→ Divisions

Merck's Four Divisions

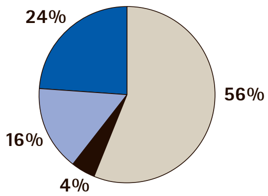
The Merck Group operates within four divisions. The Merck Serono division develops, manufactures and markets prescription drugs to treat cardiovascular diseases, cancer, neurodegenerative diseases, infertility and selected metabolic disorders. About 60% of these drugs are biologics, making the division a substantial biopharmaceuticals provider in Europe. In the second quarter of 2012, Merck Serono contributed 56% to Group sales.

The Consumer Health division manufactures and markets prescription-free drugs primarily addressing health themes such as mobility, women's and children's health, cough and cold as well as everyday health protection. The division's contribution to Group sales was 4% in the second quarter of 2012.

In Performance Materials, Merck holds number one market positions for liquid crystal mixtures used in liquid crystal displays (LCD) as well as for special effect pigments used for decorative applications in e. g. automotive coatings and the cosmetics industry. This division generated 16% of Group sales in the second quarter of 2012.

Finally, the Merck Millipore division is the number three global supplier of tools for the life science industry, marketing and developing solutions to support the academic, pharma, biopharma and chemical industries to increase productivity in laboratories as well as to ensure quality and lower costs in production. Reflecting the industry-specific needs of its customers, Merck Millipore has three business units: Bioscience and Lab Solutions, which primarily serve the needs of researchers and laboratories, and Process Solutions, which supplies products used primarily for clinical and commercial-scale drug production. In the second quarter of 2012, the division contributed 24% to sales of the Merck Group.

Merck Group | Sales by division – Q2 2012



	€ million
Merck Serono	1,546.5
Consumer Health	121.1
Performance Materials	426.1
Merck Millipore	649.5

Merck Group | EBITDA pre one-time items by division

€ million	Q2 2012	Q2 2011	Change	Jan.–June 2012	Jan.–June 2011	Change
Merck Serono	439.4	366.4	19.9%	832.9	767.8	8.5%
Consumer Health	17.8	13.0	37.0%	26.3	23.5	11.8%
Performance Materials	189.7	179.4	5.7%	350.0	377.3	–7.2%
Merck Millipore	147.9	128.6	15.0%	309.4	287.0	7.8%
Corporate and Other	–48.2	–32.1	50.0%	–97.7	–65.0	50.4%

→ Divisions

Merck Serono

Merck Serono's second quarter total revenues rose 11.4% to € 1,649 million (Q2 2011: € 1,480 million). Sales for the division increased 10.8% to € 1,546 million (Q2 2011: € 1,395 million). This performance reflected organic sales growth of 6.6% and a considerable benefit from changes in foreign exchange rates of 4.2%, mainly driven by a strengthening of the US$. Four out of five therapeutic areas in Merck Serono reported strong organic sales performance, driven by higher volumes and price increases. Royalty, license and commission income grew by 21.0% to € 102 million (Q2 2011: € 84 million) reflecting a positive benefit from changes in foreign exchange rates and higher royalty income relating to Humira®.

Merck Serono | Key figures

€ million	Q2 2012	Q2 2011	Change	Jan.–June 2012	Jan.–June 2011	Change
Total revenues	1,648.6	1,479.9	11.4%	3,143.9	2,907.1	8.1%
Sales	1,546.5	1,395.5	10.8%	2,963.7	2,740.4	8.1%
Operating result (EBIT)	3.7	–137.8	n.m.	155.7	14.7	n.m
Margin (% of sales)	*0.2%*	*–9.9%*		*5.3%*	*0.5%*	
EBITDA	247.9	339.5	–27.0%	631.7	741.9	–14.9%
Margin (% of sales)	*16.0%*	*24.3%*		*21.3%*	*27.1%*	
EBITDA pre one-time items	439.4	366.4	19.9%	832.9	767.8	8.5%
Margin (% of sales)	*28.4%*	*26.3%*		*28.1%*	*28.0%*	

During the second quarter of 2012, the division's production costs rose 8.4% to € 317 million (Q2 2011: € 292 million) reflecting increased volumes as well as higher start-up costs for the division's bioproduction plant in Vevey, Switzerland. The positive benefit from changes in foreign exchange rates also helped the gross profit increase faster than sales. Gross profit grew by 12.1% to € 1,332 million (Q2 2011: € 1,188 million). This translated into a gross margin (as percentage of sales) of 86.1% (Q2 2011: 85.1%).

