.

The German Chemical Industry Association (VCI) forecast on July 14 that German chemical sales would increase by 10% in 2011 while prices would increase by 5%.

Chemicals | Total revenues by division – Q2

€ million / % of total revenues of business sector

1	Merck Millipore	584	61%
2	Performance Materials	373	39%



MERCK SERONO

Merck Serono discovers, develops, manufactures and markets prescription medicines of both chemical and biological origin. It is the largest division of the Merck Group, accounting for 58% of Group total revenues in the second quarter.

Merck Serono | Key figures

€ million	Q2 – 2011	Change in %	Jan.–June 2011	Change in %
Total revenues	1,479.9	2.0	2,907.1	1.7
Gross margin	1,186.9	–2.6	2,408.5	0.1
Research and development	–301.3	1.7	–606.9	1.1
Operating result	–146.6	–	1.8	–99.5
Exceptional items	5.8	–	6.8	–
Free cash flow	155.1	–39.8	693.3	54.4
Underlying free cash flow	149.8	–41.8	423.0	–5.8
ROS in %	–9.9		0.1	

Merck Serono's total revenues during the second quarter increased 2.0% to € 1,480 million compared to € 1,451 million in the year-ago quarter. In the first half of 2011, revenues rose 1.7% to € 2,907 million.

The division's second-quarter organic sales growth of 8.0% was reduced by 2.9 percentage points due to negative currency effects and a further 1.6 percentage points due to divestments. This resulted in a nominal sales growth rate of 3.4%. The division's growth rate also benefited from a low base in the second quarter of 2010. Approximately € 50 million of sales were pulled forward into the first quarter of 2010 to build inventories in the United States for the second quarter.

Sales in Europe declined slightly owing to the divestment of the Théramex women's health business. North American sales were up, mainly due to lower sales in the year-ago quarter. Sales in Latin America and Australasia showed robust growth. In particular, sales in China jumped 21% and sales in India were up 19%.

Royalty, license and commission income declined in the second quarter by 17% to € 84 million. For the first half of 2011, royalty, license and commission income declined by only 3.1% to € 167 million.

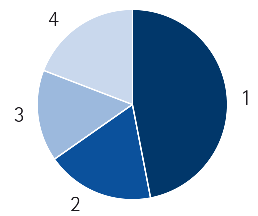
Global sales of Rebif® for the treatment of relapsing forms of multiple sclerosis rose 5.2% to € 423 million in the second quarter or 11% on an organic basis. The increase is largely due to a 13% jump in North American sales that mainly resulted from lower than normal sales in the year-ago quarter when U.S. wholesalers received an extra 20 days supply of products in the first quarter. This was to prevent a possible shortage in April while the U.S. subsidiary converted its computer system.

Sales of the targeted cancer treatment Erbitux® declined by 3.0% in the second quarter to € 204 million mainly due to a sales decline in Japan. This decline is related to a slower than expected implementation of the KRAS biomarker testing required in line with the label extension from third-line to first-line treatment of metastatic colorectal cancer and strong competition. Sales in Asia excluding Japan and sales in Latin America continued to rise while sales in Europe were flat due to cost-containment measures by payers.

Merck Serono | Sales by region – Q2

€ million / % of divisional sales

1 Europe	657	47%
2 North America	258	19%
3 Latin America	216	15%
4 Asia, Africa, Australasia	265	19%



Second-quarter sales of Gonal-f®, a recombinant hormone used in the treatment of infertility, increased by 7.2% to € 130 million due to high demand in Asia, Africa and Australasia. This increase reflects an organic sales growth rate of 11%.

Sales of the recombinant growth hormone Saizen® for the treatment of growth-hormone deficiency declined by 5.4% to € 55 million in the second quarter. Organically, sales declined 1.3%.

Merck Serono's primary care products continue to contribute significantly to the division's overall sales. Sales of the branded Concor® (bisoprolol) beta blocker products, such as Lodoz® and Concor®COR, increased 7.6% to € 106 million in the second quarter. Total sales of the Glucophage® (metformin) franchise of oral antidiabetic products jumped 22% to € 92 million in the second quarter due to strong demand in Latin America and Asia. Sales of thyroid medicines such as Euthyrox® rose 10% to € 52 million in the second quarter.

The division's cost of sales, which included one-time inventory adjustments of € –13 million, rose 26% in the second quarter. This resulted in a 2.6% decline in the gross margin to € 1,187 million. Marketing and selling costs were down 3.2% to € 367 million.
Royalty, license and commission expenses were basically unchanged.

Research and development spending by Merck Serono rose 1.7% to € 301 million in the second quarter and by 1.1% to € 607 million in the first half of the year.

Merck announced during the second quarter that patient enrollment in the global pivotal Phase III clinical study CENTRIC had been completed. This study was designed to assess the efficacy and safety of the investigational integrin inhibitor cilengitide in combination with standard treatment in a biomarker-defined subgroup of newly diagnosed patients with glioblastoma. More than 500 patients were recruited. The primary endpoint of the study is overall survival.

In late June, Merck submitted an application to the European Medicines Agency (EMA) to extend the indication of Rebif® for its use in patients who have experienced a single demyelinating event, an early sign of multiple sclerosis, and who are at high risk of converting to the disease.

In July, Merck Serono announced that is strengthening its executive management team with two appointments: Dr. Belén Garijo to Chief Operating Officer and Dr. Annalisa Jenkins as Global Head of Drug Development & Medical. Both will join Merck in September.

In the normal portfolio review process, the division identified € 292 million of one-time charges for the second quarter.

Of this amount, € 161 million relates to an impairment of the Corsier-sur-Vevey Large Scale Biotech (LSB) production plant in Switzerland due to overcapacity. This re-assessment of capacity needs was triggered by the completion of construction and the beginning of the testing phase at the plant.

Other one-time charges include: € 63 million related to changes in the development plan for the Parkinson's drug safinamide; € 35 million stemming from the decision to stop the development of the drug candidate IMO-2055 in combination with chemotherapy and Erbitux® in patients with first-line squamous cell carcinoma of the head and neck (SCCHN); a provision of € 20 million on the remaining costs associated with halting the development of cladribine, a drug candidate for the oral treatment of multiple sclerosis; and € 13 million for inventory adjustments. In addition, the reduction of the amortization period of Rebif® by two years, reflecting the impact of oral multiple sclerosis drugs entering the market, resulted in an incremental amortization charge of € 17 million in the second quarter.

