Merck
Notes to the Group accounts

General

(1) Company information

The accompanying consolidated financial statements as at December 31, 2012 have been prepared with Merck KGaA, Frankfurter Strasse 250, 64293 Darmstadt, which manages the operations of the Merck Group, as parent company. In accordance with the provisions of the German financial reporting disclosure law (Publizitätsgesetz), consolidated financial statements are also prepared for E. Merck KG, the ultimate parent company and general partner of Merck KGaA with an equity interest of 70.27% as of December 31, 2012. These include Merck KGaA and its subsidiaries. The authoritative German versions of these financial statements are filed with the electronic German Federal Gazette (elektronischer Bundesanzeiger) and can be accessed at www.bundesanzeiger.de.

(2) Reporting principles

The consolidated financial statements of the Merck Group have been prepared in accordance with consistent accounting policies and in euros, the reporting currency. Pursuant to section 315a of the German Commercial Code (HGB), the International Financial Reporting Standards (IFRS) in force on the reporting date and adopted by the European Union as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) have been applied.

The following rule takes effect as of fiscal 2012:

→ Amendment to IFRS 7 "Financial Instruments: Disclosures"

The new rule did not have any material effects on the consolidated financial statements.

The following rule was applied in advance as of fiscal 2012:

→ Amendment to IAS 19 "Employee Benefits"

The amended standard was published by the IASB in June 2011, adopted by the European Union in June 2012, and is effective for financial reporting periods beginning on or after January 1, 2013. The changes that the early application of the amended standard involve are described in Note [5] "Accounting policies".

The following rules take effect as of fiscal 2013:

→ IFRS 13 "Fair Value Measurement"
→ Amendment to IAS 1 "Presentation of Financial Statements"
→ Amendment to IAS 12 "Income Taxes"
→ Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards"
→ Amendment to IFRS 7 "Financial Instruments: Disclosures"
→ IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

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

The following rules take effect as of fiscal 2014:

→ IFRS 10 "Consolidated Financial Statements"
→ IFRS 11 "Joint Arrangements"
→ IFRS 12 "Disclosure of Interests in Other Entities"
→ Amendment to IAS 27 "Separate Financial Statements"
→ Amendment to IAS 28 "Investments in Associates and Joint Ventures"
→ Amendment to IAS 32 "Financial Instruments: Presentation"

→ General/
Scope of consolidation

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

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

- IFRS 9 "Financial Instruments"
- Amendment to IAS 27 "Separate Financial Statements"
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- Amendment to IFRS 7 "Financial Instruments: Disclosures"
- Amendment to IFRS 9 "Financial Instruments"
- Amendments to IFRS 10 "Consolidated Financial Statements"
- Amendment to IFRS 11 "Joint Arrangements"
- Amendments to IFRS 12 "Disclosure of Interests in Other Entities"
- "Improvements to International Financial Reporting Standards" (IASB version issued in May 2012)

The impact that IFRS 9, which is expected to become effective as of 2015, will have on the consolidated financial statements is currently being examined. At the present time, the other new rules are not expected to have any material effects on the consolidated financial statements.

Scope of consolidation

(3) Changes in the scope of consolidation

Including the parent company Merck KGaA, Darmstadt, 203 (2011: 228) German and foreign companies were fully consolidated in the annual financial statements of the Merck Group. Of these companies, 178 (2011: 206) are located abroad. No companies were consolidated on a pro rata basis or using the equity method as of the balance sheet date. Since the beginning of 2012, the following changes have taken place: With the acquisitions of CellASIC Corp, Hayward, CA, USA, and Biochrom AG, Berlin, Germany, two further companies were consolidated. Details of these acquisitions and their impact on the financial statements are presented in Note [4]. Overall, the following further changes in the scope of consolidation had no material impact on the financial statements: Four newly established companies were included in the consolidated financial statements for the first time. Owing to 20 liquidations and 11 mergers, 31 companies were deconsolidated.

Due to secondary importance, 28 (2011: 25) subsidiaries were not consolidated. Overall, the impact of these subsidiaries on sales, profit after tax, assets and equity was less than 1% relative to the entire Merck Group. The interests in subsidiaries not consolidated due to secondary importance are measured at cost and presented under non-current financial assets. The list of shareholdings presents all of the companies included in the consolidated financial statements as well as all of the Merck Group's shareholdings (see Note [74]).

→ Scope of consolidation

(4) Acquisitions

On April 27, 2012, Merck acquired 100% of the shares in CellASIC Corp., Hayward, CA, USA, and then merged the company with EMD Millipore Corp., Billerica, MA, USA. This business, which is part of the Merck Millipore division, has expanded the Bioscience portfolio. The first-time consolidation of CellASIC Corp. took place on April 27, 2012.

On November 6, 2012, Merck acquired 100% of the shares in Biochrom AG, Berlin, Germany. The acquired company is a specialist in the production and commercialization of cell culture media and buffer solutions and is expected to strengthen the Process Solutions business unit of the Merck Millipore division. The first-time consolidation of Biochrom AG took place on November 6, 2012.

The purchase price of the two acquisitions totaled € 21.7 million and was paid in cash. Acquisition-related costs amounting to € 0.5 million were incurred in connection with the aforementioned acquisitions and were expensed in the operating result. Within the scope of the purchase price allocation, the acquired assets and liabilities were recognized at fair values in the balance sheet in accordance with IFRS 3.

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

€ million	
Current assets	
Cash and cash equivalents	1.1
Inventories	7.4
Receivables	1.3
Other current assets	0.6
	10.4
Non-current assets	
Goodwill	8.0
Other intangible assets	6.1
Property, plant and equipment	6.3
	20.4
Assets	**30.8**
Current liabilities	
Current financial liabilities	0.8
Other current liabilities	2.1
	2.9
Non-current liabilities	
Non-current financial liabilities	3.1
Other non-current liabilities	0.2
Deferred tax liabilities	2.9
	6.2
Liabilities	**9.1**
Net assets acquired/purchase price	**21.7**

→ Scope of consolidation

The most significant impact of the purchase price allocations on the balance sheet and the income statement resulted from the fair value adjustment of intangible assets. Intangible assets related particularly to the measurement of existing customer relationships and technologies. The gross value of the acquired receivables at the time of the acquisition amounted to € 1.3 million. The best possible estimate of the irrecoverable debts amounted to less than € 0.1 million. The deferred tax liabilities disclosed related mainly to the remeasurement of intangible assets. The remaining difference between the purchase prices of € 21.7 million and fair values of € 13.7 million was reported as goodwill. This mainly included the expertise of the workforce as well as synergies from the expansion of the Merck Millipore product portfolio, increases in market shares, and from combining the companies. The fair value adjustments made as part of the purchase price allocation were still to be considered as preliminary since the accounting analyses and calculations had not yet been completed. Therefore, adjustments to these items could still occur in 2013 based on new information.

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

€ million	
Total revenues	2.4
Profit after tax	–0.3

Profit after tax also included the amortization of the step-up of intangible assets within the scope of the purchase price allocation as well as higher expenses due to the step-up of the acquired inventories to fair values. Had the two acquisitions been included in the consolidated financial statements of the Merck Group as of January 1, 2012, total revenues and profit after tax for the period from January 1 to December 31, 2012 would have amounted to € 11,185.9 million and € 579.2 million, respectively.

With respect to acquisitions made in 2011, no subsequent purchase price allocation adjustments occurred.

→ Accounting policies

Accounting policies

(5) Accounting and measurement principles

With the exception of the changes described in the following, the accounting and measurement principles have remained unchanged in comparison with the previous year.

In June 2011, the IASB approved the amended version of IAS 19 "Employee Benefits," which was adopted by the EU in June 2012. The revised standard is applicable to annual periods beginning on or after January 2013. Merck made use of the possibility to adopt the standard earlier, and has been applying the rules contained in IAS 19 (2011) since January 1, 2012. At Merck, the changes that the amended standard involve related in particular to expected returns on plan assets, the treatment of past service cost as well as top-up amounts within the context of partial retirement agreements. The new rules are to be applied retroactively. Consequently, the balances brought forward to January 1, 2011, the figures reported in the previous year as well as the balances brought forward to January 1, 2012 were adjusted and stated on a comparable basis. Owing to the retroactive adjustments made, the opening balances as of January 1, 2011 changed in the balance sheet as follows: Net defined benefit assets (other current assets) increased by € 1.8 million, provisions for employee benefits ("long-term provisions") declined by € 7.3 million, and provisions for pensions and other post-employment benefits increased by € 3.4 million. Taking deferred taxes into consideration, this led overall to an increase of € 4.8 million in stockholders' equity as of January 1, 2011. The adjustment of the income statement for the period from January 1 to December 31, 2011 led to an increase of € 4.8 million in expenses and adversely affected the financial result by € 7.5 million. Taking deferred taxes into consideration, this reduced profit after tax by € 11.0 million and earnings per share by € 0.05. Equity as of December 31, 2011 increased by a total of € 0.9 million as a result of the adjustments.

Moreover, the method used to charge expenses for Group functions of Merck KGaA to functional expenses was modified in fiscal 2012. Whereas in the past, these expenses were also recorded under functional expenses in the income statement, they are now included under administration expenses. The Group functions affected in particular are those that perform legal, financial and organizational tasks to administer the Group. The income statement for 2011 was adapted for comparability reasons. In connection with the amended allocation of expenses for Group functions to functional expenses, their allocation to the operating divisions was also modified within the scope of segment reporting. These expenses are fully disclosed outside of the operating segments. For comparability reasons, the previous year's figures in the segment report were adjusted.

As of fiscal 2012, "exceptional items" are no longer disclosed in the income statement. The disclosures made under this item in the previous year were allocated to "other operating expenses and income" in accordance with their nature. Due to the allocation of exceptional items, the operating result and earnings before interest and tax (EBIT) are now identical.

→ Accounting policies

Overall, the individual topics had the following impact on the presentation of the income statement:

€ million	Prior-year presentation 2011	Adaptation to IAS 19	Allocation to Group functions	Allocation of one-time items	Adjusted presentation 2011
Sales	9,905.9	–	–	–	9,905.9
Royalty, license and commission income	370.5	–	–	–	370.5
Total revenues	**10,276.4**	**–**	**–**	**–**	**10,276.4**
Cost of sales	–2,788.3	–	2.7	–	–2,785.6
Gross margin	**7,488.1**	**–**	**2.7**	**–**	**7,490.8**
Marketing and selling expenses	–2,393.0	–	7.3	–	–2,385.7
Royalty, license and commission expenses	–500.5	–	–	–	–500.5
Administration expenses	–504.8	–4.8	–26.0	–	–535.6
Other operating expenses and income	–581.9	–	12.9	151.8	–417.2
Research and development	–1,517.1	–	3.1	–	–1,514.0
Amortization of intangible assets	–1,004.7	–	–	–	–1,004.7
Investment result	–1.0	–	–	–	–1.0
Operating result	**985.1**	**–4.8**	**–**	**151.8**	**1,132.1**
Exceptional items	151.8	–	–	–151.8	–
Earnings before interest and tax (EBIT)	**1,136.9**	**–4.8**	**–**	**–**	**1,132.1**
Financial result	–285.8	–7.5	–	–	–293.3
Profit before income tax	**851.1**	**–12.3**	**–**	**–**	**838.8**
Income tax	–222.1	1.3	–	–	–220.8
Profit after tax	**629.0**	**–11.0**	**–**	**–**	**618.0**
of which attributable to Merck KGaA shareholders	617.5	–11.0	–	–	606.5
of which attributable to non-controlling interest	11.5	–	–	–	11.5
Earnings per share (in €)	**2.84**	**–0.05**	**–**	**–**	**2.79**

→ Accounting policies

(6) Discretionary decisions and estimation uncertainty

To the extent that significant discretionary decisions are made by management in the application of accounting methods, these are described in the following Notes. The preparation of the consolidated financial statements requires that assumptions and estimates be made to a certain extent. This affects the amount of assets and liabilities, information on contingent assets and liabilities, as well as reported income and expenses. Corresponding estimation uncertainty results, for example, when measuring intangible assets, property, plant and equipment, as well as provisions. In each case, the assumptions and estimates are based on the state of knowledge and data available as of the reporting date; however the actual results may deviate from the expected values and lead to corresponding adjustments of book values for the assets and liabilities. The assumptions and estimates relevant to the preparation of the consolidated financial statements are reviewed on an ongoing basis. Changes to estimates are taken into account in the period in which the change was made as well as in future periods insofar as the change relates to both the reporting period and later periods. The material assumptions and parameters for the estimates made are presented in the respective Notes.

(7) Consolidation methods

The consolidated financial statements are based on the single-entity financial statements of the consolidated companies as of the balance sheet date, which were prepared applying consistent accounting polices in accordance with IFRS.

Acquisitions are accounted for using the purchase method in accordance with IFRS 3. Subsidiaries acquired and consolidated for the first time were measured at the carrying values at the time of acquisition on the basis of financial statements prepared for this purpose. Differences resulting in this connection are recognized as assets and liabilities to the extent that their fair values differ from the values actually carried in the financial statements. Any remaining – and usually positive – difference is recognized as goodwill within intangible assets, and is subjected to an impairment test if there are indications of impairment, or at least once a year.

In cases where a company was not acquired in full, non-controlling interest is measured using the fair value of the proportionate share of net assets. The option to measure non-controlling interest at fair value (full goodwill method) was not utilized.

When additional shares in non-controlling interest are acquired, the purchase price amount that exceeds the book value of this interest is recognized immediately in equity.

Interests in associates over which Merck has significant influence are – as far as they are material – included in accordance with IAS 28 using the equity method of accounting.

Intragroup sales, expenses and income, as well as all receivables and payables between the consolidated companies, were eliminated. The effects of intragroup deliveries reported under non-current assets and inventories were adjusted by eliminating any intragroup profits. In accordance with IAS 12, deferred taxes are applied to these consolidation measures.

→ Accounting policies

(8) Currency translation

The functional currency concept applies to the translation of financial statements of consolidated companies prepared in foreign currencies. The subsidiaries of the Merck Group generally conduct their operations independently. The functional currency of these companies is normally the respective local currency. Assets and liabilities are measured at the closing rate, and income and expenses are measured at weighted average annual rates in euros, the reporting currency. Any currency translation differences arising during consolidation of Group companies are taken directly to equity. If Group companies are deconsolidated, existing currency differences are reversed and recognized in income. The local currency is not the functional currency at only a few subsidiaries.

When the financial statements of consolidated companies are prepared, business transactions that are conducted in currencies other than the functional currency are recorded using the current exchange rate on the date of the transaction. Foreign currency monetary items (cash and cash equivalents, receivables and payables) in the year-end financial statements of the consolidated companies prepared in the functional currency are translated at the respective closing rates. Exchange differences from the translation of monetary items are recognized in the income statement with the exception of net investments in a foreign operation. Hedged items are likewise carried at the closing rate. The resulting gains or losses are eliminated in the income statement against offsetting amounts from the fair value measurement of derivatives.

Currency translation was based on the following key exchange rates:

	Average annual rate		Closing rate	
1 € =	2012	2011	Dec. 31, 2012	Dec. 31, 2011
British pound (GBP)	0.814	0.870	0.816	0.838
Chinese renminbi (CNY)	8.143	9.001	8.217	8.151
Japanese yen (JPY)	103.233	111.119	113.568	100.361
Swiss franc (CHF)	1.205	1.234	1.207	1.217
Taiwan dollar (TWD)	38.187	40.938	38.282	39.170
U.S. dollar (USD)	1.293	1.393	1.319	1.294

(9) Recognition of sales and other revenue

Sales are recognized net of related taxes as well as revenue-lowering items. They are deemed realized once the goods have been delivered or the services have been rendered, the material opportunities and risks of ownership have been transferred to the purchaser, the amount of revenue can be reliably determined, and payment is sufficiently probable. When sales are recognized, estimated amounts are taken into account for expected revenue-lowering items, for example rebates, discounts and returns.

In addition to revenue from the sale of goods, sales also include revenue from services, but the volume involved is insignificant.

→ Accounting policies

Depending on the substance of the relevant agreements, royalty, license and commission income is recognized either immediately or on an accrued basis if further contractual obligations exist.

Dividend income is recognized when the shareholders' right to receive the dividend is established. This is normally the date of the dividend resolution. Interest income is recognized on a pro rata basis using the effective interest rate method.

(10) Research and development

Research and development costs comprise the costs of research departments and process development, the cost of clinical trials as well as the expenses incurred as a result of research and development collaborations.

The costs of research cannot be capitalized and are expensed in full in the period in which they are incurred. As self-developed intangible assets, it is necessary to capitalize development expenses if they can be reliably measured and can be expected to lead to economic future benefits. This means that the necessary resources are available for the development of an asset, the asset is technically feasible, its completion and use are intended, and it is also marketable. Owing to the high risks up to the time that pharmaceutical products are approved, these criteria are not met in the pharmaceutical business. Costs incurred after regulatory approval are usually insignificant and are therefore not recognized as intangible assets. Owing to the risks existing up until market launch, development expenses in the Merck Millipore and Performance Materials divisions can likewise not be capitalized.

In addition to our own research and development, Merck is also a partner in collaborations aimed at developing marketable products. These collaborations typically involve payments for the achievement of certain milestones. Here, assessments are made as to whether these upfront or milestone payments represent compensation for services performed (research and development expense) or whether the payments represent the acquisition of an asset that has to be capitalized. Reimbursements for R&D are offset against research and development costs.

(11) Financial instruments: Principles

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. A distinction is made between non-derivative and derivative financial instruments.

Derivatives can be embedded in other financial instruments or in non-financial instruments. Under IFRS, an embedded derivative must be separated from the host contract and accounted for separately at fair value if the economic characteristics of the embedded derivative are not closely related to the economic characteristics of the host contract. Merck did not have any separable embedded derivatives during the fiscal year. Issued compound financial instruments with both an equity and a liability component must be recognized separately depending on their characteristics. Merck was not a party to hybrid or compound financial instruments during the fiscal year.

As a rule, Merck accounts for regular way purchases or sales of financial instruments at the settlement date and derivatives at the trade date.

Financial assets and financial liabilities are generally measured at fair value on initial recognition, if necessary including transaction costs.

→ Accounting policies

Financial assets are derecognized in part or in full if the contractual rights to the cash flows from the financial asset have expired or if control and substantially all the risks and rewards of ownership of the financial asset have been transferred to a third party. Financial liabilities are derecognized if the contractual obligations have been discharged, cancelled, or expired. Cash and cash equivalents are carried at nominal value.

(12) Financial instruments: Categories and classes of financial instruments

Financial assets and liabilities are classified into the following IAS 39 measurement categories and IFRS 7 classes.

"Financial assets and financial liabilities at fair value through profit or loss" can be both non-derivative and derivative financial instruments. Financial instruments in this category are subsequently measured at fair value. Gains and losses on financial instruments in this measurement category are recognized directly in the income statement. This measurement category includes an option to designate non-derivative financial instruments as at "fair value through profit or loss" on initial recognition (fair value option) or as "financial instruments held for trading". We did not apply the fair value option during the fiscal year. Merck only assigns derivatives to the "held for trading" measurement category. Special accounting rules apply to derivatives that are designated as hedging instruments in a hedging relationship (hedge accounting).

"Held-to-maturity investments" are non-derivative financial assets with fixed or determinable payments and a fixed maturity that are quoted in an active market. To be able to assign a financial asset to this measurement category, the entity must have the positive intention and ability to hold it to maturity. These investments are subsequently measured at amortized cost. If there is objective evidence that such an asset is impaired, an impairment loss is recognized in profit or loss. Subsequent reversals of impairment losses are also recognized in profit or loss up to the amount of the original cost of the asset. At Merck, this measurement category is used for current and non-current financial assets.

"Loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortized cost. If there is objective evidence that such assets are impaired, an impairment loss is recognized in the income statement. Subsequent reversals of impairment losses are also recognized in the income statement up to the amount of the original cost of the asset. Long-term non-interest-bearing and low-interest receivables are measured at their present value. Merck primarily assigns trade receivables, loans, and miscellaneous other current and non-current receivables to this measurement category. Merck uses a separate allowance account for impairment losses on trade and other receivables.

"Available-for-sale financial assets" are those non-derivative financial assets that were not assigned to the measurement categories "financial assets and financial liabilities at fair value through profit or loss", "loans and receivables" or "held-to-maturity investments". Financial assets in this category are subsequently measured at fair value. Changes in fair value are recognized immediately in equity and are only transferred to the income statement when the financial asset is derecognized. If there is objective evidence that such an asset is impaired, an impairment loss is recognized immediately in the income statement, including any amounts already recognized in equity. Reversals of impairment losses on previously impaired equity instruments are recognized immediately in equity. Reversals of impairment losses on previously impaired

→ Accounting policies

debt instruments are recognized in profit or loss up to the amount of the impairment loss. Any amount in excess of this is recognized directly in equity. At Merck, this measurement category is used in particular for securities and financial assets, as well as interests in subsidiaries that are not consolidated due to secondary importance (affiliates).

Financial assets in this category for which no fair value is available or fair value cannot be reliably determined are measured at cost less any cumulative impairment losses. Impairment losses on financial assets carried at cost may not be reversed.

"Other liabilities" are non-derivative financial liabilities that are subsequently measured at amortized cost. Differences between the amount received and the amount to be repaid are amortized to profit or loss over the maturity of the instrument. Merck primarily assigns financial liabilities, trade payables, and miscellaneous other non-derivative current and non-current liabilities to this category.

There were no reclassifications between the aforementioned measurement categories during the fiscal year.

The classes required to be disclosed in accordance with IFRS 7 consist of the measurement categories set out above. Additionally, cash and cash equivalents with an original maturity of up to 90 days, finance lease liabilities, and hedging derivatives used in hedge accounting are also classed in accordance with IFRS 7.

(13) Financial instruments: Derivative and hedge accounting

Merck uses derivatives solely to hedge recognized assets or liabilities and forecast transactions. Hedge accounting in accordance with IFRS is applied to some of these hedges. A distinction is made between fair value hedge accounting and cash flow hedge accounting. Designation of a hedging relationship requires a hedged item (underlying) and a hedging instrument assigned to that hedged item. At Merck, all hedges relate to existing or highly probable hedged items. Merck only uses derivatives as hedging instruments.

The hedging relationship must be effective at all times, i.e. the development of the value of the hedging instrument fully offsets changes in the value of the hedged item. In both cash flow and fair value hedges, the ineffective portion of the gain or loss on a hedging instrument is recognized in profit or loss. Merck uses the dollar offset method to measure hedge effectiveness. There are strict documentation requirements for hedge accounting. Derivatives that do not or no longer meet the documentation or effectiveness requirements for hedge accounting, or whose hedged item no longer exists, are reported as "financial assets and liabilities at fair value through profit or loss." Changes in fair value are then recognized in profit or loss.

As a rule, the purpose of a fair value hedge is to offset the exposure to changes in the fair value of recognized hedged items (financial assets or financial liabilities) through offsetting changes in the fair value of a hedging instrument. Offsetting gains and losses on the hedging instrument resulting from changes in fair value are recognized in profit or loss, net of deferred taxes. Offsetting gains and losses on the hedged item that are attributable to the hedged risk are also recognized in profit or loss, irrespective of the item's allocation to a measurement category.

→ Accounting policies

At Merck, cash flow hedges are normally a hedge of the exposure to variability in cash flows resulting from highly probable forecast transactions in foreign currencies. In cash flow hedges, the effective portion of the gains and losses on the hedging instrument is recognized in equity until the hedged item occurs. This is also the case if the hedging instrument expires, is sold, or is terminated before the hedged transaction occurs. The ineffective portion of a cash flow hedge is always recognized in profit or loss.

(14) Other non-financial assets and liabilities

Other non-financial assets are carried at amortized cost. Allowances are recognized for any credit risks. Long-term non-interest-bearing and low-interest receivables are carried at their present value. Other non-financial liabilities are carried at the amount to be repaid.

(15) Inventories

Inventories are carried at cost using the weighted average method. In accordance with IAS 2, in addition to directly attributable unit costs, manufacturing costs also include overheads attributable to the production process, which are determined on the basis of normal capacity utilization of the production facilities.

Inventories are written down if the net realizable value is lower than the acquisition or manufacturing cost carried in the balance sheet.

Inventory prepayments are recorded under other current assets.

(16) Intangible assets

Acquired intangible assets are recognized at cost and are classified as assets with finite and indefinite useful lives. Self-developed intangible assets are only capitalized if the requirements specified by IAS 38 have been met. Intangible assets with indefinite useful lives acquired in the course of business combinations are recognized at fair value on the acquisition date. Intangible assets with indefinite useful lives are not amortized, however they are tested for impairment when a triggering event arises or at least once a year. Goodwill is allocated to cash-generating units and tested for impairment either annually or if there are indications of impairment. A cash-generating unit is a division as presented in the Segment Reporting. The carrying amounts of the cash-generating units are compared with their recoverable amounts and impairment losses are recognized where the recoverable amount is lower than the carrying amount. The recoverable amount of a cash-generating unit is determined as the higher of fair value less costs to sell and value in use estimated using the discounted cash flow method. When testing for potential goodwill impairments, Merck determines the recoverable amount by discounting expected cash flows and therefore uses the value-in-use method. Reference is made to existing forecasts. Among other things, market observations, and – if available – market data, constant target-actual deviations, detailed plans as well as past experience form the basis for cash flow forecasts. Above all, assumptions on existing and future customers, future realizable selling prices and volumes and corresponding costs are made. The existing plans normally cover a period of four years. Cash flows for periods in excess of this are included using an individualized long-term growth rate for the specific cash-generating unit.

→ Accounting policies

In the business plan, a long-term growth rate of 2.8% was used to measure the goodwill of the Merck Millipore division (2011: 2.8%). The long-term growth rates used for the other divisions are as follows: Merck Serono 1.5% (2011: 1.5%), Consumer Health 2.5% (2011: 2.5%) and Performance Materials 1.0% (2011: 1.0%). The use of division-specific long-term growth rates is suited to taking the specific business and the imminent growth prospects thereof into account.

The expected future cash flows were discounted using a weighted average cost of capital (WACC) of 7.0% (2011: 7.0%). A 10% reduction in future cash flows was assumed when calculating sensitivity, furthermore sensitivities were calculated for the case that the weighted average cost of capital increases by 10%. We regarded greater volatility as unlikely based on our experience. Even if the actual future cash flows were 10% lower than the expected cash flows, there would be no need to record impairment losses for goodwill. Likewise, there would be no need to record impairment losses if future cash flows were discounted by a weighted average cost of capital that was 10% higher.

Intangible assets with indefinite useful lives are tested for impairment individually and annually. The carrying amounts are compared with the recoverable amounts. Impairment losses recognized on indefinite-lived intangible assets other than goodwill are reversed if the original reasons for impairment no longer apply.

Intangible assets with a finite useful life are amortized using the straight-line method. The useful lives of acquired patents, licenses and similar rights, brand names, trademarks and software are between 3 and 15 years. Amortization of intangible assets other than software is reported in a separate line item in the income statement. This item primarily comprises amortization in connection with the Serono and Millipore purchase price allocations. Amortization of software is allocated to the functional costs in the income statement. An impairment test is performed if there are indications of impairment. Impairment losses are determined using the same methodology as for indefinite-lived intangible assets. Impairment losses are reversed if the original reasons for impairment no longer apply.

(17) Property, plant and equipment

Property, plant and equipment is carried at the cost of acquisition or manufacture less depreciation and impairments plus reversals of impairments. The component approach is applied here in accordance with IAS 16. Subsequent acquisition and manufacturing costs are only capitalized if it is probable that future economic benefits will arise for the Group and the cost of the asset can be measured reliably. The cost of manufacture of self-constructed property, plant and equipment is calculated on the basis of the directly attributable unit costs and an appropriate share of overheads. If the construction of property, plant and equipment lasts for an extended period, the directly allocable costs of borrowing incurred up until completion are capitalized as part of the costs of acquisition or manufacture. In accordance with IAS 20, costs of acquisition or manufacture are reduced by the amount of government grants in those cases where government grants or subsidies have been paid for the acquisition or manufacture of assets (investment grants). Grants related to expenses which no longer offset future expenses are recognized in income. Property, plant and equipment is depreciated by the straight-line method over the useful life of the asset concerned. Depreciation of property, plant and equipment is based on the following useful lives:

→ Accounting policies

Useful life of property, plant and equipment

	Useful life
Production buildings	maximum of 33 years
Administration buildings	maximum of 40 years
Plant and machinery	6 to 25 years
Operating and office equipment; other facilities	3 to 10 years

The useful lives of the assets are reviewed regularly and adjusted if necessary. If indications of a decline in value exist, an impairment test is performed. The determination of the possible need to recognize impairments proceeds in the same way as for intangible assets. If the reasons for an impairment loss no longer exist, a write-up is recorded.

(18) Leasing

Where non-current assets are leased and economic ownership lies with Merck (finance lease), the asset is recognized at the present value of the lease payments or the lower fair value in accordance with IAS 17 and depreciated over its useful life. The corresponding payment obligations from future lease payments are recorded as liabilities. If an operating lease is concerned, the associated expenses are recognized in the period in which they are incurred.

(19) Deferred taxes

Deferred tax assets and liabilities result from temporary differences between the carrying amount of an asset or liability in the IFRS and tax balance sheets of consolidated companies as well as from consolidation activities, as far as the carrying amount of the asset or liability is recovered or settled in future periods. In addition, deferred tax assets are recorded in particular for tax loss carryforwards if and insofar as their utilization is probable in the foreseeable future. In accordance with the liability method, the tax rates enacted and published as of the balance sheet date are used.

Deferred tax assets and liabilities are only offset on the balance sheet data if they meet the requirements of IAS 12.

→ Accounting policies

(20) Provisions

Provisions are recognized in the balance sheet if it is more likely than not that a cash outflow will be required to settle the obligation and the amount of the obligation can be measured reliably. The carrying amount of provisions takes into account the amounts required to cover future payment obligations, recognizable risks and uncertain obligations of the Merck Group to third parties. Measurement is based on the settlement amount with the highest probability or if the probabilities are equivalent and a high number of similar cases exist, it is based on the expected value of the settlement amounts. Long-term provisions are discounted and carried at their present value as of the balance sheet date. To the extent that reimbursement claims exist as defined in IAS 37, they are recognized separately as an asset as soon as their realization is virtually certain and the asset recognition criteria has been met.

(21) Provisions for pensions and other post-employment benefits

Provisions for pensions and other post-employment benefits are recorded in the balance sheet in accordance with IAS 19. The obligations of our companies under defined benefit plans are measured using the projected unit credit method. Under the projected unit credit method, dynamic parameters are taken into account in calculating the expected benefit payments after an insured event occurs; these payments are spread over the entire period of service of the participating employees. Annual actuarial opinions are prepared for this purpose. The actuarial parameters for discount rates, salary and pension trends, staff turnover as well as health care cost increases, which were used to calculate the benefit obligation, were determined on a country-by-country basis in line with the economic conditions prevailing in each country. The respective discount rates are generally determined on the basis of the returns on high-quality corporate bonds issued with adequate maturities and currencies. For euro-denominated obligations, bonds with ratings of at least "AA" from one of the three major rating agencies (Standard & Poor's, Moody's or Fitch), and a euro swap rate of adequate duration served as the basis for the data. Against the background of financial market developments, the "iBoxx Euro Non-Sovereigns 10+" portfolio used in the previous year with a minimum rating of "AA" only encompassed eight bonds and therefore no longer offered sufficient market depth. If the obligations had been measured on the balance sheet date using the method applied in the previous year, pension obligations would have been € 184.5 million higher. Interest expenses for 2013 would be € 0.2 million higher without a change in method. Actuarial gains and losses resulting from changes in actuarial assumptions and/or experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) are recognized immediately in equity as soon as they are incurred, taking deferred taxes into account. Consequently, the balance sheet discloses – after deduction of the plan assets – the full scope of the obligations while avoiding the fluctuations in expenses that can result especially when the calculation parameters change. The actuarial gains and losses recorded in the respective reporting period are presented separately in the Statement of Comprehensive Income.

→ Notes to the consolidated income statement

Notes to the consolidated income statement

(22) Sales

Sales were generated primarily from the sale of goods and to a limited degree also included revenues from services rendered. Merck Group sales totaled € 10,740.8 million in 2012 (2011: € 9,905.9 million), which represented an increase of 8.4% compared to 2011. Adjusted for the impact of foreign exchange rates and acquisitions, organic growth amounted to 4.5%. Sales are presented by division and region in the Segment Reporting (see Note [53]).

(23) Royalty, license and commission income

In 2012, royalty and license income totaled € 417.2 million (2011: € 354.2 million) and mainly included royalty and license income from the products Humira® (AbbVie Inc., formerly Abbott), Avonex® (Biogen Idec Inc.), Enbrel® (Amgen Inc.), Puregon® (Merck & Co. Inc.) and Viibryd® (Forest Laboratories Inc.), as well as income from the active pharmaceutical ingredients bisoprolol and metformin.

In 2012, commission income totaled € 14.9 million (2011: € 16.3 million). This primarily consisted of cooperation and distribution agreements. The breakdown of royalty, license and commission income by division is presented in the Segment Reporting (see Note [53]).

(24) Cost of sales

Cost of sales primarily included the cost of manufactured products as well as goods purchased for resale. In accordance with IAS 2, the cost comprises overheads and, if necessary, inventory write-downs, in addition to directly attributable costs, such as the cost of materials, personnel and energy.

(25) Marketing and selling expenses

In addition to the cost of sales and marketing departments and of the sales force, marketing and selling expenses included advertising and logistics. The breakdown of marketing and selling expenses by division is presented in the Segment Reporting (see Note [53]).

(26) Royalty, license and commission expenses

In 2012, royalty and license expenses amounted to € 208.1 million (2011: € 204.1 million) and commission expenses totaled € 371.7 million (2011: € 296.4 million). The increase in commission expenses is due mainly to the marketing partnership with Pfizer Inc. for Rebif® in the United States. The breakdown of royalty, license and commission expenses by division is presented in the Segment Reporting (see Note [53]).

(27) Administration expenses

Personnel costs and material expenses of management and administrative functions were recorded under this item unless charged to other functional costs as internal services. The breakdown of administration expenses by division is presented in the Segment Reporting (see Note [53]).

→ Notes to the consolidated income statement

(28) Other operating expenses and income

Other operating expenses and income were as follows:

€ million	2012	2011
Litigation	–185.5	–61.1
Allowances for receivables	–68.3	–123.7
Exchange rate differences from operating activities	–60.4	–
Premiums, fees and contributions	–51.4	–49.4[1]
Non-income-related taxes	–33.0	–29.2
Expense for miscellaneous services	–20.2	–17.8
Impairment losses	–19.7	–20.4[1]
Project costs	–8.1	–37.3[1]
Impairment losses on Greek sovereign bonds	–2.8	–18.0
One-time items	–663.7	–64.0[1]
Other operating expenses	–132.6	–139.0[1]
Total other operating expenses	**–1,245.7**	**–559.9[1]**
Release of allowances for receivables	42.4	9.2
Income from miscellaneous services	21.0	30.5
Gains on disposals of assets	6.0	53.0
Exchange rate differences from operating activities	–	12.3
Other operating income	49.8	37.7
Total other operating income	**119.2**	**142.7**
Total other operating income and expenses	**–1,126.5**	**–417.2[1]**

[1] Previous year's figures have been adjusted, see Note [5]

The one-time items included in other operating expenses are explained in more detail under Note [29].

Allowances for receivables and the release of allowances for receivables included both trade accounts receivable as well as other receivables disclosed in the balance sheet under "other current assets" insofar as the expenses were not reported under one-time items.

Other operating expenses included, among other things, special environmental protection costs and non-allocatable personnel expenses. The breakdown of other operating expenses and income by division is presented in the Segment Reporting (see Note [53]).

→ Notes to the consolidated income statement

(29) One-time items

One-time items comprised:

€ million	2012	2011
Integration costs / IT costs	–36.7	–38.0
Restructuring costs	–503.8	–
Gains / losses on the divestment of businesses	–60.1	151.8
Acquisition costs	–1.0	–
Other one-time items	–3.1	–106.7
One-time items before impairment losses	**–604.7**	**7.1**
Impairment losses	–59.0	–332.0
One-time items (total)	**–663.7**	**–324.9**

The restructuring charges incurred in fiscal 2012 amounting to € 503.8 million were directly related to the announced efficiency improvement and cost reduction program “Fit for 2018”. The aim of the associated measures is to increase the competitiveness of Merck, especially by optimizing cost structures in all divisions. The recognized restructuring charges largely related to personnel measures, for instance the elimination of positions in order to create a leaner and more agile organization.

The losses from the divestment of businesses amounting to € 60.1 million related mainly to subsequent expenses in connection with administrative fine proceedings by the European Commission for the Generics business, which was divested in 2007. This item also included the gain on the sale of the battery electrolyte activities.

Asset impairments amounting to € 34.3 million were attributable to the efficiency improvement and cost reduction program, resulting in a total expense of the efficiency improvement and cost reduction program of € 538.1 million.

One-time items are in principle disclosed under “other operating expenses and income.” In the income statement for 2011, individual one-time items were included in other line items as well.

Specifically, the one-time items in 2011 were as follows: Gains from the divestment of businesses in 2011 largely comprised € 157.1 million from the divestment of the Crop BioScience business. Other one-time items amounting to € 52.2 million were reported for inventory write-downs under cost of sales. In connection with the return of the rights to safinamide, research and development costs included expenses for provisions for services still to be performed amounting to € 41.7 million. Furthermore, other one-time items included expenses in connection with discontinuing the development of cladribine tablets amounting to € 12.8 million. Intangible assets for safinamide (€ 63.4 million), cladribine tablets (€ 50.4 million), IMO-2055 (€ 35.4 million), a further research project for the Merck Serono division (€ 9.0 million) and patents in the Performance Materials division (€ 8.6 million) were written off and recognized as impairment losses. In the income statement, this is disclosed under amortization of intangible assets. Additionally, other operating expenses included the impairments amounting to € 165.1 million for the LSB production plant. The breakdown of one-time items excluding impairment losses by division is presented in Segment Reporting (see Note [53]).

→ Notes to the consolidated income statement

(30) Research and development

Research and development costs decreased slightly in 2012 by 0.2% to € 1,511.3 million (2011: € 1,514.0)[1] and were thus nearly at the previous year's level. In particular, a decline in the Merck Serono division, which reported one-time items of € 41.7 million in 2011, was offset by an expansion of research in the biopharmaceutical sector of the Merck Millipore division. Reimbursements for R&D amounting to € 37.2 million (2011: € 22.9 million) were offset against research and development costs. This figure also included government subsidies of € 6.4 million. The breakdown of research and development costs by division is presented in the Segment Reporting (see Note [53]).

(31) Amortization of intangible assets

Due to the particular significance of the amortization of intangible assets to the Merck Group, this item is disclosed separately in the income statement. This item mainly included amortization of intangible assets in connection with the purchase price allocations for Serono and Millipore. Amortization of intangible assets decreased to € 871.6 million in 2012 from € 1,004.7 million in 2011. The decrease was due to the fact that in 2011, this item included impairment losses classified as one-time items amounting to € 166.8 million, whereas in 2012 no impairment losses were included under this item. Amortization of software is allocated to the respective functional costs.