Marketing and selling costs declined by 2.1% to € 359 million (Q2 2011: € 366 million) due to tight cost control measures primarily related to reductions in spending for internal sales service and sales promotions. However, royalty, license and commission expenses rose 31.1% to € 148 million (Q2 2011: € 113 million), mainly due to strong Rebif® sales in the United States.

Other operating expenses increased 22.4% to € 267 million (Q2 2011: € 218 million) largely driven by expenses of € 190 million related to restructuring measures for the Group's efficiency program. Together, with impairments of € 21 million booked primarily for the depreciation of tangible assets related to the closure of the division's headquarters in Geneva, total one-time costs relating to the "Fit for 2018" efficiency program amounted to € 211 million for Merck Serono in the second quarter of 2012.

Research and development spending by Merck Serono increased 8.2% to € 326 million in this quarter (Q2 2011: € 301 million). This included termination costs for two Erbitux® Phase III trials EXPAND and PET-ACC-8 as well as some early costs for recently inlicensed compounds.

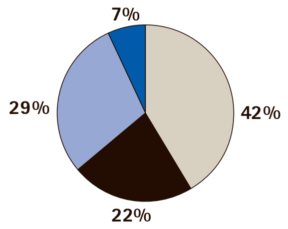
Amortization of intangible assets decreased by 37.2% to € 165 million (Q2 2011: € 263 million) reflecting a normalized run-rate, after € 99 million of additional project impairments hit last year's second quarter.

This quarter's restructuring charges weighed significantly on the division's reported operating result. During the second quarter, the division's EBIT totaled € 4 million (Q2 2011: € –138 million) and its EBITDA declined by 27.0% to € 248 million (Q2 2011: € 339 million). EBITDA pre one-time items increased by 19.9% to € 439 million, or 28.4% of sales, compared to € 366 million, or 26.3% of sales in Q2 2011. This improvement was driven primarily by the operating leverage created by higher sales, as well as from improved gross margin and lower spending in several SG&A categories, such as sales promotion.

From a geographic perspective, the portion of sales that Merck Serono generated outside of Europe climbed to 58%. Organic double-digit sales growth in the regions of North America (21.2%), Emerging Markets (10.2%), and Rest of World (15.0%) more than offset softer conditions in Europe, where sales declined for the fourth consecutive quarter (–2.4%), impacted by continued pricing pressure.

→ Divisions

Merck Serono | Sales by region – Q2 2012



	€ million
Europe	642.8
North America	349.0
Emerging Markets	450.8
Rest of World	103.9

Growth in North America was predominantly driven by Rebif® while the Emerging Markets benefited the most from a continued strong performance of the CardioMetabolic Care & General Medicine business unit as well as the fertility business. In the Rest of World, the biggest single growth driver was Erbitux®.

Merck Serono | Growth components by region – Q2 2012

€ million/change in%	Sales	Organic growth	Exchange rate effects	Acquisitions/ divestments	Reported sales growth
Europe	642.8	−2.4%	0.2%	–	−2.1%
North America	349.0	21.2%	14.0%	–	35.2%
Emerging Markets	450.8	10.2%	3.8%	–	14.0%
Rest of World	103.9	15.0%	7.3%	–	22.2%

On a product level, global sales of Merck's largest single product, Rebif®, for the treatment of relapsing forms of multiple sclerosis, rose 9.6% organically to € 492 million (Q2 2011: € 423 million). The increase was mainly due to two price increases in the United States in January and May 2012. In Europe, sales remained stable despite increasing competition and government pricing pressure. Sales in the Emerging Markets declined compared to the same period in the previous year. However, the combined sales from the Emerging Markets and Rest of World are less than 10% of this product's global sales.

Sales of the biologic cancer drug Erbitux® increased 7.1% on an organic basis to € 226 million (Q2 2011: €204 million). While the performance in Europe remained stable, higher sales in the Emerging Markets drove growth. Erbitux®'s performance in the Rest of World segment benefited from strong performance in Australia due to incipient reimbursement. The organic sales growth of Erbitux® in Japan was 4.8% in the second quarter of 2012, which marked an improvement from the recent softer trend, although this growth compared to a low base in last year's second quarter.