Due to the one-time impairment losses and other costs mentioned above, the Merck Serono division recorded an operating result of € –147 million for the second quarter compared to € 164 million in the year-ago quarter. The second-quarter core operating result, which excludes amortization of intangible assets, declined to € 116 million from € 307 million in the year-ago quarter. For the half year, the operating result was € 1.8 million in 2011 and € 342 million in 2010, while the core operating result was € 464 million in 2011 and € 622 million in 2010.

The division's second-quarter ROS was –9.9% compared to 11.3% in the year-ago quarter. Core ROS, which excludes Merck Serono-related amortization of intangible assets, was 7.8% in the second quarter of 2011 compared to 21.1% in the year-ago quarter.

CONSUMER HEALTH CARE

The Consumer Health Care division increased total revenues by 3.9% to € 118 million in the second quarter with most of the increase stemming from solid demand in European markets. Second-quarter revenues grew organically by 4.2%. In the first half of 2011, total revenues rose by 6.1% to € 235 million.

Consumer Health Care | Key figures

€ million	Q2 – 2011	Change in %	Jan.–June 2011	Change in %
Total revenues	118.3	3.9	234.9	6.1
Gross margin	79.6	1.5	161.7	6.9
Research and development	–5.8	–4.0	–10.7	–2.1
Operating result	9.3	–	17.0	–
Exceptional items	–	–	–	–
Free cash flow	–3.2	–	9.8	–
Underlying free cash flow	–3.2	–	9.8	–
ROS in %	7.9		7.3	

Strategic-brand products such as Bion®3, Cebion®, Nasivin®, Kytta®, Femibion® and Seven Seas® nutritional supplements accounted for 54% of the division's sales in the second quarter, excluding the mail-order business.

Sales of Bion®3 probiotic multivitamins rose 16% in the second quarter thanks to an especially strong demand in Europe while sales of Cebion® vitamins increased 2.2% due to good growth in Latin America.

Second-quarter sales of Nasivin® nasal spray declined 6.1% after a very strong first quarter.

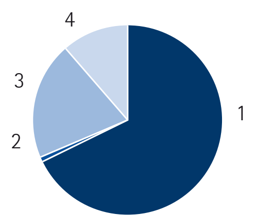
Sales of Kytta® ointments, one of the division's "Mobility" products, were flat following a 33% jump in the first quarter.

Global sales of Femibion®, the vitamins and minerals supplement for pregnant women and nursing mothers, rose 11% compared to the year-ago quarter, led by good performances in Germany.

Consumer Health Care | Sales by region – Q2

€ million / % of divisional sales

1	Europe	78	67%
2	North America	1	1%
3	Latin America	23	19%
4	Asia, Africa, Australasia	16	13%



The division's gross margin in the second quarter grew 1.5% following a 13% increase in the first quarter, for a first-half growth rate of 6.9%. Marketing and selling costs dropped by 10% because of fewer sales promotions in the second quarter of 2011 and lower marketing costs in China, where the size of the organization was reduced last year. The division also had lower other operating expenses compared to the year-ago quarter when a fire destroyed a warehouse for Seven Seas® products in the United Kingdom.

The division's operating result improved to € 9.3 million in the second quarter from € –5.4 million in the year-ago quarter. This followed an excellent improvement in the first quarter. For the half year, the operating result rose to € 17 million from € –3.9 million. This improvement is reflected in the division's ROS (operating result/total revenues), which rose to 7.9% in the second quarter of 2011 from –4.8% in the year-ago quarter. In the first half of 2011, ROS was 7.3% compared to –1.8% in the first half of 2010. Free cash flow for the second quarter was € –3.2 million compared to € 1.1 million in the year-ago quarter.

MERCK MILLIPORE

The Merck Millipore division comprises the activities of the former Millipore Corporation, a leading U.S.-based life science company acquired in July 2010, and the majority of Merck's former Performance & Life Science Chemicals division. As the businesses are now fully integrated, it is not possible to provide comparable year-ago figures. Total revenues for the new division amounted to € 584 million in the second quarter and € 1,195 million in the first half of 2011.

Merck Millipore | Key figures

€ million	Q2 – 2011	Change in %	Jan.–June 2011	Change in %
Total revenues	583.7	138.9	1,195.0	152.1
Gross margin	329.8	158.5	686.0	169.6
Research and development	–31.9	–	–64.5	–
Operating result	46.3	–	118.2	–
Exceptional items	–	–	–	–
Free cash flow	59.1	179.2	110.5	171.4
Underlying free cash flow	69.1	226.8	126.9	211.7
ROS in %	7.9		9.9	

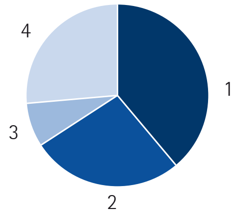
The division has three business units – Bioscience representing 17% of second-quarter total revenues; Lab Solutions representing 42%; and Process Solutions representing 41%.

The Bioscience business unit focuses on helping customers in the pharmaceutical and biotechnology industries, as well as academia, understand complete biological systems and identify new therapeutic targets. It provides tools and services to support researchers in a wide variety of areas ranging from neuroscience, infectious disease, oncology, and metabolic disorders to stem cells, cell signaling, nuclear function, and chromatin biology. Bioscience products and services simplify the work flow for researchers.

Sales of the Bioscience business unit slowed in the second quarter compared to the first due to reduced orders from key academic and life science customers.

Merck Millipore | Sales by region – Q2

€ million / % of divisional sales		
1 Europe	227	39%
2 North America	157	27%
3 Latin America	46	8%
4 Asia, Africa, Australasia	153	26%



The Lab Solutions business unit is a leading supplier to laboratories with lab water equipment, consumables and services, microbiology and biomonitoring, test assays, organic and analytical reagents and solvents. Both Merck and Millipore had substantial expertise in this field. The Lab Solutions business unit has started to establish a global footprint to target considerable cross-selling synergies. One of its well-known products is the Duopath® Verotoxin, a simple quick test to detect EHEC (enterohemorrhagic Escherichia coli) in food, which infected hundreds of Europeans in the spring of this year.

Lab Solutions sales were nearly identical in the first and second quarters.

The Process Solutions business unit supplies products used by pharmaceutical and biotechnology companies to develop and manufacture biopharmaceutical drugs safely and efficiently. It provides fully integrated solutions to biopharmaceutical customers and an attractive range of development and regulatory services to biopharmaceutical manufacturers.