(32) Investment result

€ million	2012	2011
Investment result from associates (equity method)	–	–1.2
Other investment income / expense	0.6	0.2
	0.6	**–1.0**

(33) Financial result

€ million	2012	2011
Interest income and similar income	35.6	57.8
Interest expenses and similar expenses	–221.9	–227.2
Interest component from currency hedging transactions	–19.0	–17.0
Net interest	**–205.3**	**–186.4**
Interest component of the additions to pension provisions and other non-current provisions	–60.3	–74.9[1]
Exchange rate differences from financing activities	11.2	–30.4
Income from financial interests	–0.2	–1.6
	–254.6	**–293.3**[1]

[1] Previous year's figures have been adjusted, see Note [5]

→ Notes to the consolidated income statement

Net interest amounting to € –205.3 million (2011: € –186.4 million) worsened in comparison with 2011 owing to lower interest income from cash investments due to the general decline in interest rates. In addition, one-time effects were incurred in 2011. Despite a negative effect from the dedesignation of a € 250.0 million interest rate swap, interest expenses declined as a result of the repayment of two bonds, each with a nominal volume of € 500.0 million, in March and December 2012.

The interest portion of the additions to pension provisions and other non-current provisions decreased due to transfers of plan assets to a Contractual Trust Arrangement in the fourth quarter of 2011 and in the fourth quarter of 2012.

(34) Income tax

€ million	2012	2011
Current taxes in the period	–451.2	–422.0
Taxes for previous periods	–4.5	11.5
Deferred taxes in the period	325.7	189.7[1]
	–130.0	**–220.8[1]**

[1] Previous year's figures have been adjusted, see Note [5]

The following table presents the tax reconciliation from theoretical tax expense to tax expense according to the income statement. The theoretical tax expense is determined by applying the statutory tax rate of 30.7% of a corporation headquartered in Darmstadt.

€ million	2012	2011
Profit before income tax	709.0	838.8[1]
Tax rate	30.7%	30.7%
Theoretical tax expense	–217.7	–257.5[1]
Tax rate differences	67.6	–11.6[1]
Tax effect of companies with a negative contribution to consolidated profit	–1.9	–3.2
Tax for other periods	–4.5	11.5
Tax credits	71.3	38.2
Tax effect on tax loss carryforwards	0.1	25.7
Effect of non-deductible expenses / tax-free income / other tax effects	–44.9	–23.9[1]
Tax expense according to income statement	**–130.0**	**–220.8[1]**
Tax ratio according to income statement	18.3%	26.3%[1]

[1] Previous year's figures have been adjusted, see Note [5]

→ Notes to the consolidated income statement

The tax expense consisted of corporation and trade income taxes for the companies domiciled in Germany as well as comparable income taxes for foreign companies.

In 2012, one-time deferred tax income of € 2.4 million was recognized owing to changes in tax rates in individual companies (2011: € 19.2 million).

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

€ million	2012	2011
Change in deferred tax assets (balance sheet)	216.6	137.8[1]
Change in deferred tax liabilities (balance sheet)	127.6	60.9
Deferred taxes credited / debited to equity	–20.3	–12.9[1]
Changes in scope of consolidation / currency translation / Other changes	1.8	3.9
Deferred taxes (income statement)	**325.7**	**189.7[1]**

[1] Previous year's figures have been adjusted, see Note [5]

Tax loss carryforwards were structured as follows:

	Dec. 31, 2012			Dec. 31, 2011		
€ million	Germany	Abroad	Total	Germany	Abroad	Total
Tax loss carryforwards	281.9	285.2	**567.1**	1.8	188.1	**189.9**
thereof: Including deferred tax asset	278.3	146.3	**424.6**	–	100.9	**100.9**
Deferred tax asset	41.3	33.0	**74.3**	–	35.1	**35.1**
thereof: Excluding deferred tax asset	3.6	138.9	**142.5**	1.8	87.2	**89.0**
Theoretical deferred tax asset	1.0	21.1	**22.1**	0.3	28.2	**28.5**

The increase in tax loss carryforwards compared to 2011 was mainly the result of the release of tax reserves in the tax balance sheet of Merck KGaA as well as the recognition of state taxes for the United States. Deferred tax assets are recognized for tax loss and interest carryforwards only if for tax loss carryforwards of less than € 5.0 million, realization of the related tax benefits is probable within one year, and for tax loss carryforwards of more than € 5.0 million realization of the related tax benefits is probable within the next three years.

The vast majority of the tax loss carryforwards either has no expiry date or can be carried forward for up to 20 years.

The tax loss carryforwards accumulated in Germany for corporation and trade tax amounted to € 281.9 million (2011: € 1.8 million).

The additional theoretically possible deferred tax assets amounted to € 22.1 million (2011: € 28.5 million).

In 2012, the income tax expense was reduced by € 0.1 million (2011: € 25.7 million) due to the utilization of tax loss carryforwards from prior years for which no deferred tax asset had been recognized in prior periods.

→ Notes to the consolidated income statement

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

	Dec. 31, 2012		Dec. 31, 2011	
€ million	Assets	Liabilities	Assets	Liabilities
Intangible assets	46.4	1,162.7	71.3	1.293.5
Property, plant and equipment	5.2	67.0	5.9	94.7
Current and non-current financial assets	0.9	4.1	14.9	21.1
Inventories	438.7	4.7	384.4	3.5
Current and non-current receivables/Other assets	41.8	12.6	32.4	20.7
Provisions for pensions and other post-employment benefits	153.6	47.3	131.3[1]	14.2
Current and non-current other provisions	316.2	60.1	192.5[1]	14.2
Current and non-current liabilities	53.1	4.6	74.1	6.0
Tax loss carryforwards	74.3	–	35.1	–
Tax refund claims/Other	43.7	56.2	29.2	92.8
Offset deferred tax assets and liabilities	–227.3	–227.3	–241.1	–241.1
Deferred taxes (balance sheet)	**946.6**	**1,192.0**	**730.0**	**1.319.6**

[1] Previous year's figures have been adjusted, see Note [5]

In addition to deferred tax assets on tax loss carryforwards amounting to € 74.3 million (2011: € 35.1 million), deferred tax assets of € 872.3 million (2011: € 694.9 million) were recognized for other temporary differences.

As of the balance sheet date, deferred tax liabilities for temporary differences for interests in subsidiaries as regards planned dividend payments amounted to € 52.7 million (2011: € 100.2 million). Of this amount, € 43.6 million (2011: € 83.5 million) was recognized within the scope of the Millipore acquisition. No deferred tax liabilities were recognized for other temporary differences relating to interests in subsidiaries since the reversal of these differences was not foreseeable. Temporary differences relating to the retained earnings of subsidiaries amounted to € 3,533.0 million (2011: € 3,508.8 million).

(35) Non-controlling interest

Non-controlling interest in net profit was primarily composed of the minority interests in the listed companies Merck Ltd., India, and P.T. Merck Tbk., Indonesia, as well as in Merck Ltd., Thailand, and Merck (Pvt.) Ltd., Pakistan.

(36) Earnings per share

Basic earnings per share are calculated by dividing the profit after tax attributable to the shareholders of Merck KGaA by the weighted average number of theoretical shares outstanding. The use of a theoretical number of shares takes into account the fact that the general partner's capital is not represented by shares. The share capital of € 168.0 million was divided into 64,621,126 shares. Accordingly, the general partner's capital of € 397.2 million was divided into 152,767,813 theoretical shares. Overall, the total capital thus amounted to € 565.2 million or 217,388,939 theoretical shares outstanding. The weighted average number of shares was likewise 217,388,939 in 2012.

As of December 31, 2012 there were no potentially dilutive shares.

→ Notes to the consolidated balance sheet

Notes to the consolidated balance sheet

(37) Cash and cash equivalents

This item comprised:

€ million	Dec. 31, 2012	Dec. 31, 2011
Cash, bank balances and cheques	349.1	187.7
Short-term cash investments	380.6	750.1
	729.7	**937.8**

Changes in cash and cash equivalents as defined by IAS 7 are presented in the cash flow statement. This item included short-term receivables due from affiliates amounting to € 6.9 million (2011: € 8.2 million).

Short-term cash investments declined mainly owing to the reclassification to current financial assets.

(38) Current financial assets

This item comprised the following categories:

€ million	Dec. 31, 2012	Dec. 31, 2011
Financial investments held to maturity	349.7	27.3
Available-for-sale financial investments	1,230.1	307.9
Loans and receivables	200.0	760.0
Derivative assets (financial transactions)	18.1	21.9
	1,797.9	**1,117.1**

The increase in current financial assets resulted mainly from "available-for-sale financial investments", which rose to € 1,230.1 million (2011: € 307.9 million) owing to the reclassification of short-term monetary deposits to current financial assets. As of December 31, 2012, this item mainly included commercial paper amounting to € 283.7 million (2011: € 247.3 million) as well as bonds amounting to € 616.5 million (2011: € 0.0 million). All Greek sovereign bonds, which were included under "available for sales financial investments" with a book value of € 10.9 million, were sold in 2012. Following the debt cut in the first quarter of 2012, the nominal value of these securities was € 20.1 million (2011: € 43.2 million before the debt cut). We received these securities in 2011 within the scope of an exchange of receivables from Greek hospitals. On the date of their sale, the purchase price of € 8.1 million largely corresponded to the net book value of the bonds. The impairments recognized in 2012 prior to the sale amounted to € 2.8 million and were reported under "other operating expenses".

Moreover, fair value adjustments of € +0.8 million which were recognized immediately in equity, were made on "available-for-sale financial investments" (2011: € +1.3 million).

→ Notes to the consolidated balance sheet

(39) Trade accounts receivable

Trade accounts receivable amounting to € 2,114.6 million (2011: € 2,328.3 million) only existed vis-à-vis third parties:

Trade accounts receivable past due were as follows:

€ million	Dec. 31, 2012	Dec. 31, 2011
Neither past due nor impaired	1,556.9	1,676.0
Past due, but not impaired		
up to 3 months	210.5	196.5
up to 6 months	24.7	29.2
up to 12 months	13.3	17.7
up to 24 months	6.6	7.6
over 2 year	3.6	2.8
Impaired	299.0	398.5
Book value	**2,114.6**	**2,328.3**

The corresponding allowances developed as follows:

€ million	2012	2011
January 1	**–149.0**	**–58.9**
Additions	–68.3	–123.0
Reversals	42.4	9.2
Utilizations	20.6	23.6
Currency translation and other changes	–0.5	0.1
December 31	**–154.8**	**–149.0**

Due to the large number of products we offer, trade accounts receivable exist vis-à-vis a large number of customers. This diversification helps to reduce risk with respect to potential defaults on receivables. In addition, established credit management processes that take individual customer risks into account are used to assess the recoverability of receivables. If there are indications that individual trade accounts receivable are partly or fully impaired, corresponding allowances are recognized. Additions to allowances relate mainly to receivables from state hospitals and health care organizations in Italy, Spain, Greece and Portugal.

In the period from January 1 to December 31, 2012 trade receivables in Italy and Spain with a nominal value of € 256.9 million were sold for € 246.5 million. Previous write-downs in this context amounting to € 10.4 million were reversed and disclosed under other operating income. The sold receivables do not involve any further rights of recovery vis-à-vis Merck.

→ Notes to the consolidated balance sheet

(40) Inventories

This item comprised:

€ million	Dec. 31, 2012	Dec. 31, 2011
Raw materials and production supplies	308.1	288.9
Work in progress, finished goods and goods purchased for resale	1,225.8	1,402.2
	1,533.9	**1,691.1**

Write-downs of inventories amounted to € 126.1 million (2011: € 116.0 million). As of the balance sheet date, the residual book value of inventories that were written down amounted to € 931.4 million (2011: € 894.8 million). In 2012, inventory write-ups of € 36.3 million were recorded (2011: € 0.7 million). As of the balance sheet date, no inventories were used to secure liabilities.

(41) Other assets

Other assets comprised the following:

€ million	current	non-current	Dec. 31, 2012	current	non-current	Dec. 31, 2011
Other receivables	86.5	2.3	88.8	88.1	2.5	90.6
Derivative assets (operational)	23.3	32.0	55.3	2.6	–	2.6
Financial items	**109.8**	**34.3**	**144.1**	**90.7**	**2.5**	**93.2**
Receivables from non-income related taxes	94.0	31.4	125.4	85.0	40.7	125.7
Prepaid expenses	34.3	2.2	36.5	37.1	3.6	40.7
Assets from defined benefit plans	15.2	–	15.2	19.1[1]	–	19.1[1]
Other assets	18.2	7.5	25.7	20.1	8.1	28.2
Non-financial items	**161.7**	**41.1**	**202.8**	**161.3**	**52.4**	**213.7**
	271.5	**75.4**	**346.9**	**252.0[1]**	**54.9**	**306.9[1]**

[1] Previous year's figures have been adjusted, see Note [5]

Other receivables included current receivables from related parties amounting to € 5.4 million (2011: € 6.2 million) as well as current receivables from affiliates amounting to € 0.3 million (2011: € 0.4 million).

→ Notes to the consolidated balance sheet

Other receivables from third parties past due were as follows:

€ million	Dec. 31, 2012	Dec. 31, 2011
Neither past due nor impaired	76.3	69.0
Past due, but not impaired		
up to 3 months	4.7	4.7
up to 6 months	0.9	5.6
up to 12 months	0.3	0.4
up to 24 months	0.8	4.3
over 2 years	0.1	–
Impaired	–	–
Book value	**83.1**	**84.0**

In the year under review, allowances for other receivables from third parties amounting to € 1.6 million (2011: € 0.7 million) were necessary. These were reported under one-time items in 2012. The corresponding amount for 2011 was reported under allowances for receivables. There were no reversals of allowances in 2012 or in 2011. With regard to other receivables that were neither impaired nor delayed, as of the reporting date there were no indications that the debtors would not meet their payment obligations.

(42) Tax receivables

Tax receivables amounted to € 178.5 million (2011: € 72.7 million) and resulted from tax prepayments that exceeded the actual amount of tax payable for 2012 and prior fiscal years, and from refund claims for prior years as well as withholding tax credits.

→ Notes to the consolidated balance sheet

(43) Intangible assets

€ million	Patents, licenses and similar rights, brands, trademarks and other: Finite useful life	Indefinite useful life	Goodwill	Software	Advance payments	Total
Acquisition and manufacturing cost January 1, 2011	**10,897.7**	**491.6**	**4,622.3**	**276.8**	**41.9**	**16,330.3**
Currency translation	60.6	–0.3	45.1	1.9	–0.1	107.2
Changes in scope of consolidation	79.1	–	91.4	0.1	–	170.6
Additions	8.1	31.2	–	11.8	28.6	79.7
Disposals	–0.3	–0.3	–	–6.5	–0.4	–7.5
Transfers	11.9	–9.0	–	48.1	–44.0	7.0
Reclassification to assets held for sale	–	–	–	–	–	–
December 31, 2011	**11,057.1**	**513.2**	**4,758.8**	**332.2**	**26.0**	**16,687.3**
Accumulated amortization and impairment losses January 1, 2011	**–3,330.3**	**–313.6**	**–42.2**	**–160.1**	**–**	**–3,846.2**
Currency translation	–16.7	–0.1	–0.2	–1.4	–	–18.4
Changes in scope of consolidation	–	–	–	–	–	–
Amortization	–839.1	–	–	–50.8	–	–889.9
Impairment losses	–59.0	–111.4	–	–0.7	–	–171.1
Disposals	0.3	0.3	–	6.0	–	6.6
Transfers	–0.2	–0.5	–	–3.3	–	–4.0
Write-ups	–	–	–	–	–	–
Reclassification to assets held for sale	–	–	–	–	–	–
December 31, 2011	**–4,245.0**	**–425.3**	**–42.4**	**–210.3**	**–**	**–4,923.0**
Net carrying amount as of December 31, 2011	**6,812.1**	**87.9**	**4,716.4**	**121.9**	**26.0**	**11,764.3**
Acquisition and manufacturing cost January 1, 2012	**11,057.1**	**513.2**	**4,758.8**	**332.2**	**26.0**	**16,687.3**
Currency translation	–31.0	–0.1	–28.6	–3.8	–	–63.5
Changes in scope of consolidation	6.1	–	8.0	–	–	14.1
Additions	42.8	81.0	–	5.4	32.0	161.2
Disposals	–1.9	–	–42.5	–82.3	–0.9	–127.6
Transfers	–2.2	–	–	36.6	–21.7	12.7
Reclassification to assets held for sale	–	–	–	–	–	–
December 31, 2012	**11,070.9**	**594.1**	**4,695.7**	**288.1**	**35.4**	**16,684.2**
Accumulated amortization and impairment losses January 1, 2012	**–4,245.0**	**–425.3**	**–42.4**	**–210.3**	**–**	**–4,923.0**
Currency translation	9.8	0.1	–0.1	3.3	–	13.1
Changes in scope of consolidation	–	–	–	–	–	–
Amortization	–871.6	–	–	–51.3	–	–922.9
Impairment losses	–8.5	–12.3	–	–8.7	–	–29.5
Disposals	1.8	–	42.5	78.3	–	122.6
Transfers	0.4	–	–	–0.4	–	–
Write-ups	–	–	–	–	–	–
Reclassification to assets held for sale	–	–	–	–	–	–
December 31, 2012	**–5,113.1**	**–437.5**	**–**	**–189.1**	**–**	**–5,739.7**
Net carrying amount as of December 31, 2012	**5,957.8**	**156.6**	**4,695.7**	**99.0**	**35.4**	**10,944.5**

→ Notes to the consolidated balance sheet

The changes in scope of consolidation included additions amounting to € 14.1 million (2011: € 170.6 million). These additions related to the acquisitions of CellASIC Corp. and Biochrom AG. Details of these transactions are presented under Note [4].

The net carrying amount of "Patents, licenses and similar rights, brands, trademarks and other" with finite useful lives amounting to € 5,957.8 million (2011: € 6,812.1 million) mainly included the identified and capitalized assets from the Millipore and Serono purchase price allocations. The vast majority was attributable to technologies and know-how. The remaining useful lives of these assets ranged between 6.0 and 15.0 years. This item also included licenses from these acquisitions with remaining useful lives of between 0.5 and 5.0 years. In response to the increasing market impact of oral therapies for multiple sclerosis, the amortization period of Rebif® was shortened by two years in 2011, starting on April 1. In fiscal 2012, this change increased amortization by a total of € 68.4 million (2011: € 51.3 million).

In fiscal 2012, impairment losses on intangible assets with finite useful lives totaled € 8.5 million (2011: € 59.0 million). Of this amount, € 3.1 million was attributable to the Futuran® and Ketesse® licenses in the Merck Serono division and € 4.0 million to the Fitoladius brand of the Consumer Health division. These impairments were recorded in the income statement as one-time items under "other operating expenses". Moreover, € 1.4 million was attributable to the Pinion license agreement in the Performance Materials division and was recorded in the income statement as an impairment loss under "other operating expenses".

The changes in goodwill caused by foreign exchange rates resulted almost exclusively from translating the goodwill for Millipore, part of which is carried in U.S. dollars, into the reporting currency. Since goodwill and intangible assets with indefinite useful lives are not amortized, these are subjected to an annual impairment test. As in 2011, goodwill was not impaired in 2012. Impairment losses on intangible assets with indefinite useful lives totaled € 12.3 million in 2012 (2011: € 111.4 million). Of this amount, € 12.0 million was accounted for by the Merck Serono division, with € 7.4 million attributable to the Ambrx ARX 424 project, € 1.3 million to the Bionomics Kv 1.3 blocker license agreement, € 1.6 million to the license agreement with Domain Therapeutics SA, and € 1.7 million to the Affectis project P2X7 inhibitor. These amounts were recorded in the income statement as one-time items under "other operating expenses." Moreover, impairment losses of € 0.3 million were incurred in the Performance Materials division in connection with OLED patents. These were recorded in the income statement as impairment losses under "other operating expenses." In 2011, impairment losses of € 111.4 million on intangible assets with indefinite useful lives were incurred and recorded in the income statement under "amortization of intangible assets."

