Notes to the Interim Consolidated Financial Statements as of March 31, 2012

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

Accounting policies

The unaudited interim financial statements of the Merck Group as of March 31, 2012 comply with IAS 34. They have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force on the reporting date and adopted by the European Union. In accordance with IAS 34, a condensed scope of reporting as compared with the consolidated financial statements as of December 31, 2011 was selected. With the exception of the disclosure changes described in the following, the accounting policies have remained unchanged in comparison with the previous year. As of fiscal 2012, "Exceptional items" will no longer be disclosed in the income statement. The disclosures made under this item in the first quarter of 2011 have been allocated to other operating income in accordance with their nature. This relates mainly to the gain on the divestment of the Crop BioScience business. Due to the allocation of exceptional items, the operating result and earnings before interest and tax (EBIT) are now identical. Moreover, the method used to charge expenses for Group functions to functional expenses has been modified as of fiscal 2012. Whereas in the past, these expenses were also recorded under functional expenses in the income statement, in the future, they will be 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 has been adapted for comparability reasons.

In connection with the amended allocation of expenses for Group functions to functional expenses, their allocation to the operating divisions has also been modified within the scope of segment reporting. These expenses are now fully disclosed outside of the operating segments. For comparability reasons, the previous year's figures in the segment report have been adjusted.

The notes to the consolidated financial statements of the Merck Group for 2011, particularly the accounting policies, apply accordingly.

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

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

The following rule is effective as of fiscal 2012:

- Amendment to IFRS 7 "Financial Instruments: Disclosures"
  The new rule does not have any material effects on the interim financial statements.

Scope of consolidation

As of March 31, 2012, a total of 227 (December 31, 2011: 228) companies were fully consolidated. No companies were consolidated either on a pro rata basis or at equity as of the balance sheet date. The following changes have taken place since the beginning of 2012: Merck Financial Trading GmbH, Germany, which was established in 2011, was consolidated for the first time. Two companies are no longer consolidated due to a liquidation and a merger.

Other operating income and expenses

The item “Other operating income and expenses” in the income statement for the first quarter of 2012 shows an expense balance of € 144.6 million (year-earlier period: € 62.9 million income balance). The sharp deviation compared with the year-earlier period is due mainly to the one-time items included in this item. Whereas in the previous year, income from one-time items amounted to € 145.8 million, the first quarter of 2012 showed an expense balance of € 29.6 million for one-time items. More information on the presentation of one-time items can be found on page 26.

Valuation of Greek sovereign bonds

As of March 31, 2012, the balance sheet item “Marketable securities and financial assets” includes Greek sovereign bonds with a book value of € 9.1 million (December 31, 2011: € 10.9 million). Following the Greece debt cut in the first quarter of 2012, the nominal value of these securities is € 20.1 million (December 31, 2011: € 43.2 million before the debt cut). We received these securities in fiscal 2011 within the scope of an exchange of receivables that were due from Greek hospitals. In the first quarter of 2012, an impairment loss of € 1.8 million (year-earlier period: € 2.8 million on hospital receivables) was recognized and disclosed under other operating expenses.

Trade accounts receivable

In the first quarter of 2012, trade receivables in Italy and Spain with a nominal value of € 50.9 million were sold for € 47.8 million. This transaction did not have any impact on earnings since the corresponding write-downs had already been recognized in the previous year. The sold receivables do not involve any further rights of recovery vis-à-vis Merck.

In the reporting period, write-downs of € 44.4 million (year-earlier period: € 16.8 million) for trade accounts receivable were recorded and disclosed under other operating expenses.

New variable, long-term compensation plan

As of fiscal 2012, the previous long-term variable compensation plan (Merck Long-Term Incentive Plan) was replaced by a new long-term variable compensation plan linked to the Merck KGaA share price.

Under the new Merck Long-Term Incentive Plan, eligible executives and employees could be entitled to a certain number of Merck Share Units (MSUs) at the end of a three-year performance period. Following the expiration of the three-year performance period, the eligible individuals will be granted between 0% and 150% of the MSU entitlement depending on the development of two key performance indicators (KPIs):

a) the relative performance of the Merck share price compared to the performance of the DAX® with a weighting of 70%, and
b) the development of the EBITDA margin, adjusted for one-time items, during the performance period as a proportion of a defined target value with a weighting of 30%.