Second-quarter Process Solutions sales declined slightly from the first quarter due to the timing of key customers' manufacturing campaigns. The business unit also saw growth reduced due to the cancellation of a contract to sell insulin for use in industrial biopharmaceutical applications.

The division booked € 46 million in the second quarter for amortization of intangible assets in connection with the purchase price allocation for Millipore. Similar amounts will be recorded every quarter for several years.

This led to a second-quarter operating result of € 46 million with an ROS (operating result/total revenues) of 7.9%. The core operating result, which excludes Merck Millipore-related amortization of intangible assets and integration costs, was € 101 million, resulting in a core ROS of 17.3%.

For the first half of the year, the core operating result was € 232 million, resulting in a core ROS of 19.5%.

PERFORMANCE MATERIALS

The Performance Materials division comprises Merck's materials businesses and activities, i.e. Liquid Crystals, Pigments & Cosmetics, as well as Advanced Technologies, which offers innovative materials for lighting, photovoltaics, energy-storage solutions and other high-tech applications.

Performance Materials | Key figures

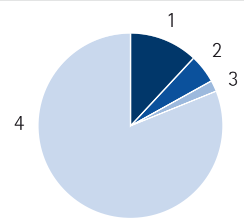
€ million	Q2 – 2011	Change in %	Jan.–June 2011	Change in %
Total revenues	373.5	–6.5	782.2	3.7
Gross margin	198.7	–25.3	462.9	–5.9
Research and development	–30.1	0.4	–66.5	8.6
Operating result	104.3	–37.7	273.1	–8.6
Exceptional items	0.4	–	157.4	–
Free cash flow	153.9	0.7	452.5	74.3
Underlying free cash flow	154.0	0.7	251.6	–3.1
ROS in %	27.9		34.9	

On an organic basis, second-quarter total revenues of the division rose 1.4% year-over-year. However, total revenues declined nominally by 6.5% to € 373 million due to negative currency effects of 4.9% stemming from the Taiwan dollar and the U.S. dollar and a negative 3.0% impact due to the absence of sales from the Crop BioScience business that was divested in the first quarter of 2011. For the first half of 2011, total revenues rose 3.7% to € 782 million from € 754 million in the year-ago period.

Performance Materials | Sales by region – Q2

€ million / % of divisional sales

1	Europe	45	12%
2	North America	19	5%
3	Latin America	7	2%
4	Asia, Africa, Australasia	302	81%



The Liquid Crystals business unit, which accounts for the largest share of the division's revenues, delivered a solid performance with organic growth of 1.8% during the second quarter of 2011 in comparison to a very strong year-ago quarter. A moderately softer pricing environment, negative effects from changes in foreign exchange rates and a negative product mix was more than offset by strong volumes. This is due to the continued high demand for Merck's broad range of innovative liquid crystal materials, which are used in flat panel displays for televisions and computer monitors as well as touch screens for the very popular smart phones and electronic tablets. Merck expanded its overall market share in liquid crystals during the first six months of 2011.

While the March 11 earthquake in Japan disrupted power supplies and damaged roads and other infrastructure in the northeastern part of the country, it did not affect the division's production site for liquid crystals at Atsugi. However, Merck's pigments production plant at Onahama was damaged and negatively affected production of the popular Xirallic® pigments for automotive coatings for most of April. The resulting volume loss was somewhat offset by reducing existing inventories of Xirallic® and increasing prices for pigments in the second quarter. Besides Japan, Merck produces effect pigments in Germany, China and the United States.

The Advanced Technologies unit is beginning to make an increasing contribution to the division's revenue stream thanks to reactive mesogens and other optic materials. Reactive mesogens are liquid crystalline materials that can either be coated onto flexible plastic foils to form compensation films or be used inside a display to form in-cell optical elements. Their main application at this time is in 3D displays, such as in flat-panel televisions.

Inventory adjustments amounting to € 39 million substantially burdened the Performance Materials division's cost of sales in the second quarter. As a result, cost of sales increased 31% to € 175 million from € 133 million in the year-ago quarter. If adjusted for these items, the underlying profitability of the division was comparable to the previous year.

Research and development costs were unchanged at € 30 million, or 8.1% of total revenues.

With headwinds from currency effects, the absence of profits from the divested Crop BioScience business, adverse changes in product mix as well as one-off charges for inventory adjustments and an impairment loss for various patents, the operating result of the Performance Materials division declined by 38% to € 104 million in the second quarter. This resulted in an ROS for the division of 27.9% in the second quarter of 2011 compared to 41.9% in the year-ago quarter. For the first half of 2011, the operating result was down 8.6% to € 273 million, resulting in a half-year ROS of 34.9% in 2011 compared to 39.6% in 2010.

CORPORATE AND OTHER

The segment Corporate and Other includes corporate overhead costs incurred by Group holding companies, the financial result, taxes and exceptional items that are not allocated to specific divisions.

Corporate and Other | Key figures

€ million	Q2 – 2011	Change in %	Jan.–June 2011	Change in %
Total revenues	–	–	–	–
Gross margin	–	–	–	–
Research and development	–	–	–	–
Operating result	–24.7	–	–50.1	1.1
Exceptional items	–17.3	–	–17.3	–
Free cash flow	–111.7	46.5	–367.6	86.9
Underlying free cash flow	–111.7	53.6	–367.6	102.8

RISK REPORT

All issues concerning business-related risks, legal risks, human resources risks, information technology risks and environmental and safety risks – as previously stated in the 2010 Annual Report – remain valid for the Merck Group in the current reporting period.

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

REPORT ON EXPECTED DEVELOPMENTS

As the Merck Group has passed the half-year mark, it is now able to refine the guidance for 2011. The Executive Board now believes that full-year total revenues for the Group will increase to between € 10 billion and € 10.4 billion. As demonstrated in the first half of 2011, the net financial debt of the Merck Group resulting from the 2010 acquisition of Millipore is decreasing substantially. The Group operating result for 2011 is expected to amount to about € 1 billion, which is below the guidance given in April due to the many one-time adjustments explained earlier in this report.

Merck Guidance for 2011

Merck Group	Expectations 2011
Total Revenues	€ 10 billion – € 10.4 billion
Operating Result	~ € 1.0 billion

Merck Divisions	Total Revenues Growth 2011
Merck Serono	+1% – 2%
Consumer Health Care	+6% – 9%
Merck Millipore*	~ +50%
Performance Materials*	+4% – 6%

* Adjusted to reflect that the Cosmetic Actives business was transferred to Performance Materials in 2011 from Merck Millipore.

HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2011

INCOME STATEMENT OF THE MERCK GROUP

€ million	Q2 – 2011	Q2 – 2010	Jan.–June 2011	Jan.–June 2010
Sales	**2,469.6**	**2,102.8**	**4,947.1**	**4,125.6**
Royalty, license and commission income	85.8	105.2	172.0	181.3
Total revenues	**2,555.4**	**2,208.0**	**5,119.1**	**4,306.9**
Cost of sales	–760.4	–517.2	–1,400.0	–1,003.9
Gross margin	**1,795.0**	**1,690.8**	**3,719.1**	**3,303.0**
Marketing and selling expenses	–605.1	–540.2	–1,196.6	–1,008.4
Royalty, license and commission expenses	–118.5	–117.3	–229.8	–239.5
Administration expenses	–126.4	–115.2	–251.3	–219.6
Other operating expenses and income	–270.4	–109.4	–367.5	–244.4
Research and development	–369.1	–338.8	–748.6	–686.0
Amortization of intangible assets	–319.0	–145.9	–567.2	–286.4
Investment result	2.0	2.2	2.1	2.2
Operating result	**–11.4**	**326.2**	**360.1**	**621.0**
Exceptional items	–11.1	–1.2	146.9	–1.2
Earnings before interest and tax (EBIT)	**–22.5**	**325.0**	**507.0**	**619.8**
Financial result	–74.6	–78.3	–142.8	–116.9
Profit before tax	**–97.0**	**246.8**	**364.2**	**502.9**
Income tax	12.9	–59.9	–104.1	–121.4
Profit after tax	**–84.0**	**186.9**	**260.1**	**381.5**
Non-controlling interest	–1.9	–3.5	–5.0	–6.6
Net profit after non-controlling interest	**–85.9**	**183.4**	**255.2**	**374.8**
Earnings per share (in €)				
basic	–0.40	0.84	1.17	1.72
diluted	–0.40	0.84	1.17	1.72

BALANCE SHEET OF THE MERCK GROUP

€ million	June 30, 2011	December 31, 2010
Current assets		
Cash and cash equivalents	1,355.3	943.7
Marketable securities and financial assets	362.2	55.6
Trade accounts receivable	2,306.3	2,296.3
Inventories	1,644.9	1,673.5
Other current assets	355.9	564.7
Tax receivables	59.1	93.7
Assets held for sale	–	36.7
	6,083.7	**5,664.2**
Non-current assets		
Intangible assets	11,702.6	12,484.1
Property, plant and equipment	3,022.0	3,241.5
Investments at equity	3.7	5.0
Non-current financial assets	145.1	130.3
Financial assets covering pensions	219.4	216.9
Other non-current assets	61.0	52.9
Deferred tax assets	652.5	593.1
	15,806.3	**16,723.8**
Total assets	**21,890.0**	**22,388.0**
Current liabilities		
Current financial liabilities	968.1	356.1
Trade accounts payable	1,056.0	1,200.1
Other current liabilities	862.7	1,054.6
Tax liabilities	345.3	368.4
Current provisions	322.7	374.5
Liabilities directly related to assets held for sale	–	5.9
	3,554.7	**3,359.6**
Non-current liabilities		
Non-current financial liabilities	4,533.4	5,127.4
Other non-current liabilities	8.6	42.9
Non-current provisions	514.0	524.2
Provisions for pensions and other post-employment benefits	1,609.2	1,581.6
Deferred tax liabilities	1,317.5	1,380.5
	7,982.7	**8,656.6**
Net equity		
Equity capital	565.2	565.2
Reserves	8,488.8	8,484.2
Gains/losses recognized immediately in equity	1,256.8	1,280.4
Equity attributable to shareholder of the parent company	**10,310.9**	**10,329.8**
Non-controlling interest	41.7	42.0
	10,352.6	**10,371.8**
Total liabilities and stockholders' equity	**21,890.0**	**22,388.0**

SEGMENT REPORTING OF THE MERCK GROUP – PHARMACEUTICALS

€ million	Merck Serono				Consumer Health Care			
	Q2 2011	Q2 2010	Jan.–June 2011	Jan.–June 2010	Q2 2011	Q2 2010	Jan.–June 2011	Jan.–June 2010
Sales	1,395.5	1,349.1	2,740.4	2,685.4	117.6	113.4	233.8	220.3
Royalty, license and commission income	84.4	101.4	166.7	171.9	0.7	0.5	1.1	1.2
Total revenues	1,479.9	1,450.5	2,907.1	2,857.3	118.3	113.9	234.9	221.5
Gross margin	1,186.9	1,218.8	2,408.5	2,405.3	79.6	78.4	161.7	151.3
Marketing and selling expenses	–366.9	–379.0	–718.6	–701.2	–56.8	–63.1	–117.4	–119.8
Royalty, license and commission expenses	–112.9	–113.1	–219.2	–230.0	–0.3	–0.5	–0.7	–0.7
Administration expenses	–65.3	–69.0	–127.8	–131.3	–5.9	–6.0	–11.9	–11.9
Other operating expenses and income	–224.5	–54.8	–272.5	–119.9	–0.4	–7.2	–1.9	–9.8
Research and development	–301.3	–296.1	–606.9	–600.6	–5.8	–6.1	–10.7	–10.9
Operating result	–146.6	163.6	1.8	341.6	9.3	–5.4	17.0	–3.9
Exceptional items	5.8	–	6.8	–	–	–	–	–
Earnings before interest and tax (EBIT)	–140.8	163.6	8.5	341.6	9.3	–5.4	17.0	–3.9
Net operating assets*	–	–	9,622.0	10,359.7	–	–	315.3	310.8
Segment liabilities*	–	–	–1,136.5	–1,268.9	–	–	–78.8	–86.4
Capital spending on property, plant and equipment	51.1	61.9	96.0	108.0	1.3	0.9	1.9	2.3
Investments in intangible assets	6.5	11.8	11.6	23.3	5.6	0.5	5.8	0.7
Depreciation and amortization	–211.5	–188.5	–410.9	–370.3	–2.6	–3.3	–5.3	–6.1
Impairment losses	–266.2	–	–316.7	–17.2	–0.8	–	–0.8	–
Net cash flows from operating activities	141.1	328.9	481.8	575.0	3.1	3.4	16.9	2.2
Net cash flows from investing activities	14.0	–71.4	211.5	–126.1	–6.3	–2.3	–7.1	–3.6
Free cash flow	155.1	257.5	693.3	448.9	–3.2	1.1	9.8	–1.4
Underlying free cash flow	149.8	257.5	423.0	448.9	–3.2	1.1	9.8	–1.4
FCR in %	10.1	17.8	14.5	15.7	–2.7	1.0	4.2	–0.6
ROS in %	–9.9	11.3	0.1	12.0	7.9	–4.8	7.3	–1.8