On July 5, 2012, Merck announced the outcome of the EXPAND trial, which assessed Erbitux® in combination with cisplatin and capecitabine as a first-line treatment for patients with advanced gastric cancer. The Phase III trial did not meet its primary endpoint of extending the length of time that patients live without their disease getting worse (progression-free survival, PFS). On May 9, 2012, Merck announced that the pre-specified interim analysis of an independent study (PETACC-8) did not support the use of Erbitux® for the adjuvant treatment of stage III colon cancer after complete surgical removal of the primary tumor. While more detailed results from these two trials will be submitted for presentation at upcoming international scientific meetings, Merck will not pursue further development of Erbitux® in these two indications. However, these results do not alter the current utility of Erbitux® in patients with KRAS wild-type metastatic colorectal cancer and in patients with locally advanced or recurrent and/or metastatic squamous cell carcinoma of the head and neck (SCCHN) in those markets where Erbitux® is currently registered in these indications.

In late June 2012 the Japanese Ministry of Health, Labour and Welfare granted priority review status to Merck Serono's submission of Erbitux® for the treatment of patients with locally advanced SCCHN in combination with radiotherapy and in patients with recurrent and/or metastatic SCCHN in combination with platinum based chemotherapy. In China, the review of the SCCHN submission filed in the last quarter of 2011 is currently ongoing.

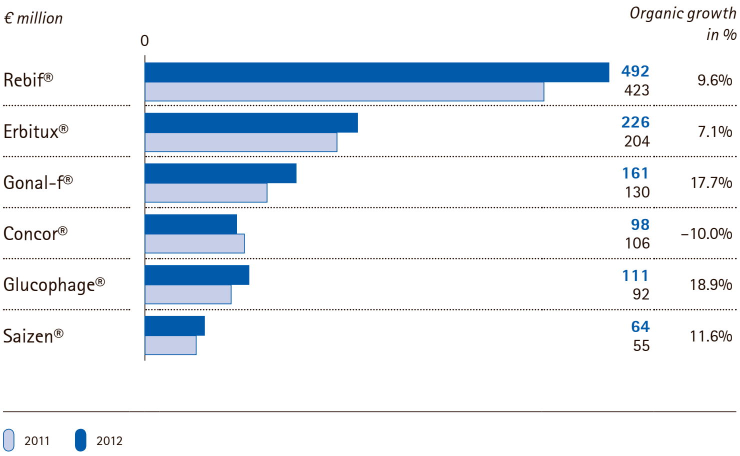
→ Divisions

Merck is still in discussions with the European Medicines Agency (EMA) regarding its application for approval of Erbitux® as a potential treatment for lung cancer.

Merck Serono | Major products by region, organic growth rates – Q2 2012

		Total	Europe	North America	Emerging Markets	Rest of World	Change
Rebif®	*€ million*	492.3	188.2	258.5	35.5	10.1	16.3%
	organic growth in %	9.6%	–0.4%	22.0%	–10.1%	59.9%	
	% of Sales	100%	38%	53%	7%	2%	
Erbitux®	*€ million*	225.7	124.6	–	62.1	39.1	10.7%
	organic growth in %	7.1%	–1.0%	–	15.9%	28.5%	
	% of Sales	100%	55%	–	28%	17%	

Merck Serono | Organic sales growth by key product – Q2 2012



Sales of Gonal-f®, a recombinant hormone used in the treatment of infertility, continued to perform strongly, growing 17.7% organically in the second quarter of 2012, with all geographic regions contributing to this growth. Demand continued to be exceptionally strong in China as well as in the United States, where higher volumes were further boosted by pricing gains. In Europe, the introduction of a family of ready-to-use injection pens last year helped to increase volumes and market share, with sales growing organically by 7.1%.

The division's Endocrinology business also continued its robust performance, with sales growing in all regions to € 103 million for the second quarter of 2012 (Q2 2011: € 83 million). Sales of the hormone Saizen® for the treatment of growth-hormone deficiency were € 64 million (Q2 2011: € 55 million), up 11.6% organically, driven by higher volumes in the Emerging Markets and price increases in the United States. Kuvan®, for the treatment of hyperphenylalaninemia, a metabolic disorder, continues to grow rapidly in Europe while the rollout in Asia and Latin America remains ongoing. Finally, Egrifta®, used for the reduction of excess abdominal fat in HIV-infected patiens with lipodystrophy and which Merck Serono markets only in the United States, posted a strong double-digit increase in sales.

Sales of Merck Serono's CardioMetabolic Care & General Medicine products declined 1.7% organically to € 510 million (Q2 2011: € 511 million), mainly due to a weak performance of the beta-blocker products Concor® as well as the General Medicine portfolio. Concor® declined 10.0% organically due to sharp pricing pressure in Europe and increasing pressure on physicians to prescribe cheaper medications. However, the Glucophage® franchise of oral antidiabetic products was the third-largest growth contributor to Merck Serono's second quarter performance. This was aided by strong sales in the Emerging Markets, particularly Latin America, where Merck is a leading provider of antidiabetic agents.

