

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



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Income Statement

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

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

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

SEGMENT REPORTING OF THE MERCK GROUP – CHEMICALS*

€ million	Merck Millipore				Performance Materials			
	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

€ million	Chemicals			
	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

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

€ million	Corporate and Other			
	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 %	–	–	–	–

€ million	Merck Group			
	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

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

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

	Equity capital		Reserves			Gains/losses recognized immediately in equity						
	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	Avail-able-for-sale financial assets	Derivative financial instruments	Exchange differences on translating foreign operations	Equity attributable to share-holders of the parent company	Non-con-trolling interest	Equity	
€ million												
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 immedi-ately 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 immedi-ately 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:

Notes to the Interim Consolidated Financial Statements

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

Notes to the Interim Consolidated Financial Statements

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.

Notes to the Interim Consolidated Financial Statements

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 Théraxim 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 reconciled 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.

Notes to the Interim Consolidated Financial Statements

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 Théraximex, 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.