€ million	Pharmaceuticals			
	Q2 2011	Q2 2010	Jan.–June 2011	Jan.–June 2010
Sales	1,513.1	1,462.5	2,974.3	2,905.6
Royalty, license and commission income	85.1	101.9	167.7	173.1
Total revenues	1,598.2	1,564.4	3,142.0	3,078.7
Gross margin	1,266.5	1,297.2	2,570.2	2,556.6
Marketing and selling expenses	–423.7	–442.1	–836.0	–821.1
Royalty, license and commission expenses	–113.2	–113.6	–219.9	–230.6
Administration expenses	–71.3	–75.0	–139.8	–143.3
Other operating expenses and income	–224.9	–62.0	–274.4	–129.7
Research and development	–307.1	–302.2	–617.6	–611.5
Operating result	–137.3	158.2	18.8	337.7
Exceptional items	5.8	–	6.8	–
Earnings before interest and tax (EBIT)	–131.5	158.2	25.6	337.7
Net operating assets*	–	–	9,937.3	10,670.5
Segment liabilities*	–	–	–1,215.3	–1,355.3
Capital spending on property, plant and equipment	52.4	62.9	97.9	110.3
Investments in intangible assets	12.2	12.3	17.4	24.1
Depreciation and amortization	–214.1	–191.8	–416.2	–376.4
Impairment losses	–267.0	–	–317.5	–17.2
Net cash flows from operating activities	144.2	332.3	498.7	577.2
Net cash flows from investing activities	7.8	–73.7	204.4	–129.7
Free cash flow	151.9	258.6	703.1	447.5
Underlying free cash flow	146.6	258.6	432.8	447.5
FCR in %	9.2	16.5	13.8	14.5
ROS in %	–8.6	10.1	0.6	11.0

*Reporting period ending on June 30, 2011. The previous year's figures as of December 31, 2010.

SEGMENT REPORTING OF THE MERCK GROUP – CHEMICALS*

	Merck Millipore				Performance Materials			
€ million	Q2 2011	Q2 2010	Jan.–June 2011	Jan.–June 2010	Q2 2011	Q2 2010	Jan.–June 2011	Jan.–June 2010
Sales	583.1	242.1	1,191.5	470.3	373.5	398.3	781.4	749.7
Royalty, license and commission income	0.6	2.3	3.5	3.7	–	1.0	0.8	4.5
Total revenues	583.7	244.4	1,195.0	474.0	373.5	399.2	782.2	754.1
Gross margin	329.8	127.6	686.0	254.5	198.7	266.0	462.9	491.9
Marketing and selling expenses	–147.2	–63.8	–293.3	–121.5	–33.8	–33.9	–66.4	–64.4
Royalty, license and commission expenses	–3.9	–1.3	–7.0	–3.1	–1.3	–2.4	–2.9	–5.9
Administration expenses	–25.5	–11.6	–53.7	–22.0	–9.0	–10.7	–17.7	–20.0
Other operating expenses and income	–29.7	–46.0	–56.8	–60.8	–10.9	–20.0	–26.0	–38.3
Research and development	–31.9	–6.5	–64.5	–13.3	–30.1	–30.0	–66.5	–61.3
Operating result	46.3	–1.4	118.2	33.8	104.3	167.5	273.1	299.0
Exceptional items	–	–	–	–	0.4	–	157.4	–
Earnings before interest and tax (EBIT)	46.3	–1.4	118.2	33.8	104.7	167.5	430.6	299.0
Net operating assets**	–	–	6,134.4	6,435.7	–	–	1,258.3	1,289.8
Segment liabilities**	–	–	–304.1	–361.4	–	–	–144.4	–166.8
Capital spending on property, plant and equipment	26.3	12.2	42.3	20.1	12.5	16.0	25.8	25.2
Investments in intangible assets	1.7	1.4	2.7	2.1	0.5	0.9	1.3	1.5
Depreciation and amortization	–68.7	–11.5	–140.7	–23.2	–24.9	–23.6	–51.9	–47.0
Impairment losses	–2.0	–	–2.0	–	–9.4	–7.4	–9.4	–16.4
Net cash flows from operating activities	90.6	35.7	156.1	65.7	167.1	168.4	284.0	283.9
Net cash flows from investing activities	–31.5	–14.5	–45.6	–24.9	–13.1	–15.5	168.5	–24.4
Free cash flow	59.1	21.2	110.5	40.7	153.9	152.9	452.5	259.6
Underlying free cash flow	69.1	21.2	126.9	40.7	154.0	152.9	251.6	259.6
FCR in %	11.8	8.7	10.6	8.6	41.2	38.3	32.2	34.4
ROS in %	7.9	–0.6	9.9	7.1	27.9	41.9	34.9	39.6

	Chemicals			
€ million	Q2 2011	Q2 2010	Jan.–June 2011	Jan.–June 2010
Sales	956.5	640.3	1,972.9	1,220.0
Royalty, license and commission income	0.7	3.3	4.3	8.2
Total revenues	957.2	643.6	1,977.1	1,228.1
Gross margin	528.4	393.5	1,148.9	746.4
Marketing and selling expenses	–181.0	–97.8	–359.8	–185.9
Royalty, license and commission expenses	–5.3	–3.7	–9.9	–8.9
Administration expenses	–34.5	–22.3	–71.4	–42.0
Other operating expenses and income	–40.6	–66.1	–82.8	–99.1
Research and development	–62.0	–36.5	–131.0	–74.5
Operating result	150.6	166.0	391.4	332.8
Exceptional items	0.4	–	157.4	–
Earnings before interest and tax (EBIT)	151.0	166.0	548.8	332.8
Net operating assets**	–	–	7,392.7	7,725.3
Segment liabilities**	–	–	–448.5	–528.2
Capital spending on property, plant and equipment	38.8	28.2	68.1	45.3
Investments in intangible assets	2.3	2.3	4.0	3.6
Depreciation and amortization	–93.6	–35.1	–192.5	–70.2
Impairment losses	–11.4	–7.4	–11.4	–16.4
Net cash flows from operating activities	257.6	204.0	440.1	349.6
Net cash flows from investing activities	–44.7	–30.0	122.9	–49.3
Free cash flow	213.0	174.0	563.0	300.3
Underlying free cash flow	223.1	174.0	378.5	300.3
FCR in %	23.3	27.0	19.1	24.5
ROS in %	15.7	25.8	19.8	27.1

* As a result of the acquisition of Millipore, the Chemicals business sector was reorganized. 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.