→ Divisions

Half-Year 2012 Performance

During the first half of 2012, the division's total revenues climbed 8.1% to € 3,144 million (H1 2011: € 2,907 million). Sales for the division similarly increased 8.1% to € 2,964 million (H1 2011: € 2,740 million). This performance reflected organic sales growth of 5.4% and a benefit from foreign exchange rate movements of 2.7%, mainly due to the stronger US$. Main contributors to the good organic performance were increasing sales in the Emerging Markets, led by the division's Cardiometabolic Care & General Medicine products and the Fertility franchise. In the United States, sales growth was primarily driven by Rebif® and price increases implemented for this product. Business in Europe continued to be challenging throughout this year's first half due to ongoing pricing pressure as a result of austerity measures and tighter budget control in various European healthcare systems. The division's EBITDA pre one-time items in the first six months of 2012 increased 8.5% to € 833 million (H1 2011: € 768 million) driven by organic sales growth and currency benefits, resulting in a margin (as a percentage of sales) of 28.1% (H1 2011: 28.0%).

Merck Serono Pipeline News in Q2 2012

In the division's therapeutic area of Oncology, results from a randomized Phase II study investigating TH-302 in the first-line treatment of pancreatic cancer were presented at the American Association of Cancer Research 2012 Annual Meeting in Chicago on April 2, 2012. This study met its primary endpoint demonstrating a statistically significant (p=0.005) increase in median progression-free survival (PFS) to 5.6 months from 3.6 months in patients with advanced pancreatic cancer treated with gemcitabine in combination with TH-302 (at a dose of 240 mg/m^2 or a dose 340 mg/m^2) compared to gemcitabine alone. Discussions are ongoing with regulatory authorities and oncology scientific advisors concerning plans to advance TH-302 into a Phase III study in pancreatic cancer. Furthermore, pimasertib, an MEK inhibitor, was moved into Phase II in pancreatic cancer (first-line therapy in combination with gemcitabine). The division anticipates recruitment of the first patients in this year's third quarter.

In the Neurodegenerative Diseases pipeline, top-line data were announced for ONO-4641, a sphingosine-1-phosphate (S1P) receptor modulator being investigated for the treatment of relapsing-remitting multiple sclerosis. In the DreaMS study, 407 patients were randomized to receive placebo or one of three active doses of ONO-4641 once daily for 26 weeks. Results were presented at the American Academy of Neurology's 64th Annual Meeting in New Orleans (April 25, 2012), demonstrating that patients taking 0.05, 0.10, or 0.15 mg of ONO-4641 had 82%, 92% and 77% fewer Gd-enhancing brain lesions (measured on MRI), respectively, compared to placebo. Adverse events appeared to be generally dose related and did not require ONO-4641 discontinuation. Merck Serono is currently generating further comprehensive clinical and non-clinical data of ONO-4641 (e. g. cardiac safety and pharmacokinetic efficacy modeling at a broader dose range). Evaluation of these further additional datasets will provide more information on efficacy, safety and potential for differentiation and provide a solid basis for the decision whether this drug is moved into Phase III development in 2013.

→ Divisions

Consumer Health

The Consumer Health division reported sales of € 121 million, an increase of 2.9% (Q2 2011: 118 million). This performance reflected organic sales growth of 1.0% and a 2.0% boost from changes in foreign exchange rates. These increases were driven primarily by the Emerging Markets, more than offsetting softer sales in Europe due to lower sales of Seven Seas products.

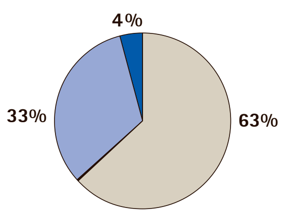
Consumer Health | Key figures

€ million	Q2 2012	Q2 2011	Change	Jan.–June 2012	Jan.–June 2011	Change
Total revenues	121.6	118.3	2.8%	229.6	234.9	–2.3%
Sales	121.1	117.6	2.9%	228.7	233.8	–2.2%
Operating result (EBIT)	9.6	9.5	1.3%	14.5	17.4	–16.8%
Margin (% of sales)	*7.9%*	*8.1%*		*6.3%*	*7.5%*	
EBITDA	12.6	13.0	–3.1%	20.4	23.5	–13.3%
Margin (% of sales)	*10.4%*	*11.0%*		*8.9%*	*10.1%*	
EBITDA pre one-time items	17.8	13.0	37.0%	26.3	23.5	11.8%
Margin (% of sales)	*14.7%*	*11.0%*		*11.5%*	*10.1%*	