→ Notes to the consolidated balance sheet

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

€ million	Remaining useful life in years	Merck Serono	Consumer Health	Performance Materials	Merck Millipore	Total Dec. 31, 2012	Total Dec. 31, 2011
Patents, licenses and similar rights, brands, trademarks and other							
Finite useful life		**3,813.0**	**13.3**	**38.1**	**2,093.4**	**5,957.8**	**6,812.1**
Rebif®	7.0	2,577.0	–	–	–	2,577.0	2,944.9
Gonal-f®	6.0	569.7	–	–	–	569.7	664.6
Saizen®	7.0	215.1	–	–	–	215.1	245.9
Humira®	5.0	184.8	–	–	–	184.8	223.7
Avonex®	0.5	23.8	–	–	–	23.8	72.2
Enbrel®	–	–	–	–	–	–	38.0
Puregon®	2.0	22.9	–	–	–	22.9	34.4
Other technologies	1.4–15.0	218.5	0.2	36.0	487.5	742.2	789.2
Brands	1.6–11.5	–	13.1	0.6	281.3	295.0	333.4
Customer relationships	1.0–14.5	1.2	–	1.5	1,324.6	1,327.3	1,465.8
Indefinite useful life	**–**	**150.3**	**–**	**6.3**	**–**	**156.6**	**87.9**
Goodwill	**–**	**1,681.2**	**164.6**	**23.8**	**2,826.1**	**4,695.7**	**4,716.4**

Intangible assets with an indefinite useful life primarily related to rights that Merck had acquired for products or technologies that were still in the research and development stage. Amortization will only begin once product marketing begins.

In fiscal 2012, software amortization expenses of € 8.7 million (2011: € 0.7 million) were recognized and recorded as one-time items under "other operating expenses". Of this amount, € 8.2 million was attributable to customer relationship management software in the Merck Serono division as well as € 0.4 million to strategic planning software in Corporate and Other.

→ Notes to the consolidated balance sheet

(44) Property, plant and equipment

€ million	Land, land rights and buildings, including buildings on third-party land	Plant and machinery	Other facilities, operating and office equipment	Construction in progress and advance payments to vendors and contractors	Total
Acquisition and manufacturing cost January 1, 2011	**2,321.9**	**2,663.9**	**845.4**	**778.9**	**6,610.1**
Currency translation	27.3	3.7	3.4	–0.6	33.8
Changes in scope of consolidation	0.6	5.1	2.5	1.1	9.3
Additions	32.7	34.3	42.9	262.0	371.9
Disposals	–23.6	–41.2	–27.7	–1.8	–94.3
Transfers	117.1	159.4	48.7	–310.6	14.6
Reclassification to assets held for sale	–	–	–	–	–
December 31, 2011	**2,476.0**	**2,825.2**	**915.2**	**729.0**	**6,945.4**
Accumulated depreciation and impairment losses January 1, 2011	**–872.5**	**–1,885.5**	**–600.5**	**–10.1**	**–3,368.6**
Currency translation	–7.4	2.1	–2.6	–	–7.9
Changes in scope of consolidation	2.9	–	–	–	2.9
Depreciation	–94.0	–175.0	–85.8	–	–354.8
Impairment losses	–2.2	–	–0.1	–165.1	–167.4
Disposals	14.8	37.0	26.3	0.9	79.0
Transfers	3.4	–20.2	–0.7	–0.1	–17.6
Write-ups	0.8	1.4	0.2	–	2.4
Reclassification to assets held for sale	–	–	–	–	–
December 31, 2011	**–954.2**	**–2,040.2**	**–663.2**	**–174.4**	**–3,832.0**
Net carrying amount as of December 31, 2011	**1,521.8**	**785.0**	**252.0**	**554.6**	**3,113.4**
Acquisition and manufacturing cost January 1, 2012	**2,476.0**	**2,825.2**	**915.2**	**729.0**	**6,945.4**
Currency translation	–16.1	–16.4	–5.7	–1.4	–39.6
Changes in scope of consolidation	2.9	3.3	0.1	–	6.3
Additions	8.8	28.3	33.2	260.0	330.3
Disposals	–42.0	–89.8	–67.1	–0.9	–199.8
Transfers	221.9	293.8	31.0	–557.6	–10.9
Reclassification to assets held for sale	–	–	–	–	–
December 31, 2012	**2,651.5**	**3,044.4**	**906.7**	**429.1**	**7,031.7**
Accumulated depreciation and impairment losses January 1, 2012	**–954.2**	**–2,040.2**	**–663.2**	**–174.4**	**–3,832.0**
Currency translation	4.0	12.6	4.8	–	21.4
Changes in scope of consolidation	–	–	–	–	–
Depreciation	–108.7	–199.4	–88.3	–	–396.4
Impairment losses	–16.0	–21.5	–4.1	–2.5	–44.1
Disposals	26.5	82.7	64.1	0.1	173.4
Transfers	–4.6	1.2	1.6	–	–1.8
Write-ups	1.4	–	–	–	1.4
Reclassification to assets held for sale	–	–	–	–	–
December 31, 2012	**–1,051.6**	**–2,164.6**	**–685.1**	**–176.8**	**–4,078.1**
Net carrying amount as of December 31, 2012	**1,599.9**	**879.8**	**221.6**	**252.3**	**2,953.6**

→ Notes to the consolidated balance sheet

The changes in scope of consolidation included additions amounting to € 6.3 million (2011: € 17.4 million). The additions are due to the acquisitions of CellASIC Corp. and Biochrom AG. In 2011, changes in scope of consolidation included disposals of € 5.2 million.

Impairment losses totaled € 44.1 million in fiscal 2012 (2011: € 167.4 million). Of this total, € 26.2 million was recorded as one-time items under "other operating expenses". Of this amount, € 18.6 million was attributable to laboratory equipment and office furnishings in Corsier-sur-Vevey, Switzerland for the Merck Serono division, € 6.7 million to restructuring of the Hull site (United Kingdom) within the Consumer Health division and € 0.9 million to restructuring within Merck Millipore. A further € 17.9 million in impairments on property, plant and equipment was recorded as impairment losses under "other operating expenses". Of this amount, € 10.3 million was attributable to the Performance Materials division, € 4.3 million to Merck Serono, and € 3.3 million to Merck Millipore.

The total amount of property, plant and equipment used as collateral was immaterial. Total government grants and subsidies in connection with investments in property, plant and equipment during the fiscal year amounted to € 12.3 million (2011: € 14.8 million).

Directly allocable borrowing costs were capitalized; the cumulative amount was immaterial. The weighted average cost of capital used by the Group was 4.1% per annum.

Property, plant and equipment also included assets that were leased. The total value of capitalized leased assets amounted to € 10.1 million (2011: € 16.5 million) and the corresponding obligations amounted to € 9.8 million (2011: € 11.8 million) (see Note [46]).

The book values of assets classified as finance leases were as follows:

€ million	Dec. 31, 2012	Dec. 31, 2011
Land and buildings	8.8	14.1
Vehicles	0.9	1.2
Other property, plant and equipment	0.4	1.2
	10.1	**16.5**

(45) Non-current financial assets

€ million	Dec. 31, 2012	Dec. 31, 2011
Investments in available-for-sale affiliates	16.1	12.4
Investments in available-for-sale associates and other companies	27.3	22.1
Securities – available-for-sale financial investments	5.3	6.8
Securities – financial investments held to maturity	30.0	–
Loans and other non-current financial assets	18.4	19.0
	97.1	**60.3**

Investments in affiliates, associates and other companies were classified as available for sale. Investments with a book value of € 41.8 million (2011: € 32.6 million) were carried at cost since their market value could not be reliably determined.

In 2012, impairment losses totaling € 5.1 million (2011: € 14.9 million) were recognized. Of this amount, € 5.0 million was recorded in the income statement as one-time items under "other operating expenses".

→ Notes to the consolidated balance sheet

Moreover, fair value adjustments of € –0.4 million (2011: € 2.5 million) were made on "available-for-sale financial assets" and recognized in equity.

(46) Financial liabilities

This item comprised:

€ million	current	non-current	Dec. 31, 2012	current	non-current	Dec. 31, 2011
Bonds	749.1	3,145.9	3,895.0	1,004.7	3,893.7	4,898.4
Bank loans and overdrafts	48.1	19.9	68.0	106.9	20.3	127.2
Liabilities to related parties	233.1	–	233.1	199.2	–	199.2
Loans from third parties and other financial liabilities	21.5	66.6	88.1	17.2	66.0	83.2
Liabilities from derivatives (financial transactions)	37.1	122.4	159.5	63.9	155.6	219.5
Finance leases	2.5	7.3	9.8	2.5	9.3	11.8
	1,091.4	**3,362.1**	**4,453.5**	**1,394.4**	**4,144.9**	**5,539.3**

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

€ million	Bank credit facilities	Utilization[1] as of Dec. 31, 2012	Interest	Due
Syndicated loan 2007	2,000.0	–	variable	2014
Bilateral credit facilities with banks	9.4	9.4	fixed	2013
Bilateral credit facilities with banks	1.0	1.0	fixed	2014
Bilateral credit facilities with banks	0.9	0.9	fixed	2015
Bilateral credit facilities with banks	6.3	6.3	fixed	2017
Bilateral credit facilities with banks	11.1	11.1	fixed	2018
Bilateral credit facilities with banks	0.9	0.9	fixed	2021
Various bank lines	308.6	38.7	fixed / variable	< 1 year
	2,338.2	**68.3**		

[1] Booked disagios are not taken into account in the disclosure

→ Notes to the consolidated balance sheet

The current and non-current liabilities of the Merck Group to banks were denominated in the following currencies:

in %	Dec. 31, 2012	Dec. 31, 2011
Euros	65.6	19.0
Argentinian pesos	13.3	3.1
Chinese renminbi	8.3	47.0
Indian rupees	4.6	2.4
U. S. dollars	4.0	0.8
Venezuelan bolivars	–	18.7
Other currencies	4.2	9.0
	100.0	**100.0**

In 2009, Merck created a Debt Issuance Program that forms the contractual basis for issuing bonds with a nominal volume of up to € 5 billion. In 2010, this volume was increased to € 10 billion.

The following bonds were issued by the Merck Group:

Issuer	Nominal value	Maturity	Nominal interest rate	Issue price
Merck Financial Services GmbH, Germany	€ 750 million	March 2009 – September 2013	4.875%	99.697
Merck Financial Services GmbH, Germany	€ 1,350 million	March 2010 – March 2015	3.375%	99.769
Merck Financial Services GmbH, Germany	€ 100 million	December 2009 – December 2015	3.615%[1]	100.000
Millipore Corporation, USA	€ 250 million	June 2006 – June 2016	5.875%	99.611
Merck Financial Services GmbH, Germany	€ 60 million	November 2009 – November 2016	4.000%	100.000
Merck Financial Services GmbH, Germany	€ 70 million	December 2009 – December 2019	4.250%	97.788
Merck Financial Services GmbH, Germany	€ 1,350 million	March 2010 – March 2020	4.500%	99.582

[1] fixed by interest rate swaps

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

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

In March 2012, a bond issued by Merck Financial Services GmbH, Germany, with a nominal volume of € 500 million was repaid. A further bond issued by Merck Finanz AG, Luxembourg, with a nominal volume of € 500 million was repaid in December 2012.

Finance lease liabilities represented the discounted amount of future payments arising from finance leases. This item primarily related to liabilities from finance leases for buildings. Information on liabilities due to related parties can be found under Note [70].

→ Notes to the consolidated balance sheet

(47) Trade accounts payable

Trade accounts payable consisted of the following:

€ million	Dec. 31, 2012	Dec. 31, 2011
Liabilities due to third parties	1,288.2	1,100.5
Liabilities due to affiliates	0.1	0.3
	1,288.3	**1,100.8**

Trade accounts payable included accrued amounts of € 776.6 million (2011: € 647.2 million) for outstanding invoices and reductions in sales revenues.

(48) Other liabilities

This item comprised:

€ million	current	non-current	Dec. 31, 2012	current	non-current	Dec. 31, 2011
Other financial liabilities	520.1	2.8	522.9	529.1	3.8	532.9
Liabilities from derivatives (operational)	12.2	2.8	15.0	64.5	36.6	101.1
Financial items	**532.3**	**5.6**	**537.9**	**593.6**	**40.4**	**634.0**
Accruals for personnel expenses	466.2	–	466.2	425.6	–	425.6
Deferred income	29.5	2.6	32.1	24.2	1.6	25.8
Advance payments received from customers	10.1	0.1	10.2	9.8	0.1	9.9
Liabilities from non-income related taxes	58.1	1.1	59.2	48.9	1.5	50.4
Non-financial items	**563.9**	**3.8**	**567.7**	**508.5**	**3.2**	**511.7**
	1,096.2	**9.4**	**1,105.6**	**1,102.1**	**43.6**	**1,145.7**

As of December 31, 2012, other financial liabilities included liabilities due to related companies amounting to € 295.4 million (2011: € 319.3 million). These are profit entitlements of E. Merck KG. Moreover, this item contained liabilities due to affiliates amounting to € 3.6 million (2011: € 0.6 million), interest accruals of € 93.0 million (2011: € 104.2 million) as well as payroll liabilities of € 64.8 million (2011. € 65.5 million). The remaining amount of € 66.1 million (2011: € 43.3 million) recorded under other financial liabilities included employee loans, liabilities due to insurers as well as contractually agreed payment obligations vis-à-vis other companies.

(49) Tax liabilities

Tax liabilities amounted to € 66.3 million (2011: € 80.0 million). Tax liabilities totaling € 401.4 million (2011: € 399.4 million) also include provisions for tax liabilities of € 335.1 million (2011: € 319.4 million).

→ Notes to the consolidated balance sheet

(50) Provisions

Provisions developed as follows:

€ million	Litigation	Restructuring	Personnel	Environ-mental protection	Other	Total
January 1, 2012	**473.7**	**38.0**	**125.5**[1]	**88.1**	**257.2**	**982.5**[1]
Additions	250.5	339.3	92.6	31.5	115.0	828.9
Utilizations	–12.3	–15.8	–43.9	–15.5	–79.2	–166.7
Release	–26.4	–7.1	–7.5	–0.1	–21.5	–62.6
Interest portion	3.9	–	3.2	2.9	0.1	10.1
Currency translation	–10.5	–3.1	–1.5	–0.2	–1.2	–16.5
Changes in scope of consolidation / Other	–	–0.3	–0.3	–	0.9	0.3
December 31, 2012	**678.9**	**351.0**	**168.1**	**106.7**	**271.3**	**1,576.0**
thereof current	121.1	270.6	59.8	5.8	227.0	684.3
thereof non-current	557.8	80.4	108.3	100.9	44.3	891.7

[1] Previous year's figures have been adjusted, see Note [5]

As a pharmaceutical, chemical and life science company, Merck is exposed to a multitude of litigation risks. These include in particular risks in the areas of product liability, competition and antitrust law, pharmaceutical law, patent law, tax law, and environmental protection. We are engaged in legal proceedings and government investigations, the outcome of which is currently uncertain. A provision is set up for a proceeding if it can be assumed that an obligation from a proceeding is likely to lead to future cash outflows. Provisions comprise the estimated payment obligation as well as potential attorney fees and other legal costs. The individual provisions are reviewed on each balance sheet date. The actual cash outflows may deviate from the provisions set up since experience has shown that decisions by courts of law or government agencies involve uncertainties.

As of December 31, 2012, provisions amounted to € 678.9 million (2011: € 473.7 million). Provisions for litigation took into account the material litigation risks described in the following. As of the balance sheet date, provisions existed in connection with the legal dispute with Israel Bio-Engineering Project Limited Partnership (IBEP), in which IBEP claims intellectual property rights and license fees in connection with the funding and development of Rebif® and other products.

Existing provisions for a patent dispute with the company Biogen Idec in connection with the product Rebif® in the United States were adjusted owing to a revised risk assessment.

Our former generics subsidiary Dey Inc., USA, is alleged to have falsely reported price information. Although Dey Inc. was divested within the scope of the sale of the Generics business to Mylan Inc., PA (USA) in 2007, Merck continues to be liable for costs incurring from the aforementioned legal disputes since the mentioned risk was not transferred to Mylan. In this connection, claims were settled in a number of U.S. states as well as with the U.S. Department of Justice in previous years.

→ Notes to the consolidated balance sheet

In connection with the divested Generics business, the European Commission opened administrative fine proceedings against Merck. It is alleged that Merck engaged in anticompetitive behavior in connection with the market launch of the product citalopram. A corresponding provision was set up.

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

For various smaller pending legal disputes against companies of the Merck Group, provisions that are considered appropriate have been set up.

Provisions for restructuring mainly include provisions for severance payments for employees in connection with restructuring projects and provisions for onerous contracts. These were recognized once detailed restructuring plans had been prepared and communicated.

In 2012, provisions related to the “Fit for 2018” efficiency improvement and cost reduction program were set up. The aim of this program is to secure the competitiveness and the growth of the Merck Group over the long term. The provisions recognized in this connection mainly included future commitments to employees such as severance payments and € 14.7 million from partial retirement arrangements. In addition, commitments from the closure of sites were included here.

Provisions for employee benefits include obligations from long-term variable compensation programs. In 2012, the previous variable compensation program (Merck Long-Term Incentive Plan – LTIP) was replaced by a new long-term variable compensation plan aligned not only with target achievement based on key performance indicators, but above all with a sustainable performance of Merck shares. With the new Merck Long-Term-Incentive-Plan, certain executives and employees could be eligible to receive a certain number of virtual shares – Merck Share Units (MSUs) – at the end of a three-year performance cycle. The number of MSUs that could be received depends on the total value defined for the respective person and the average closing price of Merck shares in Xetra trading during the last 60 trading days prior to January 1 of the respective fiscal year (reference price). In order for members of top management to receive payment, they must personally own an investment in Merck shares dependent on their respective fixed annual compensation. When the three-year performance cycle ends, the number of MSUs to then be granted is determined based on the development of two key performance indicators (KPIs). These are on the one hand the performance of the Merck share price compared to the performance of the DAX® with a weighting of 70% and on the other hand the development of the EBITDA pre margin, during the performance cycle as a proportion of a defined target value with a weighting of 30%.

Depending on the development of the KPIs, at the end of the respective performance cycle the eligible participants are granted between 0% and 150% of the MSUs they could be eligible to receive. Based on the MSUs granted, the eligible participants receive a cash payment at a specified point in time in the year after the three-year performance cycle has ended.

The value of a granted MSU, which is relevant for payment, corresponds to the average closing price of Merck shares in Xetra trading during the last 60 trading days prior to January 1 after the performance cycle. The payment amount is limited to three times the reference price.

→ Notes to the consolidated balance sheet

	2012 tranche
Performance cycle	Jan.1, 2012 – Dec. 31, 2014
Term	3 years
Reference price of Merck shares in € (60-day average Merck share price prior to the start of the performance cycle)	69.57
DAX® value (60-day average of the DAX® prior to the start of the performance cycle)	5,883.35
Potential number of MSUs	
Potential number offered for the first time	538,235
Expired	30,685
Status on Dec. 31, 2012	507,550

The fair value of the obligations is recalculated on each balance sheet date using a Monte Carlo simulation based on the previously described KPIs. The expected volatilities are based on the implicit volatility of Merck shares and the DAX® index in accordance with the remaining term of the LTIP tranche. The dividend payments incorporated into the valuation model orient towards medium-term dividend expectations. The value of the provision for the vesting period already completed was € 17.8 million as of December 31, 2012. The net expense for fiscal 2012 was likewise € 17.8 million.

The Executive Board members have their own Long-Term Incentive Plan, the conditions of which largely correspond to the Long-Term Incentive Plan described here. A description of the plan for the Executive Board can be found in the compensation report, which is part of the Statement on Corporate Governance.