** Reporting period ending on June 30, 2011. The previous year's figures as of December 31, 2010 have been adjusted owing to the organizational reassignment of Cosmetic Actives.

SEGMENT REPORTING OF THE MERCK GROUP – CORPORATE AND OTHER/MERCK GROUP

	Corporate and Other			
€ million	Q2 2011	Q2 2010	Jan.–June 2011	Jan.–June 2010
Sales	–	–	–	–
Royalty, license and commission income	–	–	–	–
Total revenues	–	–	–	–
Gross margin	–	–	–	–
Marketing and selling expenses	–0.4	–0.3	–0.8	–1.4
Royalty, license and commission expenses	–	–	–	–
Administration expenses	–20.6	–17.9	–40.1	–34.2
Other operating expenses and income	–4.9	18.6	–10.3	–15.5
Research and development	–	–0.1	–	–
Operating result	–24.7	2.0	–50.1	–49.5
Exceptional items	–17.3	–1.2	–17.3	–1.2
Earnings before interest and tax (EBIT)	–42.0	0.8	–67.4	–50.7
Net operating assets*	–	–	59.8	74.7
Segment liabilities*	–	–	–16.5	–14.9
Capital spending on property, plant and equipment	0.4	0.1	0.5	0.3
Investments in intangible assets	1.2	2.4	3.6	3.3
Depreciation and amortization	–1.2	–0.5	–2.6	–1.1
Impairment losses	–0.4	–	–0.4	–
Net cash flows from operating activities	–109.6	–70.1	–361.7	–181.9
Net cash flows from investing activities	–7.5	–8.8	–267.5	1,336.0
Free cash flow	–111.7	–76.2	–367.6	–196.7
Underlying free cash flow	–111.7	–72.7	–367.6	–181.3
FCR in %	–	–	–	–
ROS in %	–	–	–	–

	Merck Group			
€ million	Q2 2011	Q2 2010	Jan.–June 2011	Jan.–June 2010
Sales	2,469.6	2,102.8	4,947.1	4,125.6
Royalty, license and commission income	85.8	105.2	172.0	181.3
Total revenues	2,555.4	2,208.0	5,119.1	4,306.9
Gross margin	1,795.0	1,690.8	3,719.1	3,303.0
Marketing and selling expenses	–605.1	–540.2	–1,196.6	–1,008.4
Royalty, license and commission expenses	–118.5	–117.3	–229.8	–239.5
Administration expenses	–126.4	–115.2	–251.3	–219.6
Other operating expenses and income	–270.4	–109.4	–367.5	–244.4
Research and development	–369.1	–338.8	–748.6	–686.0
Operating result	–11.4	326.2	360.1	621.0
Exceptional items	–11.1	–1.2	146.9	–1.2
Earnings before interest and tax (EBIT)	–22.5	325.0	507.0	619.8
Net operating assets*	–	–	17,389.8	18,470.5
Segment liabilities*	–	–	–1,680.3	–1,898.4
Capital spending on property, plant and equipment	91.6	91.2	166.5	155.9
Investments in intangible assets	15.6	17.0	24.9	31.0
Depreciation and amortization	–308.9	–227.4	–611.4	–447.6
Impairment losses	–278.8	–7.4	–329.3	–33.6
Net cash flows from operating activities	292.2	466.2	577.1	744.9
Net cash flows from investing activities	–44.4	–112.5	59.8	1,157.0
Free cash flow	253.2	356.4	898.5	551.2
Underlying free cash flow	258.1	359.9	443.7	566.5
FCR in %	10.1	16.3	8.7	13.2
ROS in %	–0.4	14.8	7.0	14.4

* Reporting period ending on June 30, 2011. The previous year's figures as of December 31, 2010.

CASH FLOW STATEMENT OF THE MERCK GROUP

€ million	Jan.–June 2011	Jan.–June 2010
Profit after tax	**260.1**	**381.5**
Depreciation/amortization/impairment losses/write ups	939.9	481.2
Changes in inventories	–28.2	–36.6
Changes in trade accounts receivable	–75.0	–230.0
Changes in trade accounts payable	–111.8	28.3
Changes in provisions	–1.4	51.9
Changes in other assets and liabilities	–209.6	77.0
Neutralization of gain/loss on disposals of assets	–205.5	–1.0
Other non-cash income and expenses	8.6	–7.2
Net cash flows from operating activities	**577.1**	**744.9**
Purchase of intangible assets	–24.9	–31.0
Purchase of property, plant and equipment	–160.8	–155.9
Acquisitions	–10.1	–
Investments in financial assets	–4.3	–21.4
Disposal of non-current assets	551.7	15.0
Purchase/sale of marketable securities	–30.2	–0.5
Changes in financial assets covering pensions	–3.1	–4.6
Changes in other financial assets	–258.5	1,355.4
Net cash flows from investing activities	**59.8**	**1,157.0**
Dividend payments	–84.1	–71.6
Profit transfers to E. Merck KG and changes in reserves	–166.6	–109.6
Changes in liabilities to E. Merck KG	38.5	–58.1
Bonds issued	–	3,181.7
Changes in current and non-current financial liabilities	–5.5	268.4
Net cash flows from financing activities	**–217.7**	**3,210.8**
Changes in cash and cash equivalents	**419.3**	**5,112.8**
Changes in cash and cash equivalents due to currency translation	–9.0	17.6
Cash and cash equivalents as of January 1 (Group balance sheet)	943.7	541.4
Plus cash and cash equivalents previously in assets held for sale	1.2	–
Cash and cash equivalents as of June 30	**1,355.3**	**5,671.8**