While cost of sales were little changed at € 38 million (Q2 2011: € 39 million), positive pricing trends and benefits from changes in foreign exchange rates helped the division's gross profit increase to € 83 million (Q2 2011: € 80 million), resulting in a gross margin of 68.9% (Q2 2011: 67.7%). On an adjusted basis, the division continued to effectively manage its operational spending. Selling, general and administration (SG&A) costs increased by 7.7% to € 68 million (Q2 2011: € 63 million) due to € 5 million of one-time charges relating to the "Fit for 2018" efficiency program. Adjusted for these one-time costs, the division generated savings in sales promotion and realized lower sales force costs.

R&D expenses fell to € 5 million (Q2 2011: € 6 million) due to increased focusing of R&D investments and less project-related spending. On a reported basis, EBIT and EBITDA stayed at last year's levels of € 10 million and € 13 million, respectively. However, adjusted for one-time restructuring costs, EBITDA pre one-time items improved 37.0% to € 18 million (Q2 2011: € 13 million) in the second quarter of 2012.

Consumer Health | Sales by region – Q2 2012



	€ million
Europe	76.4
North America	0.1
Emerging Markets	39.3
Rest of World	5.2

From a geographic perspective, the Emerging Markets continued to expand their contribution to the division's sales, accounting for one-third of sales in the second quarter of 2012, while the share of sales generated in Europe decreased accordingly.

→ Divisions

Consumer Health | Growth components by region – Q2 2012

€ million/change in%	Sales	Organic growth	Exchange rate effects	Acquisitions/ divestments	Reported sales growth
Europe	76.4	–3.7%	1.1%	–	–2.6%
North America	0.1	–85.5%	3.0%	–	–82.5%
Emerging Markets	39.3	12.3%	4.7%	–	17.1%
Rest of World	5.2	11.7%	–3.4%	–	8.3%

The Everyday Health Protection portfolio, which includes the Bion® 3 and Cebion® brands, was the strongest performer during the quarter, driven mainly by good sales in the Emerging Markets, where the majority of sales were generated. Sales of the division's strong brands in Cough and Cold, Mobility, as well as Women's and Children's Health were growing while smaller local brands were declining across all health themes, reflecting Consumer Health's efforts to refocus and narrow its marketing to strategic brands and geographic regions.

Half-Year 2012 Performance

During the first half of 2012, the division reported total revenues of € 230 million (H1 2011: € 235 million), a decrease of 2.3%. Sales declined similarly by 2.2% to € 229 million (H1 2011: € 234 million), driven by negative organic growth of 3.3% that was only partly offset by a 1.2% positive benefit from changes in foreign exchange rates. The weak sales performance was primarily related to Europe due to one-time supply chain issues in France during the first quarter and a slow start to the year for the Seven Seas range of products in the UK market. Sales in other product groups besides the main portfolio are currently declining due to more focused investments in marketing.

First-half EBITDA pre one-time items of Consumer Health increased 11.8% to € 26 million, or 11.5% of sales, compared to € 24 milion, or 10.1% of sales for the first six months of 2011. This improvement was primarily the result of tighter cost control particularly in discretionary marketing and selling expenses.

→ Divisions

Performance Materials

In the second quarter of 2012, the Performance Materials division's sales jumped 14.1% to € 426 million (Q2 2011: € 373 million). Performance Materials saw the strongest benefit of all Merck's divisons from the stronger US$ as a significant portion of its sales are booked in this currency. As a result, the divison's sales rose 10.2% due to changes in foreign exchange rates in the second quarter of 2012. Adjusting for this, Performance Materials reported organic sales growth of 3.9% in the quarter.

Volumes in the Liquid Crystals business – which contributes approximately 75% of the division's sales – continued to benefit from strong consumer demand for televisions as well as touch-screen displays (smart phones, tablet PC's), which primarily use in-plane switching (IPS) based Liquid Crystal materials. In addition, higher volumes for polymer stabilized vertical alignment (PS-VA) type Liquid Crystals, primarily used in mid- and large-sized televisions, drove sales. This was due to both higher sales volumes of televisions as well as the continuing trend for larger display sizes. According to estimates and forecasts of the display industry, television shipments are expected to continue with good momentum in the second half of 2012. However, given typical cycle and lead times in LCD manufacturing second quarter sales of Performance Materials already include liquid crystal shipments that the division's customers will process in this year's second half. In addition, the division expects some normalization of its high market share in the second half of the year. As a result, the business unit Liquid Crystals expects continued strong volumes in this year's third quarter and a softening of sales in the fourth quarter.

