MERCK

Annual Report 2007

Grow

Change

Sustain

More information inside the cover:
Business Development 2003–2007
Business Sectors and Divisions

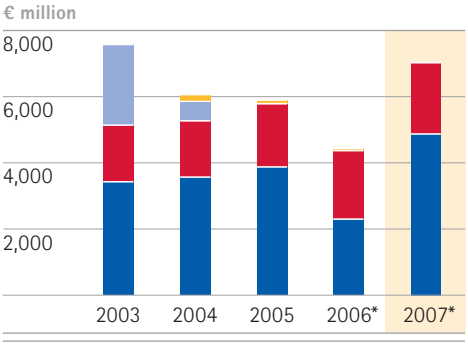
Merck 2007 at a glance

Key figures for 2007*

€ million	Pharma-ceuticals	Chemicals	Corporate and Other	Total
Total revenues	4,877	2,150	29	7,057
Gross margin	4,048	1,226	2.5	5,277
Research and development	891	137	–	1,028
Operating result	417	631	–72	976
Exceptional items	–744	–	–32	–776
Earnings before interest and tax (EBIT)	–327	631	–104	200
EBIT before depreciation and amortization	1,173	766	–81	1,858
Return on sales (ROS)	8.5	29.3	–	13.8
Free cash flow (FCF)	–6,458	557	–406	–6,308
Free cash flow adjusted for acquisitions and disposals	821	557	–406	972

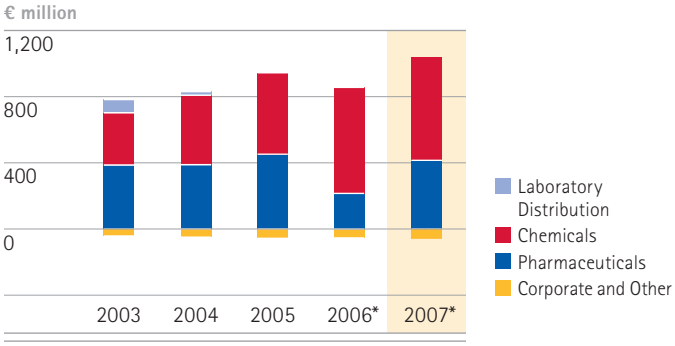
*excluding the Generics division

Total revenues by business sector



*excluding the Generics division

Operating result by business sector



*excluding the Generics division

Major achievements of 2007

With the acquisition of Serono, Merck became one of the world's leading biotech companies. The sale of the Generics division to Mylan Inc. of the United States for € 4.9 billion was another milestone in the strategic realignment of Merck.

Adjusted for the divestment of Generics, total revenues in 2007 amounted to € 7.1 billion. Profit after tax reached a record € 3.5 billion. Shareholders are participating in this success through a higher dividend of € 1.20 per share and a one-time bonus of € 2.00 per share.

The new Merck Serono division achieved growth primarily with biopharmaceutical products: Sales of the multiple sclerosis therapy Rebif® increased by 9.6% on a currency-adjusted basis. The cancer drug Erbitux® continued on its strong growth course with sales increasing by 40%.

The Liquid Crystals division again generated a high return on sales of 53.1% – with a marked increase in free cash flow. Merck successfully maintained its market and technology leadership.

Business Development 2003 – 2007

€ million	2003	2004	2005	2006[1]	2007[2]	Change in %
Total revenues	7,343	5,994	5,865	6,284	7,057	12
Total revenues[3] (Continuing Operations)	3,559	3,849	4,154	4,460	7,057	58
Pharmaceuticals[3]	3,438	3,579	3,885	2,314	4,877	111
Merck Serono[2]	1,528	1,597	1,797	1,914	4,458	133
Generics[3]	1,584	1,625	1,712	–	–	–
Consumer Health Care	327	357	376	400	420	5.0
Chemicals	1,705	1,694	1,905	2,112	2,150	1.8
Liquid Crystals	443	589	741	895	916	2.3
Performance & Life Science Chemicals	1,082	1,105	1,163	1,217	1,235	1.5
Electronic Chemicals	181	–	–	–	–	–
Laboratory Distribution[3] (incl. intragroup sales)	2,199	520	–	–	–	–
Corporate and Other	–	200	76	34	29	–13
Generics[3] (Discontinued Operations)	–	–	–	1,824	1,395	–
Operating result	736	776	883	1,105	976	–12
Operating result[3] (Continuing Operations)	512	541	646	799	976	22
Pharmaceuticals[3]	389	391	454	217	417	92
Chemicals	316	420	492	641	631	–1.6
Laboratory Distribution[3]	79	21	–	–	–	–
Corporate and Other	–48	–56	–63	–60	–72	19
Generics[3] (Discontinued Operations)	–	–	–	307	189	–
EBITDA[3]	1,008	1,419	1,245	1,334	1,858	39
Earnings before interest and tax (EBIT)[3]	538	1,044	956	1,031	200	–81
Profit before tax[3]	423	961	893	982	–111	–
Profit after tax (incl. Generics)	218	672	673	1,001	3,520	252
Free cash flow (incl. Generics)	442	1,889	657	–1,073	–1,473	37
Capital expenditure on property, plant and equipment (incl. Generics)	281	234	268	253	283	12
Research and development[3]	605	599	713	615	1,028	67
Total assets	6,982	5,754	7,281	8,102	14,922	84
Net equity	2,363	2,800	3,329	3,807	8,688	128
Employees (number as of Dec. 31)[3]	34,206	28,877	29,133	25,531	30,968	21
Return on sales[3] (ROS) in % (ROS: Operating result/Total revenues)	10.2	13.2	15.3	17.9	13.8	
Earnings per share in €	1.15	3.47	3.40	5.07	16.21	–
Dividend per share in €	0.80	0.80	0.85	0.90	1.20	33
One-time bonus per share in €	–	0.20	–	0.15	2.00	–

[1] In order to harmonize accounting practices, as of 2006 the way in which certain customer rebates in the Pharmaceuticals business sector are reported has been changed.
[2] Following its acquisition, the Swiss biopharmaceutical company Serono was integrated with the Ethicals division into Merck Serono.
[3] The Generics division was sold in October 2007 and is thus reported as a Discontinued Operation. All revenue, profit and employee figures have been adjusted for 2006 and 2007. The Laboratory Distribution business (VWR) was divested in 2004.

Pharmaceuticals business sector

Merck develops, manufactures and markets innovative prescription drugs as well as over-the-counter products. The Serono acquisition was completed in early January 2007 and the sale of the Generics business to Mylan closed in early October 2007. We develop therapies for high unmet medical needs. Through their targeted effect, these help patients to live a longer and better life. Our over-the-counter products can prevent disease and relieve minor complaints.

Merck Serono division

The product portfolio of this division includes leading prescription drugs such as the cancer drug Erbitux® and the multiple sclerosis treatment Rebif®. In addition, we offer therapies to treat infertility, growth disorders, cardiovascular or metabolic diseases, and psoriasis. The focus of our research activities is on Oncology, Neurodegenerative Diseases, Fertility, Autoimmune and Inflammatory Diseases.

Consumer Health Care division

Many consumers trust a wide range of well-known over-the-counter brands that Merck develops, manufactures and markets in its Consumer Health Care division. The portfolio ranges from products for everyday health such as Bion®3, or Femibion®, which is specially for women, classic cold remedies such as the well-known brand Nasivin®, to products that strengthen the joints such as Seven Seas® JointCare and Kytta®.

Chemicals business sector

Merck offers a very wide range of specialty chemicals for technologically sophisticated applications. Many of these are contained in products that people encounter in everyday life, such as mobile phones, televisions, automotive coatings and cosmetics. Top quality, diversity and a customer-centric approach to research and product development characterize our Chemicals business.

Liquid Crystals division

Close cooperation in development and production of liquid crystals (LC) with the world's leading display manufacturers has made Merck the number one company worldwide in this market of the future. Modern life would be hard to imagine without LC displays. In order to meet the growing demand, we continuously invest in research for customized LC mixtures and OLEDs (organic light-emitting diodes). At the same time, we adapt our production capacities to the dynamic market development.

Performance & Life Science Chemicals division

Our specialty chemicals and our expertise in application technologies, quality assurance and approval processes have made us a successful supplier in key markets, in particular the food, optics, plastics, coatings, printing, cosmetics and pharmaceutical industries. Products and services from Merck are used throughout the entire process chain, from analysis, research and development, through to production and quality control. Our portfolio includes, for example, effect pigments, cosmetic actives, reagents and test kits.

Pharmaceuticals and chemicals are important to people all over the world. Merck plays an active role in these sectors and has helped to shape them. Our success and corporate culture are founded on strong pillars, namely innovation and tradition. For generations, Merck has repeatedly proven its courage in taking the first steps while sustaining what has worked well in the past. In a world of constant change, it's important to be able to rely on experience in things that really matter.

Merck and its employees support the principle of sustaining and changing in order to remain successful. In 2007, the acquisition of the biotech company Serono was successfully completed and the Generics business was divested. With these steps, Merck has created a wide range of new development opportunities. Merck is clearly focused on profitable growth – driven by innovations that prolong life and improve the quality of life of many people around the world.

Merck – Sustain. Change. Grow.

Contents

Dear Shareholders and Friends,

For Merck, 2007 was a demanding and challenging year, and in many cases, an exciting one as well. The main highlights were the Serono acquisition, the divestment of Generics, the capital increase and our admission to the DAX®.

Despite all the changes, it was our most successful year so far, as a look at one of the most important measures of business success shows: Profit after tax was € 3.5 billion. This record result is due not least to special factors, which lead us to propose to the Annual General Meeting on March 28 not only a higher dividend of € 1.20 per share, but also a special dividend of € 2.00 per share. In this way, we want our capital providers to benefit from the proceeds from the sale of the Generics division for € 4.9 billion.

In recent years, we have strategically repositioned ourselves. The most important move was the purchase of Serono, which was completed in January 2007 and made us one of the world's leading biopharmaceutical companies. The achievements of the new Merck Serono division in its first year are impressive. The integration project was concluded in September, three months earlier than planned. On a pro forma basis, meaning including Serono in 2006, total revenues increased by 7.4%. In accordance with statutory requirements, most of the figures in this annual report present the legal view, meaning without Serono in 2006. From this perspective, total revenues more than doubled.

Around 60% of Merck Serono's sales are attributable to biopharmaceuticals. Such medicines are now considered indispensable for treating a large number of serious diseases. They represent therapeutic advances that can prolong the lives of patients, for example those with advanced stages of cancer. Our oncology drug Erbitux®, which generated strong sales growth again in 2007, is one of these biopharmaceuticals. In multiple sclerosis, modern biopharmaceutical immunomodulators delay the debilitating stages of the disease, thereby not only helping individual patients, but also lowering the costs to society. In 2007, we gained European approval for a new, better tolerated formulation of Rebif® – one of the most successful drugs in this market.

And, of course, Merck is not just a pharmaceutical company. Our success in Chemicals is likewise founded on sophisticated technologies. For many years we've held the leadership position in liquid crystals and cover two-thirds of global demand. When we talk about our liquid crystals business, I am often asked how we are dealing with the competition. My answer is: The market is growing. Customer needs are growing. Display sizes – from mobile telephones to LCD televisions – keep on growing. We pride ourselves on our high-quality, modern production technologies, suitable capacities, an innovative product portfolio and above all, superb, long-standing customer relationships. Organic sales growth in 2007 was 14% and returns remained at a very high level.

Sustainable business success makes it necessary to constantly align operational decisions with long-term goals. The title of this annual report – "Sustain. Change. Grow." – is also the motto of our corporate strategy. When you read the following pages, you'll get an impression of where we are coming from and where we want to go.

Mass markets in chemicals and pharmaceuticals are not our objective. Therefore, size is not the only thing that matters to us. We want to grow profitably – as an innovative company in specialty businesses.

Nevertheless, in spite of the refocusing, we are adhering to certain principles that enable us to remain true to ourselves. Operating in both pharmaceuticals and chemicals is not in fashion. But it's the Merck way: We diversify our risk within an integrated company. Apart from the research and product portfolio for strongly expanding markets, we also have stable businesses in mature market segments – for example our Consumer Health Care and Performance & Life Science Chemicals divisions. We don't bet everything on one horse.

Financially, we're on solid footing: Adjusted for the effect of acquisitions and divestments, free cash flow was around € 1 billion. Net debt as of December 31, 2007 was € 355 million. Gearing, the ratio of net debt to net equity, was 0.18.

For our employees, the changes that took place in 2007 weren't always easy: the largest acquisition in the company's history, a rapid integration process, more global management of the company. I am therefore particularly pleased that many of our employees recognize the opportunities, enabling us to

Dr. Karl-Ludwig Kley
Chairman of the Executive Board
of Merck KGaA

pursue the same path. And we communicate openly with each other – based on a foundation of shared values such as transparency and respect. For this, I would like to thank all 30,968 people who work for Merck.

I would like to point out two personnel-related items. First, I extend my thanks to the 4,641 people in the Generics division, which was sold in early October, for their contributions. I wish them every success as employees of Mylan. Secondly, the change in the leadership of the Executive Board took effect at the 2007 Annual General Meeting. Here too, I would like to thank Michael Römer for his superb contributions to the company over a period of nearly 30 years.

My Executive Board colleagues and I cordially thank you, the shareholders and friends of Merck, as well as the Merck family of owners, for the trust you have placed in us. We want to achieve entrepreneurial success based on ethical values while constantly creating new economic value. This is what enables us to live up to our responsibility for the community, e.g. through the Merck-Praziquantel Donation Program with WHO, and especially for our customers, employees and owners.

Sincerely,

Karl-Ludwig Kley

The Executive Board of Merck

Dr. Karl-Ludwig Kley

Chairman of the Executive Board

Born in 1951,

doctorate in Law from Ludwig-Maximilians University in Munich,

Member of the Supervisory Board and Board of Partners of Merck from March 2004 to June 2006,

Member of the Executive Board since September 2006

Responsibility for Group-wide functions
Human Resources (global), Legal, Patents, Trademarks, Auditing, Risk Management, Strategic Planning, Inhouse Consulting, Corporate Communications

Dr. Michael Becker

Born in 1948,

doctorate in Law from the University of Augsburg,

joined Merck in 1998,
Member of the Executive Board since 2000

Responsibility for Group-wide functions
Accounting, Controlling, Finance, Tax, Insurance, Mergers & Acquisitions

Dr. Bernd Reckmann

Born in 1955,

doctorate in Biochemistry from the University of Hannover,

joined Merck in 1986,
Member of the Executive Board since January 2007

Responsibility for Group-wide functions
Site Management Darmstadt and Gernsheim, Production and Engineering, Purchasing and Logistics, Environment, Health and Safety, Central Process Development, Information Services

Regional responsibility:
Germany
(including Human Resources)

Elmar Schnee

Born in 1959,

degree in Marketing Management,

joined Merck in 2003,
Member of the Executive Board since November 2005

Responsibility for Group-wide functions
Pharmaceuticals business sector

Regional responsibility:
Europe, United States (Pharmaceuticals), Canada, Latin and Central America, Africa, Middle East

Walter W. Zywottek

Born in 1947,

industrial manager,

joined Merck in 1967,
Member of the Executive Board since September 2005

Responsibility for Group-wide functions
Chemicals business sector

Regional responsibility:
Asia, United States (Chemicals), Australia, New Zealand

www.management.merck.de

Sustaining success.

Experience is the soil on which success grows. In 1668, Friedrich Jacob Merck purchased a pharmacy in Darmstadt, which was the foundation stone for today's success. The wealth of experience gained over 340 years was not least also due to the pioneering spirit of Emanuel Merck, who was the first to offer customers a range of high-purity alkaloids. This success story continues to the present day. A good example is the perseverance with which Merck has advanced the development of liquid crystals for the LCD market. In addition, new biopharmaceuticals such as the cancer drug Erbitux® resolutely point the way to the future – with a clear goal for Merck: to expand its expertise and to drive growth. Merck means innovation by tradition. Pharmaceuticals and Chemicals. These are the sources of new ideas that bring about decisive change and make Merck stronger, both as a company and as a brand.

Making decisive change.

With all the continuity – recent developments prove that Merck has the key to creating something fundamentally new at the right moment. The integration of the biopharmaceutical company Serono creates potential for more: The best of both Merck and Serono is converging and cross-pollinating. Merck has the courage and the strength to pursue new avenues in pharmaceutical research with a research and development budget that has nearly doubled. We are working to discover and develop new active ingredients, especially for oncology, neurodegenerative diseases, autoimmune and inflammatory diseases, and fertility. A new organizational structure has enabled us to streamline our development and decision-making processes and clarify the prospects for the success of new active ingredients and technologies at a very early stage. In the future, new developments will happen faster, not only in the laboratory, but also in logistics, service and production. We're strong on the execution side, also when it comes to strategic changes – as the rapid divestment of the Generics division in 2007 showed.

Growing together.

More than ever before, Merck has today what it takes to succeed worldwide tomorrow. There's plenty of evidence of this. In the future-oriented biopharmaceuticals sector, the prospects are excellent following the integration of Serono. We want to further expand our leading position, not only in Europe. We also want to grow sustainably in all key markets and set new standards. For example in 2007, a new formulation of Rebif® – a further development of the successful multiple sclerosis therapy – was approved in the European Union, and the innovative growth hormone injection device Easypod™ was approved by the U.S. Food and Drug Administration. Global market leadership in liquid crystals for displays will also continue to generate exceptional earning power in the Chemicals business sector as flat screens continue to make their way into offices and homes. Co-developments with customers are the decisive factors here. Merck's increased economic strength has also received objective confirmation: On June 18, 2007, our company became part of the DAX®, the blue-chip index of the 30 largest German securities, on the Frankfurt Stock Exchange.

Our strategy.

Merck has a clear objective: profitable growth. This is based on a distinct, fundamental strategy that can be summed up in three words: Sustain. Change. Grow. It's a strategy that suits both our culture and our competencies. It strikes the right balance between the old and the new, between innovation and tradition, between Pharmaceuticals and Chemicals, gives us the best possible preconditions for growth and makes it possible to fully unlock the entrepreneurial potential inside Merck. It gives our workforce of nearly 31,000 employees around the world orientation for their daily work. We enable them to share in the company's success and, thus, also in the execution risk. By tradition, we will remain curious and courageous – and continue to seize many new opportunities in the future.

Grow

Change

Sustain

Management Report of the Merck Group

Sales development

Global economy in good condition

According to studies by the International Monetary Fund (IMF) and the Organization for Cooperation and Development (OECD), the condition of the global economy in 2007 was very robust when it was hit by a financial crisis in the summer that was triggered by the problems in the U.S. housing market. The impact of the turmoil on global economic development has, however, remained limited so far. According to IMF data, real global gross domestic product (GDP) increased in 2007 by 4.9% compared with growth of 5.0% in 2006.

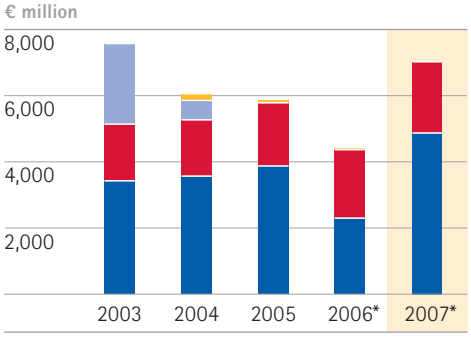
Economic growth slowed noticeably in the United States. GDP rose by 2.2% in 2007 as compared with 2.9% in 2006. This growth was primarily driven by private consumer spending, although activity in the new home construction sector declined. The Japanese economy lost momentum in 2007. As a result, GDP growth declined from 2.4% to 1.9%. Private consumption recovered from a period of weakness in 2006, however, its expansion was not as strong as expected. Strong economic expansion in the People's Republic of China continued in 2007 with GDP growth of 11.4% as compared with 11.1% in 2006.

Economic development within the euro zone was very favorable in 2007 despite the turmoil. GDP rose by 2.6% in 2007 as compared with 2.8% in 2006. According to calculations by the German Federal Statistics Office, the German economy recorded a 2.5% increase in GDP in 2007 compared with 2.9% in 2006. This increase succeeded despite the dampening effects of the increase in value-added tax and the uncertainty in the capital markets. Growth was driven by an increase in investments in machinery and equipment and by higher demand from abroad, but not from private consumption, which continued to stagnate also due to fiscal policy, for example the increase in value-added tax.

Global growth of the pharmaceutical and chemical markets

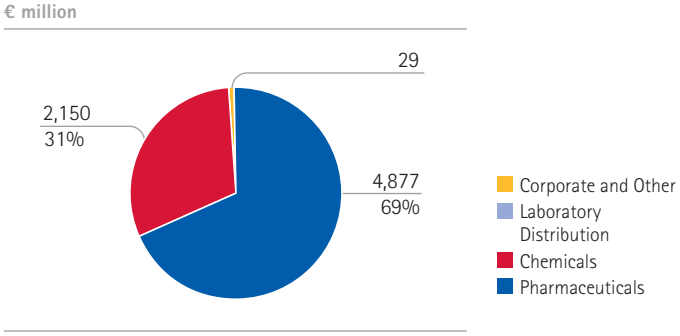
According to the market researchers at IMS Health, the global pharmaceutical market grew between 6% and 7% in 2007. The world's 13 most important pharmaceutical markets increased by 4% and achieved a volume of US$ 415 billion. Half of this amount was attributable to the United States, which registered growth of 4%. Japan remains the world's second largest pharmaceutical market and grew by 4% to US$ 58 billion. The five most important European pharmaceutical markets, France, Germany, Italy, Spain and the United Kingdom, together achieved a market volume of US$ 107 billion, growing by 3%.

Total revenues by business sector



*excluding the Generics division

Total revenues by business sector*



*excluding the Generics division

The European chemical industry association CEFIC, which represents around one-half of all global chemical companies, expects production in the European chemical industry to increase by 2.7% in 2007. According to information from the German chemical industry association (VCI), production by German chemical companies increased in 2007 by 4.5% and sales increased by 7.5%.

Pharmaceuticals business sector doubles total revenues to € 4.9 billion.

Acquisition of Serono influences total revenue growth

Total revenues of the Merck Group rose in fiscal 2007 by 58% to € 7,057 million. The sharp increase is due to the inclusion of Serono: Merck acquired the Swiss biopharmaceutical company at the beginning of the year.

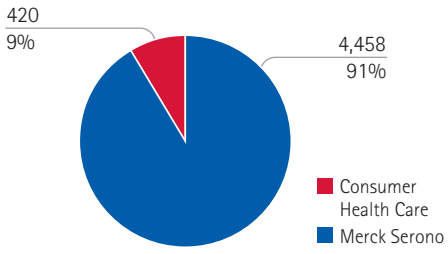
The Generics division, which was divested in October 2007, is presented separately as a Discontinued Operation. Its revenues for 2006 and 2007 have already been reported separately.

With the acquisition of the Serono Group, the importance of royalty income increased: As of 2007, royalty income is disclosed together with sales under total revenues. (For more information, see page 88 of the Consolidated Financial Statements). The effect of currencies on growth was –3.6%, whereas that of acquisitions was 51%. Adjusted for the impact of currency and acquisitions, organic growth amounted to 11%.

Total revenues of the Pharmaceuticals business sector more than doubled in 2007 to € 4,877 million, particularly owing to the Serono acquisition. This business sector now accounts for around 70% of total Merck revenues. The Merck Serono division generated total revenues of € 4,458 million. A pro forma comparison of total revenues including Serono in 2006 results in an increase of 7.4% for 2007 (for details on the pro forma comparison, see the Merck Serono section of the management report on page 37). Special mention should be made here of the good development of Erbitux®, Rebif® as well as the products of the Concor® and Glucophage® families. The Consumer Health Care division generated total revenues of € 420 million, which was 5.0% more than in 2006. In particular, the strategic brands developed favorably once again.

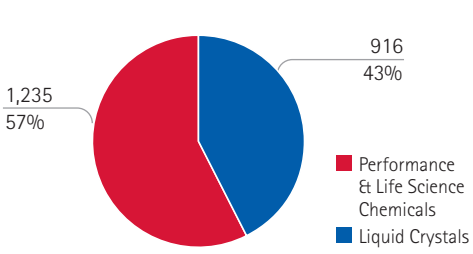
Pharmaceuticals* | Total revenues by division

€ million



Chemicals | Total revenues by division

€ million



*excluding the Generics division

The Chemicals business sector increased total revenues by 1.8% to € 2,150 million in 2007, accounting for around 30% of total Merck revenues. The Liquid Crystals division generated sales of € 916 million, corresponding to an increase of 2.3%. On the one hand, currency effects had a negative impact. On the other hand, the previous year still included the sales of the ITO (indium tin oxide) glass business, which has meanwhile been sold. Adjusted for these effects, organic growth of the division amounted to 14%. Total revenues of the Performance & Life Science Chemicals division of € 1,235 million were 1.5% above the previous year, as the business suffered from currency effects in the United States and Asia. Organic growth amounted to 4.7%.