Moreover, obligations from the previously valid, non-share-price-based LTIP tranches 2010 – 2011 exist totaling € 50.7 million (2011: € 33.7 million). The amount paid from these tranches depends on the achievement of the two performance indicators "Underlying Free Cash Flow on Revenues (FCR)" and "Return on Sales (ROS)" at the end of a three-year period. The plan has caps on potential future payments in the event of high degree of target achievement. By contrast, if the level of target of achievement is too low, no payments are made. The Executive Board was excluded from participating in the earlier LTIP tranches.

Provisions for employee benefits also include obligations for the partial retirement program and other severance pay that were not set up in connection with the "Fit for 2018" program as well as obligations in connection with long-term working hour accounts and anniversary bonuses.

With respect to provisions for defined-benefit pensions and other post-employment benefits, see Note [51].

Provisions for environmental protection existed in Germany and the United States and were mainly set up for obligations assumed from soil remediation and groundwater protection in connection with the discontinued crop protection business.

Other provisions include provisions for purchase commitments, subsequent contract costs stemming from discontinued research projects, other guarantees, and provisions for uncertain commitments from contributions, duties and fees.

→ Notes to the consolidated balance sheet

(51) Provisions for pensions and other post-employment benefits

Depending on the legal, economic and fiscal circumstances prevailing in each country, different retirement benefit systems are provided for the employees of the Merck Group. Generally these systems are based on the years of service and salaries of the employees. Pension obligations of the Merck Group include both defined benefit and defined contribution plans and comprise both obligations from current pensions and accrued benefits for pensions payable in the future. In the Merck Group, defined benefit plans are funded and unfunded. Provisions also contain other post-employment benefits, such as accrued future health care costs for retirees in the United States.

In order to limit the risks of changing capital market conditions and demographic developments, for many years now Merck has been offering only defined contribution plans to newly hired employees.

The value recognized in the balance sheet for "pensions and other post-employment benefits" was derived as follows:

€ million	Dec. 31, 2012	Dec. 31, 2011
Present value of all defined benefit obligations	**2,830.1**	**2,489.9**
Fair value of the plan assets	–1,633.6	–1,370.3
Funded status	**1,196.5**	**1,119.6**
Other changes	–	1.6[1]
Net defined benefit liability recognized in the balance sheet	**1,196.5**	**1,121.2**[1]
Assets from defined benefit plans	15.2	19.1[1]
Provisions for pensions and other post-employment benefits	**1,211.7**	**1,140.3**[1]

[1] Previous year's figures have been adjusted, see Note [5]

The calculation of the defined benefit obligations as well as the relevant plan assets was based on the following actuarial parameters:

	Germany		Other countries	
in %	2012	2011	2012	2011
Discount rate	3.5	4.5	3.2	3.8
Future salary increases	2.5	2.5	2.8	2.8
Future pension increases	1.8	1.8	2.7	3.0
Staff turnover	1.9	1.9	7.6	7.7
Future cost increases for health care benefits	–	–	7.0	5.0

There are average values weighted by the present value of the respective benefit obligation.

→ Notes to the consolidated balance sheet

The defined benefit obligations of the Merck Group were based on the following types of benefits provided by the respective plan:

	Germany	Other countries	Merck Group
Present value of defined benefit obligations in € million	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2012
Benefit based on final salary			
Annuity	1,744.7	369.7	2,114.4
Lump sum	–	70.5	70.5
Installments	1.0	–	1.0
Benefit not based on final salary			
Annuity	84.1	495.3	579.4
Lump sum	6.6	46.4	53.0
Medical plan	–	11.8	11.8
	1,836.4	**993.7**	**2,830.1**

The main benefit rules are as follows:
Merck KGaA and Merck Pensions GmbH & Co. KG accounted for € 1,681.8 million (2011: € 1,368.8 million) of the defined benefit obligations and € 799.5 million (2011: € 523.8 million) of the plan assets. The benefits comprise old-age, disability and surviving dependent pensions. On the one hand, these obligations are based on benefit rules comprising benefit commitments dependent upon years of service and final salary from which newly hired employees have been excluded. On the other hand, the benefit rules applicable to employees newly hired since January 1, 2005 comprise a direct commitment in the form of a defined contribution obligation. The benefit entitlement results from the cumulative total of annually determined pension components that are calculated on the basis of a defined benefit expense and an age-dependent annuity table. Statutory minimum funding obligations do not exist.

The Merck Serono pension fund in Switzerland accounted for € 393.5 million (2011: € 372.8 million) of the defined benefit obligations and € 378.7 million (2011: € 364.4 million) of the plan assets. These obligations are based on the granting of old-age, disability and surviving dependents benefits, which include the legally required benefits. Both employer and employee contributions are paid into the pension fund. Statutory minimum funding obligations exist.

The Merck Pension Scheme in the United Kingdom accounted for € 303.2 million (2011: € 289.7 million) of the defined benefit obligations and € 284.0 million (2011: € 257.9 million) of the plan assets. These obligations result from a benefit plan which is based on years of service and final salary and was closed to newly hired employees in 2006. The agreed benefits comprise old-age, disability and surviving dependent benefits. The employer and the employees make contributions to the plan. Statutory minimum funding obligations also exist in the United Kingdom.

→ Notes to the consolidated balance sheet

In the reporting period, the following items were recognized in income:

€ million	2012	2011
Current service cost	75.7	81.9
Past service cost	19.3	0.3
Gains (–) or losses (+) on settlement	0.1	–0.6
Other effects recognized in income	0.6	–0.4
Interest expense	101,8	100.2
Interest income	–53.8	–31.6[1]
Total amount recognized in income	**143.7**	**149.8**[1]

[1] Previous year's figures have been adjusted, see Note [5]

With the exception of the net balance of interest expense on the defined benefit obligations and interest income from the plan assets, which is recorded under the financial result, the relevant expenses for defined benefit and defined contribution pension systems are allocated to the individual functional areas.

During the reporting period, the present value of the defined pension obligations changed as follows:

€ million	Funded benefit obligations	Benefit obligations funded by provisions	2012	Funded benefit obligations	Benefit obligations funded by provisions	2011
Present value of the defined benefit obligations Jan. 1	2,322.8	167.1	2,489.9	888.1	1,467.7	2,355.8
Currency translation differences	4.8	–0.1	4.7	25.0	–0.5	24.5
Current service cost	64.9	10.8	75.7	72.9	9.0	81.9
Past service cost	17.7	1.6	19.3	0.2	0.1	0.3
Gains (–) or losses (+) on settlement	–	0.1	0.1	–0.2	–0.4	–0.6
Interest expense	93.8	8.0	101.8	93.2	7.0	100.2
Actuarial gains (–)/losses (+)	334.0	33.1	367.1	14.1	0.7	14.8
Contributions by plan participants	13.6	–	13.6	14.1	–	14.1
Pension payments	–240.4	–7.6	–248.0	–95.7	–6.3	–102.0
Changes in the scope of consolidation	–	–	–	4.1	–	4.1
Reclassification Merck KGaA due to CTA	–	–	–	1,310.6	–1,310.6	–
Other effects recognized in income	0.1	–0.2	–0.1	–0.5	0.1	–0.4
Other changes	4.4	1.6	6.0	–3.1	0.3	–2.8
Cash value of all defined benefit obligations on December 31	**2,615.7**	**214.4**	**2,830.1**	**2,322.8**	**167.1**	**2,489.9**

→ Notes to the consolidated balance sheet

In December 2011, Merck KGaA set up a Contractual Trust Arrangement (CTA) with Merck Pensions-treuhand e.V., Darmstadt. Accordingly, the benefit obligations of Merck KGaA were reclassified from the category "funded by provisions" to the category "funded".

The following overview shows how the present value of all defined benefit obligations would have been influenced by changes to definitive actuarial assumptions:

€ million	Dec. 31, 2012
Present value of all defined benefit obligations if	
the discount rate is 50 basis points higher	2,621.3
the discount rate is 50 basis points lower	3,069.7
expected rate of future salary increases is 0.50% higher	2,896.6
expected rate of future salary increases 0.50% lower	2,768.9
expected rate of future pension increases is 0.50% higher	2,964.8
expected rate of future pension increases is 0.50% lower	2,714.3
medical cost trend rate is 0.50% higher	2,830.9
medical cost trend is 0.50% lower	2,829.3

The fair value of the plan assets changed in the reporting period as follows:

€ million	2012	2011
Fair value of the plan assets on January 1	1,370.3	793.3
Currency translation differences	6.2	23.2
Interest income from plan assets	53.8	31.6[1]
Actuarial gains (+) / losses (–) arising from experience adjustments	62.8	–5.4[1]
Funding CTA Merck KGaA	250.0	520.0
Employer contributions	59.9	39.3
Employee contributions	13.6	14.1
Pension payments from plan assets	–186.3	–42.1
Changes in scope of consolidation	–	0.9
Plan administration costs paid from the plan assets recognized in income	–0.6	–
Other effects recognized in income	–0.1	–
Other changes	4.0	–4.6
Fair value of the plan assets on December 31	**1,633.6**	**1,370.3**

[1] Previous year's figures have been adjusted, see Note [5]

→ Notes to the consolidated balance sheet

The actual return on plan assets amounted to € 116.6 million in 2012 (2011: income of € 26.2 million). As in the previous year, there were no effects of the asset ceiling in accordance with IAS 19.64.

The development of cumulative actuarial gains (+) and losses (–) was as follows:

€ million	2012	2011
Cumulated actuarial gains (+) / losses (–) recognized in equity on January 1	–489.7	–466.9[1]
Currency translation differences	–1.2	–2.8
Remeasurements of defined benefit obligations		
Actuarial gains (+) / losses (–) arising from changes in demographic assumptions	12.4	–
Actuarial gains (+) / losses (–) arising from changes in financial assumptions	–333.2	–5.2
Actuarial gains (+) / losses (–) arising from experience adjustments	–46.3	–9.6
Remeasurements on plan assets		
Actuarial gains (+) / losses (–) arising from experience adjustments	62.8	–5.4[1]
Reclassification within retained earnings	–0.4	0.2
Cumulated actuarial gains (+) / losses (–) recognized in equity on December 31	**–795.6**	**–489.7[1]**

[1] Previous year's figures have been adjusted, see Note [5]

Plan assets for funded benefit obligations primarily comprised fixed-income securities, liquid assets, and stocks. They did not include financial instruments issued by Merck Group companies or real estate used by Group companies.

The plan assets serve exclusively to meet the defined benefit obligations. Covering these benefit obligations with financial assets represents a means of providing for future cash outflows, which occur in some countries on the basis of legal requirements and in other countries (e.g. Germany) on a voluntary basis.

The ratio of the fair value of the plan assets to the present value of the defined benefit obligations is referred to as the degree of pension plan funding. If the benefit obligations exceed the plan assets, this represents underfunding of the pension fund.

It should be noted, however, that both the benefit obligations as well as the plan assets fluctuate over time. This could lead to an increase in underfunding. Depending on the statutory regulations, it could become necessary in some countries for the Merck Group to reduce underfunding through additions of liquid assets. The reasons for such fluctuations could include changes in market interest rates and thus the discount rate as well as adjustments to other actuarial assumptions (e.g. life expectancy, inflation rates, etc.)

In order to minimize such fluctuations, in managing its plan assets, the Merck Group also pays attention to potential fluctuations in liabilities. In the ideal case, assets and liabilities develop in opposite directions when exposed to exogenous factors, creating a natural defense against these factors. In order to achieve this effect, the corresponding use of financial instruments is considered in respect of individual pension plans.

→ Notes to the consolidated balance sheet

The fair value of the plan assets can be allocated to the following categories:

€ million	Dec. 31, 2012			Dec. 31, 2011		
	Quoted market price in an active market	No quoted market price in an active market	Total	Quoted market price in an active market	No quoted market price in an active market	Total
Cash and cash equivalents	455.3	4.1	459.4	328.3	5.4	333.7
Equity instruments	311.5	13.3	324.8	204.9	13.0	217.9
Debt instruments	548.5	–	548.5	563.6	–	563.6
Direct investments in real estate	–	86.4	86.4	–	80.3	80.3
Investment funds	65.9	–	65.9	73.3	–	73.3
Asset-backed securities	1.5	11.2	12.7	2.0	14.7	16.7
Structured debt	10.0	–	10.0	13.1	–	13.1
Insurance contracts	–	73.6	73.6	–	70.5	70.5
Other	51.4	0.9	52.3	–	1.2	1.2
Fair value of the plan assets	**1,444.1**	**189.5**	**1,633.6**	**1,185.2**	**185.1**	**1,370.3**

Employer contributions to plan assets will probably amount to around € 37.4 million in 2013 (2012: € 39.0 million). The weighted duration amounted to 16 years.

The cost of ongoing contributions for defined contribution plans that are financed exclusively by external funds and for which the companies of the Merck Group are only obliged to pay the contributions amounted to € 19.9 million (2011: € 19.1 million). In addition, employer contributions amounting to € 54.9 million (2011: € 56.4 million) were transferred to the German statutory pension insurance system and € 33.9 million (2011: € 28.9 million) to statutory pension insurance systems abroad.

(52) Equity

As of the balance sheet date, the subscribed capital of the company was divided into 64,621,125 no-par value bearer shares as well as one registered share. The amount resulting from the issue of shares by Merck KGaA exceeding the nominal amount was recognized in the capital reserves.

The disclosure of non-controlling interest was based on the stated equity of the subsidiaries concerned after any adjustment required to ensure compliance with the accounting policies of the Merck Group, as well as pro rata consolidation entries.

The net equity attributable to non-controlling interests mainly related to the minority interests in Merck Ltd., India, Merck Ltd., Thailand, P.T. Merck Tbk, Indonesia, and Merck (Pvt.) Ltd., Pakistan.

→ Notes to the consolidated balance sheet

In addition to the dividend payments to the shareholders of Merck KGaA and to non-controlling interests of subsidiaries, the appropriation of profits included the transfer of profits from Merck & Cie to E. Merck KG in accordance with the company agreements. It also included the reciprocal transfer of profits between E. Merck KG and Merck KGaA in accordance with the Articles of Association, which is as follows:

		2012		2011	
€ million		E. Merck KG	Merck KGaA	E. Merck KG	Merck KGaA
Result of E. Merck KG		7.5	–	2.7	–
Result of ordinary activities of Merck KGaA		–	–17.2	–	1,326.9
Extraordinary result		–	–513.8	–	–20.5
Adjustment for trade income tax in accordance with Art. 27 (1) Articles of Association of Merck KGaA		–	–	–	–
Trade income tax in accordance with Art. 30 (1) Articles of Association of Merck KGaA		–	–1.7	–	29.1
Basis for the appropriation of profits	(100%)	**7.5**	**–529.3**	**2.7**	**1,335.5**
Profit transfer to E. Merck KG Ratio general partner's capital to total capital	(70.274%)	–372.0	372.0	938.5	–938.5
Profit transfer from E. Merck KG Ratio of share capital to total capital	(29.726%)	–2.2	2.2	–0.8	0.8
Trade tax		–	–	–	–
Corporation tax		–	4.0	–	–23.6
Net income/loss		**–366.7**	**–151.1**	**940.4**	**374.2**

In accordance with the provisions of the Articles of Association, E. Merck KG has a 70.274% interest in the distributable profit/loss of Merck KGaA while Merck KGaA has an interest of 29.726% in the distributable profit/loss of E. Merck KG. Merck KGaA's result from ordinary activities adjusted for trade income tax and extraordinary result, on which the appropriation of its profit is based, amounted to € –529.3 million (2011: € 1,335.5 million). Merck KGaA transferred € 372.0 million of its loss to E. Merck KG (2011: profit transfer of € 938.5 million). The result of E. Merck KG, on which the appropriation of profits is based, amounted to € 7.5 million (2011: € 2.7 million). Consequently, this resulted in a profit transfer to Merck KGaA of € 2.2 million (2011: € 0.8 million). Moreover, in 2012 € 61.8 million (2011: € 44.3 million) was transferred by Merck & Cie to E. Merck KG.

For 2011, a dividend of € 1.50 per share was distributed. The dividend proposal for fiscal 2012 will be € 1.70 per share, corresponding to a total dividend payment of € 109.9 million to shareholders.

→ Segment reporting

Segment reporting

(53) Information by division/country and region

Information by division

€ million	Merck Serono 2012	Merck Serono 2011	Consumer Health 2012	Consumer Health 2011
Sales	5,995.8	5,564.4	472.6	494.2
Royalty, license and commission income	409.4	355.6	2.6	2.0
Total revenues	**6,405.2**	**5,920.0**	**475.2**	**496.2**
Gross margin	5,212.1	4,891.7[1]	316.7	339.0[1]
Marketing and selling expenses	–1,370.8	–1,412.0[1]	–218.5	–232.8[1]
Royalty, license and commission expenses	–561.6	–478.5	–1.0	–3.7
Administration expenses	–250.2	–253.4[1]	–23.1	–23.5[1]
Other operating expenses and income	–674.9	–382.0[1]	–46.2	–5.1
Research and development	–1,187.3	–1,224.5[1]	–19.4	–22.8[1]
Operating result (EBIT)	**508.3**	**342.2[1]**	**4.3**	**46.9[1]**
Depreciation and amortization	881.1	840.8	11.5	11.3
Impairment losses	51.2	344.4	10.7	0.3
Other	–	–0.5	–	–
EBITDA	**1,440.6**	**1,526.9[1]**	**26.5**	**58.5[1]**
One-time items	344.7	42.1	37.0	–
EBITDA pre one-time items (Segment result)	**1,785.3**	**1,569.0**	**63.5**	**58.5**
EBITDA margin pre one-time items (in % of sales)	29.8	28.2	13.4	11.8
Net operating assets	8,020.6	9,207.2	283.8	321.1
Segment liabilities	–1,349.8	–1,163.6	–76.5	–80.7
Investments in property, plant and equipment[2]	146.9	197.0	4.0	5.2
Investments in intangible assets[2]	88.7	53.0	0.4	6.2
Net cash flows from operating activities	2,216.3	1,386.9[1]	72.3	49.4[1]
Net cash flows from investing activities	–197.5	101.3	–2.3	–8.8
Free cash flow	2,018.8	1,488.2[1]	70.0	40.6[1]
Business free cash flow	1,840.9	1,440.4	85.5	48.2
Free cash flow margin (in % of sales)	33.7	26.7	14.8	8.2

Information by country and region

€ million	Europe 2012	Europe 2011	thereof Germany 2012	thereof Germany 2011	thereof France 2012	thereof France 2011	thereof Switzerland 2012	thereof Switzerland 2011
Sales by customer location	3,942.7	3,959.0	801.5	825.8	696.0	731.2	141.6	139.0
Sales by company location	4,379.9	4,362.3	1,452.9	1,394.5	814.9	853.6	174.2	168.0
Total revenues	4,677.0	4,630.6	1,472.7	1,430.7	822.0	862.6	438.4	382.3
Intangible assets	8,293.4	8,920.3	344.9	226.8	302.1	325.7	5,343.0	5,984.1
Property, plant and equipment	2,344.3	2,469.3	996.4	1,070.7	173.9	152.6	795.2	855.5
Research and development	–1,344.1	–1,375.1[1]	–791.8	–674.8[1]	–56.0	–50.0	–462.1	–609.2
Number of employees	20,777	21,830	10,788	10,900	2,950	3,002	1,926	2,323

[1] Previous year's figures have been adjusted, see Note [5]
[2] According to the cash flow statement