FREE CASH FLOW OF THE MERCK GROUP

€ million	Jan.–June 2011	Jan.–June 2010
Net cash flows from operating activities	**577.1**	**744.9**
Purchase of intangible assets	–24.9	–31.0
Purchase of property, plant and equipment	–160.8	–155.9
Acquisitions	–10.1	–
Investments in financial assets	–4.3	–21.4
Disposal of non-current assets	551.7	15.0
Purchase/sale of marketable securities	–30.2	–0.5
Free cash flow	**898.5**	**551.2**
Acquisition-related payments	16.4	–
Payments related to divestments (paid = + / received = –)	–471.2	15.4
Underlying free cash flow	**443.7**	**566.5**

STATEMENT OF COMPREHENSIVE INCOME OF THE MERCK GROUP

€ million	Jan.–June 2011	Jan.–June 2010
Profit after tax	**260.1**	**381.5**
Available-for-sale financial assets		
Fair value adjustments	29.3	–21.0
Reclassification to income statement	–27.2	–
Deferred taxes	0.6	0.7
Changes recognized in equity	**2.7**	**–20.3**
Derivative financial instruments		
Fair value adjustments	13.2	–106.9
Reclassification to income statement	–3.6	3.0
Deferred taxes	–0.2	16.4
Changes recognized in equity	**9.4**	**–87.5**
Actuarial gains and losses from defined benefit obligations and similar obligations		
Changes in actuarial gains and losses	–1.8	–91.1
Deferred taxes	0.4	17.8
Changes recognized in equity	**–1.4**	**–73.3**
Exchange differences on translating foreign operations		
Changes taken directly to equity	–42.4	1,260.6
Reclassification to income statement	3.5	–
Changes recognized in equity	**–38.9**	**1,260.6**
Gains/losses recognized immediately in equity	**–28.2**	**1,079.5**
Comprehensive income	**231.9**	**1,461.0**
of which attributable to shareholders of the parent company	230.1	1,444.8
of which attributable to non-controlling interest	1.8	16.2

STATEMENT OF CHANGES IN NET EQUITY INCLUDING NON-CONTROLLING INTEREST OF THE MERCK GROUP

	Equity capital		Reserves			Gains/losses recognized immediately in equity					
€ million	General partner's equity Merck KGaA	Subscribed capital Merck KGaA	Capital reserves (share premium) Merck KGaA	Retained earnings/ Net retained profit	Actuarial gains and losses	Available-for-sale financial assets	Derivative financial instruments	Exchange differences on translating foreign operations	Equity attributable to shareholders of the parent company	Non-controlling interest	Equity
Balance as of January 1, 2010	**397.2**	**168.0**	**3,813.7**	**4,733.7**	**–228.7**	**18.8**	**47.5**	**509.9**	**9,460.1**	**53.5**	**9,513.6**
Profit after tax	–	–	–	374.8	–	–	–	–	374.8	6.6	381.5
Gains/losses recognized immediately in equity	–	–	–	–	–73.3	–20.3	–87.4	1,250.9	1,069.9	9.6	1,079.5
Comprehensive income	**–**	**–**	**–**	**374.8**	**–73.3**	**–20.3**	**–87.4**	**1,250.9**	**1,444.8**	**16.2**	**1,461.0**
Dividend payments	–	–	–	–64.6	–	–	–	–	–64.6	–6.9	–71.6
Profit transfers to/from E. Merck KG including transfers to reserves	–	–	–	–109.6	–	–	–	–	–109.6	–	–109.6
Changes in scope of consolidation/Other	–	–	–	–2.0	–	–	–	–	–2.0	1.1	–0.9
Balance as of June 30, 2010	**397.2**	**168.0**	**3,813.7**	**4,932.3**	**–302.0**	**–1.5**	**–39.9**	**1,760.8**	**10,728.6**	**63.9**	**10,792.6**
Balance as of January 1, 2011	**397.2**	**168.0**	**3,813.7**	**5,040.9**	**–370.4**	**–3.1**	**–61.1**	**1,344.6**	**10,329.8**	**42.0**	**10,371.8**
Profit after tax	–	–	–	255.2	–	–	–	–	255.2	5.0	260.1
Gains/losses recognized immediately in equity	–	–	–	–	–1.4	2.7	9.4	–35.7	–25.0	–3.2	–28.2
Comprehensive income	**–**	**–**	**–**	**255.2**	**–1.4**	**2.7**	**9.4**	**–35.7**	**230.1**	**1.8**	**231.9**
Dividend payments	–	–	–	–80.8	–	–	–	–	–80.8	–3.4	–84.1
Profit transfers to/from E. Merck KG including transfers to reserves	–	–	–	–166.6	–	–	–	–	–166.6	–	–166.6
Changes in scope of consolidation/Other	–	–	–	–1.7	–	–	–	–	–1.7	1.3	–0.4
Balance as of June 30, 2011	**397.2**	**168.0**	**3,813.7**	**5,047.0**	**–371.9**	**–0.4**	**–51.7**	**1,308.9**	**10,310.9**	**41.7**	**10,352.6**

NOTES TO THE INTERIM FINANCIAL STATEMENTS OF THE MERCK GROUP AS OF JUNE 30, 2011

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

Accounting policies

The unaudited interim financial statements of the Merck Group as of June 30, 2011 comply with IAS 34. They have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force on the reporting date and adopted by the European Union. In accordance with IAS 34, a condensed scope of reporting as compared with the consolidated financial statements as of December 31, 2010 was selected. The accounting policies have remained unchanged in comparison with the previous year. The notes to the consolidated financial statements of the Merck Group for 2010, particularly the accounting policies, thus apply accordingly.

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

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

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

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

Scope of consolidation

As of June 30, 2011, a total of 232 (December 31, 2010: 236) companies were fully consolidated. No companies were consolidated on a pro rata basis. Two associates were included using the equity method. The following changes have occurred since the beginning of 2011:

Beijing Skywing Technology Co. was consolidated for the first time as of January 1, 2011. Three newly established companies were consolidated for the first time. Within the scope of the sale of the Crop BioScience business, two companies were deconsolidated. Six companies are no longer consolidated due to liquidations and mergers.

Divestment of the Crop BioScience business

The announced 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 the 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 sale in the first quarter of 2011. Merck generated a gain on the sale of € 157.4 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	**–12.4**
Gain on the divestment	**157.4**

First-time consolidation of Beijing Skywing Technology

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 selling price totaled € 14.5 million, € 10.1 million of which was paid to the seller in 2011. The first-time consolidation of Beijing Skywing Technology Co. took place on January 1, 2011.