Total revenues by quarter*

€ million	1st quarter	2nd quarter	3rd quarter	4th quarter	2007	2006
Total	**1,715**	**1,795**	**1,741**	**1,806**	**7,057**	**4,460**
Pharmaceuticals	1,178	1,249	1,195	1,255	4,877	2,314
Chemicals	529	538	539	544	2,150	2,112
Corporate and Other	7.6	7.3	7.0	7.3	29	34

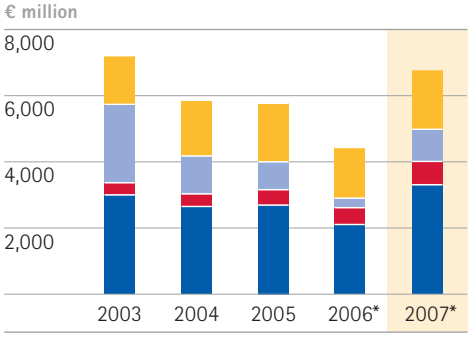
*excluding the Generics division

Components of growth by quarter

in %	1st quarter*	2nd quarter*	3rd quarter*	4th quarter*	2007*	2006
Organic growth	6.5	15	11	10	11	9.4
Pharmaceuticals	12	17	8.6	14	13	8.5
Chemicals	1.1	14	15	6.9	8.7	12
Currency effects	–4.2	–2.9	–2.9	–4.2	–3.6	–0.3
Acquisitions/Disposals	47	54	52	51	51	–0.6
Total	**50**	**67**	**61**	**57**	**58**	**8.5**

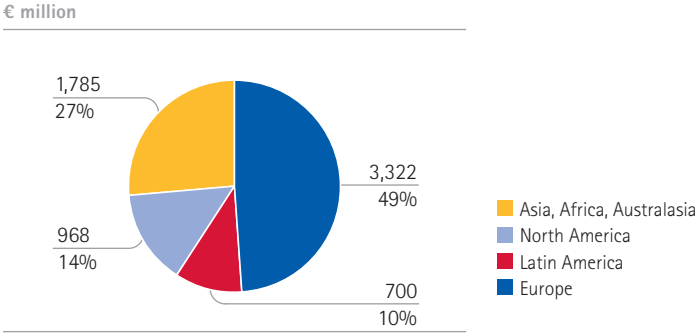
*excluding the Generics division

Merck Group | Sales by region



*excluding the Generics division

Merck Group | Sales by region*



*excluding the Generics division

Strong expansion of business in the United States

Merck generated nearly one-half of sales (excluding royalty income) in European countries. Accounting for sales of € 3,322 million, Europe was the most important region again in 2007. As in 2006, the largest market was France, where sales grew by 28% to € 738 million, followed closely by the home market of Germany, where sales increased by 46% to € 711 million. Other large sales markets where the former Serono Group had strong presences included Italy, where sales increased by 148% to € 319 million, Spain, which generated a 91% increase to € 313 million, and the United Kingdom, with a 32% increase in sales to € 245 million. With the exception of the United Kingdom, all the named countries increased their sales also on a pro forma basis, meaning including Serono in the previous year. Sales in eastern Europe climbed by 60% to € 73 million.

Thanks to the Serono acquisition, sales in North America surged by 237% to € 968 million, € 864 million of which was attributable to the United States, corresponding to an increase of 232%. However, taking the pro forma results of Merck Serono in 2006 into account, sales declined by 3.5% in North America and by 4.1% in the United States, also a result of currency effects.

Sales in Latin America increased by 38% to € 700 million. Pro forma growth was 14%. The largest countries, namely Brazil and Mexico, increased sales by 54% and 18%, respectively.

Growth in Asia strongly influenced by the Liquid Crystals business

Sales increased by 17% to € 1,785 million in Asia, Africa and Australasia. On a pro forma basis, the increase was 4.9%. Display manufacturers – the main customers of the Liquid Crystals business – are located in this region. While sales in South Korea and Taiwan – Merck's two largest markets – grew by 5.3% to € 389 million and 3.8% to € 384 million, respectively, sales in Japan rose by 9.0% to € 247 million. On a pro forma basis, sales in Japan declined by 1.4%, also because of currency effects. In the booming countries of China and India, Merck achieved growth of 55% to € 138 million and 25% to € 96 million, respectively.

Financial position and results of operations

In 2007, Merck completed the largest acquisition and the largest divestment in its history.

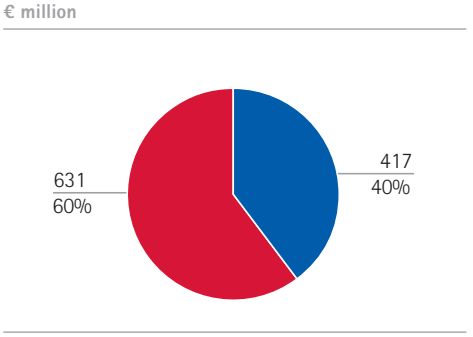
The financial position and results of operations of Merck again developed satisfactorily in fiscal 2007 – strongly influenced by the purchase of the Swiss biopharmaceutical company Serono S.A. and the sale of the Generics division. These two transactions represent the largest acquisition and the largest divestment in Merck's history. Both events had a lasting effect on the balance sheet, the income statement and cash flow. The closing of the Serono acquisition took place on January 5, 2007. Thereafter, the company was merged with the former Ethicals division of Merck to form the new Merck Serono division and is reported for the full year in the consolidated financial statements of Merck. On October 2, 2007, Merck completed the sale of the Generics division to Mylan Inc. of the United States. The Generics division is therefore included for the first nine months in the consolidated financial statements of Merck. However, in accordance with International Financial Reporting Standards (IFRS), it is reported as a discontinued operation. In the income statement, revenues and expenses do not include the Generics business. The gain on the disposal (€ 3,471 million) and the earnings contribution made by Generics up until its disposal are reported in total on a separate line below the profit from continuing operations. The previous year's presentation has been adjusted accordingly. Those parts of the business not yet sold – for which Mylan has a purchase option – are presented as assets and liabilities held for sale in the balance sheet as of December 31, 2007.

In contrast to the financial statements for 2006, we now present royalty income as a component of total revenues and inventory write-downs as a component of cost of sales. In addition, the amortization of intangible assets is reported on a separate line above the operating result. As of 2007, we no longer allocate the financial result to the operating divisions, but disclose it in the segment Corporate and Other instead. This also impacts the free cash flow of the operating divisions. The previous year's figures are presented on a comparable basis. For more information on the reasons and the effects, please refer to the section entitled "Changes in the reporting structure" in the Consolidated Financial Statements on page 88.

Operating result increases by 22%

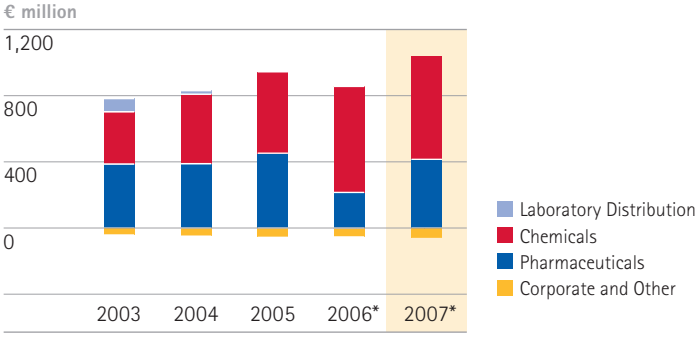
The operating result of the Merck Group increased by 22% to € 976 million in 2007 despite the negative impact of the amortization of recognized intangible assets such as technologies, licenses and other rights within the scope of the Serono purchase price allocation. To increase transparency, these amortized amounts, along with the amortization

Operating result by business sector*



*excluding the Generics division, Corporate and Other

Operating result by business sector



*excluding the Generics division

Key figures of the Merck Group*

	Operating result € million	Exceptional items € million	EBITDA € million	EBIT € million	FCF I € million	FCF II € million	ROS %
Pharmaceuticals	417	–744	1,173	–327	–6,458	821	8.5
Chemicals	631	–	766	631	557	557	29.3
Corporate and Other	–72	–32	–81	–104	–406	–406	–
Total	**976**	**–776**	**1,858**	**200**	**–6,308**	**972**	**13.8**

*excluding the Generics division
EBITDA = EBIT before depreciation and amortization
EBIT = Earnings before interest and tax
FCF I = Free cash flow
FCF II = Free cash flow adjusted for acquisitions and disposals
ROS = Return on sales = Operating result/Total revenues

of other intangible assets, are disclosed separately in the income statement (see page 80 of the Consolidated Financial Statements). This amortization totaled € 557 million, with the vast majority being attributable to intangible assets purchased within the scope of the acquisition of Serono. In addition, costs of € 154 million due to integration of Serono and impairment charges of € 73 million, primarily on intangible assets, were incurred in 2007. Return on sales (ROS, operating result/total revenues) was 13.8% compared to 17.9% in 2006. In the past, Merck also used return on capital employed (ROCE) as a key indicator of its current financial condition. In line with its financial strategy, in the third quarter of 2007 Merck replaced this indicator by free cash flow, which is more transparent and meaningful with respect to the financial situation (see page 85 of the Consolidated Financial Statements for more details).

www.strategy.merck.de

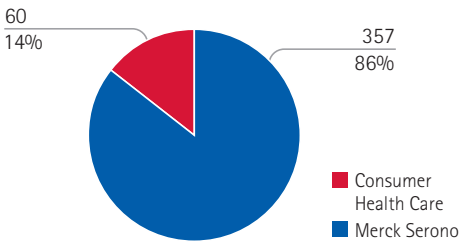
Earnings contributions of the two business sectors

In 2007, the Pharmaceuticals business sector nearly doubled its operating result to € 417 million despite the additional amortization and write-downs in connection with the purchase price allocation and the Merck Serono integration costs. The business sector generated around 40% of the total operating result (excluding the segment Corporate and Other). Return on sales for the Pharmaceuticals business sector was 8.5% compared with 9.4% in 2006.

The Merck Serono division achieved an operating result of € 357 million. The division booked charges of € 548 million for the amortization of intangible assets that

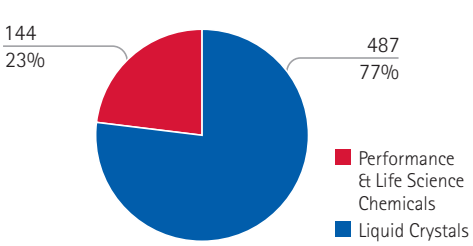
Pharmaceuticals* | Operating result by division

€ million



Chemicals | Operating result by division

€ million



*excluding the Generics division

relate mainly to the purchase price allocation. The operating result of the division includes restructuring and integration costs of € 154 million. Moreover, impairment charges, in particular of intangible assets, totaling € 66 million are included. Return on sales was 8.0% in 2007 following 8.5% in 2006.

The operating result of the Consumer Health Care division grew by 9.4% to € 60 million. Return on sales for the division was 14.2% compared with 13.6% in 2006.

The Chemicals business sector achieved an operating result of € 631 million, which was 1.6% lower than in 2006. The business sector thus generated 60% of the total operating result in 2007 (excluding the segment Corporate and Other). Return on sales for the Chemicals business sector was 29.3% compared with 30.4% in 2006.

The Chemicals business sector remained highly profitable and accounted for 60% of the Merck Group's operating result.

At € 487 million, the operating result of the Liquid Crystals division came in at the previous year's level. ROS was 53.1% compared with 54.3% in 2006.

The Performance & Life Science Chemicals division achieved an operating result of € 144 million, corresponding to a decline of 7.0%. The result was adversely affected especially by restructuring measures in the United States and Switzerland. Return on sales was 11.7% compared with 12.8% in 2006.

Exceptional items

Exceptional items amounted to € 776 million in 2007. Within the scope of the Serono purchase price allocation, the measurement of the acquired inventories at fair value was € 734 million higher. This amount was fully expensed in the income statement in 2007. Due to the non-recurring nature and size of this amount, it is disclosed under exceptional items. In addition, exceptional items include a loss of € 12 million on the disposal of financial assets. Provisions of € 38 million were set up for environmental protection measures. Income of € 8 million was recognized from the release of provisions for earlier measures.

Financial result impacted by the Serono acquisition

The financial result of the Merck Group totaling € –311 million was markedly influenced by interest charges in connection with the acquisition of Serono. The Generics business was sold in the fourth quarter. Nearly all the proceeds from the disposal of € 4.9 billion were used to repay loans, which led to a marked decline in interest expenses in the fourth quarter (see page 132 of the Consolidated Financial Statements for more details). Since a causal allocation of the financial result to the divisions is not possible, as of 2007 it is reported entirely in the segment Corporate and Other.

Profit after tax from continuing operations below the previous year

Profit after tax from continuing operations was € –88 million and was thus considerably lower than in 2006. The reasons for this sharp decline are the additional amortization of intangible assets and extraordinary items for write-downs of Serono's inventories which were booked in 2007, as well as the gain on the disposal of the interest in Schering, which was included under extraordinary items in 2006. Adjusted for exceptional items, the tax rate was 28.2%, compared with 25.8% in 2006.

Discontinued operations (Generics)

On October 2, 2007, Merck completed the sale of its Generics business to Mylan Inc. for € 4.9 billion. The proceeds from this divestment were booked in the fourth quarter. The after-tax gain on the disposal amounting to € 3,471 million is disclosed together with the earnings contribution of the Generics division of € 137 million on a separate line in the income statement, namely "Profit from discontinued operations".

Profit after tax from continuing operations and discontinued operations

Profit after tax from continuing and discontinued operations was € 3,520 million in 2007 compared with € 1,001 million in 2006.

Dividend proposal

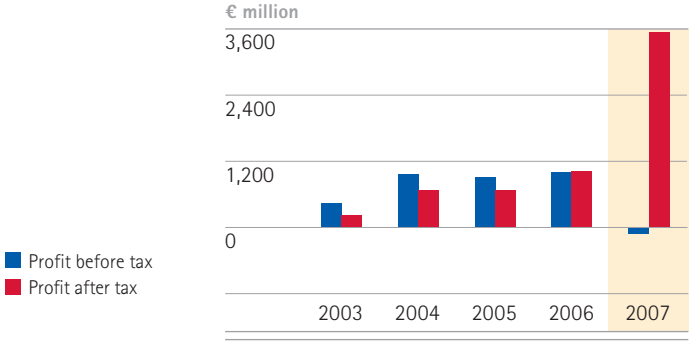
Shareholders to receive a higher dividend and bonus from the proceeds from the disposal of the Generics business.

Merck will propose to the Annual General Meeting on March 28, 2008 the payment of a dividend of € 1.20 per share, plus a one-time bonus of € 2.00 per share.

Free cash flow before acquisitions and divestments

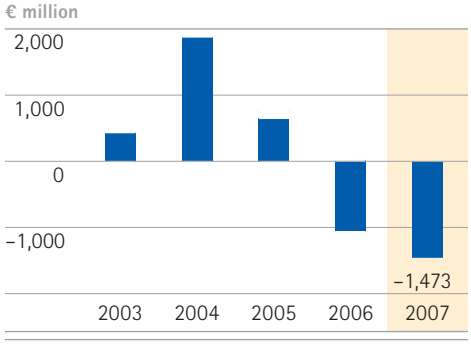
As a key indicator of the financial position of Merck, free cash flow was strongly impacted on the one hand by the purchase of Serono and on the other hand by the proceeds from the disposal of the Generics division. Free cash flow adjusted for acquisitions and disposals amounted to € 978 million, compared with € 577 million in 2006. Nominal free cash flow was € –1,473 million (2006: € –1,073 million) and is composed of net cash flows from operating activities of € 1,218 million (2006: € 812 million), net cash flows from investing activities of € –2,727 million (2006: € –1,462 million) as well as adjustments for payment flows in connection with financial assets of € –36 million (2006: € 423 million). Net cash flows from investing activities includes the payments for the acquisition of Serono amounting to € 7,280 million and the cash inflows from the disposal of Generics, less previously paid taxes and transaction costs of € 4,829 million.

Profit before and after tax*



*incl. the Generics division

Free cash flow*



*incl. the Generics division

Research and development spending exceeds € 1 billion

In 2007, Merck markedly increased its investment in research and development (R&D) as a result of the Serono acquisition. R&D spending totaled € 1,028 million. The previous year's figures have been adjusted due to changes in the reporting structure. See page 88 of the Consolidated Financial Statements.

The Pharmaceuticals business sector accounted for € 891 million or 87% of total research spending. At € 879 million, R&D expenses of Merck Serono, a particularly research-intense division, were nearly twice as high as in 2006. The ratio of research spending to total revenues was 20%. In particular, Merck invested heavily in oncology research projects. In addition, with the integration of the former Serono, research activities were expanded to include additional therapeutic areas. Within the scope of the realignment of the research and development portfolio, Merck is reviewing its activities in diabetes (please see the Merck Serono section of the Management Report on page 44).

In the Chemicals business sector, R&D spending remained constant at € 137 million. Of this amount, € 79 million was attributable to the Liquid Crystals division and € 58 million to the Performance & Life Science Chemicals division.

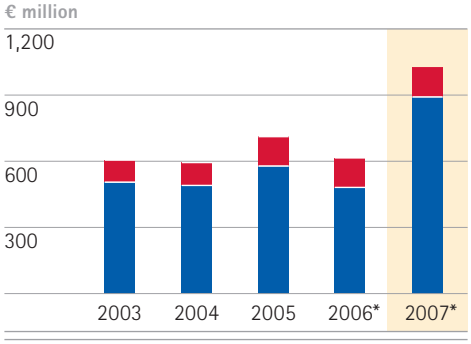
Low rise in capital spending despite acquisition

Capital spending on property, plant and equipment totaled € 283 million in 2007. This is nearly € 30 million or 12% more than in 2006.

Discontinued operations accounted for € 20 million of total capital spending. Adjusted for the disposal of the Generics business, capital spending amounted to € 263 million. The ratio of capital spending to total revenues was 3.7% in 2007. Around € 58 million or 22% of total capital spending by continuing operations was attributable to the companies of the former Serono Group in 2007.

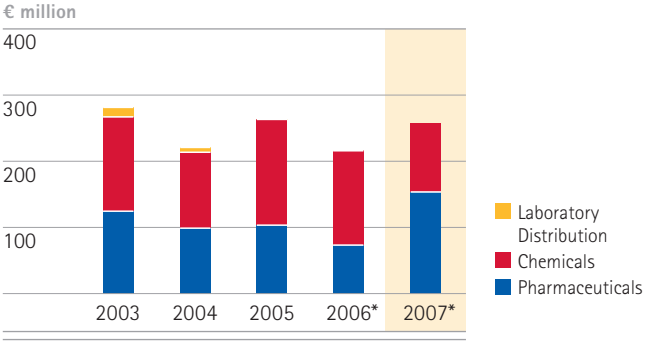
Individual investment projects with a value of more than € 0.5 million accounted for more than one-half of capital spending. In regional terms, Europe accounted for around 80% of capital spending adjusted for discontinued operations, with a focus on Germany. At its two largest production sites, namely Darmstadt and Gernsheim, Merck invested € 123 million to establish new and expand existing production capacities and research and development facilities, among other things. Capital spending totaled € 13 million in North America and € 10 million in Latin America. Companies in Asia accounted for a total capital spending volume of € 26 million. Spending focused mainly on liquid crystal production in Japan and Korea.

Research & development



*excluding the Generics division

Capital spending on property, plant and equipment



*excluding the Generics division

Adjusted for Generics, capital spending by the Pharmaceuticals business sector totaled € 154 million, with the Merck Serono division accounting for the vast majority of this amount. Around 30% thereof related to headquarters in Darmstadt, Germany. Another area of focus is the expansion of biotechnological production capacities in Vevey, Switzerland.

Capital spending on property, plant and equipment amounted to € 106 million in the Chemicals business sector, with the Liquid Crystals division accounting for € 49 million and the Performance & Life Science Chemicals division for € 58 million of this total. Both divisions invested primarily at the Darmstadt and Gernsheim sites to expand and modernize production facilities as well as to improve the infrastructure.

Merck plans to significantly increase capital spending in 2008. The largest individual project will be the expansion of biotechnological production capacities in Vevey, Switzerland.

Total assets more than doubled

Total assets of Merck as of December 31, 2007 were € 14,922 million, increasing sharply by € 6,820 million over December 31, 2006. This increase is due mainly to the acquisition of Serono. The assets and liabilities of the former Serono Group are now included in the consolidated financial statements of the Merck Group. In accordance with IFRS, they must be recognized at their higher fair values within the scope of the first-time consolidation and the related purchase price allocation. The acquisition of the interests in Serono cost € 10,271 million. In addition, the holding company Bertarelli Biotech S.A. (now Merck Serono S.A.) was acquired for € 571 million. The holding company had liquid assets amounting to roughly the same amount. The purchase price of € 10,271 million was largely attributable to intangible assets (technologies, licenses and other rights) as well as to acquired inventories and property, plant and equipment. A remaining difference has been recognized as goodwill. For more information on the Serono purchase price allocation, see page 90 of the Consolidated Financial Statements.

With the disposal of the Generics division, assets of this business worth about € 1,615 million were divested.

A capital increase was conducted in the first quarter of 2007 to refinance the acquisition of Serono. The share capital was increased nominally by € 34.5 million (including a premium of approximately € 1,036 million) to a nominal amount of € 168 million. E. Merck OHG increased its equity interest by a nominal amount of approximately € 34 million (with a premium of approximately € 1,019 million). Merck KGaA thus generated proceeds of approximately € 2,055 million from the capital increase by issuing 13,278,927 new shares and from the increase of the equity interest of the general partner E. Merck OHG. Costs of the capital increase in the amount of € 18 million were deducted from the equity capital. Subsequent to the capital increase, the equity interest amounts to 29.7% for the limited liability shareholders and to 70.3% for E. Merck OHG. The proceeds from the capital increase were used to repay loans.

Net debt reduced thanks to the disposal of Generics

Net debt, defined as financial liabilities less cash of the Merck Group, amounted to € 355 million on December 31, 2007. As a result, after just one year Merck repaid the debt resulting from the purchase of Serono using the proceeds from the capital increase and the proceeds from the disposal of the Generics division (for more information on financial liabilities, see pages 118/119 of the Consolidated Financial Statements).

Net equity of the Merck Group increased sharply. Both the capital increase and the after-tax gain on the disposal of the Generics business had a positive impact. Gearing (ratio of net debt and pension provisions to net equity) was 0.18 on December 31, 2007. It was 0.47 in 2006. The equity ratio was 58% compared with 47% on December 31, 2006.

Equity ratio at 58% due to capital increase and disposal of Generics.

Value added

Value added is a measure of the economic strength of a company and indicates how the corporate result is achieved and for what it is used. The corporate result, i.e. the sum of total revenues, other income and financial income, amounted to € 7,270 million in 2007. After deducting the costs of materials as well as other purchased services and expenses, the net value added statement shows a sharp rise in gross net value added to € 3,853 million. High additional amortization of intangible assets and write-downs of Serono inventories in connection with the purchase price allocation results in net value added of € 2,195 million compared with € 2,509 million in 2006. The majority, or 88%, of net value added went towards personnel expenses, i.e. salaries, social security contributions and pension expenses. Financial expenses increased markedly owing to the Serono acquisition, while taxes on income as well as net income clearly declined.

Net value added statement*

€ million	2007	2006
Total revenues	7,057	4,460
Other income	151	542
Financial income	62	65
Corporate result	7,270	5,067
Cost of materials	–1,133	–874
Other purchased services/expenses	–2,284	–1,381
Gross value added	3,853	2,812
Depreciation on purchase price allocation	–1,658	–303
Net value added	2,195	2,509

*excluding the Generics division

Distribution of net value added*

€ million	2007	2006
Personnel expenses	1,933	1,412
Financial expenses	373	115
Taxes on income	–23	176
Net income	–88	806
Net value added	2,195	2,509

*excluding the Generics division

Responsibility for employees, the environment and the community

www.responsibility.merck.de

Headcount increases following the Serono acquisition

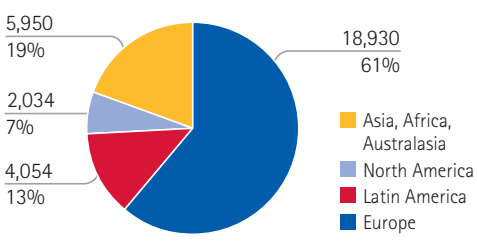
As of December 31, 2007, Merck was represented in 60 countries by 192 companies and manufactured products at 54 sites in 24 countries. With the acquisition of the former Serono S.A., the number of employees worldwide increased to 30,968. The workforce grew by 1,516 in Switzerland, 691 in Italy and 268 in Germany. In Asia, 296 employees were hired, not least due to the sustained growth of the Liquid Crystals business. In Latin America, 287 employees were added. The sale of the Generics business to Mylan Inc. led to a decline in the total headcount by 4,641. The divestment was also directly responsible for the reduction in the size of the workforce by 349 in the United Kingdom and by 278 in France, taking into account the employees added by the Serono acquisition.

In terms of function, 24% of employees work in production, 34% in marketing and sales, 14% in research and development, and 6.6% in logistics. The remainder work in central functions such as engineering, IT and human resources.

Social Charter enacted

In order to firmly anchor social principles pertaining to human rights and labor standards that the company has adopted and also expects of its business partners around the world, Merck enacted its Social Charter in 2007. Merck is thus advocating adherence to core values. Topics such as occupational health and safety, pay, working hours or equal opportunity play a key role as do the rejection of child and forced labor, and the prevention of discrimination, bribery and corruption. By signing the Responsible Care® Global Charter, Merck committed itself to take responsibility for products and processes throughout their entire life cycle and to actively help to constantly improve environmental protection, plant safety and the protection of consumer and employee health. The new Corporate Responsibility Report, which was published at the end of 2007, documents many examples of how Merck and its employees assume responsibility worldwide – in daily business as well as for the environment and the community.

Number of employees as of December 31, 2007



Commitment to fighting the tropical disease schistosomiasis

As provided for by a partnership agreement signed in April 2007, Merck and the World Health Organization WHO are taking concerted action to fight the tropical disease schistosomiasis. Over the next ten years, Merck is providing free of charge 200 million tablets of Cesol® 600 (active ingredient praziquantel) to fight the debilitating infectious disease. The estimated total value of the tablets is approximately US$ 80 million. Schistosomiasis is one of the biggest health risks to African children after malaria. The Merck-WHO partnership agreement will make it possible to treat 27 million African school children in the next ten years.

With its donation program, Merck will make it possible to treat schistosomiasis in African school children.

International requirements pertaining to chemicals legislation

The EU regulation known as REACH entered into force on June 1, 2007. REACH transfers responsibility for checking the safety of chemicals from the national authorities to manufacturers and importers. All substances produced in the EU or imported to the EU in volumes of one metric ton or more per year must be registered stepwise in the coming years. At Merck, all REACH-relevant substances were identified. The next step involves preparing the preregistration of substances, which is to be concluded in the third quarter of 2008. The first registration dossiers are to be submitted as of June 1, 2008. The aim is to ensure the safe handling of substances from Merck while minimizing the administrative burden on all supply chain participants.

Merck also supports the Globally Harmonized System of Classification and Labelling of Chemicals (GHS), which was adopted by the United Nations. In order to improve hazard communication and to facilitate the sale and purchase of chemicals, by 2008 this guideline will harmonize national regulations on classifying and labeling substances, transport law as well as safety data sheets worldwide. Merck has already started with the implementation. The aim is to launch the first products with the new classification and labeling as soon as the GHS regulation enters into force so that Merck customers have enough time to switch their hazard communication over to GHS.