→ *Segment reporting*

Performance Materials		Merck Millipore		Corporate and Other		Group	
2012	2011	2012	2011	2012	2011	2012	2011
1,674.2	1,464.7	2,598.2	2,382.6	–	–	10,740.8	9,905.9
1.4	2.7	18.7	10.2	–	–	432.1	370.5
1,675.6	**1,467.4**	**2,616.9**	**2,392.8**	**–**	**–**	**11,172.9**	**10,276.4**
959.1	875.3[1]	1,531.1	1,389.6[1]	−3.8	−4.8[1]	8.015.2	7,490.8[1]
−142.8	−132.4[1]	−675.7	−606.0[1]	−3.0	−2.5[1]	−2,410.8	−2,385.7[1]
−1.5	−2.3	−15.7	−16.0	–	–	−579.8	−500.5
−35.2	−33.1[1]	−113.5	−104.1[1]	−130.2	−121.5[1]	−552.2	−535.6[1]
−39.2	127.4[1]	−122.9	−103.0[1]	−243.3	−54.5[1]	−1,126.5	−417.2[1]
−137.4	−132.8[1]	−166.1	−133.4[1]	−1.1	−0.5[1]	−1,511.3	−1,514.0[1]
598.5	**691.0**[1]	**233.2**	**235.4**[1]	**−380.7**	**−183.4**[1]	**963.6**	**1,132.1**[1]
114.1	102.5	305.0	283.7	7.6	5.4	1,319.3	1,243.7
12.1	9.5	4.2	1.8	0.5	–	78.7	356.0
−1.3	−1.9	–	1.5	−0.1	–	−1.4	−0.9
723.4	**801.1**[1]	**542.4**	**522.4**[1]	**−372.7**	**−178.0**[1]	**2,360.2**	**2,730.9**[1]
7.3	−118.4	53.5	38.7	162.2	30.5	604.7	−7.1
730.7	**682.7**	**595.9**	**561.1**	**−210.5**	**−147.5**	**2,964.9**	**2,723.8**
43.6	46.6	22.9	23.6	–	–	27.6	27.5
1,187.7	1,331.0	6,328.9	6,608.6	25.1	−1.3	15,846.1	17,466.6
−147.1	−131.7	−383.1	−335.4	−33.7	−22.9	−1,990.2	−1,734.3
55.7	64.1	113.2	99.7	9.3	0.3	329.1	366.3
28.6	2.7	10.0	12.0	16.5	5.8	144.2	79.7
875.4	573.8[1]	639.7	413.4[1]	−1,331.5	−1,152.3[1]	2,472.2	1,271.2
−70,8	128.6	−137.4	−263.3	−749.9	−853.8	−1,157.9	−896.0
804.6	702.4[1]	502.2	150.0[1]	−1,355.7	−944.8[1]	2,039.9	1,436.4
786.9	572.3	492.8	352.3	−236.8	−151.3	2,969.3	2,261.9
48.1	48.0	19.3	6.3	–	–	19.0	14.5

North America		thereof USA		Emerging Markets		Rest of World		Group	
2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
2,128.3	1,789.1	1,965.0	1,641.9	3,712.2	3,283.9	957.6	873.9	10,740.8	9,905.9
2,121.4	1,781.2	1,979.0	1,651.9	3,408.4	3,001.4	831.1	761.0	10,740.8	9,905.9
2,122.1	1,781.9	1,979.7	1,652.6	3,542.7	3,103.0	831.1	760.9	11,172.9	10,276.4
2,462.1	2,599.6	2,461.6	2,598.9	141.3	184.0	47.7	60.4	10,944.5	11,764.3
359.6	366.0	358.3	364.5	163.7	176.8	86.0	101.3	2,953.6	3,113.4
−114.5	−95.2	−113.3	−92.4	−28.6	−27.1	−24.1	−16.6	−1,511.3	−1,514.0[1]
4,848	4,962	4,688	4,793	11,642	12,229	1,580	1,655	38,847	40,676

→ Segment reporting

(54) Segment reporting

Segmentation was performed in accordance with the organizational and reporting structure of the Merck Group. Within the Merck Serono division, we focus on specialist therapeutic areas and market innovative prescription drugs of chemical and biotechnological origin. The Consumer Health division comprises Merck's business with high-quality over-the-counter products for preventive health care and self-treatment of minor ailments. The Performance Materials division consists of the Liquid Crystals and Pigments & Cosmetics business units. The Merck Millipore division offers solutions to two key customer groups: research and analytical laboratories in the pharmaceutical/biotechnology industry or in academic institutions, and customers manufacturing large- and small- molecule drugs. The fields of activity of the individual divisions are described in detail in the sections about the divisions in the management report.

Corporate and Other includes assets and liabilities as well as income and expenses that cannot be directly allocated to the reportable segments presented; it serves the reconciliation to the Group numbers. The numbers mainly relate to Group functions. The cash flows attributable to the financial result and income taxes are also presented under Corporate and Other.

Apart from sales, the success of a segment is mainly determined by EBITDA pre one-time items (segment result).

Transfer prices for intragroup sales are determined on an arm's-length basis. There were no significant intercompany relations between the business segments.

The Emerging Markets region was introduced in the information by country and region in order to appropriately reflect the importance that this region has acquired in our operating divisions. The Emerging Markets region comprises Latin America and Asia with the exception of Japan. The region "Rest of World" comprises Japan, Africa and Australia/Oceania.

Neither in 2012 nor in 2011 did any single customer account for more than 10% of Group sales.

The reconciliation of EBITDA pre one-time items of all operating businesses to the profit before income tax of the Merck Group was as follows:

€ million	2012	2011
Total EBITDA pre one-time items of the operating businesses	**3,175.4**	**2,871.3**
Corporate and Other	–210.5	–147.5[1]
EBITDA pre one-time items of the Merck Group	**2,964.9**	**2,723.8**
Depreciation and amortization / impairment losses / other	–1,396.6	–1,598.8
One-time items	–604.7	7.1
Operating result (EBIT)	**963.6**	**1,132.1[1]**
Financial result	–254.6	–293.3[1]
Profit before income tax	**709.0**	**838.8[1]**

[1] Previous year's figures have been adjusted, see Note [5]

→ Segment reporting/
Notes to the consolidated
cash flow statement

The reconciliation of operating assets in the Segment Reporting was as follows:

€ million	Dec. 31, 2012	Dec. 31, 2011
Assets	21,643.3	22,121.9[1]
Monetary assets (cash and cash equivalents, current financial assets, loans, securities)	–2,633.7	–2,082.7
Non-operating receivables, income tax receivables, deferred taxes and net defined benefit assets	–1,173.3	–838.3[1]
Operating assets (gross)	**17,836.3**	**19,200.9**
Trade accounts payable	–1,288.3	–1,100.8
Other operating liabilities	–701.9	–633.5
Segment liabilities	**–1,990.2**	**–1,734.3**
Operating assets (net)	**15,846.1**	**17,466.6**

[1] Previous year's figures have been adjusted, see Note [5]

The investment result disclosed in the income statement in 2012 totaled € 0.6 million (2011: € 0.2 million) and was attributable to the Corporate and Other segment. In 2011, an investment result of € –1.2 million was attributable to the Merck Millipore division.

Notes to the consolidated cash flow statement

(55) Net cash flows from operating activities

In 2012, tax payments totaled € 580.5 million (2011: € 436.0 million). Tax refunds totaled € 18.6 million (2011: € 78.3 million). Interest paid totaled € 303.6 million (2011: € 238.7 million). The increase was due to the sale of two interest rate swaps involving a cash outflow of € 41.7 million. Interest received amounted to € 59.9 million (2011: € 75.5 million). A focus on working capital management increased cash flow from operating activities by € 525.6 million. Within the scope of a Contractual Trust Arrangement in Germany, € 250.0 million was transferred to Merck Pensionstreuhand e.V., Darmstadt (trustee) (2011: € 520.0 million). This led to a corresponding decline in pension provisions and to a decrease in cash flows from operating activities.

(56) Net cash flows from investing activities

A total of € 63.0 million was used for acquisitions and investments in non-current financial assets (2011: € 171.5 million). Of this amount, € 20.6 million (2011: € 161.0 million) was used for acquisitions. Investments in non-current financial assets totaled € 42.4 million (2011: € 10.5 million). Acquisitions reflect the purchase of CellASIC Corp. and Biochrom AG.

→ Segment reporting / Notes to the consolidated cash flow statement

€ million	Total 2012
Purchase price paid	21.7
Cash and cash equivalents acquired	–1.1
Acquisitions	**20.6**

In 2012, cash inflows from disposals of assets amounted to € 93.6 million. Cash inflows in 2011 related mainly to the payment of our purchase price receivable of € 270.2 for the sale of Théramex, which closed in December 2010, the divestment of the Crop BioScience business amounting to € 200.9 million, and the sale of Merck Capital Asset Management Limited, Malta, to Merck Pensionstreuhand e.V., Darmstadt, amounting to € 218.1 million.

Net cash outflows from changes in other financial assets amounting to € 725.6 million (2011: € 1,061.2 million) mainly resulted from short-term monetary deposits and the purchase of current financial assets.

(57) Net cash flows from financing activities

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

€ million	2012	2011
Dividends to shareholders	–96.9	–80.8
Dividends to shareholders of non-controlling interest	–5.7	–6.0
Dividend payments	**–102.6**	**–86.8**

€ million	2012	2011
Profit transfer in accordance with the Articles of Association from E. Merck KG to Merck KGaA	2.2	0.8
Profit transfer in accordance with the Articles of Association from Merck KGaA to E. Merck KG	372.0	–938.5
Changes in reserves of Merck KGaA by E. Merck KG	–616.9	655.5
Profit transfer from Merck KGaA to E. Merck KG	**–242.7**	**–282.2**
Profit transfer from Merck & Cie to E. Merck KG	–61.8	–44.3
Profit transfer to E. Merck KG	**–304.5**	**–326.5**
Changes in financial liabilities to E. Merck KG	33.9	8.9
Changes in other liabilities to E. Merck KG	–23.3	68.4
Changes in liabilities to E. Merck KG	**10.6**	**77.3**
Total cash transfers to and from E. Merck KG	**–293.9**	**–249.2**

In December 2012, Merck acquired the non-controlling interest in Allergopharma GmbH & Co. KG, Reinbek, Germany, for a purchase price of € 15.0 million.

→ Notes to the consolidated cash flow statement

(58) Free cash flow and business free cash flow

Free cash flow is an indicator used internally by Merck to measure the contribution of the divisions to liquidity. Free cash flow includes all net cash flows from operating activities as well as investing activities performed in connection with operating business. Not included in free cash flow are pure financial investments and similar monetary deposits of more than three months, which are also to be reported as net cash flows from investing activities under IFRS.

Free cash flow was calculated as follows:

€ million	2012	2011
Net cash flows from operating activities	**2,472.2**	**1,271.2**
Investments in intangible assets	–144.2	–79.7
Investments in property, plant and equipment	–329.1	–366.3
Acquisitions	–20.6	–161.0
Investments in non-current financial assets	–42.4	–10.5
Disposal of non-current assets	93.6	787.4
Purchase / sale of marketable securities	10.4	–4.7
Free cash flow	**2,039.9**	**1,436.4**

In addition, business free cash flow is an important indicator used to agree internal targets for steering liquidity. It comprises the major payment-relevant items that the individual businesses can influence.

The composition of business free cash flow was as follows:

€ million	2012	2011
EBITDA pre one-time items	**2,964.9**	**2,723.8**
less investments in property, plant and equipment, software as well as advance payments for intangible assets	–366.5	–412.3
Changes in inventories as reported in the balance sheet	157.2	–17.6
Changes in trade accounts receivable as reported in the balance sheet	213.7	–32.0
Business free cash flow	**2,969.3**	**2,261.9**

Both indicators are presented in the Segment Reporting (see Note [53]).

→ Other disclosures

Other disclosures

(59) Derivative financial instruments

Merck uses derivative financial instruments exclusively to hedge and reduce risks stemming from currency and interest rate positions. Foreign currency risks from recognized transactions are largely hedged. Merck currently uses marketable forward exchange contracts, interest rate swaps and currency options as hedging instruments. Depending on the nature of the hedging transaction, changes in the fair values of hedged items are disclosed in the income statement either in the operating result or, in the case of financial transactions, in the financial result. The strategy to hedge interest rate and foreign exchange rate fluctuations arising from future transactions is set by a Merck Group risk committee, which meets on a regular basis. A review period of up to 36 months normally serves as the basis for entering into currency derivative contracts. Extensive guidelines regulate the use of derivatives. There is a ban on speculation. Derivative transactions are subject to continuous risk management procedures. Trading, settlement and control functions are strictly separated. Derivative financial contracts are only entered into with banks that have a good credit rating. Related default risks are continuously monitored.

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

	Nominal volume		Fair value	
€ million	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Cash flow hedge	5,798.9	6,493.9	–106.1	–276.7
Interest	650.0	850.0	–58.1	–30.2
Currency	5,148.9	5,643.9	–48.0	–246.5
Fair value hedge	–	500.0	–	5.4
Interest	–	500.0	–	5.4
Currency	–	–	–	–
No hedge accounting	1,610.1	1,996.3	5.4	–24.4
Interest	–	750.0	–	–16.6
Currency	1,610.1	1,246.3	5.4	–7.8
	7,409.0	**8,990.2**	**–100.7**	**–295.7**

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

The nominal volume is the aggregate of all buy and sell amounts relating to derivative contracts. The fair values result from the valuation of open positions at market prices, ignoring any opposite movements in the value of the underlyings. They correspond to the income or expenses which would result if the derivatives contract were closed out as of the balance sheet date. Transactions are recognized at fair value on the basis of quoted prices or current market data provided by a recognized information service.

→ Other disclosures

The maturity structure of the hedging transactions (nominal volume) is as follows as of the balance sheet date:

€ million	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2012	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2011
Foreign exchange contracts	3,965.8	2,089.3	6,055.1	3,487.3	2,693.1	6,180.4
Currency options	292.9	411.0	703.9	446.9	262.9	709.8
Interest rate swaps	–	650.0	650.0	500.0	1,100.0	1,600.0
Interest rate futures	–	–	–	500.0	–	500.0
	4,258.7	**3,150.3**	**7,409.0**	**4,934.2**	**4,056.0**	**8,990.2**

The forward exchange contracts that are entered into to reduce the exchange rate risk and currency options primarily serve to hedge intercompany financing in foreign currency as well as to hedge future cash flows. These mainly served to hedge fluctuations in the exchange rates of the U.S. dollar (€ 4,409.6 million), the Japanese yen (€ 458.4 million) and the Taiwan dollar (€ 388.4 million) versus the euro.

Planned future transactions are only hedged if the occurrence can be assumed to be highly probable. The nominal volume of hedged planned transactions amounted to € 2,411.6 million (2011: € 2,829.8 million) as of the balance sheet date and related to both the hedging of future transactions in non-functional currency as well as hedging of variable interest payments for planned refinancing transactions. Moreover, existing monetary deposits and borrowings in foreign currency as well as an existing variable interest private placement with a nominal amount of € 100.0 million were also hedged. All the aforementioned hedging relationships represented cash flow hedges.

Overall, income of € 3.6 million (2011: expenses of € 50.1 million) from the fair value measurement of derivatives to hedge cash flows was recognized in equity in 2012. € 78.4 million (2011: € 12.3 million) was transferred from equity and recognized as an expense. In 2012, no ineffectiveness for hedging transactions was recognized in income.

The hedging of planned transactions in non-functional currency related to sales in U.S. dollars, Taiwan dollars and Japanese yen that are expected within the next 36 months. Forward exchange contracts and currency options are used as hedging instruments.

For the planned refinancing of the bond maturing in 2015, we entered into forward interest rate swap contracts with a nominal value of € 550.0 million to hedge the interest rate level. The fair value was recognized in equity at 100% effectiveness. In addition, interest rate hedge contracts with a nominal volume of € 250.0 million for bonds due in 2012 were closed out since refinancing did not occur. The resulting expenses from the fair value of the hedge amounting to € 26.7 million were reported in the financial result.

Furthermore, a fair value hedge existed in 2012. The interest expense of the euro benchmark bond issued in 2005 and maturing in 2012 with a volume of € 500.0 million was made variable through interest rate swaps. The mark-to-market measurement of the bond resulted in income of € 5.4 million in 2012 (2011: € 10.0 million). This compared with an expense from the interest rate swap in the same amount.

→ Other disclosures

(60) Management of financial risks

Market fluctuations with respect to foreign exchange and interest rates represent significant profit and cash flow risks for Merck. Merck aggregates these Group-wide risks and steers them also by using derivative financial instruments. Merck uses scenario analyses to estimate existing risks of foreign exchange and interest rate fluctuations as well as credit defaults. Merck is not subject to any material risk cluster from financial transactions. The Risk Report included in the Management Report provides further information on the management of financial risks.

Foreign exchange risks

Owing to its international business focus, Merck is exposed to foreign exchange-related transaction risks within the scope of both ordinary business and financing activities. Different strategies are used to limit or eliminate these risks.Foreign exchange risks from recognized transactions are eliminated as far as possible through the use of forward exchange contracts. Foreign exchange risks arising from planned transactions are analyzed regularly and reduced if necessary through forward exchange contracts or currency options applying hedge accounting.

The following table presents the net foreign exchange risk from expected and recognized transactions in 2012 in the key currencies and exchange rate fluctuations versus the euro:

€ million as of Dec. 31, 2012	CHF	JPY	TWD	USD
Foreign exchange risk from balance sheet items	–107.8	125.4	28.4	2,082.1
Foreign exchange risk from contingent business and expected transactions in 2013	–375.1	304.3	235.7	1,410.1
Transaction-related foreign exchange position	**–482.9**	**429.7**	**264.1**	**3,492.2**
Position hedged by derivatives	177.4	–216.0	–163.8	–2,855.5
Open-end foreign exchange risk position	**–305.5**	**213.7**	**100.3**	**636.7**
Change in foreign exchange position [1] due to a 10% appreciation of the euro [2]	30.6	–21.4	–10.0	–63.7
included in profit/loss	–7.0	–1.4	–	6.2
recognized in equity	–	10.5	13.6	71.2

[1] Foreign exchange positions include booked and planned transactions. Only the exchange rate effects on booked transactions are reflected in profit/loss or equity.
[2] A 10% devaluation of the euro would have an opposite effect of the same amount.

Further significant foreign exchange risks also resulted from transactions booked in Taiwan dollars, Hong Kong dollars as well as Venezuelan bolivars subject to exchange rate movements versus the U.S. dollar. The changes in foreign exchange positions as a result of a 10% appreciation in the value of the U.S. dollar would be € 0.0 million (2011: € 0.0 million) for the Taiwan dollar position after hedging, € 4.1 million (2011: € 2.5 million) for the Venezuelan bolivar position, and € –0.9 million (2011: € 1.6 million) for the Hong Kong dollar position, and would be fully recognized in income. Moreover, derivatives existed to hedge expected

→ Other disclosures

cash flows beyond the year 2013. A 10% increase in the value of the euro over the Japanese yen, the Taiwan dollar and the U.S. dollar would have changed equity by € 14.5 million, € 9.8 million and € 65.4 million, respectively. In 2011, owing to hedging of expected cash flows beyond the year 2012, a 10% increase in the value of the euro over the Japanese yen, the Taiwan dollar and the U.S. dollar would have caused a change in equity of € 21.5 million, € 0.0 million and € 60.5 million, respectively.

The corresponding net foreign exchange rate risk from expected and recognized transactions for 2011 was as follows:

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

In addition to the previously described transaction risks, the Merck Group is also exposed to currency translation risks since many Merck companies are located outside the eurozone. The financial statements of these companies are translated into euros. Exchange differences in the assets and liabilities of these companies resulting from currency translation are recognized in equity.

Interest rate risks

Interest rate risks related mainly to financial liabilities of € 4,453.5 million (2011: € 5,539.3 million) and monetary deposits of € 2,624.7 million (2011: € 2,115.2 million). The aim is to optimize the interest result and to minimize interest rate risks. If necessary, derivative financial instruments are used to change variable interest payments into fixed interest payments.