The eligible individuals receive a cash payment based on the number of MSUs granted. The value of an MSU 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 period.

The fair value of the liability for the new long-term, variable compensation plan has been disclosed under provisions for employee benefits on a pro rata basis for the vesting period already completed. The resulting expense for the first quarter of 2012 amounting to € 2.8 million has been recognized in the income statement.

→ Notes to the Interim Consolidated Financial Statements

Segment Reporting

Information by division*

	Merck Serono		Consumer Health	
€ million	Q1 – 2012	Q1 – 2011	Q1 – 2012	Q1 – 2011
Sales	1,417.2	1,344.9	107.6	116.2
Royalty, license and commission income	78.2	82.3	0.3	0.3
Total revenues	**1,495.3**	**1,427.2**	**108.0**	**116.6**
Gross profit	1,223.6	1,222.4	71.2	82.2
Marketing and selling expenses	–332.4	–351.0	–52.5	–60.6
Royalty, license and commission expenses	–115.2	–106.3	–0.2	–0.4
Administration expenses	–60.7	–61.4	–5.5	–5.9
Other operating expenses and income	–95.9	–46.7	–2.2	–1.5
Research and development	–302.8	–305.4	–4.9	–4.8
Operating result (EBIT)	**152.0**	**152.5**	**4.9**	**7.9**
Depreciation and amortization	222.8	199.4	3.0	2.6
Impairment losses	9.1	50.4	–	–
EBITDA	**383.8**	**402.4**	**7.9**	**10.6**
One-time items	9.7	–1.0	0.7	–
EBITDA pre one-time items (Segment result)	**393.5**	**401.4**	**8.6**	**10.6**
EBITDA margin pre one-time items (% of sales)	27.8	29.8	8.0	9.1
Net operating assets**	8,873.9	9,207.2	316.5	321.1
Segment liabilities**	–1,261.1	–1,163.6	–72.9	–80.7
Capital spending on property, plant and equipment	22.2	44.8	0.3	0.6
Investments in intangible assets	21.6	5.1	0.1	0.1
Net cash flows from operating activities	498.7	343.9	9.8	14.0
Net cash flows from investing activities	–21.2	197.4	0.8	–0.8
Free cash flow	477.5	541.4	10.6	13.2
Free cash flow margin (% of sales)	33.7	40.3	9.9	11.4

*Previous year's figures have been adjusted, see explanation on page 21.
**Reporting period ending on March 31, 2012. Previous year's figures as of December 31, 2011.

→ Notes to the Interim Consolidated Financial Statements

Segment Reporting

Information by division*

€ million	Performance Materials Q1 – 2012	Performance Materials Q1 – 2011	Merck Millipore Q1 – 2012	Merck Millipore Q1 – 2011
Sales	386.4	408.0	652.6	608.4
Royalty, license and commission income	–0.2	0.7	2.8	2.9
Total revenues	**386.2**	**408.7**	**655.4**	**611.3**
Gross profit	214.4	264.6	389.6	356.8
Marketing and selling expenses	–32.9	–32.4	–167.2	–145.6
Royalty, license and commission expenses	–0.5	–1.5	–4.1	–3.1
Administration expenses	–8.6	–8.1	–28.2	–27.5
Other operating expenses and income	–7.3	142.4	–24.0	–26.8
Research and development	–35.3	–36.1	–37.6	–32.3
Operating result (EBIT)	**129.3**	**327.9**	**78.3**	**74.2**
Depreciation and amortization	30.4	27.0	75.7	72.0
Impairment losses	–	–	–	–
EBITDA	**159.7**	**354.9**	**154.0**	**146.2**
One-time items	0.6	–157.0	7.5	12.2
EBITDA pre one-time items (Segment result)	**160.3**	**197.9**	**161.4**	**158.4**
EBITDA margin pre one-time items (% of sales)	41.5	48.5	24.7	26.0
Net operating assets**	1,280.3	1,331.0	6,497.1	6,608.6
Segment liabilities**	–119.2	–131.7	–337.9	–335.4
Capital spending on property, plant and equipment	11.7	13.3	16.3	16.0
Investments in intangible assets	0.6	0.8	5.6	1.0
Net cash flows from operating activities	168.9	119.1	113.9	67.8
Net cash flows from investing activities	–12.6	181.6	–16.7	–14.1
Free cash flow	156.2	300.7	97.2	53.7
Free cash flow margin (% of sales)	40.4	73.7	14.9	8.8

*Previous year's figures have been adjusted, see explanation on page 21.
**Reporting period ending on March 31, 2012. Previous year's figures as of December 31, 2011.