Recording data globally to protect people and the environment

Against the backdrop of global responsibility for people and the environment, Merck further improved its processes in international environmental, safety and quality management in 2007. Apart from key environmental figures, all internal and external audits and certifications from around 80 sites, including the new Merck Serono additions, were documented in a timely and detailed manner. Spending on environmental protection, health and safety totaled around € 122 million in 2007.

At approximately 162,000 metric tons, Merck's CO_2 emissions remained at a low level in 2007, about 4% less than in 2006. As part of the CO_2 emissions trading scheme within the European Union, in 2007 a surplus of 52,693 metric tons resulted from emission credits and lower CO_2 emissions. Such credits are issued to companies, entitling them to a certain emissions volume. Achieving a reduction in emissions makes it possible to sell the excess credits. In 2007, Merck sold 75,000 credits, generating proceeds of € 71,250.

Merck shares

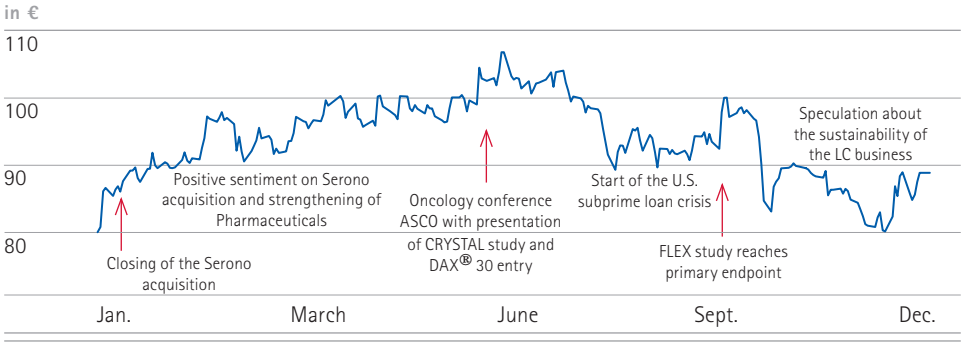
Slight weakness in the second half

The development of Merck shares in 2007 was continuously marked by news about the Merck Serono division and by speculation about the Liquid Crystals business. During the second half of the year, external factors, including concerns about rising energy costs and the impact of subprime mortgage defaults and their potential impact on the global economy, weighed heavily on equity markets.

Positive clinical trial results support increases in the Merck share price in the first half.

The closing of the Serono acquisition took place on January 5, 2007. The Merck share price rose during January by 14% from € 78.54 (2006 year-end closing share price in Xetra® trading) to € 89.46. This was the result of growing enthusiasm for the potential of the new Merck Serono division to contribute to earnings and cash flow, as well as positive clinical trial news. Among other things, Merck announced that the Phase III CRYSTAL study of Erbitux® in first-line metastatic colorectal cancer had met its primary endpoint. The € 2 billion capital increase, additional positive clinical and regulatory filing news, the announcement of the imminent sale of the Generics division, and the expected inclusion of Merck in the German DAX® 30 index drove the stock for the first time ever above € 100 to € 100.10 on April 10.

Share price development and factors influencing Merck shares in 2007



Following the announcement of the results of the CRYSTAL study at the ASCO meeting in early June, the Merck share price reached its all-time high of € 106.55 on June 15 – an increase of nearly 36% over the year-end share price for 2006. Thereafter, Merck shares moved lower due to investor profit-taking following the emergence of the subprime loan crisis in July. The decline continued in September due to arising uncertainty about the long-term development of the Liquid Crystals business. Speculation caused the share price to fall by more than 15% within a few trading days. A period of consolidation followed. With the publication of the third-quarter results in October, Merck gave an update of the portfolio of the Merck Serono division, presenting details of the individual research and development projects as well as the new structure of the R&D organization. During the final weeks of trading, Merck shares recovered from their second-half low of € 80.06 on November 16. The year-end share price was € 88.30. The company's market capitalization thus amounted to € 19.2 billion at the end of 2007.

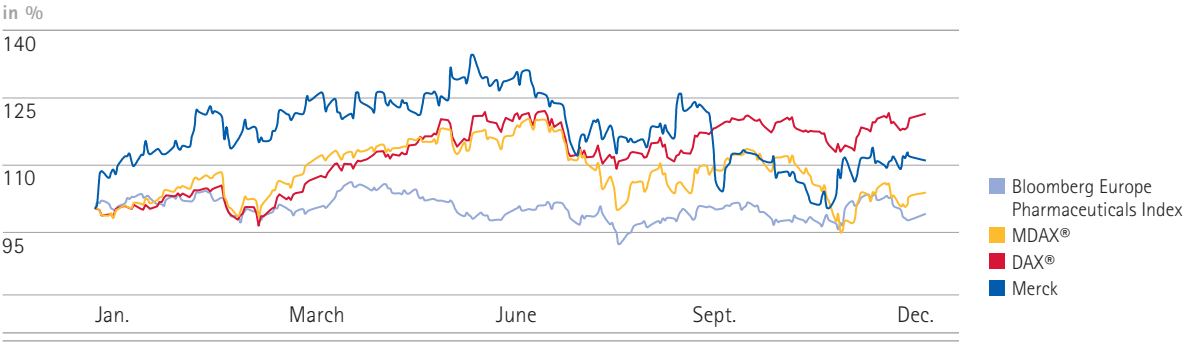
Higher share liquidity

In 2007, the Merck share price increased by 12.4% over 2006 while the DAX® and MDAX® recorded increases of 22.3% and 4.9%, respectively. The European index for pharmaceutical companies (Bloomberg Europe Pharmaceuticals Index) declined by 0.7% during the same period. In 2007, share trading volumes increased markedly once again also as a result of the capital increase. Average daily turnover was 773,682 shares - 63% more than in 2006.

www.investors.merck.de

With the capital increase at the beginning of 2007, 13,278,927 million new shares were offered by Merck KGaA. As a result of the capital increase, the general partner E. Merck OHG now holds 70.3% of the company while the free float increased to 29.7%. The new shares began trading on the Frankfurt Stock Exchange (Prime Standard) on February 7.

The performance of Merck shares vs. the DAX®/MDAX® in 2007



Share data[1]

	2007	2006
Earnings per share after tax and minority interest from continuing operations (in €)	–0.50	4.06
Earnings per share after tax and minority interest from continuing and discontinued operations (in €)	16.21	5.07
Dividend in €	1.20	0.90
One-time bonus in €	2.00	0.15
Share price high in € (June 15, 2007)	106.55	89.10
Share price low in € (January 2, 2007)	79.96	63.96
Year-end share price (Dec. 28, 2007)	88.30	78.54
Price-earnings ratio (Dec. 28, 2007)	5.45	15.49
Actual number of shares in millions (Dec. 28, 2007)	64.6	51.3
Theoretical total number[2] of shares in millions (Dec. 28, 2007)	217.4	191.0
Adjusted weighted average number of theoretical shares outstanding[3] (in millions)	215.9	194.0
Market capitalization[4] in € million (Dec. 28, 2007)	19,196	15,001

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

[2] The calculation of the theoretical number of shares is based on the fact that the general partner's equity capital is not represented by shares. As the share capital of € 168.0 million was divided into 64.6 million shares, the corresponding calculation for the general partner's capital of € 397.2 million resulted in 152.8 million theoretical shares on December 31, 2007. The number of shares increased due to the capital increase in January 2007 (see page 106).

[3] For details, see page 106 of the Consolidated Financial Statements.

[4] Based on the theoretical number of shares

U.S. investors dominate shareholder structure

The analysis performed in April 2007 to identify Merck shareholders accounted for a total of 45.8 million shares, equivalent to around 70% of the shares in free float. This provided information on both the regional distribution of Merck shareholders as well as the classification of the respective types of investor. Accounting for 44%, investors based in the United States continued to dominate, followed by investors in the United Kingdom and Germany. A standard classification of investors by investment strategy shows that "Growth" and "Growth at reasonable price" characterize the majority of Merck investors.

Investor relations activities intensified

In 2007, Merck attracted additional investors who support the company's long-term growth orientation.

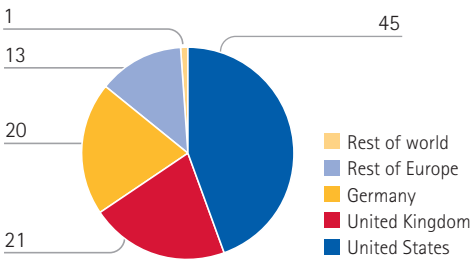
The Investor Relations program introduced in 2006 was resolutely implemented in 2007. Contact to investors was intensified and the company's presence in the capital markets increased significantly. To increase transparency and help shareholders and potential investors understand the company better, a fact book was prepared and posted on the Web as a download. It provides a general overview of the company and its individual divisions and will be updated regularly. The main share performance drivers were summarized in an equity story, which is also available online. The company succeeded in attracting additional investors who support Merck's corporate strategy and long-term growth orientation. As of December 31, 2007, the following shareholders reported their holdings in Merck shares in accordance with the German Securities Trading Act as follows:

- Barclays PLC London (United Kingdom): 5–10%
- Capital Research & Management Company, Los Angeles, CA (USA): 5–10%
- Fidelity International Ltd.: 3–5%
- Sun Life Financial Inc., Toronto (Canada): 5–10%

At the same time, Merck is aiming to achieve a more balanced distribution of its regional shareholder structure.

Identified investors by region

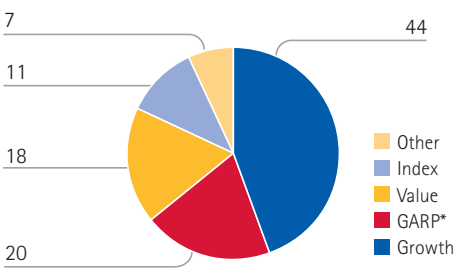
in %



Source: Company data

Identified investors by type

in %



Source: Company data
*Growth at reasonable price

Information on capital and shares

As of the balance sheet date, the company's subscribed capital is divided into 64,613,125 no par value bearer shares as well as one registered share. The holder of the registered share is E. Merck Beteiligungen OHG. It is entitled and obliged to appoint one-third of the members of the Supervisory Board representing the limited liability shareholders. If the holder of the registered share is a general partner, he or she has no such right of appointment. The transfer of the registered share requires the company's approval. The approval is granted at the sole discretion of the personally liable general partner with an equity interest, namely E. Merck OHG. There are no holdings in the company's share capital exceeding 10% of the voting rights.

According to the Articles of Association of the company, the general partners not holding an equity interest who form the Executive Board are admitted by E. Merck OHG with the consent of a simply majority of the other general partners. A person may only be a general partner not holding an equity interest if he or she is also a general partner of E. Merck OHG. In addition, at the proposal of E. Merck OHG and with the approval of all general partners not holding an equity interest, further persons may be appointed to the Executive Board who are not general partners not holding an equity interest.

The Articles of Association of the company can be amended by a resolution of the Annual Meeting that requires the approval of the general partners. The resolutions of the Annual Meeting are, notwithstanding any statutory provisions to the contrary, adopted by a simple majority of the votes cast. Where the law requires a capital majority in addition to the voting majority, resolutions are adopted by a simple majority of the share capital represented in the vote.

The Articles of Association of the company specify the authorized share capital. The Executive Board is authorized, with the approval of the Supervisory Board and of E. Merck OHG, to increase the share capital on one or several occasions until March 31, 2010 by up to a total of € 29,824,787.20 by issuing new shares against cash or contributions in kind. The company is not authorized to acquire its own shares.

The company has not entered into any material agreements subject to a change of control pursuant to a takeover offer nor has it concluded any compensation agreements with the members of the Executive Board or employees in the event of a takeover offer.

Pharmaceuticals

Merck Serono: From living cells to effective therapies

Recent major breakthroughs in the treatment of complex diseases are increasingly due to the use of biopharmaceuticals, in other words active ingredients that have been developed or produced using biotechnology. With the cancer therapy Erbitux® and the multiple sclerosis treatment Rebif®, we have two successful compounds in this drug class in our product portfolio and rank among the leaders in pharmaceutical or "red" biotechnology.

Expertise in biopharmaceutical production: Fabien Berset and Joël Darbellay prepare the unit in Fenil-sur-Corsier near Vevey, Switzerland for the production of the cancer drug Erbitux®.

Merck Serono
Prescription drugs. Page 36

Consumer Health Care
Over-the-counter drugs. Page 50

Rebif® is manufactured in Vevey, Switzerland, at the Merck Serono Biotech Center, one of the world's largest biotech production facilities. This is also where the production of Erbitux® is being prepared. Merck is entering new territory with the start of its own biotechnology production of this drug. The company can draw on the many years of experience of biotech specialists Boehringer Ingelheim Biopharmaceuticals and ImClone Systems Inc. which continue to serve as contract manufacturers of Erbitux®. At the same time, the Merck Serono division is working on numerous new developments in the growth market of biopharmaceuticals that promise therapeutic advances.

With Rebif® and Erbitux®, the division has two products that offer new therapeutic possibilities to thousands of patients around the world. Erbitux® for example: The efficacy and versatility of this targeted cancer therapy has been demonstrated in numerous new studies – not only in the battle against colorectal cancer but also in the treatment of head and neck cancer or lung cancer. Biotechnology research at Merck Serono has also given many patients with multiple sclerosis new prospects for therapy. A new formulation of Rebif®, a drug to treat relapsing forms of multiple sclerosis, has not only improved injection tolerability but also reduced immunogenicity. The European Commission granted approval for the new formulation in August and the market launch began in September 2007.
Biopharmaceuticals such as Rebif® and Erbitux® are core components of a broad portfolio that also benefits substantially from the development of chemical molecules using pharmaceutical chemistry. Researchers at Merck Serono have expertise and experience in both technologies and apply them to drug development in a complementary way.

A strong presence in the United States

Measured in terms of sales, the United States is the world's largest pharmaceutical market. The division, which operates under the name EMD Serono in North America, has a strong footprint in the United States – one of the declared aims of the Serono acquisition.
EMD Serono headquarters in Rockland, MA, south of Boston, houses not only administration and commercial operations but also research and clinical development.

A stronger presence in the U.S. pharmaceutical market: EMD Serono is headquartered in Rockland, Massachusetts.

Another research center, along with a pilot plant, is located in Billerica north of Boston. Altogether, more than 850 employees work for EMD Serono to discover, develop and commercialize drugs for use in the therapeutic areas of Neurodegenerative Diseases, Fertility and Endocrinology. Expertise in Oncology as well as Autoimmune and Inflammatory Diseases is also growing. In 2007, the American Cancer Society recognized EMD Serono for its outstanding support in the fight against cancer.
With seven recombinant products on the market offering innovative treatments to patients with serious unmet medical needs, EMD Serono is a well-established force in the U.S. biopharmaceutical industry.

New in Japan

Bion®3 made its debut in Japan: The flagship product of the Merck Consumer Health Care division is now also available in the world's second-largest market for prescription-free, over-the-counter drugs. It is the first product of its kind to combine probiotic cultures with multivitamins and minerals. Bion®3 is marketed by SATO Pharmaceutical, the sixth-largest consumer health care company in Japan. Bion®3 is already marketed in 30 countries around the world.

Cooperation with SATO Pharmaceutical on Bion®3 : Merck's over-the-counter product has been successfully launched in the Japanese market.

Profile: Merck Serono

Highlights of 2007:

- Positive clinical trial data on first-line treatment of metastatic colorectal cancer, head and neck cancer, and non-small-cell lung cancer with Erbitux®
- New formulation of the multiple sclerosis drug Rebif® approved in the EU
- EU and U.S. market launch of Easypod™, the electronic growth hormone injection device
- EU approval of Pergoveris™, the first biotechnology product based on the combination of recombinant human FSH and LH to treat infertility

Merck Serono is the largest division of Merck. It was established in early 2007 following the acquisition of the former Serono S.A. by Merck and the integration of the business with the former Ethicals division of Merck. Merck Serono focuses on innovative prescription drugs of chemical and biotechnological origin that make important contributions to medical progress.

The business model

Merck Serono focuses on innovative pharmaceuticals. One of the company's main areas of emphasis is biotechnological products such as monoclonal antibodies and other therapeutic proteins. A strict focus on selected therapeutic areas is an important success factor for Merck Serono in this business – supported by a high level of competence in research and development as well as production and sales. In 2007, Merck Serono generated around 60% of total revenues with six innovative biotechnology products. Products from Merck Serono are marketed in more than 150 countries. Approximately 16,000 employees around the world ensure the division's global presence.

Key therapeutic areas/products

- Oncology: Erbitux® (metastatic colorectal cancer, head and neck cancer), UFT® (colorectal cancer)
- Neurodegenerative Diseases: Rebif® (multiple sclerosis)
- Fertility: Gonal-f®, Ovitrelle®, Pergoveris™, Luveris®, Crinone®, Cetrotide®
- Endocrinology: Saizen® (growth hormone disorders), Serostim® (HIV-associated wasting)
- CardioMetabolic Care: the Glucophage® family (type 2 diabetes), the Concor® family (cardiovascular diseases), Euthyrox® (thyroid disorders)
- Other therapeutic areas: Raptiva® (psoriasis), Cyanokit® (cyanide poisoning) and other products

Market trends and prospects for the future

- According to forecasts by the market research institute IMS Health, the global pharmaceutical market will grow by 5% to 6% in 2008 and reach a volume of around US$ 740 billion.
- Oncology products will continue to achieve the strongest growth rates. According to IMS Health, they will account for nearly 17% of market growth in 2008. Cancer therapies are expected to become the strongest drug group in terms of sales by 2011.
- The market for products prescribed by specialists will continue to grow – by more than 14% to around US$ 300 billion in 2008.

Growth through the Serono acquisition

Biopharmaceuticals, above all Erbitux® and Rebif®, were the growth drivers of the new division.

Merck Serono is the largest division of Merck. In 2007, total revenues were € 4,458 million. In order to achieve comparability with 2006, pro forma figures are used in the following section. They compare the figures for 2007 with those of the former Serono Group and the former Ethicals division combined in 2006. Accordingly, organic growth was 7.4%. This is due largely to higher sales of the targeted cancer therapy Erbitux® and Rebif® for the treatment of relapsing forms of multiple sclerosis (MS). Global sales of Rebif® increased in 2007 to € 1,218 million, 5.3% more than the amount reported by the former Serono Group in 2006. A new formulation was launched in September in the EU. Sales of Erbitux® also grew steadily. In 2007, they climbed by 40% to € 470 million.

With the acquisition of the former Serono Group, the division's research and development spending nearly doubled to € 879 million.

In a pro forma comparison with 2006, the division increased its gross margin by 10% to € 3,765 million. The operating result decreased by 52% to € 357 million. Among other things, charges of € 531 million for the amortization of intangibles in connection with the Serono purchase price allocation should be taken into account. In addition, Merck Serono incurred expenses of € 154 million for ongoing integration measures in 2007. Return on sales (ROS) was 8.0%. Nominal free cash flow amounted to € –6,505 million. This primarily reflects the acquisition of Serono. Free cash flow adjusted for acquisitions and disposals was € 774 million.

A strong presence in the United States

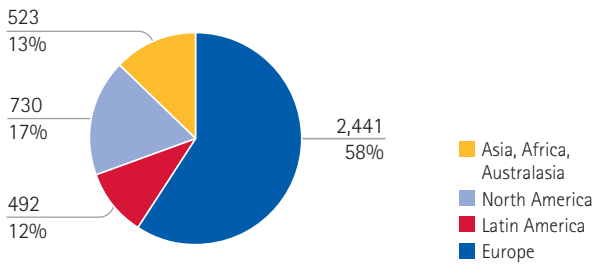
As a result of the Serono acquisition, sales of the Merck Serono division rose in Europe by 93% to € 2,441 million in 2007. In comparison with pro forma sales for 2006, growth was 8.4%. High growth rates were achieved in Spain, Italy and Belgium – also on a pro forma basis. The largest markets were France with sales of € 580 million, followed by Germany with € 476 million, Italy with € 269 million and Spain with € 268 million. With sales of € 730 million, the new division also has a strong presence in North America due to the acquisition of Serono. Business in Latin America was characterized by growth. Thanks to the acquisition, Merck Serono captured new markets there and posted a 56% increase in sales to € 492 million. Pro forma growth was 16%. The division was particularly successful in Brazil, and also generated robust growth in Venezuela and Colombia. Sales in the region Asia, Africa and Australasia rose by 74% as a result of the acquisition. Merck Serono expanded its presence in Japan but remained weak overall.

Merck Serono | Key figures

€ million	2007	2006	Δ in %
Total revenues	4,458	1,914	133
Gross margin	3,765	1,421	165
R&D	879	471	86
Operating result	357	163	119
Exceptional items	–744	–22	–
Free cash flow (FCF)	–6,505	–1,525	–
Free cash flow adjusted for acquisitions and disposals	774	61	–
ROS in %	8.0	8.5	–

Merck Serono | Sales by region

€ million



Therapeutic areas

	Research	Development	Commercialization
Oncology (colorectal cancer, head and neck cancer)	■	■	■
Neurodegenerative Diseases (multiple sclerosis)	■	■	■
Fertility	■	■	■
Endocrinology (different areas)		■	■
Autoimmune and Inflammatory Diseases	■	■	
CardioMetabolic Care and other products			■
Dermatology			■

Oncology

Breakthough in important new markets

In the battle against colorectal cancer, the form of cancer with the highest number of new cases in the seven largest markets (United States, Japan, Germany, United Kingdom, France, Italy and Spain), Erbitux® (cetuximab) represents an important treatment option. It is also used as a therapy in the treatment of head and neck cancer. Currently, the cancer drug is approved in 68 countries for combination therapy with irinotecan after irinotecan failure in patients with colorectal cancer and in 61 countries in combination with radiotherapy for the treatment of locally advanced squamous cell carcinoma of the head and neck. Sales of the Oncology business unit totaled € 479 million in 2007. The targeted cancer therapy Erbitux® accounted for a substantial portion of this amount, with sales of the product increasing by 40% to € 470 million. Recent launches in key markets such as China, Russia and Brazil led to increasing sales. In addition, the division has meanwhile filed for marketing approval in Japan – the world's second-largest pharmaceutical market – for the use of Erbitux® in treating patients with advanced colorectal cancer. Every year, more than 38,000 people die from this form of cancer in Japan. Once approval is granted, Merck Serono will co-market the oncology drug in Japan with ImClone Systems Inc. and Bristol-Myers Squibb.

www.oncology.merck.de

The division is working to further expand the range of approved indications for Erbitux®. For example, an application to extend the use of Erbitux® to include the first-line treatment of metastatic colorectal cancer was submitted to the European Medicines Agency (EMEA) in September 2007.

Sustained growth in the oncology market

According to forecasts by the market research institute IMS Health, the growth of the oncology market will continue. In the next four years, global sales are expected to more than double. Market researchers expect sales to increase from US$ 35 billion in 2006 to around US$ 80 billion in 2011. In the next four years, an estimated 50 new cancer drugs are to be launched. Market researchers expect monoclonal antibodies such as Erbitux® to achieve average annual growth of 14% and sales of US$ 43 billion by 2012. According to Business Insight, business with innovative cancer therapies is the fastest growing segment of the oncology market and at the same time the growth driver of the entire pharmaceutical industry.

Personal support for patients with multiple sclerosis: Nurse Sarah Batchhelder listens to patients and their families and offers them support. "MS Lifelines" is a service that EMD Serono in the United States provides free of charge to all patients.

Neurodegenerative Diseases

Sales by this business unit were attributable to Rebif® (interferon beta-1a), the top-selling product of the Merck Serono division. Owing to its favorable benefit-risk profile and proven efficacy, in terms of sales Rebif® is the leading treatment for relapsing forms of multiple sclerosis (MS) outside the United States. Sales of Rebif® increased by 5.3% to € 1,218 million in comparison with the 2006 figures of the former Serono Group. Negative currency effects dampened organic growth, which amounted to 9.6%. In the United States, where Rebif® has been approved since 2002, the drug continued to gain market share and generated more than one-third of its sales. In Europe, sales of Rebif® increased thanks to double-digit growth in Spain and the countries of central Europe as well as good performance in Germany.

New formulation of Rebif® now available

The Merck Serono division is investing steadily to further develop and improve its top-selling product Rebif®. In order to further enhance the therapeutic benefit, a new formulation of Rebif® was developed. The data show that the new formulation offers a new three-fold improvement in injection tolerability and reduced immunogenicity compared with historical data for the previous formulation of Rebif® as measured in the EVIDENCE study. At the end of August, the European Commission approved the new formulation of Rebif®. The approval applies to the member states of the European Union (EU), as well as Iceland, Liechtenstein and Norway. The product was approved in Canada in September 2007.

Fertility

Merck Serono is the world's leading supplier of drugs to treat infertility. The division is the only manufacturer of recombinant versions of all three gonadotropin hormones. Sales by the Fertility business unit declined slightly by 0.8% to € 519 million in comparison with sales achieved by the former Serono in 2006. This was due mainly to negative currency effects in the United States, where around 25% of sales were generated. The sale of the marketing rights to Crinone®, a progesterone gel, to Columbia Laboratories, Inc. in the United States at the end of 2006 also lowered sales.

Gaining market share in the United States with Gonal-f®

In a stable and mature market characterized by strong competition, Gonal-f® (follitropin alfa for injection) remains the world's leading female fertility drug. This recombinant form of the follicle-stimulating hormone (FSH) is prescribed to supplement or to replace natural FSH and is meanwhile approved in more than 100 countries. Sales rose slightly over the previous year to € 434 million. Adjusted for currency effects, the increase was 5.7%. After declining in the United States in 2006, sales recovered and market share increased. More than one-half of sales were generated in Europe. Gonal-f® further expanded its share of this important market. In Japan, where Gonal-f® is currently approved to treat male infertility, a clinical development program is underway to expand the indication to include female infertility.

Merck Serono continues to invest in the further development of its products and delivery devices. A new generation of the Gonal-f® pen was launched in Australia and several European countries. The global roll-out of this new product will continue in 2008.

Market launch of Pergoveris™ begins

Pergoveris™ combines two hormones in a single injection – a true advantage for patients.