Relative to net interest liabilities on the balance sheet date, owing to the large proportion of fixed-interest financial instruments, a parallel shift in interest rates by +100 or –100 basis points would not have a material effect. Assuming a refinancing as well as reinvestment of the same amount for the transactions expiring in 2013, a parallel shift in the interest rate curve by + 100 basis points would lead to income of € 12.5 million (2011: € 10.3 million). A parallel shift in interest rates by –100 basis points would lead to an expense of € 9.6 million (2011: € 9.7 million). This corresponds to a change in interest income of € 14.1 million (2011: € 15.7 million) or € –11.2 million (2011: € –14.8 million) on financial assets and additional interest expense of € 1.6 million (2011: € 5.4 million) or a decline in interest expense of € 1.6 million (2011: € 5.1 million) on financial liabilities. The resulting change in assets and derivative financial instruments measured at fair value would increase equity by € 31.6 million (2011: increase by € 51.3 million) or lower it by € 41.5 million (2011: lowered by € 52.9 million). The scenario calculations here assumed that the interest rate cannot fall below 0%.

→ Other disclosures

Share price risks

The shares in publicly listed companies amounting to € 6.9 million (2011: € 8.7 million) are generally exposed to a market value risk. A 10% change in the value of the stock market would impact equity by € 0.7 million (2011: € 0.9 million). This change in value would be recognized in income at the time of disposal.

Liquidity risks

The liquidity risk, meaning the risk that Merck cannot meet its payment obligations resulting from financial liabilities, is limited by establishing the required financial flexibility and by effective cash management. Apart from liquid assets of € 2,527.6 million (2011: € 2,054.9 million), Merck had at its disposal a multi-currency revolving credit line of € 2 billion to be used for business purposes with a remaining term of two years as well as bilateral credit facilities of € 338.2 million (2011: € 389.8 million). There were no indications that the availability of credit lines already extended were restricted.

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

Trade payables amounting to € 1,288.3 million (2011: € 1,100.8 million) had a remaining term of less than one year. With respect to liabilities from operating derivatives amounting to € 15.0 million (2011: € 101.1 million), € 12.2 million (2011: € 64.5 million) was short-term. Out of other financial liabilities amounting to € 522.9 million (2011: € 532.9 million), € 520.1 million (2011: € 529.1 million) was due within one year.

The following tables present the contractually set payments such as repayments and interest on financial liabilities and derivative financial instruments with a negative fair value:

€ million		Cash flows within one year		Cash flows in 1 – 5 years		Cash flows more than 5 years	
as of Dec. 31, 2012	Book value	Interest	Repayment	Interest	Repayment	Interest	Repayment
Bonds and commercial paper	3,895.0	166.5	750.0	403.2	1,738.2	188.2	1,420.0
Bank loans and overdrafts	68.0	1.9	51.5	1.5	14.8	0.2	1.9
Liabilities to related parties	233.1	0.1	233.1	–	–	–	–
Loans from third parties and other financial liabilities	88.1	6.3	21.5	11.3	62.2	–	4.4
Liabilities from derivatives (financial transactions)	159.5	2.5	37.1	26.3	64.2	32.3	–
Finance leasing liabilities	9.8	0.2	2.5	0.1	6.2	–	1.1
	4,453.5	**177.5**	**1,095.7**	**442.4**	**1,885.6**	**220.7**	**1,427.4**

→ Other disclosures

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

Credit risks

Merck is only subject to a relatively low credit risk, meaning the unexpected loss of payment funds or income. On the one hand, financial contracts are only entered into with banks and industrial companies with good credit ratings and on the other hand, the broad-based business structure of the Merck Group means that there is no particularly high concentration of credit risks with respect to either customers or individual countries. The credit risk with customers is continuously monitored by analyzing the age structure of trade accounts receivable. The financial crisis has led to an increased risk of default in individual eurozone countries. Merck continuously reviews and monitors open positions vis-à-vis all trading partners in the affected countries and makes adjustments to its default risks as necessary.
The theoretically maximum default risk corresponded to the book values.

→ Other disclosures

(61) Other disclosures on financial instruments

The following table presents the reconciliation of the balance sheet items to the classes of financial instruments in accordance with IFRS 7:

		Subsequent measurement according to IAS 39				
€ million	Book value Dec. 31, 2012	Amortized cost	At cost	Fair value	Carrying value according to IAS 17	Non-financial items
Assets						
Cash and cash equivalents	729.7	729.7	–	–	–	–
Current financial assets	1,797.9	549.7	–	1,248.2	–	–
Held for trading (non-derivatives)	–	–	–	–	–	–
Non-hedging derivatives	7.8	–	–	7.8	–	–
Held to maturity	349.7	349.7	–	–	–	–
Loans and receivables	200.0	200.0	–	–	–	–
Available-for-sale	1,230.1	–	–	1,230.1	–	–
Hedging derivatives	10.3	–	–	10.3	–	–
Trade receivables	2,114.6	2,114.6	–	–	–	–
Loans and receivables	2,114.6	2,114.6	–	–	–	–
Current and non-current other assets	346.9	88.8	–	55.3	–	202.8
Non-hedging derivatives	2.7	–	–	2.7	–	–
Loans and receivables	88.8	88.8	–	–	–	–
Hedging derivatives	52.6	–	–	52.6	–	–
Non-financial items	202.8	–	–	–	–	202.8
Non-current financial assets	97.1	48.0	41.8	7.3	–	–
Non-hedging derivatives	–	–	–	–	–	–
Held to maturity	30.0	30.0	–	–	–	–
Loans and receivables	18.0	18.0	–	–	–	–
Available-for-sale	48.7	–	41.8	6.9	–	–
Hedging derivatives	0.4	–	–	0.4	–	–
Liabilities						
Current and non-current financial liabilities	4,453.5	4,284.2	–	159.5	9.8	–
Non-hedging derivatives	4.7	–	–	4.7	–	–
Other liabilities	4,284.2	4,284.2	–	–	–	–
Hedging derivatives	154.8	–	–	154.8	–	–
Finance lease	9.8	–	–	–	9.8	–
Trade accounts payable	1,288.3	1,288.3	–	–	–	–
Other liabilities	1,288.3	1,288.3	–	–	–	–
Current and non-current other liabilities	1,105.6	522.9	–	15.0	–	567.7
Non-hedging derivatives	0.4	–	–	0.4	–	–
Other liabilities	522.9	522.9	–	–	–	–
Hedging derivatives	14.6	–	–	14.6	–	–
Non-financial items	567.7	–	–	–	–	567.7

The fair values of derivatives stated here do not include accrued interest (clean price).
[1] Previous year's figures have been adjusted, see Note [5]

→ Other disclosures

		Subsequent measurement according to IAS 39					
Fair value Dec. 31, 2012	Book value Dec. 31, 2011	Amortized cost	At cost	Fair value	Carrying value according to IAS 17	Non-financial items	Fair value Dec. 31, 2011
729.7	937.8	937.8	–	–	–	–	937.8
	1,117.1	787.3	–	329.8	–	–	
–	–	–	–	–	–	–	–
7.8	6.4	–	–	6.4	–	–	6.4
349.7	27.3	27.3	–	–	–	–	27.3
200.3	760.0	760.0	–	–	–	–	760.0
1,230.1	307.9	–	–	307.9	–	–	307.9
10.3	15.5	–	–	15.5	–	–	15.5
	2,328.3	2,328.3	–	–	–	–	
2,114.6	2,328.3	2,328.3	–	–	–	–	2,328.3
	306.9[1]	90.6	–	2.6	–	213.7[1]	
2.7	0.6	–	–	0.6	–	–	0.6
88.8	90.6	90.6	–	–	–	–	90.6
52.6	2.0	–	–	2.0	–	–	2.0
	213.7[1]	–	–	–	–	213.7[1]	
	60.3	18.6	32.6	9.1	–	–	
–	–	–	–	–	–	–	–
30.0	–	–	–	–	–	–	–
18.0	18.6	18.6	–	–	–	–	18.6
48.7	41.3	–	32.6	8.7	–	–	41.3
0.4	0.4	–	–	0.4	–	–	0.4
	5,539.3	5,308.0	–	219.5	11.8	–	
4.7	27.8	–	–	27.8	–	–	27.8
4,715.7	5,308.0	5,308.0	–	–	–	–	5,548.1
154.8	191.7	–	–	191.7	–	–	191.7
9.8	11.8	–	–	–	11.8	–	11.8
	1,100.8	1,100.8	–	–	–	–	
1,288.3	1,100.8	1,100.8	–	–	–	–	1,100.8
	1,145.7	532.9	–	101.1	–	511.7	
0.4	3.6	–	–	3.6	–	–	3.6
522.9	532.9	532.9	–	–	–	–	532.9
14.6	97.5	–	–	97.5	–	–	97.5
	511.7	–	–	–	–	511.7	

→ Other disclosures

The net result of financial instruments mainly includes measurement results from currency translation, fair value adjustments, write-downs and write-ups as well as the recognition of premiums and discounts. Dividends and interest are not recognized in the net result of financial instruments, except for in the category "held for trading." At Merck, the category "held for trading" only includes derivatives that are not hedged.

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

		Net results			
2012 € million	Interest	Write-downs	Write-ups	Fair value adjustments	Disposal gains/losses
Financial instrument of the category					
Held for trading	–	–	–	44.4	–
Held to maturity	10.5	–	–	–	–
Loans and receivables	7.9	–69.9	42.4	–	–
Available-for-sale	11.4	–5.1	20.8	–	0.3
Other liabilities	–195.3	–	–	–	–

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

In 2012, foreign exchange losses of € 60.4 million resulting from receivables and payables in operating business, their economic hedging, as well as hedging of planned transactions in operating business were recorded (2011: gains of € 12.3 million). Foreign exchange gains of € 11.2 million resulting from financial balance sheet items, their economic hedging as well as fair value fluctuations of option contracts to hedge planned transactions were recorded (2011: losses of € 30.4 million).

→ Other disclosures

The fair value of financial assets is based on the official market prices and market values quoted on the balance sheet date (Level 1 assets) as well as mathematical calculation models with inputs observable in the market on the balance sheet date. Level 1 assets comprise stocks and bonds and are classified as "available-for-sale". Level 2 assets are primarily interest-bearing securities classified as "available-for-sale" as well as hedging and non-hedging derivatives. The fair value of interest-bearing securities is determined by discounting future cash flows using market interest rates. The fair value measurement of forward exchange contracts and currency options uses spot and forward rates as well as foreign exchange volatilities applying recognized mathematical principles. The fair value of interest rate swaps is determined with standard market valuation models using interest rate curves available in the market.

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

€ million as of Dec. 31, 2012	Assets	Liabilities
Fair value determined by official prices and quoted market values (Level 1)	**818.3**	**–**
thereof available-for-sale	818.3	–
Fair value determined using inputs observable in the market (Level 2)	**492.5**	**–174.5**
thereof available-for-sale	418.7	–
thereof hedging derivatives	63.3	–169.4
thereof non-hedging derivatives	10.5	–5.1
Fair value determined using inputs unobservable in the market (Level 3)	**–**	**–**

€ million as of Dec. 31, 2011	Assets	Liabilities
Fair value determined by official prices and quoted market values (Level 1)	**58.4**	**–**
thereof available-for-sale	58.4	–
Fair value determined using inputs observable in the market (Level 2)	**283.1**	**–320.6**
thereof available-for-sale	258.2	–
thereof hedging derivatives	17.9	–289.2
thereof non-hedging derivatives	7.0	–31.4
Fair value determined using inputs unobservable in the market (Level 3)	**–**	**–**

→ Other disclosures

(62) Capital management

The objective of capital management is to secure the financial flexibility in order to maintain long-term business operations and to realize strategic options. Maintaining a stable investment grade rating, ensuring liquidity, limiting financial risks as well as optimizing the costs of capital are the objectives of our financial policy and set important framework conditions for capital management. Traditionally, the capital market has represented a major source of financing for Merck, for instance via bond issues. In addition, Merck has both a commercial paper program for short-term financing on the capital market as well as a syndicated credit facility of € 2 billion with a term of until October 2014.

The responsible committees decide on the capital structure of the balance sheet, the appropriation of net retained profit and the dividend level.

In this context, net financial debt is one of the leading capital management indicators. It was as follows:

€ million	Dec. 31, 2012	Dec. 31, 2011	Change
Financial liabilities	4,453.5	5,539.3	–1,085.8
less			
Cash and cash equivalents	729.7	937.8	–208.1
Current financial assets	1,797.9	1,117.1	680.8
Net financial debt	**1,925.9**	**3,484.4**	**–1,558.5**

(63) Contingent liabilities

€ million	Dec. 31, 2012	thereof affiliates	Dec. 31, 2011	thereof affiliates
Guarantees	17.3	–	101.0	–
Warranties	0.8	–	0.7	–
Other contingent liabilities	87.8	–	43.4	–

Other contingent liabilities included, among other things, potential obligations from legal disputes, for which the probability of an outflow of resources did not suffice to recognize a provision as of the balance sheet date.

→ Other disclosures

(64) Other financial obligations

Other financial obligations comprised the following:

€ million	Dec. 31, 2012	thereof affiliates	Dec. 31, 2011	thereof affiliates
Obligations to acquire intangible assets	1,670.7	–	950.5	–
Obligations to acquire property, plant and equipment	111.8	–	84.9	–
Future operating lease payments	207.9	–	178.3	–
Long-term purchase commitments	186.5	–	281.4	–
Other financial obligations	14.8	–	19.1	–
	2,191.7	**–**	**1,514.2**	**–**

Obligations to acquire intangible assets existed in particular within the scope of research and development collaborations. Here Merck has obligations to make milestone payments when its partner achieves certain objectives. In the unlikely event that all contract partners achieve all milestones, Merck would be obligated to pay up to € 1,670.7 million (2011: € 950.5 million) for the acquisition of intangible assets. The increase in obligations to acquire intangible assets resulted mainly from in-licensing agreements within the scope of two development projects in the Merck Serono division.

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

€ million	Dec. 31, 2012	Dec. 31, 2011
Obligations to acquire intangible assets		
within one year	140.3	42.6
in 1 – 5 years	308.9	120.2
more than 5 years	1,221.5	787.7
	1,670.7	**950.5**

Other financial obligations are recognized at nominal value.

→ Other disclosures

The maturities of liabilities from lease agreements were as follows:

€ million *as of Dec. 31, 2012*	within 1 year	1 – 5 years	more than 5 years	Total
Present value of future payments from finance leases	2.5	6.2	1.1	9.8
Interest component of finance leases	0.2	0.1	–	0.3
Future finance lease payments	**2.7**	**6.3**	**1.1**	**10.1**
Future operating lease payments	**72.0**	**126.9**	**9.0**	**207.9**

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

Operating lease agreements related mainly to market-usual leasing arrangements to lease operating and office equipment. The payments resulting from operating lease agreements amounted to € 102.6 million (2011: € 75.6 million) and were recorded as an expense in the reporting period.

(65) Personnel expenses/Headcount

Personnel expenses comprised the following:

€ million	2012	2011
Wages and salaries	3,007.2	2,458.7
Compulsory social security contributions and special financial assistance	398.3	347.4
Pension expenses	159.0	167.6
	3,564.5	**2,973.7**

The increase in personnel expenses was primarily due to the efficiency enhancement and cost reduction program "Fit for 2018" and the related expenses for severance pay and partial retirement packages. In 2012, wages and salaries included severance pay amounting to € 381.6 million, which is to be seen mainly in this context.

As of December 31, 2012, the Merck Group had 38,847 employees (2011: 40,676). The average number of employees during the year was 39,939 (2011: 40,570).

The breakdown of personnel by function was as follows:

Average number of employees	2012	2011
Production	9,486	9,317
Logistics	1,665	2,054
Marketing and Sales	12,353	12,322
Administration	4,416	4,696
Research & Development	4,558	4,632
Infrastructure and Other	7,461	7,549
	39,939	**40,570**

(66) Material costs

Material costs in 2012 amounted to € 1,496.4 million (2011: € 1,452.7 million) and was reported under cost of sales.

(67) Auditors' fees

The costs of the auditors (KPMG) of the financial statements of the Merck Group consisted of the following:

	2012		2011	
€ million	Merck Group	thereof KPMG Germany	Merck Group	thereof KPMG Germany
Audits of financial statements	5.4	1.4	7.2	1.7
Other audit-related services	0.6	0.2	0.1	–
Tax consultancy services	0.4	0.3	0.5	0.2
Other services	0.2	–	0.7	0.3
	6.6	**1.9**	**8.5**	**2.2**

(68) Corporate governance

The Statement of Compliance in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz) was published in the corporate governance section of our website www.merckgroup.com/investors → Corporate Governance in February 2012 and thus made permanently available.

(69) Companies opting for exemption under section 264 (3) HGB or section 264b HGB

The following companies, which have been consolidated in these financial statements, have opted for exemption of the German Commercial Code (HGB):

Allergopharma GmbH & Co. KG, Reinbek
Chemische Fabrik Lehrte Dr. Andreas Kossel GmbH, Lehrte
Heipha Dr. Müller Gmbh, Eppelheim
Merck Export GmbH, Darmstadt
Merck Selbstmedikation GmbH, Darmstadt
Merck Shared Services Europe GmbH, Darmstadt
Merck Serono GmbH, Darmstadt

→ Other disclosures

(70) Related-party disclosures

Related parties in respect of the Merck Group are E. Merck KG as well as Emanuel-Merck-Vermögens-KG and E. Merck Beteiligungen KG. In principle, direct or indirect subsidiaries of Merck KGaA, associates and joint ventures of the Merck Group as well as pension funds that are classified as funded defined benefit plans in accordance with IAS 19 are also related parties within the meaning of IAS 24. Members of the Executive Board and the Supervisory Board of Merck KGaA, the Executive Board and the Board of Partners of E. Merck KG as well as close members of their families are also related parties.

As of December 31, 2012, there were liabilities by Merck KGaA, Merck Financial Services GmbH and Merck & Cie, Altdorf, to E. Merck KG in the amount of € 528.1 million (2011: € 518.5 million) as well as by Merck Financial Services GmbH to Merck Capital Asset Management, Malta, and Merck Capital Asset Management Holding, Malta, amounting to € 0.3 million (2011: € 0.0 million) and € 0.1 million (2011: € 0.0 million), respectively. In addition, as of December 31, 2012, Merck KGaA had receivables from E. Merck Beteiligungen KG in the amount of € 5.4 million (2011: € 6.1 million) and from E. Merck KG in the amount of € 0.0 million (2011: € 0.1 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 € 233.1 million (2011: € 199.2 million) which were subject to standard market interest rates.

From January to December 2012, Merck KGaA performed services for E. Merck KG with a value of € 1.2 million (2011: € 1.1 million), for E. Merck Beteiligungen KG with a value of € 0.3 million (2011: € 0.0 million), and for Emanuel-Merck-Vermögens-KG with a value of € 0.3 million (2011: € 0.2 million). During the same period, E. Merck KG performed services for Merck KGaA with a value of € 0.5 million (2011: € 0.5 million).

Business transactions with major subsidiaries were eliminated during consolidation. Information on pension funds that are classified as funded defined benefit plans in accordance with IAS 19 can be found under Note [51]. There were no further material transactions with these pension funds.

From January to December 2012, there were no transactions between companies of the Merck Group and associates (2011: goods with a value of € 2.3 million were supplied to associates). As in the previous year, companies of the Merck Group had no receivables vis-à-vis associates as of December 31, 2012.

There were no additional material transactions such as, for example, the provision of services or the granting of loans, between companies of the Merck Group and members of the Executive Board and the Supervisory Board of Merck KGaA, the Executive Board and the Board of Partners of E. Merck KG or members of their immediate families.

(71) Executive Board and Supervisory Board compensation

The compensation of the Executive Board of Merck KGaA is paid by the general partner, E. Merck KG, and recorded as an expense in its income statement. For January to December 2012, fixed salaries of € 4.9 million (2011: € 5.5 million), variable compensation of € 11.2 million (2011: € 13.9 million), and additional benefits of € 0.1 million (2011: € 0.1 million) were recorded for members of the Executive Board of Merck KGaA. Furthermore, additions to the provisions of E. Merck KG for the Long-Term Incentive Plan totaled € 3.1 million (2011: € 0.0 million), and to the pension provisions of E. Merck KG include current service costs of € 1.9 million (2011: € 1.1 million) for members of the Executive Board of Merck KGaA.