Announced acquisition of the microbiology business of Biotest AG

On March 22, 2011, Merck announced its intention to acquire the microbiology business of Biotest AG. The transaction closing and the first-time consolidation of this business are expected to take place in the second half of 2011.

Reassessment of the business potential of cladribine tablets

In the first quarter of 2011, impairment losses of € 50.4 million were recorded under amortization of intangible assets in connection with the reassessment of the business potential of cladribine tablets. Due to the decision to no longer pursue the global approval process for cladribine tablets, additional expenses of € 20 million were recorded under other operating expenses and income.

Amortization of intangible assets

As described above, this line of the income statement includes impairment losses of € 50.4 million in connection with the reassessment of the business potential of cladribine tablets. The second quarter of 2011 includes impairments of € 63.4 million for safinamide, a potential add-on therapy for Parkinson's disease, as well as € 35.4 million for the discontinued cancer treatment candidate IMO-2055. Furthermore, impairment losses of € 8.6 million on various patents in the Performance Materials division were recorded in the second quarter.

As of the beginning of the second quarter of 2011, the estimates regarding the remaining useful life of Rebif® were changed, shortening the amortization period by two years. Owing to this new estimate, amortization increased in the second quarter of 2011 by € 17.1 million. This change will increase amortizations by a total of € 51.3 million in 2011. In 2012, amortization will be € 68.4 million higher.

Impairment of Large-Scale Biotech production plant in Switzerland

Owing to the expected overcapacity at the LSB production plant currently being built at the Merck Serono Biotech Center in Switzerland, an impairment loss of € 160.7 million was recorded. This expense is recognized in the income statement under other operating expenses and income.

Valuation of Greek sovereign bonds

As of June 30, 2011, the balance sheet item "Marketable securities and financial assets" includes Greek sovereign bonds with a book value of € 36.1 million. The nominal value of these securities is € 55.4 million. We received these securities within the scope of an exchange of receivables that were due from Greek hospitals.

In the first half of 2011, an impairment loss of € 5.0 million was recorded, which led to a cumulative impairment on the Greek bonds of € 19.3 million as of June 30, 2011. The corresponding expense of € 5.0 million was recognized in other operating expenses for the first half of 2011. The Greek sovereign bonds are allocated to the measurement category "Available-for-sale financial assets" .

Exceptional items

In the first half of 2011, the exceptional items recorded in the income statement include the gain on the divestment of the Crop BioScience business amounting to € 157.4 million as well as a subsequent gain of € 6.8 million from the divestment of Théramex in 2010. In addition, exceptional items include expenses of € 17.3 million stemming from discontinued businesses.

Segment reporting

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

As a result of the acquisition of Millipore in July 2010, the Chemicals business sector was reorganized. The figures as of June 30, 2010 have been adjusted accordingly to reflect the new divisional structure. 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.

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

€ million	June 30, 2011	December 31, 2010
Assets	21,890.0	22,388.0
Monetary assets (cash and cash equivalents, loans, securities)	–1,850.1	–1,042.4
Financial assets covering pensions	–219.4	–216.9
Non-operating receivables, tax receivables, deferred taxes and refund claims on plan assets	–750.4	–723.1
Assets held for sale	–	–36.7
Operating assets (gross)	**19,070.1**	**20,368.9**
Trade accounts payable	–1,056.0	–1,200.1
Other operating liabilities	–624.3	–698.3
Operating assets (net)	**17,389.8**	**18,470.5**

Notes to the Cash Flow Statement

The balance of interest paid and interest received resulted in a cash outflow of € 127.3 million in the first half of 2011 (first half of 2010: € 18.8 million). This strong increase is due to the interest payment date in March 2011 for major bonds issued in 2010 in order to finance the Millipore acquisition.

As a result of payments amounting to € 108.7 million in the first half of 2011, provisions for litigation were used and free cash flow was lowered by the corresponding amount in the reporting period.

Owing to the divestment of the Crop BioScience business, free cash flow increased by € 201.0 million. In addition, the receipt of the purchase price of € 265.1 million for Théramex, our former women's health business which we sold in 2010, had a positive impact of € 265.1 million on free cash flow in 2011.

Earnings per share

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

	Q2 – 2011	Q2 – 2010	Jan.–June 2011	Jan.–June 2010
Net profit after non-controlling interest (€ million)	–85.9	183.4	255.2	374.8
Weighted average number of theoretical shares outstanding (in millions)	217.4	217.4	217.4	217.4
Basic earnings per share (€)	**–0.40**	**0.84**	**1.17**	**1.72**

As of June 30, 2011, there were no potentially dilutive shares. Diluted earnings per share corresponded to basic earnings per share.

Related-party disclosures

As of June 30, 2011, there were liabilities by Merck KGaA, Merck Financial Services GmbH and Merck & Cie, Altdorf, to E. Merck KG in the amount of € 475 million. In addition, as of June 30, 2011, there were receivables by Merck KGaA to E. Merck KG in the amount of € 3.1 million and to E. Merck Beteiligungen KG in the amount of € 2.6 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 € 315 million, which are subject to standard market interest rates. From January to June 2011, Merck KGaA performed services for E. Merck KG and Emanuel Merck Vermögens KG with a value of € 0.6 million and € 0.1 million, respectively. During the same period, E. Merck KG performed services for Merck KGaA with a value of € 0.5 million. From January to June 2011, companies of the Merck Group supplied goods with a value of € 1.1 million to associates. As of June 30, 2011, companies of the Merck Group had receivables from associates amounting to € 0.7 million.

Subsequent events

Merck had no material subsequent events.

RESPONSIBILITY STATEMENT

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

Darmstadt, July 27, 2011

Karl-Ludwig Kley

Kai Beckmann

Stefan Oschmann

Bernd Reckmann

Matthias Zachert

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* Employee representative

FINANCIAL CALENDAR 2011/2012

- **Autumn press conference and report on the third quarter**
  Wednesday, October 26, 2011
- **Annual press conference**
  Wednesday, February 29, 2012
- **Annual General Meeting**
  Friday, April 20
- **Quarterly Financial Report**
  Q1 – Tuesday, May 15
- **Half-Year Financial Report**
  Q2 – Wednesday, August 15
- **Quarterly Financial Report**
  Q3 – Thursday, November 15

Publication contributors

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

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