→ Notes to the Interim Consolidated Financial Statements

Segment Reporting

Information by division*

€ million	Total Operating Businesses Q1 – 2012	Total Operating Businesses Q1 – 2011	Corporate and Other Q1 – 2012	Corporate and Other Q1 – 2011	Merck Group Q1 – 2012	Merck Group Q1 – 2011
Sales	2,563.9	2,477.5	–	–	2,563.9	2,477.5
Royalty, license and commission income	81.1	86.2	–	–	81.1	86.2
Total revenues	**2,644.9**	**2,563.8**	**–**	**–**	**2,644.9**	**2,563.8**
Gross profit	1,898.8	1,925.9	–2.6	–1.1	1,896.2	1,924.8
Marketing and selling expenses	–584.9	–589.6	–1.6	–0.4	–586.6	–590.0
Royalty, license and commission expenses	–120.0	–111.3	–	–	–120.0	–111.3
Administration expenses	–103.0	–103.0	–32.7	–26.9	–135.8	–129.9
Other operating expenses and income	–129.4	67.4	–15.2	–4.5	–144.6	62.9
Research and development	–380.7	–378.6	–1.1	–0.1	–381.8	–378.8
Operating result (EBIT)	**364.4**	**562.6**	**–53.2**	**–33.1**	**311.2**	**529.5**
Depreciation and amortization	331.8	301.0	1.9	1.5	333.7	302.5
Impairment losses	9.1	50.4	–	–	9.1	50.4
EBITDA	**705.3**	**914.1**	**–51.4**	**–31.6**	**654.0**	**882.5**
One-time items	18.5	–145.8	2.5	–	21.0	–145.8
EBITDA pre one-time items (Segment result)	**723.8**	**768.3**	**–48.9**	**–31.6**	**674.9**	**736.7**
EBITDA margin pre one-time items (% of sales)	28.2	31.0	–	–	26.3	29.7
Net operating assets**	16,967.9	17,467.8	21.3	–1.3	16,989.2	17,466.6
Segment liabilities**	–1,791.1	–1,711.5	–18.9	–22.9	–1,810.1	–1,734.3
Capital spending on property, plant and equipment	50.5	74.8	0.2	0.1	50.7	74.9
Investments in intangible assets	27.8	6.9	1.3	2.4	29.1	9.3
Net cash flows from operating activities	791.3	544.8	–319.4	–259.9	471.9	284.9
Net cash flows from investing activities	–49.7	364.2	367.7	–259.9	318.0	104.3
Free cash flow	741.6	909.0	–321.9	–263.7	419.8	645.3
Free cash flow margin (% of sales)	28.9	36.7	–	–	16.4	26.0

*Previous year's figures have been adjusted, see explanation on page 21.
**Reporting period ending on March 31, 2012. Previous year's figures as of December 31, 2011.

→ *Notes to the Interim Consolidated Financial Statements*

The segment report presents the earnings, financial, and asset figures as well as other key figures by operating segment. Segmentation was performed in accordance with the internal organization and reporting structure of the Merck Group. The operating segments are described in detail in the sections about the divisions in the interim 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. These mainly relate to Group functions. The cash flow related to the financial result and to income taxes are also presented under "Corporate and Other". We determine the transfer prices of intragroup transactions in accordance with market values. There were no significant transactions between the business segments.