Subject to the approval of the Annual General Meeting on the proposed distribution of a dividend of € 1.70 per share, the compensation of the Supervisory Board amounting to € 694 thousand (2011: € 620 thousand) consists of a fixed portion of € 122.5 thousand (2011: € 122.5 thousand) and a variable portion of € 571.5 thousand (2011: € 497.5 thousand).

Further individualized information and details can be found in the Compensation Report on pages 104 et seq.

(72) Information on preparation and approval

The Executive Board of Merck KGaA prepared the consolidated financial statements on February 20, 2013 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the responsibility to examine the consolidated financial statements and to declare whether it approves them.

(73) Subsequent events

Subsequent to the balance sheet date, no further events of special importance occurred that could have a material impact on the financial position and results of operations of the Merck Group.

→ Other disclosures

(74) List of shareholdings

The following table presents the list of shareholdings of the Merck Group as of December 31, 2012.

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
I. Fully consolidated companies				
Germany				
Germany	Merck KGaA	Darmstadt	Parent company	
Germany	Allergopharma GmbH & Co. KG	Reinbek	100.00	
Germany	Allergopharma Verwaltungs GmbH	Darmstadt	100.00	100.00
Germany	Biochrom AG	Berlin	100.00	
Germany	Chemische Fabrik Lehrte Dr. Andreas Kossel GmbH	Lehrte	100.00	100.00
Germany	Chemitra GmbH	Darmstadt	100.00	100.00
Germany	Emedia Export Company mbH	Gernsheim	100.00	
Germany	heipha Dr. Müller GmbH	Eppelheim	100.00	100.00
Germany	IHS-Intelligent Healthcare Solutions GmbH	Frankfurt/Main	100.00	
Germany	Litec-LLL GmbH	Greifswald	100.00	100.00
Germany	Merck Chemicals GmbH	Schwalbach	100.00	
Germany	Merck China Chemicals Holding GmbH	Darmstadt	100.00	
Germany	Merck Consumer Health Care Holding GmbH	Darmstadt	100.00	100.00
Germany	Merck Export GmbH	Darmstadt	100.00	100.00
Germany	Merck Financial Services GmbH	Darmstadt	100.00	100.00
Germany	Merck Financial Trading GmbH	Gernsheim	100.00	100.00
Germany	Merck Holding GmbH	Gernsheim	100.00	100.00
Germany	Merck Internationale Beteiligungen GmbH	Darmstadt	100.00	
Germany	Merck Pensions GmbH & Co. KG	Zossen	100.00	100.00
Germany	Merck Schuchardt OHG	Hohenbrunn	100.00	100.00
Germany	Merck Selbstmedikation GmbH	Darmstadt	100.00	
Germany	Merck Serono GmbH	Darmstadt	100.00	100.00
Germany	Merck Shared Services Europe GmbH	Darmstadt	100.00	100.00
Germany	Merck Versicherungsvermittlung GmbH	Darmstadt	100.00	100.00
Germany	Merck Verwaltungsgesellschaft mbH	Darmstadt	100.00	100.00
Germany	Merck Vierte Allgemeine Beteiligungsgesellschaft mbH	Gernsheim	100.00	
Other European countries				
Switzerland	Allergopharma AG	Therwil	100.00	
Switzerland	Ares Trading SA	Aubonne	100.00	
Switzerland	Horizon North SA	Geneva	100.00	

→ Other disclosures

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Switzerland	Horizon South SA	Geneva	100.00	
Switzerland	Merck & Cie	Altdorf	98.87	98.87
Switzerland	Merck (Schweiz) AG	Zug	100.00	
Switzerland	Merck AG	Zug	100.00	20.87
Switzerland	Merck Biosciences AG	Läufelfingen	100.00	
Switzerland	Merck Serono SA	Coinsins	100.00	
Switzerland	Millipore AG	Zug	100.00	
Switzerland	SeroMer Holding SA	Chéserex	100.00	
France	Laboratoire Médiflor S.A.S.	Lyon	100.00	
France	Merck Biodevelopment S.A.S.	Lyon	100.00	
France	Merck Chimie S.A.S.	Fontenay s/Bois	100.00	
France	Merck Médication Familiale S.A.S.	Lyon	100.00	
France	Merck S.A.	Lyon	99.82	89.00
France	Merck Santé S.A.S.	Lyon	100.00	
France	Merck Serono S.A.S.	Lyon	100.00	
France	Millipore S.A.S.	Molsheim	100.00	
United Kingdom	British Cod Liver Oils Ltd.	Hull	100.00	
United Kingdom	Celliance Ltd.	Edinburgh	100.00	
United Kingdom	Hofels Pure Foods Ltd.	Hull	100.00	
United Kingdom	Lamberts Healthcare Ltd.	Tunbridge Wells	100.00	
United Kingdom	Marfleet Refining Company Ltd.	Hull	100.00	
United Kingdom	Merck Biosciences Ltd.	Nottingham	100.00	
United Kingdom	Merck Chemicals Ltd.	Nottingham	100.00	
United Kingdom	Merck Consumer Health Care Ltd.	Hull	100.00	
United Kingdom	Merck Cross Border Trustees Ltd.	Hull	100.00	
United Kingdom	Merck Investments Ltd.	Hull	100.00	
United Kingdom	Merck Ltd.	Hull	100.00	
United Kingdom	Merck Pension Trustees Ltd.	Hull	100.00	
United Kingdom	Merck Serono Europe Ltd.	London	100.00	
United Kingdom	Merck Serono Ltd.	Feltham	100.00	
United Kingdom	Millipore (U.K.) Ltd.	Feltham	100.00	
United Kingdom	Millipore UK Holdings LLP	London	100.00	
United Kingdom	New Era Laboratories Ltd.	Hull	100.00	
United Kingdom	Phillips Yeast Products Ltd.	Hull	100.00	
United Kingdom	Serologicals Global Holding Company Ltd.	London	100.00	
United Kingdom	Serono Ltd.	Feltham	100.00	
United Kingdom	Seven Seas Healthcare Ltd.	Hull	100.00	
United Kingdom	Seven Seas Ltd.	Hull	100.00	
United Kingdom	Seven Seas Pension Trustees Ltd.	Hull	100.00	
United Kingdom	Upstate Ltd.	London	100.00	
Italy	Allergopharma S.p.A.	Milan	100.00	

→ Other disclosures

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Italy	Istituto di Ricerche Biomediche Antoine Marxer RBM S.p.A.	Colleretto Giacosa	100.00	
Italy	Merck S.p.A.	Milan	100.00	
Italy	Merck Serono S.p.A.	Rome	99.71	
Italy	Millipore S.p.A.	Milan	100.00	
Spain	Merck, S.L.	Madrid	100.00	
Spain	Millipore Iberica S.A.	Madrid	100.00	
Belgium	Merck Consumer Healthcare N.V.-S.A.	Overijse	100.00	
Belgium	Merck N.V.-S.A.	Overijse	100.00	
Belgium	Millipore S.A./N.V.	Brussels	100.00	
Bulgaria	Merck Bulgaria EAD	Sofia	100.00	
Denmark	Merck A/S	Hellerup	100.00	
Denmark	Millipore A/S	Hellerup	100.00	
Denmark	Survac ApS	Frederiksberg	100.00	100.00
Estonia	Merck Serono OÜ	Tallinn	100.00	
Finland	Merck OY	Espoo	100.00	
Finland	Millipore OY	Espoo	100.00	
Greece	Merck A.E.	Maroussi	100.00	
Ireland	Merck Millipore Ltd.	Carrigtwohill	100.00	
Ireland	Merck Serono (Ireland) Ltd.	Dublin	100.00	
Ireland	Millipore Cork	Carrigtwohill	100.00	
Ireland	Millipore Dublin International Finance Company	Dublin	100.00	
Ireland	Tullagreen Holdings Ltd.	Dublin	100.00	
Croatia	Merck d.o.o.	Zagreb	100.00	
Latvia	Merck Serono SIA	Riga	100.00	
Lithuania	Merck Serono, UAB	Kaunas	100.00	
Luxembourg	Merck Re S.A.	Luxembourg	100.00	
Luxembourg	Merck-Finanz AG	Luxembourg	100.00	100.00
Luxembourg	Millilux S.a.r.L.	Luxembourg	100.00	
Luxembourg	Millipart S.a.r.L.	Luxembourg	100.00	
Luxembourg	Millipore International Holdings, S.a.r.L.	Luxembourg	100.00	
Malta	Merck Capital Holding Ltd.	St. Julians	100.00	99.92
Malta	Merck Capital Ltd.	St. Julians	100.00	
Netherlands	Merck B.V.	Schiphol-Rijk	100.00	
Netherlands	Millipore B.V.	Amsterdam Zuidoost	100.00	
Netherlands	Millipore International Holding Company B.V.	Amsterdam Zuidoost	100.00	
Netherlands	Millipore Ireland B.V.	Roosendaal	100.00	
Netherlands	Serono Tri Holdings B.V.	Schiphol-Rijk	100.00	
Norway	Merck AB, Branch Office Norway	Oslo	100.00	
Norway	Millipore AS	Oslo	100.00	
Austria	Allergopharma Vertriebsgesellschaft m.b.H.	Vienna	100.00	

→ Other disclosures

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Austria	Arcana Life-Science-Produkte GmbH	Vienna	100.00	
Austria	Merck Gesellschaft mbH	Vienna	100.00	
Austria	Merck KGaA & Co. Werk Spittal	Spittal	100.00	99.00
Austria	Millipore Gesellschaft mbH	Vienna	100.00	
Poland	Merck Sp.z.o.o.	Warsaw	100.00	
Portugal	Merck, S.A.	Lisbon	100.00	
Romania	Merck Romania S.R.L.	Bucharest	100.00	
Russia	Merck LLC	Moscow	100.00	
Sweden	Merck AB	Solna	100.00	
Sweden	Merck SeQuant AB	Umea	100.00	
Sweden	Millipore AB	Solna	100.00	
Serbia	Merck d.o.o. Beograd	Belgrade	100.00	
Slovakia	Merck spol. s.r.o.	Bratislava	100.00	
Slovenia	Merck d.o.o.	Ljubljana	100.00	
Czech Republic	Merck spol.s.r.o.	Prague	100.00	
Turkey	Merck Ilac Ecza ve Kimya Ticaret AS	Istanbul	100.00	
Hungary	Merck Kft.	Budapest	100.00	
North America				
United States	Amnis Corp.	Seattle	100.00	
United States	EMD Holding Corp.	Rockland	100.00	
United States	EMD Millipore Corp.	Billerica	100.00	
United States	EMD Serono Holding Inc.	Rockland	100.00	
United States	EMD Serono Research Institute, Inc.	Billerica	100.00	
United States	EMD Serono, Inc.	Rockland	100.00	
United States	EMD Shared Services America Corp.	Quincy	100.00	
United States	Millipore Asia Ltd.	Wilmington	100.00	
United States	Millipore Pacific Ltd.	Wilmington	100.00	
United States	Millipore UK Holdings I, LLC	Wilmington	100.00	
United States	Millipore UK Holdings II, LLC	Wilmington	100.00	
United States	Serono Laboratories Inc.	Rockland	100.00	
Puerto Rico	EMD Millipore Corp., Puerto Rico Branch	Cidra	100.00	
Canada	EMD Chemicals Canada Inc.	Toronto	100.00	
Canada	EMD Crop BioScience Canada Inc.	Toronto	100.00	
Canada	EMD Inc.	Mississauga	100.00	
Canada	Millipore (Canada) Ltd.	Toronto	100.00	
Emerging Markets				
Argentina	Merck Química Argentina S.A.I.C.	Buenos Aires	100.00	
Brazil	Merck S.A.	Rio de Janeiro	100.00	
Chile	Merck S.A.	Santiago de Chile	100.00	

→ Other disclosures

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Ecuador	Merck C.A.	Quito	100.00	
Guatemala	Merck, S.A.	Guatemala City	100.00	
Colombia	Merck S.A.	Bogotá	100.00	
Mexico	Merck, S.A. de C.V.	Mexico City	100.00	
Mexico	Millipore S.A. de C.V.	Mexico City	100.00	
Mexico	Serono de Mexico S.A. de C.V.	Mexico City	100.00	
Panama	Mesofarma Corporation	Panama City	100.00	
Peru	Merck Peruana S.A.	Lima	100.00	
Uruguay	ARES Trading Uruguay S.A.	Montevideo	100.00	
Venezuela	Merck S.A.	Caracas	100.00	
Venezuela	Representaciones MEPRO S.A.	Caracas	100.00	
China	Beijing Skywing Technology Co., Ltd.	Beijing	100.00	
China	Merck Chemicals (Shanghai) Co., Ltd.	Shanghai	100.00	
China	Merck Consumer Health Care Shanghai Trading Co., Ltd.	Shanghai	100.00	
China	Merck Display Materials (Shanghai) Co., Ltd.	Shanghai	100.00	
China	Merck Ltd.	Hong Kong	100.00	
China	Merck Millipore Lab Equipment Co., Ltd.	Shanghai	100.00	
China	Merck Pharmaceutical (HK) Ltd.	Hong Kong	100.00	
China	Merck Serono (Beijing) Pharmaceutical R&D Co., Ltd.	Beijing	100.00	
China	Merck Serono Co., Ltd.	Beijing	100.00	
China	Millipore (Shanghai) Trading Co., Ltd.	Shanghai	100.00	
China	Millipore China Ltd.	Hong Kong	100.00	
China	Suzhou Taizhu Technology Development Co., Ltd.	Taicang	100.00	
India	Merck Ltd.	Mumbai	51.80	
India	Merck Specialities Pvt. Ltd.	Mumbai	100.00	
India	Millipore India Pvt. Ltd.	Bangalore	100.00	
Indonesia	P.T. Merck Tbk.	Jakarta	86.65	
Israel	Inter-Lab Ltd.	Yavne	100.00	
Israel	InterPharm Industries Ltd.	Yavne	100.00	
Israel	InterPharm Laboratories Ltd.	Yavne	100.00	
Israel	Merck Serono Ltd.	Herzliya Pituach	100.00	
Malaysia	Merck Sdn Bhd	Petaling Jaya	100.00	
Malaysia	Millipore Asia Ltd., Malaysia Branch	Kuala Lumpur	100.00	
Pakistan	Merck (Pvt.) Ltd.	Karachi	75.00	26.00
Pakistan	Merck Pharmaceuticals (Pvt.) Ltd.	Karachi	75.00	
Pakistan	Merck Specialities (Pvt.) Ltd.	Karachi	100.00	
Philippines	Merck Inc.	Makati City	100.00	
Singapore	Merck Pte. Ltd.	Singapore	100.00	
South Korea	Merck Advanced Technologies Ltd.	Pyungtaek-shi	100.00	
South Korea	Merck Ltd.	Seoul	100.00	

→ Other disclosures

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Taiwan	Merck Display Technologies Ltd.	Taipei	100.00	
Taiwan	Merck Ltd.	Taipei	100.00	
Taiwan	Millipore Asia Ltd., Taiwan Branch (in liquidation)	Taipei	100.00	
Thailand	Merck Ltd.	Bangkok	45.11	
United Arab Emirates	Merck Serono Middle East FZ-LLC	Dubai	100.00	
Vietnam	Merck Vietnam Ltd.	Ho Chi Minh City	100.00	
Rest of the World				
Japan	Merck Ltd.	Tokyo	100,00	15.89
Japan	Merck Serono Co., Ltd.	Tokyo	100.00	
Egypt	Merck Ltd.	Cairo	100.00	
Mauritius	Millipore Mauritius Ltd.	Cyber City	100.00	
South Africa	Merck (Pty) Ltd.	Halfway House	100.00	
South Africa	Merck Pharmaceutical Manufacturing (Pty) Ltd.	Wadeville	100.00	
Tunisia	Merck Promotion SARL	Tunis	100.00	
Tunisia	Merck SARL	Tunis	100.00	
Australia	Merck Pty. Ltd.	Kilsyth	100.00	
Australia	Merck Serono Australia Pty. Ltd.	Sydney	100.00	
New Zealand	Merck Ltd.	Manukau City	100.00	

II. Companies not consolidated due to secondary importance

Germany				
Germany	Merck 12. Allgemeine Beteiligungs GmbH	Darmstadt	100.00	100.00
Germany	Merck 13. Allgemeine Beteiligungs GmbH	Darmstadt	100.00	
Germany	Merck 14 Allgemeine Beteiligungs GmbH	Darmstadt	100.00	
Germany	Merck Patent GmbH	Darmstadt	100.00	
Germany	Merck Pensionsverwaltung GmbH	Zossen	100.00	100.00
Germany	Merck Sechste Allgemeine Beteiligungs-gesellschaft mbH	Darmstadt	100.00	
Germany	Merck Wohnungs- und Grundstücks-verwaltungsgesellschaft mbH	Darmstadt	100.00	100.00
Other European countries				
Switzerland	Asceneuron SA	Lausanne	80.00	
Switzerland	Prexton Therapeutics SA	Plan-les Ouates	49.00	
France	Financière du 8ème S.A.S.	Lyon	100.00	
France	Gonnon S.A.S.	Lyon	100.00	
United Kingdom	Merck Services U.K. Ltd.	Hull	100.00	
United Kingdom	Merck UK Limited Partnership	Poole	100.00	

→ Other disclosures

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
United Kingdom	Nature's Best Health Products Ltd.	Tunbridge Wells	100.00	
Netherlands	Merck Holding Netherlands B.V.	Schiphol-Rijk	100.00	100.00
Austria	Eurodrug Chemisch-pharmazeutische Produkte GmbH	Vienna	100.00	
Austria	Merck Vermögensverwaltungs-GmbH	Vienna	100.00	
Portugal	Laquifa Laboratorios S.A.	Lisbon	100.00	
Emerging Markets				
Dominican Republic	Merck Dominicana, S.R.L.	Santo Domingo	100.00	
China	Beijing Ji Zhon-Sheng Pharmaceutical Co., Ltd.	Beijing	100.00	
Indonesia	P. T. Merck Specialities	Jakarta	100.00	
Rest of the World				
Morocco	Merck Maroc S.A.R.L.	Casablanca	100.00	
South Africa	Merck Chemicals (Pty) Ltd. (in liquidation)	Modderfontein	100.00	
South Africa	Serono South Africa Ltd.	Johannesburg	100.00	
Australia	Biochrom Australia Pty. Ltd.	Melbourne	100.00	
Australia	Chemicon Australia Pty. Ltd. (in liquidation)	Kilsyth	100.00	
Australia	E. Merck Pty. Ltd. (in liquidation)	Kilsyth	100.00	
Australia	Merck Australia Pty. Ltd.	Kilsyth	100.00	
III. Associates not included at equity due to secondary importance				
Other European countries				
Switzerland	Vaximm AG	Basel	22.76	
Netherlands	Peer+B.V.	Eindhoven	49.99	49.99
Rest of the World				
Israel	Neviah Genomics Ltd.	Yavne	56.43	10.89
Israel	QLight Nanotech Ltd.	Jerusalem	40.00	

05 Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the 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 Group management report 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.

Darmstadt, February 20, 2013

Karl-Ludwig Kley **Kai Beckmann** **Stefan Oschmann**

Bernd Reckmann **Matthias Zachert**

06 Auditor's Report

We have audited the consolidated financial statements prepared by Merck Kommanditgesellschaft auf Aktien, Darmstadt, comprising the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Net Equity, and the Notes to the Group accounts, together with the Group Management Report for the business year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) HGB [Handelsgesetzbuch "German Commercial Code"] and supplementary provisions of the articles of association are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a (1) HGB and supplementary provisions of the articles of association and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, February 21, 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Original German version signed by

Rolf Nonnenmacher
Wirtschaftsprüfer

Manfred Jenal
Wirtschaftsprüfer