Merck Serono has developed Pergoveris™ for the stimulation of follicular development in women with severe luteinizing hormone (LH) and follicle stimulating hormone (FSH) deficiency. Pergoveris™ is the first biotech drug based on the combination of both substances in a single subcutaneous injection. Marketing authorization was granted by the European Commission in June and applies to the member states of the European Union (EU), as well as Iceland, Liechtenstein and Norway. The market launch of Pergoveris™ began in the third quarter of 2007.

Sales of Ovidrel®/Ovitrelle® (choriongonadotropin alpha), a recombinant version of the natural pregnancy hormone hCG, continued to grow. In 2007, sales increased by 23% to € 28 million. Ovidrel® is used to induce ovulation in women who are not ovulating and remains the leading product in the market for hCG products. It is the first and only recombinant hCG offered in a ready-to-inject, prefilled syringe that is easy to use.

Endocrinology

Merck Serono is also committed to improving the lives of people with a range of endocrine and metabolic disorders. The division's Endocrinology business unit offers a unique portfolio of specialized therapies along with innovative drug delivery devices. Merck Serono markets recombinant human growth hormone (somatotropin) under the brand name Saizen® for the treatment of growth hormone deficiency in children and adults, as well as in children born small for gestational age (SGA), with Turner syndrome or chronic renal failure. In the United States, Serostim® (somatropin) is used to treat patients suffering from HIV-associated wasting, which is estimated to affect up to 8% of HIV-infected individuals.

Sales in the Endocrinology business unit declined slightly by 2.9% to € 218 million as compared with the previous year's figures of the former Serono. In the United States, where around one-half of sales were generated, the weakness of the U.S. dollar had a negative impact. Sales of Saizen® decreased by 2.1% to € 163 million. Adjusted for currency effects, however, they increased by 2.0%. Sales of Serostim® declined by 4.6% to € 55 million. Excluding currency effects, they rose by 4.4%.

Easypod™ meets with high acceptance

In early 2007, Merck Serono launched Easypod™, an innovative electronic growth hormone injection device. Easypod™ was developed in conjunction with patients and healthcare professionals for once-daily administration of Saizen®. It is the first delivery device of its kind in this therapeutic area and is noted for its improved reliability and convenience. Easypod™ was first launched in Europe, Australia and Latin America, where it has met with high levels of acceptance. In June, Easypod™ won a gold medal in the Medical Design Excellence Awards competition. Easypod™ was also approved by the FDA in October and was launched in the United States in December.

The electronic injection device Easypod™, which is now also available in the United States, is the first hormone delivery device of its kind.

First drug to treat hyperphenylalaninemia

In November 2007, Merck Serono submitted an application to the European Medicines Agency (EMEA) for the marketing authorization of sapropterin (formerly known as Phenoptin™) for the oral treatment of hyperphenylalaninemia (HPA) due to phenylketonuria or tetrahydrobiopterin deficiency. Currently, no drug is approved in Europe to treat these congenital errors in the metabolism of the amino acid phenylalanine. In December 2007, Merck Serono's partner in the development of sapropterin, BioMarin, received FDA approval of sapropterin for use in the United States. The product is to be marketed there under the brand name Kuvan™.

CardioMetabolic Care & Other Products

Merck Serono has combined its drugs for treating diabetes, cardiovascular diseases and thyroid disorders in the CardioMetabolic Care business unit. In recent years, the understanding of the interrelationships that exist between hypertension, diabetes and thyroid disorders has steadily improved. Merck Serono offers physicians and patients the possibility to more effectively treat an often complex clinical picture by using an integrated therapeutic approach. Sales in the CardioMetabolic Care business unit increased by 7.0% to € 829 million, mainly thanks to the strong growth of the Concor® family of beta-blockers and Euthyrox® for thyroid disorders. Merck Serono announced in July that it would transfer the rights to Niaspan® to Abbott, which acquired the original licensee Kos Pharmaceuticals.

Bisoprolol is the leading beta-blocker in Europe

Sales of bisoprolol, the active ingredient of the beta-blocker Concor® product family, rose by 9.0% to € 379 million in 2007. The bisoprolol franchise thus remained the top-selling product group in CardioMetabolic Care. Nearly 75% of sales were generated in Europe, where bisoprolol is the leading beta-blocker in terms of sales. The increase in sales of the Concor® family was due mainly to branded products, which developed very well and posted a 10% increase in sales. In particular, Concor®COR for the treatment of chronic heart failure delivered a stellar performance with growth of 20%. Concor® also recorded good growth of 6.5%. This was due primarily to higher sales in regions such as Latin America, Asia, Africa and Australasia, and Europe, where the new Concor® indication to treat heart failure contributed substantially to growth.

Concor®COR posts strong growth of 20%.

Metformin remains the gold standard in diabetes treatment

Around six million patients worldwide in over 100 countries are benefiting from a product from the Merck Serono portfolio of oral diabetes therapies based on metformin. According to the guidelines of the International Diabetes Federation (IDF), the American Diabetes Association (ADA) and the European Association for the Study of Diabetes (EASD), newly diagnosed patients with type 2 diabetes should be treated immediately with metformin (for example Glucophage®). Metformin continues to be the drug of choice for first-line therapy of type 2 diabetes.

Despite strong competition from generics, sales of the metformin group rose by 6.6% to € 266 million, with Europe accounting for nearly one-half of this amount. While sales of metformin to third parties continued to decline, the branded products from the Glucophage® family generated a respectable 8.7% increase in sales. The more advanced products such as Glucovance® (combination of metformin and glibenclamide) as well as Glucophage® XR (once-daily formulation) performed especially well: Sales of Glucovance® increased by 13% while those of Glucophage® XR more than doubled.

Thyroid hormone Euthyrox® registers 11% increase in sales

Thyroid disorders are among the most prevalent conditions worldwide. According to epidemiological data, more than 200 million people suffer from hypothyroidism, i.e. underactivity of the thyroid gland, and only 20% of them are currently being treated. With drugs to treat hypo- and hyperthyroidism as well as to prevent iodine deficiency diseases, Merck Serono is the second-largest supplier worldwide. In Europe and Latin America, the division is number one. Sales increased by 8.0% to € 136 million in 2007. Nearly

two-thirds of sales were attributable to Europe. Sales of the thyroid hormone Euthyrox®, which is available in more than 70 countries, grew by 11% to € 115 million. Around 11 million patients in more than 70 countries are treated with Euthyrox®. At the end of July, three additional dosage strengths of Euthyrox® were launched in Germany.

Products for other therapeutic areas

The Women's Health business is managed by Théramex, a Merck subsidiary in Monaco. With the establishment of the Merck Serono division, Théramex was integrated into the local French country organization. Synergies with the Fertility business unit are being utilized, for example in the co-promotion of Gonal-f®, which began in 2007. The market environment for products to treat menopause complaints remained difficult in 2007. However, in several countries, the market – especially for transdermal estrogens and natural progestins – has stabilized noticeably.

Sales amounted to € 110 million. In France, the most important market, market share increased slightly to 30%. In March 2007, Merck Serono announced plans to terminate production in Monaco by April 2009.

Interesting niche products such as the alcohol-dependency treatment Campral® and Cyanokit®, a life-saving treatment for cyanide poisoning, round off the Merck Serono portfolio. Sales of Campral® totaled € 36 million in 2007. Cyanokit® (active ingredient: hydroxocobalamine) was approved in Japan in September 2007 and by the European Commission in November 2007 to treat cyanide poisoning.

Dermatology

Raptiva®, a biological therapy to treat chronic psoriasis, generated strong sales growth.

Sales of Raptiva® (efalizumab) increased by 37% to € 76 million. Raptiva® is now approved in 64 countries around the world. Used to treat chronic moderate to severe plaque psoriasis, Raptiva® is the only biological psoriasis therapy for which compelling long-term data demonstrate enduring efficacy over a three-year period. It is suitable as a therapy for chronic stable plaque psoriasis, either as induction or as long-term maintenance therapy in responders. Patient quality of life is noticeably improved, also thanks to its ease of use: Raptiva® is administered once weekly via subcutaneous injection and can be self-administered by patients at home.

The use of Raptiva® points to new benefits in treating more difficult forms of psoriasis, for example disease affecting the hands and feet or the scalp.

According to estimates, 2% of the world's population suffers from psoriasis. Treatment with targeted biotherapeutics could be an option for around 25% of these patients. Merck Serono is therefore working to educate dermatologists on the use of Raptiva® to treat psoriasis and to convince payers to reimburse the costs of this innovative biotech therapy.

Since psoriasis is often considered only a cosmetic problem, public awareness campaigns are necessary. Merck Serono is working together with professional associations and patient organizations in this area. Due to Raptiva's unique mechanism of action, Merck Serono is considering the submission of this biotherapeutic for approval in other dermatological diseases, such as atopic dermatitis.

Research and development

www.merck-trials.de

Research spending by the new Merck Serono division nearly doubled in its first year of operation to € 879 million, equivalent to 20% of the division's total revenues. This percentage is above the global average for research-based pharmaceutical manufacturers. One of the objectives of the integration of the former Serono Group is to deploy R&D resources even more efficiently. Alongside Oncology, Merck Serono focuses on innovative specialist therapies for the treatment of Neurodegenerative Diseases such as multiple sclerosis and Parkinson's disease, Autoimmune and Inflammatory Diseases and – under the heading Fertility – therapies designed to help infertile couples conceive. Development projects in Endocrinology are also part of the portfolio.

As part of the consolidation process, the division decided to reconsider the further investment in diabetes research and development and is seeking suitable partners to pursue these activities. Continued success in a competitive environment would have required additional measures in terms of research & development and marketing, of a scale similar to the establishment of a new business in this area. The rights to a drug candidate (GRC 8200) to treat type 2 diabetes were returned to Glenmark Pharmaceuticals of India. The required write-off amounted to € 28 million.

Portfolio streamlining and realignment allows Merck Serono to utilize synergies between individual therapeutic areas.

Instead, Merck Serono is targeting resources toward reinforcing the leadership position already achieved in the division's therapeutic areas. Realigning research and development opens up opportunities for synergies between the various therapeutic areas. An example is the recombinant fusion protein atacicept, which is being investigated both for oncology indications and for its potential in treating neurodegenerative diseases, autoimmune and inflammatory diseases.

Collaborations expand the portfolio

A multi-year agreement on the discovery, development and marketing of innovative aptamer-based cancer therapies was entered into with Archemix of Cambridge, Massachusetts, USA. Aptamers are a new class of drugs uniting the best properties of small molecules and antibodies. Unlike monoclonal antibodies such as Erbitux®, aptamers are synthesized chemically, which can bring significant cost benefits.

To advance the businesses successfully, Merck Serono is strengthening its partnering and licensing strategy. Examples are the strategic alliance with ZymoGenetics on the expansion of the pipeline for autoimmune and inflammatory diseases, and a cooperation agreement with École Polytechnique Fédérale de Lausanne in the fields of neurology, oncology and nanotechnology.

In addition, Merck entered into a worldwide licensing and collaboration agreement with Idera Pharmaceuticals, Inc. of Cambridge, Massachusetts for the research, development and commercialization of Idera's Toll-like Receptor 9 (TLR9) agonists for the treatment of cancer. Toll-like Receptors (TLRs) function in human immune cells as the sensors of pathogens. Under the terms of the agreement, Merck has agreed to pay an upfront license fee of US$ 40 million to Idera.

New options for the treatment of cancer with Erbitux®

The study data on the monoclonal antibody Erbitux® (cetuximab) impressively demonstrate the consistent efficacy and versatility of this targeted cancer therapy. When used in combination with current standard irinotecan-based chemotherapy in the first-line treatment of patients with metastatic colorectal cancer, Erbitux® significantly increased progression-free survival, response and resection rates. The prospects for removing the liver metastases surgically improve considerably – as does the chance of cure. The number of

Status of our innovative compounds

Therapeutic area	Compound	Indication	Status
Oncology	Erbitux® (cetuximab)[1]	Colorectal cancer, 1st line therapy; EMEA: filed	Filed
		Adjuvant colorectal cancer	Phase III
		SCCHN	Phase III
		NSCLC	Phase III
		Gastric cancer	Phase III
	Stimuvax®[2]	MUC1-expressing tumors: NSCLC	Phase III
	Cilengitide	Glioblastoma	Phase III
	Erbitux® (cetuximab)[1]	Breast cancer	Phase II
	Matuzumab (EMD 72000)[3]	EGFR-expressing tumors: NSCLC	Phase II
		EGFR-expressing tumors: gastric cancer	Phase II
	Tucotuzumab celmoleukin (EMD 273066/huKS-IL2)	EpCAM-expressing tumors: ovarian cancer	Phase II
		EpCAM-expressing tumors: SCLC	Phase II
	EMD 273063 (hu14.18-IL2)	GD2-expressing tumors: melanoma	Phase II
		GD2-expressing tumors: Pediatric neuroblastoma	Phase II
	IMO-2055[4]	Renal cell carcinoma	Phase II
	Adecatumumab (MT201)[5]	EpCAM-expressing tumors	Phase I
	Aurora kinase inhibitor (AS703569)[6]	Solid tumors and hematological malignancies	Phase I
	Atacicept[7]	Hematological malignancies	Phase I
	NHS-IL2-LT (EMD 521873)	Solid tumors	Phase I
	DI17E6 (EMD 525797)	Solid tumors	Phase I
	Eg 5 inhibitor (EMD 534085)	Solid tumors and hematological malignancies	Phase I
	Survivac (cancer vaccine)	Solid tumors	Phase I
	MEK inhibitor (AS703026)[8]	Solid tumors	Phase I
	IMO-2055[4]	Solid tumors	Phase I
Neurodegenerative Diseases	New formulation of Rebif®	Relapsing forms of multiple sclerosis (MS) EMEA: approved; FDA: filed	Filed
		Clinically isolated syndrome	Phase III
	Cladribine tablets	Relapsing forms of MS	Phase III
	Safinamide[9]	Early-stage Parkinson's disease	Phase III
		Mid- to late-stage Parkinson's disease	Phase III
	Atacicept[7]	MS	Phase II
Fertility	Anastrozole[10]	OI and improvement of follicular development	Phase II
	Hyperglycosylated FSH	Infertility (OI / ART)	Phase II
Endocrinology	Recombinant growth hormone	HARS: in discussion with the FDA	Phase III
	Sapropterin[11]	Hyperphenylalaninemia; EMEA: filed	Filed
	ARX 201[12]	Growth hormone deficiencies	Phase I/II
Autoimmune & Inflammatory Diseases	Atacicept[7]	Systemic lupus erythematosus	Phase II/III
		Rheumatoid arthritis	Phase II
	Anti-CD 3 (NI-0401)[13]	Crohn's disease / Renal transplantation	Phase I
	Fibroblast growth factor 18[14]	Osteoarthritis	Phase I
Other products	EMD 387008	Type 2 diabetes	Phase II
	FC EPO	Anemia associated with chronic renal failure	Phase I

[1] Developed in cooperation with ImClone: Erbitux® is a trademark of ImClone Systems Inc.
[2] Exclusive worldwide licensing rights acquired from Oncothyreon Inc.
[3] Collaboration with Takeda Pharmaceutical Company Ltd.
[4] Inlicensed from Idera Pharmaceuticals Inc.
[5] Collaboration with Micromet AG
[6] Collaboration with Rigel Pharmaceuticals Inc.
[7] Collaboration with ZymoGenetics Inc.
[8] All rights acquired from Santhera Pharmaceuticals AG
[9] Collaboration with Newron Pharmaceuticals S.p.A.
[10] Collaboration with AstraZeneca UK Limited
[11] Collaboration with BioMarin Pharmaceuticals, Inc.
[12] Collaboration with Ambrx, Inc.
[13] Collaboration with NovImmune S.A.
[14] Inlicensed from ZymoGenetics Inc.

EGFR: Epidermal Growth Factor Receptor
EpCAM: Epithelial Cell Adhesion Molecule
GD2: Cancer-associated ganglioside
MUC: Mucinous glycoprotein that is abnormally expressed in various cancers
SCCHN: Squamous cell carcinoma of the head and neck
NSCLC: Non-small-cell lung cancer
SCLC: Small-cell lung cancer
OI/ART: Ovulation Induction / Assisted Reproductive Technology
HARS: HIV-associated Adipose Redistribution Syndrome

patients in whom shrinkage of metastases was large enough to allow a complete resection was three times higher in the Erbitux® group than in the control arm. These encouraging results of the so-called CRYSTAL study underscore the importance of Erbitux® as a new option in the first-line treatment of metastatic colorectal cancer. In addition, a clinical Phase II trial (BALI-1) has been started to study the use of Erbitux® to treat breast cancer. A Phase III trial in gastric cancer (EXPAND) is in preparation.

In the treatment of recurrent and/or metastatic squamous cell carcinoma of the head and neck, a breakthrough was achieved with Erbitux®. A Phase III study (EXTREME) showed that the patients who received Erbitux® in combination with either cisplatin- or carboplatin-based therapy had a significantly longer survival, an almost doubling of the time to tumor progression and a significantly higher response rate compared with patients treated with platinum-based therapy alone. This is the first time in 25 years that a survival benefit has been demonstrated in this group of patients in a randomized Phase III trial.

Merck is also conducting promising clinical trials of Erbitux® in lung cancer, a major indication.

A Phase III study (FLEX) on the use of Erbitux® combined with vinorelbine plus cisplatin met the primary endpoint of increasing overall survival compared with chemotherapy alone in patients with advanced non-small-cell lung cancer (NSCLC).

Development of further cancer drugs improves prospects for treatment

A novel combination regimen based on the cancer drug UFT® (tegafur-uracil), an oral form of the standard chemotherapy 5-fluorouracil (5-FU) plus leucovorin (LV) administered by infusion, demonstrated a high response rate of 66% in the first-line treatment of advanced metastatic colorectal cancer. This confirmed that UFT® is an effective alternative to 5-FU i.v. in this indication. The further development of the humanized monoclonal antibody matuzumab for the treatment of metastatic colorectal cancer was terminated. A Phase II study on the efficacy of matuzumab in combination with irinotecan failed to meet the predefined endpoint. In addition, Merck Serono returned the rights to develop and market zanolimumab (HuMax-CD4) for the treatment of T-cell lymphoma to Genmab.

Important results were delivered by a randomized Phase II study with Stimuvax® (BLP25 liposome vaccine) – a therapeutic cancer vaccine that Merck Serono is developing to treat non-small-cell lung cancer. Novel therapeutic vaccines can help the body's immune system to identify tumor cells and to destroy them without attacking healthy cells. Updated survival data in the subgroup of patients with locoregional disease show that in the arm that received the cancer vaccine in combination with the best supportive treatment, after three years more than twice as many patients were still alive compared to the group that received best supportive treatment, but not the cancer vaccine. Based on these positive results, Stimuvax® is now being studied in Phase III trials. The START trial is the first Phase III study to investigate a vaccine in inoperable stage III non-small-cell lung cancer.

With cilengitide, Merck Serono is developing a highly effective drug to treat glioblastoma – a particularly aggressive form of brain tumor. This integrin inhibitor suppresses the new formation of blood vessels (angiogenesis) and cuts the tumor off from the blood supply. In addition, cilengitide acts directly on tumor cells. The clinical activity of cilengitide in newly diagnosed glioblastoma patients was studied in combination therapy with radiotherapy and a chemotherapeutic agent. In nearly 70% of patients, the tumor had not grown further after six months, median progression-free survival was eight months. These results point to the potential of cilengitide to considerably improve the outcome of patients with this aggressive type of brain cancer, without adding major toxicities.

Continuous further development of Rebif®

In the Neurodegenerative Diseases therapeutic area, Merck Serono is conducting research to develop innovative drugs for multiple sclerosis (MS) and Parkinson's disease, where high medical needs for new therapeutic options exist. The division is investing steadily in the further development of its successful multiple sclerosis product Rebif®. The most recent example was the approval and market launch of a new formulation in Europe. Based on clinical trials, the range of approved indications is to be expanded so that more patients, for example those in the early stages of the disease, can benefit from treatment with Rebif®. REFLEX is among the most important clinical trials on the further development of Rebif® currently being conducted by Merck Serono. REFLEX is a 24-month Phase III registration study of 480 patients that is examining the efficacy of the new formulation of Rebif® in a new indication, namely clinically isolated syndrome. The study participants are patients at risk of developing MS and in whom so far only an MS-like attack has occurred but who have not yet been diagnosed with clinically definite MS. The purpose of the study is to find out whether these patients could benefit from early treatment with Rebif®. Patient recruitment is currently in progress.

Rebif® is being studied in a clinical trial to determine whether the drug can be used to treat at-risk patients who have suffered an MS-like attack.

The 40-week Phase IIIb IMPROVE study involving 150 MS patients is examining the efficacy of the new formulation of Rebif® versus placebo. The assessment will be based on the measurement via magnetic resonance imaging of active lesions in the brain.

Oral MS treatment would improve therapeutic success

With cladribine tablets, Merck Serono is developing a drug that – once approved – would represent the first therapeutic option for oral treatment of relapsing forms of multiple sclerosis. This is a proprietary oral formulation of a nucleoside analogue which patients would only need to take a few times a year for a period of five days in a single daily dose. It would make treatment considerably more comfortable and improve the prospects for compliance. The safety and efficacy of cladribine tablets as a monotherapy in multiple sclerosis are currently being tested in more than 1,300 patients enrolled in a two-year Phase III study called CLARITY. Patient enrollment was completed in January 2007. The U.S. Food and Drug Administration has given cladribine tablets fast track designation as a potential monotherapy for patients with relapsing forms of multiple sclerosis. ONWARD, a Phase II study involving 260 MS patients that also started in January, is examining the safety, tolerability and efficacy of cladribine tablets as an add-on to treatment with interferon beta-1a – for example the new formulation of Rebif®.

New mechanism of action in the treatment of Parkinson's disease

Safinamide, an orally administered alpha-aminoamide derivative with a novel mechanism of action, is currently in late-stage clinical trials. Together with Newron, Merck Serono is developing safinamide as an add-on treatment to existing treatments, such as stable doses of single dopamine agonists or levodopa, for early-stage as well as mid- to late-stage Parkinson's disease. The results of a six-month Phase III trial with safinamide as an add-on treatment to dopamine agonist therapy in patients with early-stage Parkinson's disease were presented at the 59th Annual Meeting of the American Academy of Neurology in May. The data showed that the addition of safinamide at a dose of 50 to 100 mg led to an improvement in motor symptoms. In August, Merck Serono announced the results of a twelve-month extension study of this six-month trial. The primary efficacy endpoint, time to intervention, did not reach statistical significance when data from both safinamide dose groups were pooled. However, a post-hoc analysis of the data showed that the addition of safinamide at a dose of 50 to 100 mg once daily to dopamine agonist therapy delays the time to intervention for therapeutic adjustment. The MOTION trial, a Phase III study that was initiated at the end of 2007, will evaluate safinamide in this dose range as an add-on therapy to a dopamine agonist in early Parkinson's disease.

Merck Serono is developing atacicept together with ZymoGenetics for the treatment of multiple sclerosis. Phase II studies, which will evaluate the anti-inflammatory effect of atacicept in multiple sclerosis, are expected to begin in 2008.

Two substances to treat infertility in development

Research in the therapeutic area of Fertility is intended to help infertile couples to conceive a child, delivering products for every phase of the reproductive cycle from ovulation to early pregnancy. The development pipeline contains many promising new products for initiating ovulation and for improved administration of follicle-stimulating hormone (FSH).

Proteins as factors in autoimmune and inflammatory diseases

Research activities by Merck Serono in the therapeutic area Autoimmune and Inflammatory Diseases focus on proteins that modulate important mechanisms in the development of autoimmune and inflammatory diseases.

Atacicept (formerly known as TACI-Ig) is a soluble fusion protein that neutralizes molecules involved in the development of various autoimmune diseases. Merck Serono is developing atacicept together with ZymoGenetics for the treatment of lupus and rheumatoid arthritis. A Phase II/III clinical trial to study atacicept in lupus nephritis, an autoimmune disease of the connective tissue and blood vessels that affects the kidneys, began in December 2007. In January 2008, Merck Serono received agreement from the U.S. Food and Drug Administration (FDA) regarding a Special Protocol Assessment (SPA) for a Phase II/III trial with atacicept in patients with general systemic lupus erythematosus (SLE).

Basic research for new active ingredients: In a research laboratory in Darmstadt, Germany, Verena Dresing cultivates protein crystals for 3D structural analysis of active ingredients and target proteins. A robot for high-throughput protein crystallization assists in identifying suitable conditions.

Fibroblast growth factor 18 (FGF 18) could represent a new treatment option for patients with osteoarthritis, a degenerative disease of the joints. Thanks to its novel mechanism of action, FGF 18 has the potential to become first-in-class in stimulating the regeneration of articular cartilage, thus not only treating the symptoms of the disease.

Development projects on growth disorders and metabolic diseases

A number of development projects on selected growth disorders and metabolic diseases are being pursued in the therapeutic area of Endocrinology. Merck Serono can build upon its long-standing experience in these therapeutic indications.

The furthest advanced project is the development of high-dose recombinant human growth hormone (r-hGH) for the treatment of HIV-associated fat redistribution syndrome, also called HIV-associated adipose redistribution syndrome (HARS). Merck Serono continues discussions with the U.S. FDA concerning the approval of r-hGH for this indication. Serostim® is approved for HIV-associated wasting. A long-acting growth hormone, ARX-201, is being investigated in cooperation with Ambrx, a U.S. biopharmaceutical company, in Phase I/II clinical trials for the treatment of growth hormone deficiency.

In November 2007, Merck Serono submitted an application to the European Medicines Agency (EMEA) for the marketing authorization of sapropterin (formerly known as Phenoptin™) for the oral treatment of hyperphenylalaninemia (HPA) due to phenylketonuria or tetrahydrobiopterin deficiency. Sapropterin received Orphan Medicinal Product designation to treat HPA from both the FDA and the EMEA.

Profile: Consumer Health Care

Highlights of 2007:

- Total revenues increase by 5.0%, growing somewhat more strongly than the market
- Strategic brands further strengthened
- Divestment of the St. Gervais brand in France
- Launch of the probiotic multivitamin brand Bion®3 in the Japanese consumer health care market
- Launch of Kidabion® multivitamin syrup in China
- Sustained success of Femibion® with the active ingredient Metafolin® in Europe

Over-the-counter medicines are becoming increasingly important as a way to prevent and treat minor illnesses. The Consumer Health Care division offers consumers high-quality over-the-counter products for preventive health care and self-treatment of minor ailments. Many of these are sold under well-known brand names. Through them, Merck is helping to promote better health and improve quality of life.