In Pigments and Cosmetics, demand from coatings customers – primarily serving the automotive industry – was softer across the industry and only partially offset by strong sales from active ingredients for cosmetic applications.

Performance Materials | Key figures

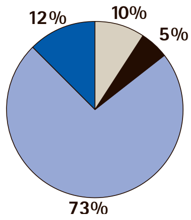
€ million	Q2 2012	Q2 2011	Change	Jan.–June 2012	Jan.–June 2011	Change
Total revenues	426.6	373.5	14.2%	812.8	782.2	3.9%
Sales	426.1	373.4	14.1%	812.5	781.4	4.0%
Operating result (EBIT)	177.4	106.8	66.1%	306.7	434.8	–29.4%
Margin (% of sales)	*41.6%*	*28.6%*		*37.8%*	*55.6%*	
EBITDA	204.4	141.1	44.8%	364.1	496.1	–26.6%
Margin (% of sales)	*48.0%*	*37.8%*		*44.8%*	*63.5%*	
EBITDA pre one-time items	189.7	179.4	5.7%	350.0	377.3	–7.2%
Margin (% of sales)	*44.5%*	*48.0%*		*43.1%*	*48.3%*	

During the second quarter, the division's cost of sales amounted to € 183 million (Q2 2011: € 174 million), up 5.0% and representing a gross margin of 57.1% compared to 53.3% last year. The increase is due to the fact that last year's second-quarter cost of sales was burdened with € 39 million in one-time charges for inventory adjustments. Excluding these costs, gross profit in the second quarter 2011 was € 238 million, equivalent to 63.7% of sales, while gross profit in this year's second quarter came in at € 243 million or 57.1% as a percentage of sales. Negative product mix and lower prices led to this margin decline of the adjusted gross margin in the quarter.

Marketing and selling expenses were up 5.5% totaling € 35 million (Q2 2011: € 34 million). While most of the division's sales are invoiced in foreign currencies, the majority of marketing and selling costs are based in Europe, resulting in a stronger impact from changes in foreign exchange rates on sales than on these costs. Other operating income in the second quarter of 2012 amounted to € 11 million (Q2 2011: € –10 million) and included a gain of € 16 million from the divestment of the division's battery electrolytes activities to BASF. In line with the division's aspiration to maintain its leading positions in technology and product innovation, investments in R&D increased by 7.7% to € 32 million (Q2 2011: € 30 million). Finally, no material amortization of intangible assets were booked in this year's second quarter while last year's second quarter included € 9 million of charges stemming from an impairment of patents related to organic light emitting diodes (OLED).

The reduction of one-time charges resulted in better operating performance, with EBIT totaling € 177 million (Q2 2011: € 107 million), up 66.1%, while EBITDA increased by 44.8% to € 204 million (Q2 2011: € 141 million). However, on a comparable basis after correcting for one-time items, EBITDA pre one-time items improved by 5.7% to € 190 million, or 44.5% of sales (Q2 2011: € 179 million, or 48.0% of sales).

Performance Materials | Sales by region – Q2 2012



	€ million
Europe	40.3
North America	22.4
Emerging Markets	311.3
Rest of World	52.1

From a regional perspective, Emerging Markets represented 73% of sales of Performance Materials in the second quarter of 2012, reflecting the concentration of Liquid Crystals customers in Asia. Consequently, divisional sales in this region grew the strongest with an 8.9% organic increase. Notably, sales of Liquid Crystals to China – where TV production primarily serves domestic demand – increased significantly, reaching nearly the same levels of sales generated in Japan.

Performance Materials | Growth components by region – Q2 2012

€ million/change in%	Sales	Organic growth	Exchange rate effects	Acquisitions/ divestments	Reported sales growth
Europe	40.3	–9.9%	0.3%	–	–9.6%
North America	22.4	3.5%	13.7%	–	17.2%
Emerging Markets	311.3	8.9%	11.1%	–	20.0%
Rest of World	52.1	–9.7%	13.1%	–	3.4%

Half-Year 2012 Performance

Looking at the divisional performance for the first half of 2012, Performance Materials faced a tough year-over-year comparison due to exceptionally strong demand for its Liquid Crystals materials, particularly in the first quarter of 2011. Overall, sales grew 4.0% to € 813 million (H1 2011: € 781 million) impacted by an organic sales decline of 2.3% which was more than offset by a 6.4% positive benefit from changes in foreign exchange rates. While demand for Liquid Crystals accelerated throughout the period under review due to increasing output from display customers, volumes in Pigments and Cosmetics remained soft in the first half of 2012 due to weak demand for coatings, which could only partly be offset by growth from active ingredients for cosmetic applications.