Apart from total revenues, the main indicator used to measure the success of a segment is EBITDA pre, i.e. EBITDA pre one-time items (segment result). The reconciliation of EBITDA pre of all operating businesses to earnings before income tax of the Merck Group is as follows:

€ million	Q1 – 2012	Q1 – 2011
Total EBITDA pre one-time items for the operating businesses	**723.8**	**768.3**
Corporate and Other	–48.9	–31.6
EBITDA pre one-time items Merck Group	**674.9**	**736.7**
Depreciation and amortization/impairment losses	–342.8	–352.9
One-time items	–21.0	145.8
Operating result (EBIT)	**311.2**	**529.5**
Financial result	–65.1	–68.3
Profit before income tax	**246.1**	**461.2**

One-time items are as follows:

€ million	Q1 – 2012	Q1 – 2011
Integration / IT-related costs	–9.6	–12.2
Restructuring costs	–10.5	–
Gains/losses from discontinued businesses	–0.9	158.0
Acquisition costs	–	–
Other one-time items	–	–
One-time items excluding impairment losses	**–21.0**	**145.8**
Impairment losses	–8.6	–50.4
One-time items (Total)	**–29.6**	**95.4**

One-time items are disclosed under "Other operating income and expenses." Only the impairment losses of € 50.4 million in the first quarter of 2011 in connection with the reassessment of the business potential of cladribine tablets were recorded under "Amortization of intangible assets."

Restructuring costs in the first quarter of 2012 amounting to € 10.5 million arose in connection with the announced efficiency program. These mainly relate to the costs of consultants and severance payments.

The reconciliation of operating assets in the segment report is as follows:

€ million	March 31, 2012	Dec. 31, 2011
Assets	21,490.2	22,120.1
Monetary assets (cash and cash equivalents, loans, securities)	–1,889.9	–2,082.7
Non-operating receivables, tax receivables, deferred taxes and refund claims on plan assets	–801.0	–836.5
Operating assets (gross)	**18,799.3**	**19,200.9**
Trade accounts payable	–1,112.8	–1,100.8
Other operating liabilities	–697.3	–633.5
Segment liabilities	**–1,810.1**	**–1,734.3**
Operating assets (net)	**16,989.2**	**17,466.6**

Notes to the cash flow statement

In the first quarter of 2012, interest paid amounted to € 121.5 million (year-earlier period: € 124.0 million).

The bond repaid in the reporting period was issued by Merck Financial Services GmbH, Germany. It had a nominal volume of € 500 million and matured in March 2012.

Free cash flow resulted as follows:

€ million	Q1 – 2012	Q1 – 2011
Net cash flows from operating activities	**471.9**	**284.9**
Purchase of intangible assets	–29.1	–9.3
Purchase of property, plant and equipment	–50.7	–74.9
Acquisitions	–	–
Investments in financial assets	–5.6	–0.6
Disposal of non-current assets	31.4	485.4
Purchase/sale of marketable securities	1.7	–40.2
Free cash flow	**419.8**	**645.3**

Earnings per share

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

	Q1 – 2012	Q1 – 2011
Net profit after non-controlling interest (€ million)	174.2	341.1
Weighted average number of theoretical shares outstanding (in millions)	217.4	217.4
Basic earnings per share (€)	**0.80**	**1.57**

As of March 31, 2012, there were no potentially dilutive shares. Diluted earnings per share corresponded to basic earnings per share.

Related-party disclosures

As of March 31, 2012, there were liabilities by Merck KGaA, Merck Financial Services GmbH and Merck & Cie, Switzerland, to E. Merck KG in the amount of € 503.6 million. Additionally, as of March 31, 2012, Merck KGaA had receivables from E. Merck Beteiligungen KG totaling € 1.0 million. Merck Financial Services GmbH had receivables from Merck Capital Asset Management, Malta, amounting to € 0.8 million and from Merck Capital Asset Management Holding, Malta, amounting to € 0.2 million. The balances resulted 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 € 152.3 million, which were subject to standard market interest rates.

From January to March 2012, Merck KGaA performed services for Emanuel Merck Vermögens KG with a value of € 0.1 million.

Subsequent events

On April 24, 2012, Merck announced efficiency measures that it plans with respect to the operating business of Merck Serono in Switzerland. In this connection, it is planned to close Merck Serono headquarters in Geneva and to eliminate a total of 580 positions in Switzerland. In addition, 750 positions are to be moved from Geneva to other locations.