The business model

The Consumer Health Care division sees itself as a niche marketer and has been growing stronger than the market for the past five years. The main distribution channels for over-the-counter products are pharmacies, in some countries retail chains, and also mail order. In recent years, the portfolio of brands has been consolidated and targeted to large, international markets where they enjoy a high level of trust.

Key products

- Mobility: Products to strengthen the joints, including the brands Seven Seas®, Seven Seas® JointCare and Kytta®
- Everyday Health Protection: Vitamins and minerals sold under brand names such as Cebion®, Diabion® and the world's first probiotic multivitamin brand Bion®3/ Multibionta®
- Women's and Children's Health: Femibion®, a multivitamin product with folic acid and Metafolin® for pregnant and nursing women; Kidabion® (Halib-orange®), a vitamin product for children
- Cough and Cold: Cold remedy Nasivin®/ Iliadin®, flu remedy Sedalmerck®

Market trends and future prospects:

- The market research firm Nicholas Hall expects the consumer health care market to show average annual growth of approximately 4.7% up to 2011.
- Strong impetus is coming from the emerging countries of central and eastern Europe, Latin America as well as east and southeast Asia owing to economic and demographic developments, leading to higher disposable income.
- The general wellness trend and greater self-responsibility in the health care systems of many industrialized countries are increasing the importance of well-known and trusted over-the-counter medicines.

Strong brands for consumer health care

Continuing on a growth course

Total revenues in the Consumer Health Care (CHC) division increased by 5.0% to € 420 million in 2007, slightly exceeding total market growth as calculated by the market research firm Nicholas Hall. The division recorded the fifth consecutive year of organic growth ranging between 6% and 8%. According to market researchers at Nicholas Hall, CHC is thus currently the fourth fastest growing business among the world's top 20 consumer health care companies. The division generated this strong growth mainly as a result of the healthy performance of its strategic brands. Increased marketing activities in 2007 for these products were financed to some extent by the proceeds from the divestment of the non-strategic French brand St. Gervais in the second quarter of 2007.

Gross margin rose by 7.5%. This was due in particular to increased sales of high-margin products such as Femibion® and Diabion®.

The division's operating result increased by 9.4% to € 60 million in 2007, with strong markets responding to higher spending on marketing and sales.

Free cash flow declined by 20% to € 47 million. This is due on the one hand to higher investments in production facilities and on the other hand to the increase in working capital in order to conduct a higher level of business. Return on sales (ROS) increased by 14.2%.

www.consumerhealthcare.merck.de

Growth in Europe – the key market

Europe remains the most important market for the Consumer Health Care division. 70% of total revenues were generated in this region. Sales in Europe increased slightly by 3.0% over the previous year. France and the United Kingdom were the key markets, generating sales of € 90 million and € 77 million respectively, followed by Germany with € 40 million.

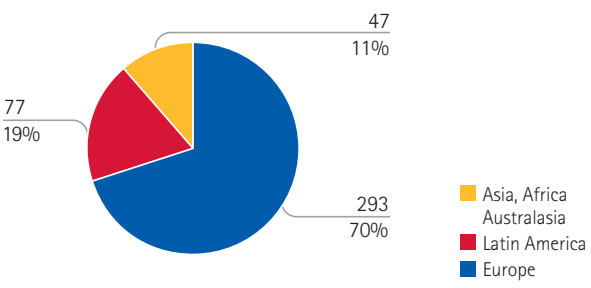
The French subsidiary Merck Médication Familiale recorded a 4.6% increase in sales mainly as a result of the continued strong performance of the probiotic multivitamin brand Bion®3, sales of which rose by 73%. This was a solid performance given a generally declining market.

Consumer Health Care | Key figures

€ million	2007	2006	Δ in %
Total revenues	420	400	5.0
Gross margin	284	264	7.5
R&D	12	10	16
Operating result	60	55	9.4
Exceptional items	–	–	–
Free cash flow (FCF)	47	59	–20
Free cash flow adjusted for acquisitions and disposals	47	59	–20
ROS in %	14.2	13.6	–

Consumer Health Care | Sales by region

€ million



Sales in the United Kingdom fell by 11%. Business continued to be impacted in 2007 by the withdrawal of certain Seven Seas fish oil products, which took place in the first quarter of 2006, due to an impurity found in an ingredient from a third-party supplier.

Sales increased by 14% in Germany. This was driven mainly by the continued success of strategic brands, for example Femibion®. Sales of this vitamin product, targeted to pregnant women, grew by 44%. The cold remedy Nasivin® was also very successful on the German market, with sales up 19%, while Kytta® ointment generated year-on-year sales growth of 13%.

Business developments were strong in Poland. Sales rose by 21% thanks to a 22% increase in sales of Nasivin® and the successful launch of a Kidabion® product line extension. Growth of 9.0% in Belgium was due, among other things, to the increase in Omnibionta® sales. Under this brand name, Merck launched a women's health product containing Metafolin® (Femibion®) and a probiotic multivitamin product for everyday health protection (Bion®3) in this market.

Sustained success in Latin America

In Latin America, sales increased by 17%. Sales in Venezuela rose sharply by 49% thanks to the success of Cebion® and the fish oil product Maxepa®. In Mexico, the largest market for CHC in the region, the division continued to build on the sustained success of its strategic brands. For example, sales of Diabion®, a product specifically designed for people who either have or are at risk of developing diabetes, increased by 12%.

By contrast, sales in Asia, Africa and Australasia remained stable. Sales in India were strong (+21%). In Indonesia, sales grew slightly by 3.4% despite supply chain problems there, which had a negative impact on business with the vitamin product Sangobion®.

Expanding in Japan and China

The multivitamin syrup Kidabion® was launched in China.

The Consumer Health Care division intends to consolidate its strong position in the global consumer health care market by targeting the expansion of its brands in key markets. This will be complemented by investments in new and highly promising markets such as Japan and China. For example, Bion®3, the division's flagship product has been available in Japan since June 2007. It is marketed there by SATO Pharmaceutical, the sixth leading consumer health care company in Japan. Kidabion® multivitamin syrup, a children's brand, was launched in China in the fourth quarter of 2007.

CHC will continue to expand the business by strengthening its strategic brands. In addition, innovative concepts are currently being tested in order to extend the reach and relevance of these brands. According to forecasts by Nicholas Hall, the volume of the global consumer health care market will grow to € 72 billion by 2011, corresponding to annual growth of around 4.7%. The Consumer Health Care division expects the growth of its total revenues to continue to exceed this sector average.

Children are particularly susceptible to colds during the winter season. A gentle form of Nasivin® is also suitable for small children and infants.

Strategic brands prosper further

The division's seven strategic brands recorded total growth of 12% in 2007. These brands include products to strengthen the joints sold under the Seven Seas® brand (Kytta® in Germany), the vitamin products Cebion®, Bion®3 (Multibionta®) and Diabion® for everyday health protection, the women's and children's health brands Femibion® and Kidabion® (Haliborange®), as well as the cold remedy Nasivin®.

Sales of Femibion®, the division's fastest growing brand, climbed 40% in 2007. This performance was attributable to strong growth in Germany (+44%), Belgium (+24%) and Poland (+9.1%) as well as market launches in France and Austria. Femibion® contains the patented substance Metafolin® and provides optimal nutritional supplementation for women planning a child, pregnant women and nursing mothers. Femibion® enjoys a leading position in established markets and gynecologist recommendations play a key role in the success of this brand.

By developing new distribution channels, the division has further improved its access to customers. As a result, consumers in Singapore can now also purchase high-quality nutritional supplements from the British CHC subsidiary Seven Seas directly by mail order.

Thanks to strong exports, the mail order business with Lamberts products – high-quality vitamins, minerals and nutritional supplements – recorded another solid year despite a challenging market in the United Kingdom.

Chemicals

Merck maintains technological leadership in the LCD market

Merck is the world market leader in manufacturing and marketing liquid crystals for liquid crystal displays (LCDs). Products from Merck are used in displays for LCD televisions, notebooks and PC monitors, mobile phones, clocks and watches, measuring instruments, digital cameras, camcorders, navigation systems and many other digital displays. Merck's innovative strength is evidenced by more than 2,500 patents for liquid crystals, their mixtures and display applications.

Chemistry for trendsetters: iPhone displays light up in bright colors thanks to liquid crystals from Merck.

Liquid Crystals
Liquid crystals in displays. Page 56

Performance & Life Science Chemicals
For laboratories and industry. Page 60

Merck's position in the liquid crystals business remains excellent. Growth in the LCD market, which is being driven by LCD televisions, continues to be dynamic, the business is highly profitable. Merck holds the technological leadership position and, as the market leader, is successfully asserting its position against the competition. The competitive landscape in the LCD market shifted in the course of 2007. Having faced competition in the display technologies known as IPS (in-plane switching) and TN-TFT (twisted nematic/thin film transistor) for some time, Merck is now meeting with competition in VA technology (vertical alignment). Merck was prepared for this and developed strategies based on innovative LCD technologies in order to deal with the new situation and to maintain its leading position. The foundation for this is know-how derived from more than 100 years of liquid crystal production at Merck.
This is being complemented by new business opportunities, such as reactive mesogens for optical compensation films. These improve contrast and viewing angle dependency and are used in special foils found in LCD televisions. By leveraging the technological competence existing in the company and cooperating closely with its LC customers, Merck is working to profitably expand the product portfolio. Decades of close local ties to customers offer Merck the best preconditions for maintaining its competitive lead. Third-party recognition also confirms Merck's leading position. In 2007, the company won various awards for its liquid crystals activities, for example the renowned "Frost & Sullivan European Technology Leadership Award." In Korea, Merck won the Korean Ministry of Science and Technology Award at the IMID, a major regional venue for the display industry, as well as the Prime Minister's Korea Investment Award.

Detecting dangerous bacteria

Thanks to its innovative products, Merck has established itself in the food microbiology segment. No other competitor offers such a variety of rapid tests in this user-friendly test format. These compact yet high-performance test plates are able to quickly and reliably detect whether foods contain harmful bacteria or their waste products. Under the brand names Singlepath® and Duopath®, Merck sells a range of microbiological test kits that considerably facilitate quality assurance and quality control for customers – mainly food manufacturers, but also clinical laboratories. This series of practice-relevant products started with tests for E. coli bacteria, verotoxins, Salmonella, Campylobacter and Listeria. In 2007, three new tests were added, such as the one for Legionella - the cause of Legionnaire's disease, a life-threatening condition that has recently been making headlines again.
For laboratory personnel, using the tests could not be easier. This leads to significant time savings: With the Merck Salmonella test, for instance, the results are already available after 48 hours, as opposed to five to seven days with the standard methods.

Consumer safety: The microbiological tests Singlepath® and Duopath® can be used to detect contaminants in food quickly, simply and efficiently.

A sunny future

Solar cells made of conductive plastic distinguish organic photovoltaics (OPV): Not only are they cheaper and lighter, they're also more pliable and versatile than their silicon predecessors. To promote OPV in Germany, the German Federal Ministry of Education and Research (BMBF) has launched a technology initiative that Merck is participating in. Merck, BASF, Bosch and Schott will invest a total of € 300 million; the BMBF is providing € 60 million in funding. The goal is to contribute to environmental protection in an era of climate change – based upon Merck's product range for silicon photovoltaics.

High mobility: Within the scope of a BMBF initiative, Merck is developing flexible solar cells together with cooperation partner Konarka. These cells can replace or recharge batteries for mobile applications.

Liquid Crystals Profile

Highlights of 2007

- Market leadership in liquid crystals successfully defended
- Gross margin increases by 3.3%, operating result stable at € 487 million
- Return on sales at 53.1%, free cash flow improves by 14%
- LCD televisions remain the largest growth driver and have prevailed over plasma flat screens
- Superb position to maintain a competitive lead

All over the world, liquid crystals from Merck are found inside most LCD televisions, computer monitors, notebooks, digital cameras, mobile phones, PDAs, MP3 players and many other high-quality displays. Merck is the global market leader in this field and, thanks to continuous investment in research and production, also the technology leader.

The business model

The division's success is based on close cooperation between interdisciplinary teams and display manufacturers in the Far East. Merck's future is secured through a broad portfolio of customer-specific LC mixtures, reliable just-in-time deliveries in a highly demanding market with high innovation rates, and a large number of patents. More than 100 researchers based in Germany as well as close to our customers in Japan, Korea and Taiwan are responding to the ever-increasing demand in particular for shorter switching times.

Key product

- licristal® - Liquid crystals and mixtures for super-fast and high-performance displays based on innovative technologies such as VA or IPS (see also page 58).

Additional fields of work

- High-performance OLED (organic light-emitting diode) materials for displays and lighting
- Efficient and environmentally friendly structuring tools for photovoltaic products and displays
- Superior materials for optical films that enhance display image quality
- Printable polymers for flexible displays, solar cells and RFID chips

Market trends and prospects for the future

- The LCD market will continue to grow strongly in the coming years.
- According to forecasts by the market research firm DisplaySearch, the following growth rates are expected for LCD panels, in terms of units sold, for the years 2007 to 2011: 17% for notebooks, 7% for computer monitors and 18% for LCD televisions.
- The major growth driver for computer monitors will be sales in emerging countries, for notebooks the trend toward new flat-panel formats and for LCD televisions diagonal screen sizes exceeding 40 inches as well as extremely flat screens.
- At 100 million units worldwide, sales of LCD televisions are expected to already exceed those of cathode-ray televisions in 2008.

LCD technology prevails

According to studies published in August 2007 by the market research firm iSuppli, LCDs now clearly have the edge over the rival plasma-screen technology. In 2008, around 100 million LCD TVs are expected to be sold worldwide, thus exceeding the volume of conventional cathode-ray televisions sold. According to forecasts by the market research firm DisplaySearch, the volume of the liquid crystal market for all applications is expected to grow by around 20% in 2008.

Double-digit organic growth in total revenues

In 2007, total revenues of the Liquid Crystals division rose by 2.3% to € 916 million – in spite of negative currency effects, which had an even stronger impact than in the previous year. This applies to the U.S. dollar as well as the Japanese yen, South Korean won and Taiwanese dollar. Organic growth was 14%. The division thus successfully asserted its position in an increasingly competitive environment. Again, Merck generated most of its business with major display manufacturers in Asia. In the year-on-year comparison of total revenues, it should be noted that the business with ITO (indium tin oxide) coated glass in Taiwan was divested in December 2006.

www.liquidcrystals.merck.de

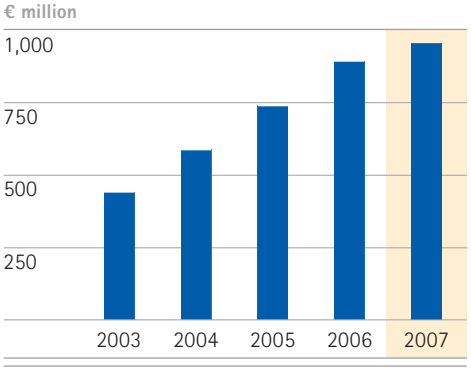
Free cash flow increases by 14%

At € 611 million, the division's gross margin was up 3.3% compared to the previous year. The operating result stagnated at € 487 million. Return on sales was 53.1%. Free cash flow increased by 14% to € 425 million. This high growth rate compared to the previous year was partly attributable to investments in production facilities at the Darmstadt site in 2006, which reduced free cash flow.

Liquid Crystals | Key figures

€ million	2007	2006	Δ in %
Total revenues	916	895	2.3
Gross margin	611	592	3.3
R&D	79	67	18
Operating result	487	486	0.1
Exceptional items	–	–	–
Free cash flow (FCF)	425	372	14
Free cash flow adjusted for acquisitions and disposals	425	372	14
ROS in %	53.1	54.3	–

Liquid Crystals | Total revenues



A long service life is a must: In a backlight test, Sven Schüpfer exposes minidisplays to the light conditions of a television. New liquid crystal mixtures are tested for thousands of hours to ensure the required lifetime.

Capturing the Chinese market

In regional terms, sales grew slightly in South Korea – due to currency effects nominally by 1.1%. In Taiwan, sales increased by 1.4%. In Japan – where LC technology originated – Merck achieved growth of 11%. An interesting new market is opening up in China, where the division also expanded business. The total volume of this market, however, is still far below that of the three above-mentioned "home countries" of the LC business.

Research and development further expanded

The division once again increased its investments in research and development, which rose by 18% to € 79 million in 2007. New mixture techniques were developed to secure the technology leadership. In Darmstadt, South Korea and Taiwan, new reliability laboratories were established to test the long-term stability of displays for various applications. In addition, investments were made in expanding production facilities at the LC sites in Germany and Asia. In 2008, a new project will be launched to further expand the liquid crystal production facilities in Darmstadt. This will involve investments of around € 52 million in order to dynamically adapt production capacities to the growing global market and to secure Merck's leading position.

Focus on VA technology

A main focus of investments in research is to further develop the well-established vertical alignment (VA) technology – with the aim of achieving even faster switching times and sharper contrasts. Although VA LCDs already have extremely fast switching times of less than 8 milliseconds, the goal is to further improve these in order to produce even more brilliant television images. Merck researchers are aiming for switching times of less than three milliseconds. Another sales argument is the viewing angle. Merck's VA technology enables a viewing angle of more than 170 degrees – without loss of contrast or color shift. Besides VA technology, Merck also has a patent for in-plane switching (IPS) technology, which also enables a screen viewing angle of more than 170 degrees.

OLEDs

Merck OLED Materials GmbH, which comprised Merck's activities in the OLED materials field, was merged with Merck KGaA on April 1, 2007. The research and business activities were integrated into the Liquid Crystals division. OLEDs (organic light-emitting diodes) are an innovative field of work, which could develop long-term into a promising technology for displays. OLEDs can also be used as light sources for a wide variety of applications.

Trend toward flat, large-format panels

The trend toward ever-larger screens for LCD TVs continued in 2007. Asian manufacturers are investing substantial sums in production facilities for large-format displays, so-called eighth- or even tenth-generation panels. Consumers around the world want ever-larger screens with diagonal sizes of 42 inches and more. At the same time, there is also a noticeable trend toward increasingly flat panels. These open up a range of totally new possibilities, for instance in interior design of homes, where flat televisions can be hung like pictures on the wall. The flattest LCD TVs that are commercially available at present are less than four centimeters thick.

Flat LCD televisions, which are widespread today, would not exist were it not for liquid crystals.

Performance & Life Science Chemicals Profile

Highlights of 2007

- High sales level grows further, organic growth of 4.7%, return on sales at 11.7%
- New global e-commerce platform developed in 2007 is scheduled for launch in 2008 to open up new distribution channels, especially in the laboratory sector
- Strong growth in Asia and slight growth in Latin America, core European market shows stable growth

Specialty chemicals from Merck are used throughout the entire pharmaceutical production process from development in the laboratory up to industrial-scale manufacture. They ensure reliable analysis in research and dependable production processes. Expertise in chemistry and customer-centric innovations have made Merck a successful supplier to the pharmaceutical, cosmetics, food, plastics, coatings and printing industries.

The business model

The success of the Performance & Life Science Chemicals division is rooted in a special promise that Heinrich Emanuel Merck gave for the purity of his products back in 1851. This made Merck the global reference standard in meeting the highest quality demands for chemicals used in research and production. Today, Merck is a preferred partner for moving from laboratory scale to industrial production – innovations from the division often help customers to achieve key competitive advantages.

- Merck develops customized solutions for each industrial application and offers customer-centric services extending beyond products, such as special documentation for authorities and online services.
- Merck finds innovative answers to many challenges in environmental protection, product safety and product security by utilizing cutting-edge technologies.

Overview of the three business fields

The business models and key products of each of the three subdivisions are presented starting on page 62.

Market trends and prospects for the future

- The laboratory market is characterized by relatively stable average growth; individual biotechnology segments are showing double-digit growth.
- Statutory regulations on production and product safety, the related process documentation and safety requirements as well as quality controls are increasing.
- Branded goods manufacturers are increasingly moving toward high-quality colors and packaging – a trend that is benefiting the business with effect pigments.
- Ionic liquids offer growth potential, for instance as a replacement for conventional solvents in extraction and separation.

Strict focus on customer needs

Solid business development

In 2007, total revenues of the Performance & Life Science Chemicals division increased by 1.5% to € 1,235 million. Currency effects significantly impacted business in the United States and Asia: Organic growth was 4.7%. Gross margin increased slightly by 0.4% to € 615 million. The operating result decreased by 7.0% to € 144 million. This was affected by, among other things, the restructuring charges for measures in Switzerland and North America.

Return on sales was 11.7%. Free cash flow remained virtually constant at € 132 million. The Performance & Life Science Chemicals division invested € 58 million in research and development in 2007.

www.pls.merck.de

Growth potential in Asia and Latin America utilized

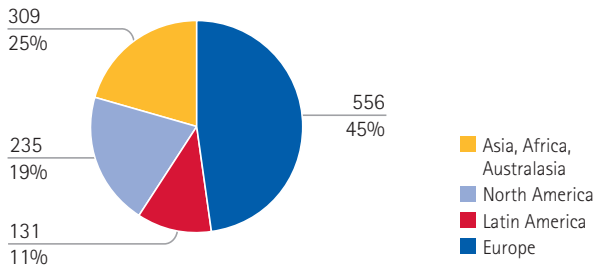
On a regional basis, the Performance & Life Science Chemicals division performed particularly well in Asia and Latin America – with growth of, for example, 29% in India and 18% in Thailand. High double-digit growth rates were achieved in several countries of Latin America such as Venezuela and Colombia, and overall growth amounted to 4.0%. With a share of 45% of sales and stable growth of 3.9%, Europe is still the most important market. Here high single-digit growth was generated, for example, in Germany, Benelux, Italy and Poland, while some countries of southeastern Europe and Spain recorded double-digit growth. Business declined in the United Kingdom.

The Performance & Life Science Chemicals division operates in very different market segments that must be served simultaneously. Merck's success in this area is founded on a strict focus on customer needs. Application-optimized solutions, modern services and new products stand for quality, value, speed and innovative strength.

Performance & Life Science Chemicals | Key figures

€ million	2007	2006	Δ in %
Total revenues	1,235	1,217	1.5
Gross margin	615	613	0.4
R&D	58	67	–13
Operating result	144	155	–7.0
Exceptional items	–	–34	–
Free cash flow (FCF)	132	132	–0.5
Free cash flow adjusted for acquisitions and disposals	132	154	–15
ROS in %	11.7	12.8	–

Performance & Life Science Chemicals
Sales by region | € million



Profiles of the Performance & Life Science Chemicals subdivisions

Laboratory Business

The business model

The success of the Laboratory Business subdivision is based on a long tradition of offering researchers, teachers and users in industry a broad spectrum of laboratory chemicals in a range of quality grades with certificates of analysis ensuring consistent and comparable results. Today Laboratory Business offers specific solutions and top-rate services for many different laboratory requirements worldwide. It is a single-source supplier serving a global market with its own local companies.

Key products

Customers need full-service solutions that exploit the latest technologies. In order for Merck to find the best answers to their requirements, marketing activities are targeted to customer segments. These include, for example, universities as well as the pharmaceutical, biotechnology, food and beverage manufacturing, and chemical industries. Merck is pursuing targeted approaches so that laboratory work can be performed safely and efficiently. Laboratory Business supplies a global market with important laboratory chemicals:

- Reagents for analysis and other applications, particularly standards for instrumental analysis
- Products for analytical chromatography, microbiology, food and environmental analysis
- A broad range of solvents, salts, acids, alkalis and organic chemicals

Life Science Solutions

The business model

The Life Science Solutions subdivision, which is oriented toward customer needs in a wide variety of sectors, offers products and solutions covering the entire range of the latest technological expertise in chemical and physical processes. The subdivision is responding to increasing regulatory requirements with comprehensive product documentation. Understanding the problems and processes of every aspect of the entire value-added chain of customers makes Life Science Solutions an important partner in the following sectors:

- Pharmaceutical industry and biotechnology, increasingly also the food industry
- Cosmetics industry, where Merck offers not only decorative effect pigments but also functional skin care and protection solutions, for example UV protection

Key products

Life Science Solutions supports the entire life sciences process chain from research to market launch

- Separation and purification materials
- Ionic liquids, which are used to simplify biotechnological processes
- Active ingredients used in pharmaceuticals, cosmetics, sunscreen and skin care products
- Active ingredients for food supplements
- Biological crop-enhancing technologies in crop bioscience
- Products for technical applications

Pigments

The business model

Merck is one of the most successful suppliers of effect pigments used to differentiate and position packaging and product design in a large number of branded products. In particular, new developments from Merck help to strengthen the brand identity of products. Not only decorative, but also security-relevant aspects, for example brand protection, are important here. First-rate service and extensive application expertise make the Pigments subdivision a strong partner, for example to the automotive industry.

Key products

Merck offers established and innovative effect pigments for the following applications:

- Iriodin® mica-based pearl-luster pigments for plastics, coatings and printing inks
- Weather-resistant pigments for automotive coatings and other outdoor applications
- Pyrisma®: a new line of interference pigments for the coatings industry
- Xirallic® effect pigments with attractive glitter effects
- Colorstream® effect pigments with angle-dependent color travel
- Optically variable, highly transparent and shimmering pigments, e.g. Xirona® and Ronastar®, for cosmetics
- Timiron®, Colorana®: mica-based effect pigments for cosmetics
- Functional pigments, e.g. for laser marking or solar heat reflection
- Candurin®: food and pharmaceutical grade composite pigments.

Laboratory Business

High growth rates in food and water analysis

Total revenues of the Laboratory Business subdivision, which is represented with its own employees in 42 countries worldwide, remained stable in comparison with the previous year. Particularly strong growth was achieved with products for food and water analysis and with products for microbiology. Special mention should be made of the strong increase in the business with manual rapid microbiological tests for detecting harmful and pathogenic microorganisms in foods, such as Salmonella and E. coli bacteria, as well as water quality monitoring tests from the Spectroquant® range.

www.chromatography.merck.de
www.microbiology.merck.de

Good business development with customers in the pharmaceutical as well as food and beverage segments was complemented by growth achieved with customers in the global mining industry. Customers in this segment use tests and reagents from Merck to determine the ore content and purity of mined samples. Sales of test kits and reagents for in-process and final control laboratories to customers in the chemical industry performed well. The business with high-purity solvents developed extremely well in all customer segments.