The division's first-half EBITDA pre one-time items saw a decline of 7.2% to € 350 million (H1 2011: € 377 million), reflecting softer pricing and an unfavorable product mix. As a result, the margin as a percentage of sales declined to 43.1% (H1 2011: 48.3%) after an exceptionally strong performance in the first half of last year.

→ Divisions

Merck Millipore

In the second quarter of 2012, the Merck Millipore division continued to benefit from solid demand across all its business units, increasing its sales by 11.4% to € 649 million (Q2 2011: € 583 million). Organically, sales grew 3.2% driven by both higher volumes and net pricing gains, supported by a 6.0% positive benefit in changes from foreign exchange rates and a 2.2% boost from acquisitions. Growth was primarily spurred by the Process Solutions and Lab Solutions business units.

In the Bioscience business unit, which contributed approximately 18% to divisional sales, organic growth mainly came from solutions for protein detection and separation in Asian countries. Meanwhile, the Lab Solutions business unit, representing approximately 42% of the division's sales, saw positive demand for its biomonitoring products as well as for lab water consumables and services. Finally, the Process Solutions business unit, which represented approximately 40% of sales, benefited from higher volumes of biologically manufactured drugs. The divison is also seeing strong demand for single-use manufacturing technologies, biosafety solutions and process systems hardware, which more than offset the impact of € 7 million in lost sales from the non-renewal of an insulin contract. Royalty income increased more than eight fold to € 6 million (Q2 2011: € 1 million), driven by Process Solutions.

Merck Millipore | Key figures

€ million	Q2 2012	Q2 2011	Change	Jan.–June 2012	Jan.–June 2011	Change
Total revenues	655.3	583.7	12.3%	1,310.7	1,195.0	9.7%
Sales	649.5	583.1	11.4%	1,302.1	1,191.5	9.3%
Operating result (EBIT)	65.3	48.4	34.9%	143.6	122.7	17.1%
Margin (% of sales)	*10.1%*	*8.3%*		*11.0%*	*10.3%*	
EBITDA	141.2	119.1	18.5%	295.1	265.3	11.2%
Margin (% of sales)	*21.7%*	*20.4%*		*22.7%*	*22.3%*	
EBITDA pre one-time items	147.9	128.6	15.0%	309.4	287.0	7.8%
Margin (% of sales)	*22.8%*	*22.1%*		*23.8%*	*24.1%*	

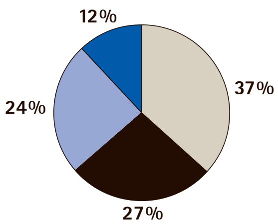
During the second quarter of 2012, the division's cost of sales increased 6.6% to € 270 million (Q2 2011: € 253 million), yielding a gross profit of € 385 million (Q2 2011: € 330 million) or 59.3% of sales (Q2 2011: 56.6%). This gross margin expansion primarily reflects operational leverage from higher volumes and efficiency gains in manufacturing as well as stronger pricing.

Marketing and selling expenses were up 15.0% to € 169 million (Q2 2011: € 147 million). Since the majority of the division's costs are concentrated in the United States, Merck Millipore was negatively impacted by the stronger US$, which increased SG&A costs by € 7 million during the quarter. In addition, investments into the sales organization as reflected in top-line performance contributed to the division's cost increase, as did the effect from acquired businesses.

Merck Millipore's R&D costs grew 31.6% to € 42 million (Q2 2011: € 32 million), as the division continued to invest heavily in future growth. A meaningful portion of the increase came from Process Solutions, reflecting the division's expectation that increasing volumes for biopharmaceuticals will remain an attractive growth driver in the future. In sum, the division's EBIT improved by 34.9% to € 65 million (Q2 2011: € 48 million) while EBITDA increased by 18.5% to € 141 million (Q2 2011: € 119 million). Adjusted for one-time charges, which were minor in both this year's as well as last year's second quarter, EBITDA pre one-time items grew 15.0% to € 148 million, or 22.8% of sales (Q2 2011: € 129 million, 22.1% of sales).