Innovative rapid tests for water and food

In 2007, Merck launched a series of new products such as Spectroquant® Pharo – new spectrophotometers for food and water testing applications – as well as the instrument-assisted bead-based assays for biomarker detection in pharmaceutical, biotech and academic research. Laboratory Business expanded the range of rapid tests for detection of pathogens, ready-to-use culture media (RTU media) as well as Chromolith® separation columns for chromatography. Innovative packaging solutions were developed for solvents based on eco-friendly plastics as a replacement for glass.

On a regional basis, Laboratory Business performed particularly well in India with high, double-digit sales growth. Double-digit growth was also recorded in central and south-eastern Europe.

Life Science Solutions

Substantial growth in business with cosmetic actives

Thanks to the great diversity of products and services in its portfolio, Life Science Solutions achieved solid growth and fulfilled expectations. Total revenues grew organically by 3.7% and nominally, against the background of negative currency effects, by 1.7%

www.merck4food.com
www.merck4pharma.com
www.merck4biosciences.com

The business with materials for the pharmaceutical and biopharmaceutical industries showed strong, above-average growth. This market segment includes, for example, pharmaceutical salts and materials for separation and purification in pharmaceutical production, such as the well-established Fractogel™ product range. Production capacities for silica gels are being further expanded. The business with cosmetic actives also posted significant growth. That applies to UV absorbers for sun protection, skin care products such as Ectoin®, as well as Oxynex® ST Liquid, a stabilizer for light-sensitive raw materials used in cosmetic products and perfumes.

The active ingredient dihydroxyacetone (DHA) used in self-tanning agents is the top-selling individual product of the Performance & Life Science Chemicals division. Eusolex® UV Pearls are tiny glass beads in which the UV filter is encapsulated and have been specially developed for active ingredients used in sunscreen formulations.

Continuing success of Metafolin®

A good example of synergies between Chemicals and Pharmaceuticals: the innovative form of folic acid Metafolin®.

In the area of nutraceuticals, the success story of Metafolin® – a biologically very active form of folic acid that can be directly used by the body – also continued in 2007. The cooperation with the Consumer Health Care division for global marketing of the products Femibion® and Diabion® is an example of successful, cross-divisional collaboration that benefits customers.

Business with ionic liquids got off to a promising start. Ionic liquids can be used in many areas of chemistry, for instance as a replacement for conventional solvents or for biotechnological processes. This business was strengthened by the acquisition of Solvent Innovation in Cologne, Germany.

The crop biosciences business did not meet expectations. In Life Science Solutions, products for natural crop enhancement free of gene technology were so far focused on soybeans. Following the global trend, new products to significantly expand the range of applications are being tested for corn and other crops in field trials.

On a regional basis, Life Science Solutions registered good sales growth of 5.5% in Asia, Africa and Australasia. In Europe, by far the largest market, growth was 3.9%. In North America, sales declined.

Pigments

Good growth with mica-based pigments

www.pigments.merck.de
www.merck4cosmetics.com
www.merck4coatings.com
www.merck4printing.com
www.merck4plastics.com

Due to currency effects, total revenues of the Pigments subdivision increased nominally by 3.4% while organic growth was 7.6%. Pigments achieved substantial success with the strategy of focusing on technologically sophisticated, high-margin products. Growth was generated in all market segments. Core markets of Pigments are the cosmetics, coatings, printing and plastics industries, as well as security applications such as products for brand protection.

Excellent growth was generated by pigments based on the raw material mica, for example the Iriodin® product range for plastics, coatings and printing inks as well as the cosmetics industry. A new product family named Pyrisma™, also based on mica, attracted considerable attention during its debut at the leading European exhibition, the European Coatings Show 2007. These pigments, which were developed in close cooperation with our customers, offer very intense effects and cover an extremely wide color range.

Effect pigments add sparkle to everyday life: Atsuko Nishimagi works in research and development in Onahama, Japan. Merck has several units there that produce the successful range of aluminum oxide-based Xirallic® pigments.

Very strong growth was also achieved with pigments of the Xirallic® range, which are mainly used in automotive paints and were already highly successful in recent years. The range of glass flake pigments was expanded. With their smaller particle size, these pigments offer new application possibilities and new, brilliant color effects. The corresponding pigments for the cosmetics industry are marketed under the brand name Ronastar™. The Miraval® family of products is also based on the same raw material and is used in the industry and technology sector, for example for printing, plastic and coating applications.

New markets entered

Since gaining approval from the U.S. Food and Drug Administration (FDA), Candurin® pigments have been sparking considerable interest among customers as special-effect color coatings for foods and pharmaceuticals. The use of Candurin® in pharmaceuticals increases the safety for patients by making it easier for them to distinguish between different tablets and capsules.

With the new products Minatec® 60 CM and Minatec® 51 CM, Merck continued its strategy of continuously launching new developments in both decorative and functional pigments. These new products are used, for example, to prevent the static charging of plastic floor coverings.

Stong position in Europe and Asia

On a regional basis, Pigments recorded strong growth, particularly in Europe. In Asia, Pigments benefited from the boom in emerging industrial economies such as China and India. Brand manufacturers in the cosmetics and personal care sector as well as the food industry are attaching more and more importance worldwide to high-quality, special-effect packaging. This is a means of clearly differentiating themselves from the competiton at the point of sale, for example on supermarket shelves. Here pigments from Merck can help to positively influence consumer purchasing decisions.

Corporate and Other

The segment Corporate and Other comprises Group administrative costs with respect to holding companies, taxes as well as certain exceptional items not assigned to the individual divisions. As of 2007, the financial result of € –311 million is reported in full in the segment Corporate and Other. Due to high interest expenses, free cash flow of € –406 million was markedly lower than the previous year's figure of € –234 million (adjusted).

The operating result of the segment Corporate and Other totaled € –72 million in 2007 as compared with € –60 million in 2006.

Generics (Discontinued Operations)

On October 2, 2007, Merck completed the sale of the Generics division to Mylan Inc., Canonsburg, PA (United States) for € 4.9 billion (for details, see page 132 of the Consolidated Financial Statements). The results of this division are therefore reported under "Discontinued Operations".

Total revenues up until the beginning of October 2007 were € 1,395 million in comparison with € 1,824 million for the full year 2006. The operating result of Generics declined to € 189 million owing to weak business in North America in 2007. Return on sales (ROS) was 13.5%.

Compared with the first nine months of 2006, total revenues of the Generics division in the first nine months of 2007 increased slightly by 3.3% to € 1,387 million. During this period, the division generated approximately one-half of sales in Europe, where good business developments were responsible for a 23% increase in sales to € 672 million. The largest market was France, where sales totaled € 280 million, equivalent to a 26% increase over 2006. In Germany, the Generics division benefited from renewed changes in health care policy framework conditions, which led to a 61% increase in sales to € 86 million. Sales declined in North America by 18% to € 380 million and in the United States by 16% to € 323 million. Sales in Latin America increased by 15% to € 28 million, whereas the region Asia, Africa, Australasia maintained the year-earlier level of sales of € 305 million.

Corporate and Other | Key figures

€ million	2007	2006	Δ in %
Total revenues	29	34	–13
Gross margin	2.5	2.9	–15
R&D	–	–0.1	–
Operating result	–72	–60	19
Exceptional items	–32	289	–
Free cash flow (FCF)	–406	–234	74
Free cash flow adjusted for acquisitions and disposals	–406	–224	81

Generics, Discontinued Operations | Key figures

€ million	2007*	2006	Δ in %
Total revenues	1,395	1,824	–
Gross margin	657	899	–
R&D	95	132	–
Operating result	189	307	–
Exceptional items	3,562	–13	–
Free cash flow (FCF)	4,835	122	–
Free cash flow adjusted for acquisitions and disposals	76	255	–

*January 1 to October 2

Risk report

Risk management system

Risk management within the Merck Group is described for all risk owners in a detailed guideline. This defines the principles of risk management, outlines roles and responsibilities, and helps those responsible to implement the legal and operational requirements. Specific terminology and standard risk reports harmonize the risk management process worldwide. Risk reports are submitted to the Executive Board at six-monthly intervals or, in special cases, on an ad-hoc basis. The Internal Auditing department reviews the risk management system.

Overall risk position

No risks have been identified that pose a risk to the continued existence of the Merck Group. This is the finding of this risk report, which was prepared in accordance with German Accounting Standard 5.

Business-related risks

Merck integrates the risk management system into its ongoing business planning processes. Potential negative developments, for example changes in customer demand or new political framework conditions, are described and evaluated in the risk reports, so that the company can take countermeasures in good time if any events should lead to deviations from its business plan. As of December 31, 2007, the Merck Group operated 54 production sites in 24 different countries and took appropriate measures to minimize the risk of a supply bottleneck for important products. Total revenues and the operating result of the Merck Group are sustained by a large number of pharmaceutical and chemical products for various industries. This diversification itself minimizes risk, since the markets differ in their structure and economic cycles. This is also an expression of the Merck strategy to remain an integrated pharmaceutical and chemical company.

The company tries to prepare for the potential risks of a changing market environment, for example health care cost containment measures or new products from competitors, by continually observing market developments and acting with the appropriate foresight. The special risks in pharmaceutical development are constantly monitored by the portfolio and project management system that has been introduced throughout the Merck Group. Within the scope of the Serono integration, therapeutic areas and all pipeline projects were evaluated and refocused. As a research-based pharmaceutical company, there is the risk for Merck of development projects having to be discontinued – after substantial investment – at a late phase of clinical development. Decisions – such as those relating to the transition to the next clinical phase – are taken responsibly in order to minimize risk. The same applies to investment decisions, for which Merck uses detailed guidelines.

Financial risks

Merck uses derivative financial instruments to minimize currency risks and financing costs caused by exchange rate or interest rate fluctuations. Financing transactions in foreign currencies are generally hedged. In certain cases, the company also hedges anticipated sales and future costs for a period of up to two years. For more information, see page 135 of the Consolidated Financial Statements.

Material financial transactions involving credit risk are handled exclusively by first-class banks. In 2007, Merck entered into a new € 2.0 billion syndicated multicurrency revolving credit facility with 19 first-class banks. As a result of the positive operating cash flow, the centralization of liquidity in the Group and the credit facility agreement with a term of seven years, long-term liquidity is ensured. Thanks to its broad customer base, Merck is likewise only exposed to a low credit risk in its sales markets.

Accounting risks

The carrying values of individual items in the balance sheet are exposed to the risk of changing circumstances, which can adversely impact profit. This applies in particular to the adjustment of book values of acquired companies to fair values. In the course of the first-time consolidation of Serono, Merck recorded, among other things, a write-up of intangible assets of € 183 million to € 7 billion.

Legal risks

Merck is engaged in legal proceedings and government investigations, the outcome of which cannot currently be predicted; Merck also continues to bear the risks from certain proceedings against companies of the Generics group that Merck sold to Mylan. Thus Merck continues to be responsible for risks arising from cases concerning drug pricing in the United States and the United Kingdom. In addition, the Merck Serono division is involved in a licensing dispute in Israel as well as a dispute with a former sales partner in Italy. The company has taken all possible measures to protect its own legal position. More information can be found on page 123 of the Consolidated Financial Statements.

As a research-based company, Merck has a valuable portfolio of industrial property rights, such as patents and brand names. This can become the target of attacks and infringements. Merck has taken the necessary precautions to identify threats and defend its rights where necessary. Generally, Merck endeavors to prevent legal risks from arising.

Employees participate worldwide in a compliance program that enjoins them to comply with laws and guidelines, and provides them with the relevant training and support. The core of the program is the Merck Code of Conduct, which defines ethical behavior guidelines. This is supplemented by an intranet-based training and testing program, as well as by employees in a global network of compliance officers. Insofar as possible and practical, the company limits liability and damage risks through insurance coverage, the type and scope of which is continually adjusted to current requirements.

Information technology risks

Business-critical application systems and access to business-relevant data are set up in such a way that, even in the event of individual failures, they are continually available thanks to redundant technical components, networks and sites.

Security guidelines are in place for the entire Merck Group that include appropriate organizational, technical and software-related precautions for access control, access rights, virus protection and data protection. The adherence to and efficacy of these measures are continuously monitored. A dedicated IT risk management process ensures that IT risks are systematically evaluated and appropriate measures taken.

Environmental and safety risks

Global adherence to high technical standards prevents potential damage, minimizes the potential effects of such damage, and thus ensures the continuity of plant and equipment. Merck updates these preventive measures regularly; the company systematically carries out internal health and environmental safety audits, and through checks it minimizes the risks to people and the environment.

Report on expected developments

Forecast of the development of the global economy in 2008 and 2009

The International Monetary Fund (IMF) expects global gross domestic product (GDP) to increase by 4.1% in 2008. However, many economic researchers point out that the value of the euro, the price of oil as well as the mortgage crisis in the United States make forecasts difficult. The OECD expects GDP in the United States to increase by 1.5% in 2008 and by 2.2% in 2009. According to these forecasts, Japan, which was not affected as strongly by the global economic dynamism of recent years, will see a slightly more restrained increase in GDP of 1.6% in 2008 and 1.8% in 2009. For China, the five leading German economic research institutes predict that GDP growth in 2008 will be somewhat slower than the previous 10%. The economic researchers expect growth of 8.4% in India. For Russia, they assume that GDP will rise by 6.5%.

Foreign trade will be one of the biggest strains on European development in 2008. The co-occurrence of a weaker global economy with a real effective appreciation of the euro by recently around 3% compared to 2006 is likely to result in the euro zone facing a dampening effect in 2008 after experiencing weak growth impetus from foreign trade in 2007. Despite these burdens, a rise in private consumption, which could gain dynamism in 2008, could help to avert an overall stoppage of growth in the euro zone. The OECD expects GDP growth of 1.6% in 2008 and 2.0% in 2009 for the euro zone.

For Germany, the top five German economic research institutes expect GDP to increase by 1.9% in 2008. Private consumption, or domestic demand, is expected to rise noticeably and to account for around half of economic expansion in 2008. Investment in machinery and equipment will also drive growth although the investment dynamism of recent years will clearly decline.

Expectations for Merck

The following forecasts take into account the company's assessment of opportunities and risks pursuant to the operational planning and the medium-term outlook of Merck. Merck does not forecast exchange rates for the stated planning calculations. Despite recent turbulent developments, the planning assumes a moderate development of energy and raw material prices as well as rising personnel costs.

In 2008, total revenues of Merck are expected to increase between 5% and 9%; the operating result should show double-digit growth.

Merck expects that in 2008, the increase in total revenues will range between 5% and 9%. The company expects double-digit growth in the operating result. Merck expects further increases in total revenues and the operating result in 2009 as well. Profit after tax from continuing operations, irrespective of potential exceptional items, will likewise improve during this period – also as a result of the revaluation of Serono's inventories within the scope of the purchase price allocation.

Following the divestment of the Generics division in 2007 and the repayment of loans, Merck expects debt to remain low and, consequently, a better financial result. Gearing is likely to remain at a low level. Free cash flow, adjusted for acquisitions and disposals, is expected to remain at a high level. Merck intends to further increase its investments in property, plant and equipment as well as research and development spending in 2008 and 2009.

Forecast for the Pharmaceuticals business sector

The market research institute IMS Health predicts that the global pharmaceutical market will grow by 5% to 6% in 2008 and account for a volume in the magnitude of US$ 735 billion to US$ 745 billion. According to the data, the U.S. pharmaceutical market as well as the markets of Germany, France, the United Kingdom, Italy and Spain – the so-called top five of Europe – are to grow by 4% to 5%. This would represent a historical low for the United States. For Japan, IMS Health predicts an increase of 1% to 2%. According to IMS forecasts, in 2011 oncology medicines will be the largest drug group in terms of sales. To date, they have ranked second following drugs to treat metabolic disorders.

For the Pharmaceuticals business sector, Merck expects total revenues to increase in a range between 7% and 11% and a high double-digit increase in the operating result in fiscal 2008. For 2009, the company expects further growth in total revenues and the operating result.

The Merck Serono division expects total revenues to increase in 2008 in a range between 7% and 11% and a high double-digit increase in the operating result. For 2009, the division expects further growth in both total revenues and the operating result. Merck intends to achieve a decisive competitive advantage by expanding its biotechnology business and combining this with its competence in chemistry. Merck will not only defend, but also sustainably expand its market position in biotechnology. The company will consolidate its position through targeted acquisitions and an active licensing policy. The budget for research and development will be around € 1 billion, equivalent to around 20% of total revenues. The division's development portfolio, which currently comprises more than 40 projects, focuses on Oncology, Neurodegenerative Diseases, Fertility, Autoimmune and Inflammatory Diseases, and certain areas of Endocrinology. Regionally, the focus is on expanding the businesses in the United States, Japan and China.

The business of the Consumer Health Care division will develop further organically and through acquisitions. For 2008, The division expects total revenues to show good organic growth in a range between 11% and 15% as well as the operating result to grow in the single-digit range. The Consumer Health Care division also expects to increase total revenues and the operating result in 2009. In its markets, Consumer Health Care is focusing on achieving higher brand recognition, primarily in Europe.

Forecast for the Chemicals business sector

The European chemical industry association CEFIC, which represents around 50% of all global chemical companies, expects production to increase by 2.3% in 2008, excluding the chemical production of drugs. Irrespective of basic material production for drugs, CEFIC predicts that all sectors of the chemical industry will see slowing growth, which will reflect the weakening of global economic activity. According to CEFIC data, specialty chemicals are expected to see growth of 2.8% in 2008. The German chemical industrial association VCI also assumes a similar growth dynamic and expects production in German chemical companies to increase by 2.5% in 2008.

With a portfolio of dynamically growing businesses in strongly expanding markets and stable business in mature market segments, the Chemicals business sector contributes substantially to balancing entrepreneurial risk. To better diversify risk, Merck wants to achieve above-average growth by developing innovation-driven business fields over the long term and by acquiring businesses that are complementary to existing customer relations or technology platforms. The Chemicals business sector thus expects total revenues to grow by 5% to 7% in 2008 with the earnings contribution remaining stable. The company assumes that total revenues and the operating result of the Chemicals business sector will improve further in 2009.

Merck plans to defend its leadership position in the growing liquid crystals market.

The Liquid Crystals division has been preparing for some time now to face increasing competition in the liquid crystals market, with the aim of maintaining a leading role over the long term. According to market researchers at DisplaySearch, the market for flat-screen televisions will see volumes of units sold to surpass the 100 million mark in 2008. Consequently, global sales of flat-screen televisions will exceed those of conventional cathode-ray tube televisions for the first time. The market researchers expect that LCD televisions will account for two-thirds of the overall television market by 2011. The division wants to play a similarly active role in new display technologies in order to translate its technological competence and customer expertise into new businesses. Merck therefore expects total revenues to grow in a range of 5% to 10% with return on sales of about 50% in 2008. The Liquid Crystals division expects both total revenues and the operating result to increase further in 2009.

The Performance & Life Science Chemicals division will continue, step by step, to focus on profitable sub-segments. Within these customer segments, the breadth of the Merck product range and customer-centric development are the success factors for the further profitable development of the business. Merck therefore expects total revenues to continue the positive trend of previous years with growth of approximately 5% in 2008. In addition, the company expects the operating result to increase markedly over the previous year. For 2009, the division also expects further growth in both total revenues and the operating result.

Dividend development

Changes to the long-term dividend policy are not planned. Based on the company's earnings expectations, the family of owners and Merck shareholders can again expect to receive an earnings-oriented dividend.

Subsequent events

There were no material events at Merck after the balance sheet date.

Corporate governance

Joint Report of the Executive Board and the Supervisory Board according to section 3.10 of the German Corporate Governance Code

The German Corporate Governance Code is geared exclusively toward the conditions at a German stock corporation (Aktiengesellschaft). Merck KGaA has therefore independently examined and decided how the Code can be applied logically to a partnership limited by shares (Kommanditgesellschaft auf Aktien) to serve the interests of shareholders.

In order to enable shareholders to compare the situation at other companies more easily, we have decided to base corporate governance on the conduct recommendations made by the Code Commission relating to management and supervision (governance) and to forego having our own, also permissible, code. With a few exceptions, the recommendations of the Code, the intent and meaning of which are applied, are complied with. To improve understanding, the following gives a general explanation of the KGaA company form followed by the specific situation at Merck.

Partnership limited by shares (Kommanditgesellschaft auf Aktien)

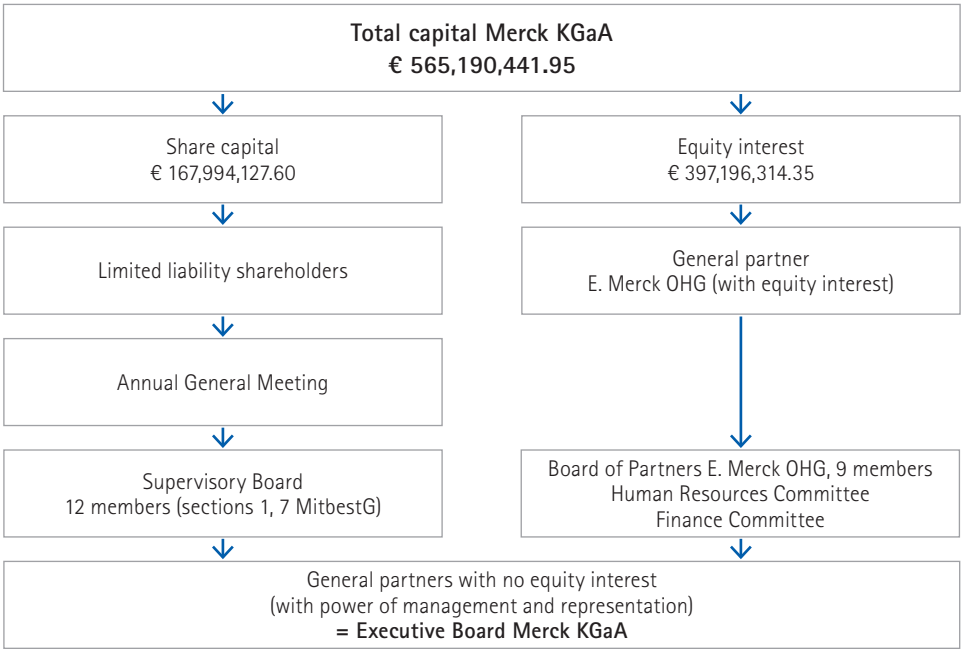
"The partnership limited by shares (Kommanditgesellschaft auf Aktien or KGaA) is a company with its own legal personality, at which at least one partner has unlimited liability for the company's creditors (general partner) and the others hold an interest in the share capital without any personal liability for the company's debts (limited liability shareholders)" (section 278 (1) of the German Stock Corporation Act (AktG)). It is therefore a hybrid of an Aktiengesellschaft (German Stock Corporation) and a Kommanditgesellschaft with a focus on stock corporation law. Distinctive differences to the Aktiengesellschaft include the presence of general partners, who essentially also manage the company's business activities, the absence of a management board and the restriction of rights and obligations of the supervisory board. In particular, the supervisory board is not responsible for appointing general partners or for regulating the terms and conditions of contracts, while at the Aktiengesellschaft it appoints the management board; at the KGaA, it also does not have the legal authority to issue rules of procedure for the executive board or a catalog of business transactions requiring approval. The KGaA also has some special features with regard to the Annual General Meeting; for example, many of the resolutions made require the approval of the general partners (section 285 (2) AktG), including the adoption of the annual financial statements (section 286 (1) AktG). A large number of the conduct recommendations contained in the Code, which is geared toward Aktiengesellschaften, can therefore only be applied to a KGaA as appropriate.

Merck KGaA

The general partner E. Merck OHG holds around 70% of the total equity of Merck KGaA (equity interest); the limited liability shareholders hold the remainder, which is divided into shares (share capital). E. Merck OHG is excluded from the management of business activities. The general partners with no equity interest (Executive Board), on the other hand, manage business activities. Nevertheless, due to its substantial capital investment and unlimited personal liability, E. Merck OHG is an influential authority with a strong interest in compliance with procedures and efficiency of business operations at Merck KGaA. Merck KGaA's participation in the profit/loss of E. Merck OHG in accordance with sections 26 et seq. of the Articles of Association provides for further harmonization of the interests of the limited liability shareholders and E. Merck OHG.

E. Merck OHG appoints and dismisses the Executive Board. In addition, E. Merck OHG has created bodies – complementing the expertise and activities of the Supervisory Board – to ensure that the Executive Board is monitored and advised. This applies primarily to the Board of Partners of E. Merck OHG. Based on the provisions of the German Stock Corporation Act, the Articles of Association of Merck KGaA and the rules of procedure of the various committees, Merck KGaA has a set of regulations for the Executive Board and its supervision that meet the requirements of the Code. The investors, who bear the entrepreneurial risk, are protected as foreseen by the Code.

This is illustrated in the following chart:



Deviations from the Corporate Governance Code:

1. Contrary to section 3.8 (2), the Directors & Officers ("D&O") liability insurance policy, which Merck KGaA maintains for its committee members, does not include a deductible. The company has dispensed with a deductible because D&O insurance policies with the required deductible are not actively offered by the insurance sector and the individual agreement on a deductible is not countered by a substantial reduction in the premium.
2. Contrary to section 4.2.4, the remuneration paid to the members of the Executive Board is not reported individually. As it is E. Merck OHG, not Merck KGaA and especially not its Supervisory Board, which has personal sovereignty over the members of the Executive Board and also largely pays for the compensation of the Executive Board members, the Company has chosen not to disclose such information.
3. Contrary to section 5.4.7 (1), sentence 3, membership of committees is not remunerated separately. In view of the limited number of tasks as compared with the duties of the Supervisory Board of a stock corporation, separate compensation for membership of committees would not be appropriate.
4. Contrary to section 5.4.7 (3), the remuneration paid to the members of the Supervisory Board is not reported individually. The amount of compensation received by the members of the Supervisory Board can be calculated in accordance with the Articles of Association of Merck KGaA, making a separate disclosure unnecessary.

Main features of the Executive Board compensation system
(Section 4.2.3 of the German Corporate Governance Code)

The compensation of the general partners, who comprise the Executive Board of Merck KGaA, is composed of salary payments (fixed portion), profit participation and additions to pension provisions. Profit participation is based on the rolling three-year average of profit after tax. Payments in fiscal 2007 were as follows: fixed salary € 3 million, profit sharing € 22 million.

Compensation of members of the Supervisory Board
(Section 5.4.7 of the German Corporate Governance Code)

Subject to the approval of the Annual General Meeting on the proposed distribution of € 1.20 dividend and a one-time bonus of € 2.00 per share, the compensation of the Supervisory Board in 2007 amounting to € 964 thousand consists of a fixed portion of € 95 thousand and a variable portion of € 869 thousand.

Ownership, purchase or sale of shares in the company by members of the Executive Board and the Supervisory Board

(Section 6.6 of the German Corporate Governance Code)

As of December 31, 2007, the members of the Executive Board and the Supervisory Board held 32,275 shares. Their total ownership represents less than 1% of the issued shares of Merck KGaA.

Information on reportable transactions by members of the Executive Board and the Supervisory Board during fiscal 2007 pursuant to Section 15a of the German Securities Trading Act can be found on the Merck Web site at www.investors.merck.de under Corporate Governance -> “Reportable securities transactions”.

Board of Partners of E. Merck OHG

Dr. Frank Stangenberg-Haverkamp (Chairman)
Jon Baumhauer (Vice Chairman) | Karl-Heinrich Kraft
Prof. Dr. Dr. h.c. Rolf Krebs | Albrecht Merck | Dr. Arend Oetker
Dr. Norbert Schweickert | Prof. Dr. Theo Siegert | Prof. Dr. Wilhelm Simson

Report of the Supervisory Board

During fiscal 2007, the Executive Board provided the Supervisory Board with regular written and verbal reports on the business development of Merck KGaA and the Merck Group. In particular, the Supervisory Board was informed about the market and sales situation of the company against the background of macroeconomic developments, the financial position of the company and its subsidiaries, as well as their earnings development and corporate planning. The major business policy transactions were also discussed in five joint meetings with the Executive Board, specifically the integration of Serono S.A., the capital increase of 2007 and the divestment of the Generics business. The Supervisory Board had formed an ad hoc committee "Capital Increase 2007", which fulfilled its task with the completion of the capital increase. No permanent Supervisory Board committees have been set up.

The annual financial statements of Merck KGaA, the consolidated financial statements of the Merck Group and the management reports for Merck KGaA and the Merck Group, including the accounts, were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The auditors issued an unqualified audit opinion on the annual financial statements and management report for Merck KGaA in accordance with German Auditing Standards. For the consolidated financial statements prepared in accordance with International Financial Reporting Standards, the auditors issued the auditor's report, reproduced in the Annual Report of the Merck Group, in accordance with the International Standards on Auditing (ISA) as well as German Auditing Standards. In addition, the auditors audited the calculation of Merck KGaA's participation in the profits of E. Merck OHG in accordance with Art. 27 (3) of the Articles of Association. The annual financial statements of Merck KGaA, the consolidated financial statements of the Merck Group, the management reports for Merck KGaA and the Merck Group, and the proposal by the Executive Board for the appropriation of net retained profits were presented and distributed to the Supervisory Board, together with the auditor's reports.

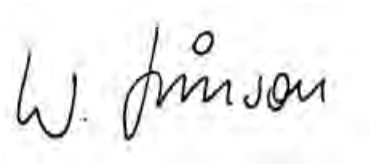
In accordance with Art. 14 (2) of the Articles of Association, the Supervisory Board also examined the annual financial statements of Merck KGaA and the management report for Merck KGaA, the proposal for the appropriation of net retained profits and the auditor's report presented in accordance with Art. 27 (3) of the Articles of Association. It also examined the consolidated financial statements of the Merck Group, the management report for the Merck Group, and took note of the auditor's report of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

The discussion of the relevant agenda item at the Supervisory Board's meeting on February 15, 2008 to approve the financial statements was also attended by the auditors signing the audit opinion on the annual financial statements of Merck KGaA and the consolidated financial statements of the Merck Group, who reported on their audit.

The Supervisory Board took note of and approved the results of the audit. On completion of its examination, the Supervisory Board found no objections and thus approves the annual financial statements and management report for Merck KGaA, the consolidated financial statements of the Merck Group and the management report for the Merck Group prepared by the Executive Board, as well as the report presented by the auditors in accordance with Art. 27 (3) of the Articles of Association. The Supervisory Board gives its consent to the proposal for the appropriation of net retained profits.

Mr. Flavio Battisti, who was an employee representative member and Vice Chairman of the Supervisory Board of Merck KGaA since its establishment, i.e. since 1995, left the Supervisory Board upon his retirement on November 30, 2007. The general partner E. Merck OHG, the Supervisory Board and the Executive Board expressed their thanks to Mr. Battisti. Despite his critical distance, Mr. Battisti both positively and successfully supported the development of the company with advice and assistance. He was succeeded by Mr. Heiner Wilhelm.

Darmstadt, February 15, 2008
The Supervisory Board of Merck KGaA



Prof. Dr. Wilhelm Simson
Chairman

Supervisory Board of Merck KGaA

Prof. Dr. Wilhelm Simson, Chairman
Jon Baumhauer | Klaus Brauer* | Dr. Daniele Bruns*
Claudia Flauaus* | Michael Fletterich* | Prof. Dr. Dr. h.c. Rolf Krebs
Albrecht Merck | Dr. Arend Oetker | Prof. Dr. Theo Siegert
Osman Ulusoy* | Heiner Wilhelm*

*Employee representative

Consolidated Financial Statements of the Merck Group

Income Statement

Notes to the Income Statement: see page 99

€ million	Note	2007	2006*
Sales	[1]	**6,775.1**	**4,440.1**
Royalty income	[2]	282.0	19.5
Total revenues		**7,057.1**	**4,459.6**
Cost of sales	[3]	–1,779.8	–1,567.3
Gross margin		**5,277.3**	**2,892.3**
Marketing and selling expenses	[4]	–1,932.7	–1,117.3
Administration expenses	[5]	–444.7	–298.6
Other operating income and expenses	[6]	–339.8	–50.2
Research and development	[7]	–1,027.7	–615.4
Amortization of intangible assets	[8]	–556.7	–12.0
Investment result	[9]	0.3	–0.2
Operating result		**976.0**	**798.6**
Exceptional items	[10]	–775.6	232.6
Earnings before interest and tax (EBIT)		**200.4**	**1,031.2**
Financial result	[11]	–311.3	–49.0
Profit before tax		**–110.9**	**982.2**
Income tax	[12]	23.1	–175.8
Profit after tax from continuing operations		**–87.8**	**806.4**
Profit after tax from discontinued operations	[13]	3,608.0	194.9
Profit after tax		**3,520.2**	**1,001.3**
Minority interest	[14]	–20.1	–18.2
Net profit after minority interest		**3,500.1**	**983.1**
Earnings per share from continuing operations (in €)	[15]		
basic		–0.50	4.06
diluted		–0.50	4.06
Earnings per share from continuing and discontinued operations (in €)			
basic		16.21	5.07
diluted		16.21	5.07

*The previous year's figures have been adjusted in accordance with the explanations on pages 88 and 91

Balance Sheet

Notes to the Balance Sheet: see page 107

€ million	Note	Dec. 31, 2007	Dec. 31, 2006
Current assets			
Cash and cash equivalents	[16]	426.6	460.1
Marketable securities and financial assets	[17]	565.3	133.1
Trade accounts receivable	[18]	1,378.3	1,252.9
Inventories	[19]	1,158.5	1,218.3
Other current assets	[20]	226.4	172.1
Tax receivables	[21]	43.5	77.5
Assets held for sale	[22]	26.9	–
		3,825.5	**3,314.0**
Non-current assets			
Intangible assets	[23]	8,164.6	1,063.5
Property, plant and equipment	[24]	2,274.5	1,779.8
Investments at equity	[25]	1.4	1.3
Non-current financial assets	[25]	130.3	1,640.4
Other non-current financial assets	[20]	61.8	34.4
Deferred tax assets	[12]	464.2	269.1
		11,096.8	**4,788.5**
Total assets		**14,922.3**	**8,102.5**
Current liabilities			
Current financial liabilities	[26]	300.4	498.4
Trade accounts payable	[27]	646.9	608.0
Other current liabilities	[28]	981.3	552.3
Tax liabilities	[29]	337.1	205.5
Current provisions	[30]	297.0	201.0
Liabilities held for sale	[22]	8.0	–
		2,570.7	**2,065.2**
Non-current liabilities			
Non-current financial liabilities	[26]	1,046.6	613.6
Other non-current liabilities	[28]	39.5	7.3
Non-current provisions	[30]	570.0	284.6
Provisions for pensions and other post-employment benefits	[31]	1,185.5	1,282.3
Deferred tax liabilities	[12]	822.4	42.1
		3,664.0	**2,229.9**
Net equity	[32]		
Equity capital		565.2	496.6
Reserves		8,060.5	3,256.7
Minority interest		61.9	54.1
		8,687.6	**3,807.4**
Total liabilities and stockholders' equity		**14,922.3**	**8,102.5**

Segment Reporting*

Notes to the Segment Reporting: see page 131

	Merck Serono		Consumer Health Care		Pharmaceuticals		Liquid Crystals		Performance & Life Science Chemicals	
€ million	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Sales	4,187.0	1,902.4	418.2	398.3	4,605.2	2,300.7	909.4	892.4	1,231.3	1,213.3
Royalty income	270.7	12.0	1.5	1.5	272.2	13.5	6.3	2.6	3.5	3.4
Total revenues	4,457.7	1,914.4	419.7	399.8	4,877.4	2,314.2	915.7	895.0	1,234.8	1,216.7
Gross margin	3,764.7	1,420.6	283.7	263.9	4,048.4	1,684.5	611.3	592.0	615.1	612.9
Selling, general and administration	–1,980.9	–781.8	–210.0	–197.2	–2,190.9	–979.0	–42.5	–35.8	–409.9	–388.9
Research and development	–878.6	–471.5	–12.0	–10.4	–890.6	–481.9	–78.8	–66.7	–58.3	–66.7
Operating result	356.9	162.9	59.6	54.5	416.5	217.4	486.6	486.1	144.4	155.4
Exceptional items	–743.6	–21.9	–	–	–743.6	–21.9	–	–	–	–34.5
Earnings before interest and tax (EBIT)	–386.7	141.0	59.6	54.5	–327.1	195.5	486.6	486.1	144.4	120.9
Net operating assets	9,884.8	2,841.5	281.0	276.0	10,165.8	3,117.5	915.1	897.2	1,053.0	1,073.4
Segment liabilities	–799.0	–272.3	–54.5	–55.0	–853.5	–327.3	–90.0	–96.2	–176.9	–178.0
Capital spending on property, plant and equipment	147.6	69.9	6.1	4.5	153.7	74.4	48.6	72.8	57.9	68.8
Investments in intangible assets	91.7	38.5	0.8	1.0	92.5	39.5	1.5	0.6	7.5	2.9
Net cash flows from operating activities	875.9	147.5	50.9	59.3	926.8	206.8	474.0	421.1	181.1	221.4
Net cash flows from investing activities	–7,381.0	–1,672.4	–4.0	–0.6	–7,385.0	–1,673.0	–49.2	–49.2	–49.3	–88.9
Free cash flow	–6,505.1	–1,524.9	46.9	58.7	–6,458.2	–1,466.2	424.8	371.9	131.8	132.5
Impairment losses	–100.2	–12.9	–	–0.3	–100.2	–13.2	–0.2	–0.3	–8.9	–33.7

	Germany		France		Switzerland		Rest of Europe	
€ million	2007	2006	2007	2006	2007	2006	2007	2006
Sales by customer location	711.2	486.9	737.8	577.6	75.7	46.0	1,797.2	1,013.3
Sales by company	1,050.5	813.5	847.9	670.3	184.3	56.7	1,495.9	788.5
Total revenues	1,061.7	821.6	854.5	677.9	382.0	60.0	1,496.0	788.5
Intragroup sales with other regions	1,444.5	1,310.9	115.5	105.0	1,875.6	53.4	820.6	31.4
Operating result	483.5	345.3	174.2	105.9	–1,002.8	34.2	551.6	116.1
Exceptional items	–32.0	335.9	1.9	–6.0	–734.0	–	–11.5	–4.4
Earnings before interest and tax (EBIT)	451.5	681.2	176.1	99.9	–1,736.8	34.2	540.1	111.7
Net operating assets	2,027.6	3,215.8	559.0	452.6	6,939.9	47.4	975.0	404.9
Capital spending on property, plant and equipment	128.9	138.0	13.9	8.4	43.9	5.1	25.8	8.9
Investments in intangible assets	36.0	35.7	–	3.5	43.6	–	5.8	1.3
Research and development	–445.6	–371.4	–92.3	–122.9	–476.2	–3.0	–24.2	–18.8
Number of employees	10,142	9,707	2,415	2,323	1,812	296	4,561	3,195

*The previous year's figures have been adjusted in accordance with the explanations on page 88

Chemicals		Corporate and Other		Discontinued Operations (Generics)		Reversal Discontinued Operations (Generics)		Group/ Continuing Operations	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
2,140.7	2,105.7	29.2	33.7	1,391.8	1,818.5	–1,391.8	–1,818.5	6,775.1	4,440.1
9.8	6.0	–	–	2.7	5.5	–2.7	–5.5	282.0	19.5
2,150.5	2,111.7	29.2	33.7	1,394.5	1,824.0	–1,394.5	–1,824.0	7,057.1	4,459.6
1,226.4	1,204.9	2.5	2.9	656.8	899.1	–656.8	–899.1	5,277.3	2,892.3
–452.4	–424.7	–73.8	–62.4	–364.6	–449.5	364.6	449.5	–2,717.1	–1,466.1
–137.1	–133.4	–	–0.1	–95.3	–132.1	95.3	132.1	–1,027.7	–615.4
631.0	641.5	–71.5	–60.3	188.7	306.8	–188.7	–306.8	976.0	798.6
–	–34.5	–32.0	289.0	3,561.5	–13.2	–3,561.5	13.2	–775.6	232.6
631.0	607.0	–103.5	228.7	3,750.2	293.6	–3,750.2	–293.6	200.4	1,031.2
1,968.1	1,970.6	46.0	34.0	19.4	1,042.3	–19.4	–1,042.3	12,179.9	5,122.1
–266.9	–274.2	–7.6	–5.9	–7.5	–332.1	7.5	332.1	–1,128.0	–607.4
106.5	141.6	3.1	3.5	19.5	33.7	–19.5	–33.7	263.3	219.5
9.0	3.5	0.1	0.1	19.5	13.5	–19.5	–13.5	101.6	43.1
655.1	642.5	–400.5	–236.5	36.9	198.9	–36.9	–198.9	1,181.4	612.8
–98.5	–138.1	–41.9	425.9	4,797.9	–76.5	–4,797.9	76.5	–7,525.4	–1,385.2
556.6	504.4	–406.3	–234.0	4,834.8	122.4	–4,834.8	–122.4	–6,307.9	–1,195.8
–9.1	34.0	–	–0.3	–	–	–	–	–109.3	–47.5

North America		Latin America		Asia		Rest of World		Group	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
968.2	287.4	699.8	507.5	1,604.5	1,403.6	180.7	117.8	6,775.1	4,440.1
935.8	253.6	690.9	493.4	1,456.9	1,288.0	112.9	76.1	6,775.1	4,440.1
937.1	254.1	690.7	493.4	1,522.2	1,288.0	112.9	76.1	7,057.1	4,459.6
36.1	37.9	3.3	3.9	36.0	36.2	–	–	4,331.6	1,578.7
344.5	–75.7	169.7	85.7	226.8	180.1	28.5	7.0	976.0	798.6
–	–92.9	–	–	–	–	–	–	–775.6	232.6
344.5	–168.6	169.7	85.7	226.8	180.1	28.5	7.0	200.4	1,031.2
532.8	307.0	285.2	193.3	813.0	475.3	47.4	25.8	12,179.9	5,122.1
12.9	14.4	10.3	10.0	26.4	34.1	1.2	0.6	263.3	219.5
9.2	0.2	5.2	1.5	1.8	0.9	–	–	101.6	43.1
32.1	–74.7	–3.6	–4.5	–15.9	–19.6	–2.0	–0.5	–1,027.7	–615.4
2,034	1,218	4,054	3,767	5,325	4,611	625	414	30,968	25,531

Cash Flow Statement

Notes to the Cash Flow Statement: see page 132

€ million	Note	2007	2006
Profit after tax		**3,520.2**	**1,001.3**
Depreciation/amortization and impairment losses (non-current assets)		923.6	303.0
Changes in inventories		–170.5	–139.5
Changes in trade receivables		–152.6	–152.5
Changes in trade payables		131.2	17.4
Changes in provisions		53.2	132.4
Changes in other assets and liabilities		–330.2	53.7
Gains/Losses on disposals of assets		–3,481.3	–403.7
Other non-cash income and expenses		724.7	–0.4
Net cash flows from operating activities	[33]	**1,218.3**	**811.7**
thereof: Discontinued Operations		36.9	198.9
Purchase of intangible assets		–121.1	–56.6
Purchase of property, plant and equipment		–282.8	–253.2
Acquisitions and investments in other financial assets		–7,318.0	–1,651.1
Disposal of non-current assets		4,995.8	72.1
Changes in securities		34.7	3.7
Changes in other financial assets		–36.1	423.4
Net cash flows from investing activities	[34]	**–2,727.5**	**–1,461.7**
thereof: Discontinued Operations		4,797.9	–76.5
Dividend payments		–77.0	–49.7
Capital increase		2,038.4	2.4
Profit transfers to E. Merck OHG and changes in reserves		–535.8	–229.4
Changes in liabilities to E. Merck OHG		396.4	–146.1
Bonds issued		497.9	–
Changes in current and non-current financial liabilities		–827.1	227.3
Other changes from financing activities		–	–
Net cash flows from financing activities	[35]	**1,492.8**	**–195.5**
thereof: Discontinued Operations		–7.8	–4.6
Changes in cash and cash equivalents		**–16.4**	**–845.5**
Changes in cash and cash equivalents due to currency translation		–17.1	–16.1
Cash and cash equivalents as of January 1		460.1	1,321.7
Cash and cash equivalents as of December 31	[36]	**426.6**	**460.1**

Free Cash Flow

€ million	Note	2007	2006
Net cash flows from operating activities		**1,218.3**	**811.7**
Purchase of intangible assets		–121.1	–56.6
Purchase of property, plant and equipment		–282.8	–253.2
Acquisitions and investments in other financial assets		–7,318.0	–1,651.1
Disposal of assets		4,995.8	72.1
Changes in securities		34.7	3.7
Free cash flow	[37]	**–1,473.1**	**–1,073.4**
Free cash flow before acquisitions and divestments		**977.7**	**576.6**

Statement of Recognized Income and Expense

€ million	Note	2007		2006	
Profit after tax			**3,520.2**		**1,001.3**
Gains/Losses recognized immediately in equity					
Unrealized gains/losses from the fair value measurement of financial instruments	[32]	71.4		–91.8	
Actuarial gains/losses from defined benefit pension commitments and similar obligations	[31]	102.4		–24.8	
Deferred taxes on gains/losses recognized immediately in equity	[12]	–30.8		7.9	
Currency translation difference		–205.8	–62.8	–128.6	–237.3
Comprehensive income			**3,457.4**		**764.0**
of which attributable to minority interest			20.1		18.2
of which attributable to shareholders of the Group			3,437.3		745.8

Statement of Changes in Net Equity including Minority Interest

	Equity capital		Reserves				
€ million	General partner's equity Merck KGaA	Subscribed capital Merck KGaA	Capital reserves (share premium) Merck KGaA	Retained earnings/ Net retained profit	Gains/losses recognized immediately in equity	Minority interest	Total
Balance as of January 1, 2006	**363.2**	**133.2**	**1,823.9**	**1,306.8**	**–350.4**	**52.4**	**3,329.1**
Profit after tax	–	–	–	983.1	–	18.2	1,001.3
Dividend payments	–	–	–	–43.6	–	–6.1	–49.7
Profit transfers to/from E. Merck OHG including transfers to reserves	–	–	–	–229.4	–	–	–229.4
Capital increase due to the exercise of stock options	–	0.2	2.2	–	–	–	2.4
Other changes in equity	–	–	–	–	–237.3	–	–237.3
Changes in companies consolidated/Other	–	–	–	1.4	–	–10.4	–9.0
Balance as of December 31, 2006	**363.2**	**133.4**	**1,826.1**	**2,018.3**	**–587.7**	**54.1**	**3,807.4**
Balance as of January 1, 2007	**363.2**	**133.4**	**1,826.1**	**2,018.3**	**–587.7**	**54.1**	**3,807.4**
Profit after tax	–	–	–	3,500.1	–	20.1	3,520.2
Dividend payments	–	–	–	–67.8	–	–9.2	–77.0
Profit transfers to/from E. Merck OHG including transfers to reserves	–	–	–	–535.8	–	–	–535.8
Capital increase due to the exercise of stock options	–	0.1	0.6	–	–	–	0.7
Capital increase	34.0	34.5	1,986.8	–17.6	–	–	2,037.7
Other changes in equity	–	–	–	–	–62.8	–	–62.8
Changes in companies consolidated/Other	–	–	–	0.3	–	–3.1	–2.8
Balance as of December 31, 2007	**397.2**	**168.0**	**3,813.5**	**4,897.5**	**–650.5**	**61.9**	**8,687.6**

Notes

Preliminary remarks

The accompanying consolidated financial statements have been prepared with Merck KGaA – 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 OHG, the general partner of Merck KGaA with an equity interest of 70.3% as of December 31, 2007. 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.unternehmensregister.de.

Application of International Financial Reporting Standards (IFRS)

The consolidated financial statements of the Merck Group – with Merck KGaA as parent company – have been prepared in accordance with consistent accounting policies. Pursuant to Section 315a HGB (German Commcercial Code), 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 International Financial Reporting Interpretations Committee (IFRIC) have been applied.

The following standards and amendments to standards were effective for the first time in fiscal 2007: Amendment to IAS 1 “Presentation of Financial Statements: Capital Disclosures” and IFRS 7 “Financial Instruments: Disclosures”.

The following interpretations were also effective for the first time: IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies”, IFRIC 8 “Scope of IFRS 2”, IFRIC 9 “Reassessment of Embedded Derivatives” and IFRIC 10 “Interim Financial Reporting and Impairment”.

Neither the new nor the amended rules had any material effects on the consolidated financial statements of the Merck Group. IFRS 7 “Financial Instruments: Disclosures” and the Amendment to IAS 1 “Presentation of Financial Statements: Capital Disclosures” are reflected in additional disclosures in the notes.

The following interpretation takes effect as of fiscal 2008: IFRIC 11 “IFRS 2: Group and Treasury Share Transactions”. We do not expect the new rule to have an impact on the consolidated financial statements.

The following interpretation will take effect as of fiscal 2009: IFRS 8 “Operating Segments”. We expect that adjustments to the disclosures in the Notes will be necessary.

In addition, the following amendments to standards were published by the International Accounting Standards Board (IASB) and the following interpretations published by the International Financial Reporting Interpretations Committee (IFRIC), but not yet adopted by the EU: Amendment to IAS 1 “Presentation of Financial Statements: A Revised Presentation”, Amendment to IAS 23 “Borrowing Costs”, IFRIC 12 “Service Concession Arrangements”, IFRIC 13 “Customer Loyalty Programmes” and IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction“. We do not expect the new standards to have any material effects on the consolidated financial statements. As of fiscal 2009, the Amendment to IAS 23 is likely to result in increased capitalization of borrowing costs related to the acquisition, construction and production of a qualifying asset compared with current treatment. This is because the option to expense borrowing costs attributable to the acquisition, construction or production of such an asset as incurred will no longer exist.

Changes in the reporting structure

Since 2007, royalty income is no longer shown on a separate line above the operating result. Instead, it is reported under total revenues along with sales. This presentation has been selected since patent and license income is a common form of revenue in the pharmaceutical industry and with the acquisition of Serono, the significance of these amounts is greater to Merck than in the past. The previous year's presentation has been made comparable and key figures have been adjusted accordingly.

Additional amortization of intangible assets resulting from the Serono purchase price allocation will strongly impact the future results of Merck. In order to increase the transparency of the income statement, as of 2007 the amortization of intangible assets is presented on a separate line above the operating result. This item primarily comprises amortization in connection with the allocation of the Serono purchase price, but also to a lesser extent amortization of other intangible assets. This item does not take into consideration amortization of software, which is still included under operating expenses and is of secondary importance overall. The change lowered the marketing and selling expenses reported in 2006 by € 8.0 million. Of this amount, € 3.8 million related to the Merck Serono division, € 1.8 million to the Consumer Health Care division, € 0.2 million to the Liquid Crystals division, € 1.8 million to the Performance & Life Science Chemicals division and € 0.4 million to the segment Corporate and Other. For the same reason, research and development costs decreased by € 4.0 million. Of this amount, € 0.7 million relates to the Merck Serono division and € 3.3 million to the Liquid Crystals division.

Since 2007, we report inventory write-downs, which were previously included under other operating expenses, as a component of cost of sales. The adjustment was made in order to improve the informative value of the income statement and to permit a causal allocation of the costs to the relevant functions. The previous year's figures are presented accordingly on a comparable basis. As a result of these changes, the cost of sales reported in 2006 increased by € 56.4 million. Of this amount, € 17.6 million related to the Merck Serono division, € 2.5 million to the Consumer Health Care division, € 23.0 million to the Liquid Crystals division, € 12.6 million to the Performance & Life Science Chemicals division and € 0.7 million to the segment Corporate and Other. By contrast, other operating expenses declined.