→ Divisions

Merck Millipore | Sales by region – Q2 2012



	€ million
Europe	238.4
North America	175.8
Emerging Markets	158.1
Rest of World	77.1

In the second quarter of 2012, Europe continued to represent the largest regional market for Merck Millipore generating 37% of sales. While overall organic sales growth from biopharmaceutical customers in Europe was flat, softer instruments sales were offset by growing consumables sales. In the United States, weaker sales to academic customers, which primarily affect the Bioscience and the Lab Solutions business units, were little changed. Sales growth in the Emerging Markets and Rest of World regions was evident in all three of the division's business units.

Merck Millipore | Growth components by region – Q2 2012

€ million/change in%	Sales	Organic growth	Exchange rate effects	Acquisitions/ divestments	Reported sales growth
Europe	238.4	0.4%	0.8%	4.0%	5.1%
North America	175.8	–1.6%	12.0%	1.4%	11.8%
Emerging Markets	158.1	9.8%	4.4%	0.3%	14.6%
Rest of World	77.1	10.7%	13.5%	2.0%	26.2%

Half-Year 2012 Performance

Merck Millipore's first half total revenues grew 9.7 to € 1,311 million (H1 2011: € 1,195 million), including € 9 million from royalties (H1 2011: € 4 million). Sales were up 9.3% to € 1,302 million (H1 2011: € 1,191 million). While robust demand in all three business units generated organic sales growth of 2.9%, favorable changes in foreign exchange rates added 4.0%. In addition, last year's acquisitions of Amnis and heipha/Hycon which strengthened Merck Millipore's product offering in the Life Science and BioMonitoring business fields contributed 2.4% to the reported top line growth.

The division's first-half EBITDA pre one-time items increased 7.8% to € 309 million (H1 2011: € 287 million), equivalent to a margin of 23.8%, nearly unchanged from the year-ago period (H1 2011: 24.1%).

Risk Report

The Merck Group operates global in a variety of highly innovative business fields, which results in exposure to potential risks as well as opportunities. As of this date, the previously stated risk categories enumerated in the 2011 Annual Report's Risk Report on pages 84 through 90 remain valid for the Merck Group. The company is not aware of any risks that could jeopardize the continued existence of the Merck Group. The company has a risk management system in place to identify and mitigate potential risks. Merck continuously monitors business risks such as issues regarding liquidity, defaults on payables and receivables, currency and interest rates, market pricing, pension obligations, assessment of independent rating agencies, human resources and information technology. Regarding legal risks, Merck monitors a host of potential issues such as litigation regarding product liability, antitrust law, pharmaceutical law, patent law and environmental protection among others.

On December 15, 2011, Merck received a warning letter from the Food and Drug Administration (FDA) related to inspections of production facilities in Tiburtina in Italy, and Aubonne and Vevey in Switzerland; all of these sites contribute to the production of Rebif® for distribution in the United States. The letter primarily addressed several processes related to the manufacturing of Rebif which the FDA concluded were not in compliance with good manufacturing practice (GMP) standards and outlined specific issues for which the FDA required corrective actions. Merck is working closely with the FDA to address their questions. The Agency has completed its initial evaluation of Merck's responses which was submitted in April 2012. In its reply the FDA stated that "We agree that your proposed corrective actions, if implemented appropriately, should adequately address the violations at issue." An FDA reinspection is likely to take place to confirm the complete implementation of the proposed corrective actions.

Report on Expected Developments

As a result of the performance in the second quarter of 2012, Merck is updating its forecast for FY 2012. Merck expects the markets for pharmaceuticals as well as over-the-counter drugs to grow driven by volumes in Emerging Markets. For its Liquid Crystals products, the company expects volumes to remain strong in the third quarter and a softer demand in the fourth quarter, also as a result of some normalization of its currently high market share. Finally, Merck continues to see solid demand for Life Science products, driven also by continued volume growth in biologic-based drugs.

Based on these assumptions, Merck expects the following financial performance of its businesses for FY 2012:

Forecast FY 2012

Merck Divisions *€ million*	EBITDA pre one-time items
Merck Serono	~1,750 –1,800
Consumer Health	~60 – 65
Performance Materials	~660 – 680
Merck Millipore	~580 – 600
Corporate and Other	~–200

Merck Group *€ billion*	
Total revenues	~10.7
EBITDA pre one-time items*	2.85 – 2.95

*Includes € 55 million in savings from the efficiency program.

FX assumptions for the second half of 2012:
€/US$ = 1.25
€/CHF = 1.20