Previously, the financial result was allocated to the divisions. As of this year, we disclose the financial result in full in the segment Corporate and Other since it is no longer possible to allocate the financial result to the individual divisions subsequent to the acquisition of Serono and the disposal of the Generics business. In accordance with these structural changes, the previous year's presentation has been made comparable. As a result of this change, the free cash flow reported in 2006 for the Merck Serono and Consumer Health Care divisions increased by € 25.7 million and € 11.2 million, respectively, as did that of Generics, a discontinued operation, by € 9.2 million. The free cash flow reported in 2006 for the Liquid Crystals and Performance & Life Science Chemicals divisions declined by € 4.6 million and € 11.6 million, respectively, as did that of the segment Corporate and Other by € 29.9 million.

Companies consolidated

Including the parent company Merck KGaA, Darmstadt, 192 companies are fully consolidated in the annual financial statements of the Merck Group. One associate is included using the equity method. 37 investments are not consolidated due to secondary importance and a further 29 investments are not consolidated due to the absence of control and are presented under non-current financial assets. In fiscal 2007, 64 companies were included in the consolidated financial statements for the first time, primarily as a result of the acquisition of Serono, and 48 companies were deconsolidated, mainly as a result of the disposal of Generics.

Acquisitions

With the closing of the share purchase agreement on January 5, 2007, Merck acquired from the Bertarelli family the majority of the shares and voting rights of the Swiss pharmaceutical and biotechnology company Serono S.A., Coinsins, Switzerland, and renamed it “Laboratoires Serono S.A.“. Additional shares were acquired through a public tender offer under Swiss law that ran until February 22, 2007, as well as on the stock market. A squeeze-out to aquire the remaining shares was successfully completed on July 6, 2007, with the ruling issued by the Civil Court of the City of Basel. The delisting of Merck Serono shares from the SWX Swiss Exchange of Merck Serono shares took place on July 18, 2007. The acquisition of 100% of the Serono shares involved cash payments of € 10,271 million. In addition, the net assets of the holding company Bertarelli Biotech S.A. (now: “Merck Serono S.A.“) were acquired from the Bertarelli family for € 571 million. The holding company had liquid assets amounting to roughly the same amount.

The acquired assets, liabilities and contingent liabilities have been recognized at fair values in the balance sheet and are as follows:

€ million	Pre-acquisition book-values	Adjustment	Fair value
Cash and cash equivalents, marketable securities, financial assets	2,255	–	2,255
Inventories	197	734	931
Other current assets	498	–4	494
Goodwill	59	1,280	1,339
Other intangible assets	183	6,819	7,002
Property, plant and equipment	661	112	773
Other non-current assets	639	–15	624
Current financial liabilities	–590	–	–590
Other current liabilities	–548	–45	–593
Non-current financial liabilities	–21	–	–21
Provisions for pensions and other post-employment benefits	–41	34	–7
Other non-current liabilities	–257	–1,124	–1,381
Net assets	**3,035**	**7,791**	**10,826**
Purchase price Bertarelli Biotech			–571
Exchange differences and other			16
Net assets acquired			**10,271**

Cash and cash equivalents include around € 106 million from the exercise of stock options.

The most significant impact of the purchase price allocation on the balance sheet and the income statement results from the fair value measurement of intangible assets and the revaluation of inventories: Intangible assets mainly comprise technologies and know-how, license, in-process research as well as trademarks and brands. Amortization is presented separately in the income statement before the operating result. In addition, the fair value measurement of Serono's inventories resulted in an increase of € 734 million. This amount is fully expensed in the income statement in 2007 in accordance with the assumed stock turnover time. Due to the non-recurring nature and size of this amount, we disclose it under exceptional items. The write-up of intangible assets and inventories in particular has resulted in deferred tax liabilities that account for the vast majority of the adjustment of € 1,124 million reported under other non-current liabilities. The remaining difference between the purchase price and fair value has been recognized as goodwill. It primarily included the value of expected synergies, unmeasured early-stage in-process research, and the workforce. Synergies are expected primarily in R&D, purchasing, consolidation of local subsidiaries and IT infrastructure. The changes made in the fourth quarter of 2007 to the preliminary purchase price allocation relate mainly to the measurement of intangible assets, as well as provisions and the related deferred taxes. The changes were made on the basis of detailed information on individual product lines and legal disputes.

The impact on the operating result of the inclusion of Serono was € 151.0 million in 2007. In addition, restructuring and integration costs amounting to € 153.6 million were incurred.

Disposals/Discontinued operations

On May 13, 2007, Merck and Mylan Inc., Canonsburg, PA (USA), entered into an agreement concerning the sale of the Generics business. The business was transferred to the acquirer with the closing on October 2, 2007.

The gain on the disposal pursuant to this agreement is combined with the result of this activity in accordance with IFRS 5 up until the closing date under profit/loss from discontinued operations.

The presentation of the previous year's figures in the income statement and the segment reporting was adjusted accordingly.

Within the scope of the agreement, an option to purchase the Generics business remaining with the Merck Group after the transfer was granted to Mylan Inc. This option was already reflected in the purchase price. This remaining part of the Generics division is likewise reported as a discontinued operation within the meaning of IFRS 5. The relevant assets and liabilities are classified and reported as "held for sale".

The reported profit/loss from discontinued operations comprises the following:

€ million	2007	2006
Total revenues	1,394.5	1,824.0
Cost of sales	–737.7	–924.9
Marketing and selling expenses	–271.9	–339.6
Administration expenses	–66.0	–88.1
Other operating income and expenses	–34.9	–32.4
Research and development costs	–95.3	–132.2
Operating result	**188.7**	**306.8**
Exceptional items	3,561.5	–13.2
Earnings before interest and tax (EBIT)	**3,750.2**	**293.6**
Financial result	10.1	–2.4
Profit before tax	**3,760.3**	**291.2**
Taxes on income	–168.3	–96.3
Profit after tax	**3,592.0**	**194.9**
Reversal of depreciation in accordance with IFRS 5	16.0	–
Profit after tax in accordance with IFRS 5	**3,608.0**	**194.9**
thereof:		
Profit before tax of current business	207.2	291.2
Taxes on income	–70.1	–96.3
Profit after tax of current business	**137.1**	**194.9**
Gain on disposal before tax	3,569.1	–
Taxes on income	–98.2	–
Gain on disposal after tax	**3,470.9**	**–**

The following consolidated assets and liabilities were disposed of within the scope of the sale:

€ million	
Cash and cash equivalents	98.0
Inventories	349.5
Other current assets	441.0
Goodwill	357.4
Other intangible assets	65.7
Property, plant and equipment	212.3
Other non-current assets	91.2
Assets	**1,615.1**
Current liabilities	492.1
Non-current liabilities	141.0
Equity and liabilities	**633.1**

Assets and liabilities held for sale within the scope of the purchase option granted to Mylan Inc. are as follows:

€ million	Dec. 31, 2007
Inventories	11.3
Receivables and other assets	15.6
Assets held for sale	**26.9**
Liabilities	7.4
Provisions	0.6
Liabilities held for sale	**8.0**

Accounting policies

The preparation of the consolidated financial statements in accordance with IFRS requires the use of estimates when reporting and measuring assets and liabilities. These are reviewed on an ongoing basis. Changes are prospectively recorded in the reporting period or in future periods. Assumptions and estimates are made in particular in connection with the measurement of intangible assets (primarily resulting from the Serono purchase price allocation) and provisions. The measurement of intangible assets is based mainly on management's forecasts. If these do not prove to be accurate, this may give rise to the need for write-downs, which could materially impact the consolidated result. The material assumptions and parameters for the estimates made are disclosed in the Notes.

Consolidation methods

The consolidated financial statements are based on the single-entity financial statements of the consolidated companies as of December 31, 2007, which were prepared applying consistent accounting polices in accordance with IFRS and audited by independent auditors.

Acquisitions are accounted for using the purchase method in accordance with IFRS 3. Subsidiaries consolidated for the first time in the reporting period are measured at the carrying values at the time of acquisition on the basis of corresponding annual and interim financial statements. Resulting differences 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 difference is recognized as goodwill within intangible assets, and is subjected to a regular impairment test.

Intragroup sales, expenses and income, as well as all receivables and payables between the consolidated companies, were eliminated. The carrying value of assets from intragroup deliveries reported under non-current assets and inventories was adjusted by eliminating any intragroup profits.

Currency translation

In accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates), assets and liabilities are translated at the closing rate, and income and expenses are translated at weighted average annual rates to euros, the reporting currency. If Group companies are deconsolidated, existing currency differences are reversed and recognized in income.

The functional currency concept applies to the translation of financial statements of consolidated companies prepared in foreign currencies. The majority of the Merck Group companies conduct their operations independently. The functional currency of these companies is the respective local currency. Business transactions that are conducted in currencies other than the local 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 single-entity financial statements of the consolidated companies prepared in the local 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 cases of IAS 21.15, 21.15A and 21.33 (Net investment in a foreign operation). Hedged items are likewise carried at the closing rate in accordance with IAS 21. The resulting gains or losses are eliminated in the income statement against offsetting amounts from the fair value measurement of derivatives. Non-monetary items denominated in foreign currencies are carried at historical cost.

Goodwill in the context of foreign entities is translated at the closing rate. In accordance with the transitional provisions, goodwill arising prior to the date of first application of IFRS 3 (March 31, 2004) continues to be stated in euros, the reporting currency of the Group.

Recognition of sales and other revenue

Sales are recognized net of rebates, discounts and returns as well as related taxes. They are deemed realized once the goods are delivered, the services have been rendered or the material opportunities and risks of ownership have been transferred. In addition, payment must be sufficiently probable. Sales also include revenue from services, but the volume involved is insignificant. Interest revenue is recognized on a time-proportionate basis using the effective rate method. Compensation for use of assets by others and license royalties are recognized either immediately or on an accruals basis, depending on the substance of the relevant agreements. Dividend revenue is recognized when the shareholders' right to receive the dividend is established. This is normally the date of the dividend resolution.

Research and development

The breakdown of research and development by divisions and regions is presented under "Segment Reporting". In addition to the costs of research departments and process development, this item also includes the cost of purchased services and the cost of clinical trials. The costs of research and development are expensed in full in the period in which they are incurred. Development expenses in the Pharmaceuticals business sector cannot be capitalized since the high level of risk up to the time that pharmaceutical products are marketed means that the requirements of IAS 38 are not satisfied in full. Costs incurred after regulatory approval are insignificant. In the same way, the risks involved until products are marketed means that development expenses in the Chemicals business sector cannot 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 achievements of certain milestones. With respect to this situation, an assessment is required as to whether these upfront or milestone payments represent ongoing research and development expense or whether the payments represent the acquisition of a right which has to be capitalized. Reimbursements for R&D are offset against research and development costs.

Cash and cash equivalents

Cash and cash equivalents include cash and monetary deposits with a maturity of normally 90 days from the date of acquisition.

Receivables and other assets

Receivables and other assets are carried at amortized cost. Insofar as not covered by insurance, default risks are covered by write-downs. Non-interest-bearing or low-interest non-current receivables are carried at their present value. Derivative financial assets are carried at fair value (see also "Financial Instruments").

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, including an appropriate share of depreciation charges on production facilities, which are determined on the basis of normal capacity utilization of the production facilities. Financing costs are not included.

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

Intangible assets

Acquired intangible assets are capitalized at cost and are classified as assets with finite and indefinite useful lives. Intangible assets acquired within the scope of business combinations are capitalized at fair value on the date of acquisition. If such assets have not yet reached market maturity, they are disclosed as intangible assets with indefinite useful lives and are not amortized. Assets with a finite useful life are depreciated using the straight-line method. The useful lives of acquired concessions, property rights, licenses, patents, brand names, trademarks and software are between 3 and 15 years. Depending on the type of asset concerned, depreciation is allocated to the corresponding operating expense line in the income statement. If there are any indications of a decline in value, an impairment test is performed, and if necessary, impairment losses are recognized. Assets with indefinite useful lives are not amortized, but tested annually for impairment instead. Goodwill is likewise not amortized. For goodwill incurred prior to March 31, 2004, the fair value as of December 31, 2004 is measured at cost. Goodwill is tested annually for impairment. Goodwill is allocated to cash-generating units. A cash-generating unit is normally a segment as presented under “Segment Reporting”. In a few cases, the cash-generating unit is a company or a business field (reporting level within a segment). Necessary write-downs are determined by comparing the book value of the cash-generating unit with the recoverable 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 as computed using the discounted cash flow method. The discounted cash flow method discounts future cash flows based on both a medium-term business plan and a long-term growth rate forecast. The after-tax discount rate is 8.25% and orients towards the weighted average cost of capital (WACC).

Property, plant and equipment

Property, plant and equipment is carried at the cost of acquisition or manufacture less depreciation. 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, including depreciation and write-downs. Financing costs are not capitalized.

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. The useful life applied to production buildings is a maximum of 33 years. Administration buildings are depreciated over a maximum of 40 years. The useful lives of machinery and technical equipment is between 8 and 20 years, and between 3 and 10 years for other facilities, factory and office equipment. The useful lives are reviewed regularly and adjusted if necessary. Impairment losses are charged in accordance with IAS 36 where required, and these are subsequently reversed if the original grounds for the impairment no longer apply.

Financial investments in real estate

Assets of this category are of minor importance to the Merck Group and are carried at cost.

Leasing

Where assets are rented or leased and economic ownership lies with the Group company (finance lease), the asset is recorded at the lower of present value of the lease payments and 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.

Marketable securities, investments and other financial assets

Marketable securities and financial assets are recorded in the balance sheet in accordance with IAS 39. Marketable securities and non-current financial assets classified as “available-for-sale” are generally carried at fair value. Unrealized gains and losses arising from changes in the fair value are recognized in equity. If the fair value of a security or financial asset cannot be reliably determined, the asset is carried at cost less any applicable write-downs. Held-to-maturity securities are generally measured at amortized cost.

Interests in companies over which Merck has significant influence but does not control are normally included using the equity method of accounting and are recognized at amounts corresponding to their net equity.

Non-interest-bearing or low-interest loans are carried at their present value. All securities and financial assets are subject to an impairment test whenever there is an indication that the asset may be impaired. The resulting write-downs are charged to income. If the reasons for the impairment no longer exist, the impairment is reversed. The carrying amount of the asset is increased to no more than the amortized cost.

Deferred taxes

Deferred tax assets and liabilities result from temporary accounting differences in the IFRS and tax accounts of Group companies as well as from consolidation measures. 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 applicable or enacted as of balance sheet date are used.

Liabilities

Liabilities are generally carried at their repayment amount in accordance with IAS 39. Any differences arising between the amounts already paid and the amount payable at final maturity are amortized. Liabilities in foreign currencies are translated at the closing rates. Hedged items in foreign currency are likewise translated at the closing rates in accordance with IAS 21.

Provisions

In accordance with IAS 37, provisions are recognized in the balance sheet for legal or de facto obligations if the net cash outflow used to settle the obligation is probable and can be reliably estimated. The carrying value of provisions takes into account the amounts used to cover future payment obligations, recognizable risks and uncertain obligations of the Group. Non-current provisions are discounted and carried at their present value.

Provisions for pensions and other post-employment benefits are recorded in the balance sheet in accordance with IAS 19. 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. In principle, these systems are based on length of service and salary 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. The bulk of obligations from current pensions and accrued benefits for pensions payable in the future is covered by the provisions recognized in the balance sheet, while the rest is externally funded. These provisions also contain other post-employment benefits, such as accrued future health care costs for pensioners (U.S.A.).

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. Actuarial valuations are prepared annually for this purpose. Actuarial gains and losses resulting from changes in actuarial assumptions and experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) are recognized immediately in equity as incurred.

Notes to the income statement

[1] Sales

Merck Group sales totaled € 6,775.1 million in 2007. This corresponds to an increase of 52.6% over the previous year. Adjusted for a negative currency impact and the effect of the acquisition of Serono, organic growth amounted to 10.7%.

Sales are presented by business sector, division and region under "Segment Reporting".

[2] Royalty income

Due to the acquisition of Serono, the significance of royalty income in the income statement has increased considerably. Therefore, royalty income is now presented together with sales under total revenues. In 2007, royalty income totaled € 282.0 million (2006: € 19.5 million) and mainly included Serono royalty income from the products Avonex® (Biogen Idec), Humira® (Abbott), Enbrel® (Amgen) and Puregon® (Schering-Plough). The previous year's figure primarily included income from the pharmaceutical active ingredients bisoprolol and metformin.

[3] Cost of sales

The cost of sales includes the cost of manufactured products as well as goods purchased for resale. In accordance with IAS 2, the cost comprises overheads directly attributable to the production process, including depreciation charges on production facilities, in addition to directly attributable costs, such as the cost of materials, personnel and energy.

[4] Marketing and selling expenses

In addition to the cost of sales and marketing departments and of the sales force, marketing and selling expenses include advertising, logistics and license costs. Suspense items for oncharged freight expenses amounting to € 7.9 million were deducted from marketing and selling expenses (2006: € 10.3 million). The net amount of commission expenses totaling € 132.9 million (2006: € 12.8 million) and commission income of € 24.3 million (2006: € 25.2 million) are also included here. The increase over the previous year is mainly the result of the inclusion of Serono.

[5] Administration expenses

Personnel costs and material expenses of management and administrative functions are presented under this item unless they have been charged to other cost centers as internal services.

[6] Other operating income and expenses

Other operating income and expenses can be broken down as follows:

€ million	2007	2006
Exchange rate differences from operating activities	11.5	25.0
Losses on disposals of assets	–7.9	–
Impairment losses	–73.2	–16.5
Write-downs on receivables	–10.0	–2.0
Project costs	–44.4	–34.8
Bonuses, fees and contributions	–36.0	–26.0
Special environmental protection costs	–5.3	–3.6
Restructuring and Serono integration costs	–181.8	–12.3
Litigation	–33.0	–0.6
Other operating expenses	–84.7	–85.3
Gains from disposals of assets	31.0	25.9
Write-ups	2.2	–
Other operating income	91.8	80.0
	–339.8	**–50.2**

Impairment losses mainly include write-downs of intangible assets. “Restructuring and Serono integration costs” includes an amount of € –153.6 million for the Serono integration. Other operating expenses also include expenses for services performed for third parties. Other operating income mainly includes income from the release of provisions, prior-period income as well as income from ancillary business and payments from third parties for services performed.

[7] Research and development

Reimbursements for R & D amounting to € 19.2 million (2006: € 20.1 million) were offset against research and development costs.

[8] Amortization of intangible assets

The increase in this item primarily comprises amortization of intangibles in connection with the allocation of the Serono purchase price.

[9] Investment result

€ million	2007	2006
Dividend income from associates	0.2	0.0
Other investment income/expenses	0.1	–0.2
	0.3	**–0.2**

[10] Exceptional items

Exceptional items comprise:

€ million	2007	2006
Write-down of Serono inventories	–734.0	–
Environmental protection measures	–38.5	–16.5
Divestment of the interest in Genmab	–11.5	–
Release of the Electronic Chemicals provision	6.4	–
Restructuring	2.0	–56.4
Gain on sale of the Schering shares	–	377.9
Litigation	–	–72.4
Exceptional items	**–775.6**	**232.6**

Within the scope of the Serono purchase price allocation, inventories were remeasured at fair value. These amounts were fully expensed in 2007 with the sale of the inventories. Due to their non-recurring nature and size, they are disclosed as the “Write-down of Serono inventories” under Exceptional items.

[11] Financial result

€ million	2007	2006
Interest income and similar income	59.1	53.8
Interest expenses and similar expenses	–321.9	–50.6
	–262.8	**3.2**
Interest component of the addition to pension provisions and other provisions for personnel expenses	–59.5	–55.1
Exchange rate differences from financing activities	8.5	–8.9
Measurement of interest rate derivatives	–	0.2
Income from financial interests	2.5	11.6
	–311.3	**–49.0**

The increase in net interest expense is due to outside financing of the Serono acquisition.

[12] Income tax

€ million	2007	2006
Taxes in the period under review on operating activities	–235.4	–200.8
Taxes in the period under review on exceptional items	–0.1	–8.5
Taxes for other periods	–29.8	13.5
Deferred taxes on operating activities	78.1	–6.2
Deferred taxes on exceptional items	210.3	26.2
	23.1	**–175.8**
Tax rate	20.8%	17.9%
Tax rate before exceptional items	28.2%	25.8%

The tax expense consists of corporation and trade income taxes for the companies domiciled in Germany as well as comparable income taxes for foreign companies. As a result of changes in tax rates at individual companies, a total deferred tax expense of € 21.3 million was recorded. The changes relate mainly to deferred taxes resulting from the elimination of intercompany profits. Deferred taxes for exceptional items mainly comprise deferred taxes resulting from the remeasurement of inventories within the scope of the purchase price allocation with the acquisition of the Serono companies in January 2007.

The reconciliation between deferred tax assets and liabilities shown in the balance sheet and deferred taxes in the income statement is presented below:

€ million	2007	2006
Change in deferred tax assets (balance sheet)	195.1	1.0
Change in deferred tax liabilities (balance sheet)	–780.3	–1.9
Deferred taxes credited/debited to equity	30.8	–7.9
Changes in companies consolidated First-time consolidation of the Serono companies	788.0	–
Changes in companies consolidated/Deconsolidation of the Generics companies	82.0	–
Other changes in companies consolidated/currency translation/ Other changes	–27.2	28.8
Deferred taxes (income statement)	**288.4**	**20.0**

As of the balance sheet date, tax loss carryforwards totaled € 528.0 million (2006: € 137.3 million). The increase over the previous year is mainly the result of the inclusion of the Serono companies. Deferred tax assets are recognized for tax loss carryforwards only if realization of the related tax benefit is probable in the foreseeable future. The vast majority of these loss carryforwards have no expiry date or can be carried forward for up to 20 years. Deferred tax assets were not recognized for losses or loss carryforwards totaling € 175.8 million (2006: € 118.4 million) since realization of the related tax benefits is not currently expected in the planning period. In 2007, the income tax burden was reduced by € 8.3 million due to the utilization of tax loss carryforwards and tax credits from prior years for which no deferred tax asset had been recognized in prior periods (2006: € 4.4 million). Deferred tax assets as of the balance sheet date relating to tax loss carryforwards totaled € 63.9 million (2006: € 5.9 million). No deferred tax liabilities were set up for temporary differences for interests in subsidiaries, since the reversal of these differences is not foreseeable. Deferred tax assets of € 400.3 million (2006: € 263.2 million) were recognized for other temporary timing differences.

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

	Dec. 31, 2007		Dec. 31, 2006	
€ million	Assets	Liabilities	Assets	Liabilities
Intangible assets	41.4	753.9	10.4	16.0
Property, plant and equipment	6.7	86.8	3.3	64.7
Current and non-current financial assets	1.1	1.9	–	0.6
Inventories	198.4	15.8	53.6	0.7
Current and non-current receivables/Other assets	12.6	1.0	10.1	4.0
Provisions for pensions and other post-employment benefits	84.1	15.5	120.8	9.4
Current and non-current other provisions	121.1	4.2	131.4	3.1
Current and non-current liabilities	6.2	7.6	3.3	0.3
Tax loss carryforwards	63.9	–	5.9	–
Tax refund claims/Other	27.5	34.5	–	13.0
Netted deferred tax assets and liabilities	–98.8	–98.8	–69.7	–69.7
Total deferred taxes	**464.2**	**822.4**	**269.1**	**42.1**

The following table presents a tax reconciliation based on the theoretical tax rate which would result by applying the statutory tax rates of the German and foreign companies in proportion to their contribution to consolidated profit leading to the effective income tax expense before exceptional items and the effective income tax expense according to the income statement.

€ million	2007	2006
Consolidated profit before tax	–110.9	982.2
Exceptional items	–775.6	232.6
Consolidated profit before tax and exceptional items	**664.7**	**749.6**
Theoretical tax rate	30.9%	26.9%
Theoretical tax expense before exceptional items	–205.6	–201.9
Tax effect of companies with a negative contribution to consolidated profit	–23.6	–1.3
Taxes for other periods	–29.8	13.5
Tax credits	35.0	15.9
Effect of non-deductible expenses/tax-free income/ tax allowances	36.9	–19.7
Tax expense before exceptional items	**–187.1**	**–193.5**
Tax rate before exceptional items	28.2%	25.8%
Taxes for exceptional items	210.2	17.7
Tax expense according to income statement	**23.1**	**–175.8**
Tax rate according to income statement	20.8%	17.9%

[13] Profit after tax from discontinued operations

In addition to the gain on the sale of the Generics business, profit after tax from discontinued operations includes the profit/loss of the current business classified as discontinued operations. For further details, please see the explanations under “Companies consolidated”.

[14] Minority interest

Minority interest in net profit is primarily composed of the minority interests in Merck Marker Ltd., Pakistan, Merck Ltd., Thailand, Merck S.A., France, Merck Serono SpA, Italy, as well as the listed companies Merck Ltd., India, and the Merck Indonesia Group.

[15] Earnings per share

Basic earnings per share are calculated by dividing the net profit after minority interest 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. In accordance with the division of the share capital in the amount of € 168.0 million into 64,613,126 shares, the general partner's capital amounts to 152,767,813 theoretical shares. The Executive Board of Merck KGaA resolved and announced on January 21, 2007 with the consent of the Supervisory Board and of E. Merck OHG as the general partner holding an equity interest, to utilize the authorized capital to increase the share capital. Within the scope of this capital increase, 13,278,927 new shares were issued. In addition, an increase in the equity interest of the general partner E. Merck OHG by a nominal amount of approximately € 34 million, corresponding to 13,067,816 new shares, took place. It should be noted that in accordance with IAS 33, the 13,299,237 shares issued through the capital increase and the Merck stock option program in 2007 may only be included in basic earnings per share on a time proportionate basis from the date of their conversion.

Earnings per share from continuing operations

	2007	2006
Earnings after minority interest (€ million)	–107.9	788.2
Weighted average number of theoretical shares outstanding (in millions)	215.9	194.0
Basic earnings per share (€)	**–0.50**	**4.06**

Earnings per share from continuing and discontinued operations

	2007	2006
Earnings after minority interest (€ million)	3,500.1	983.1
Weighted average number of theoretical shares outstanding (in millions)	215.9	194.0
Basic earnings per share (€)	**16.21**	**5.07**

Basic earnings per share from discontinued operations were € 16.71 (2006: € 1.01). Diluted earnings per share are calculated by dividing the net profit after minority interest by the weighted average number of theoretical shares outstanding, plus all potentially dilutive shares. Potentially dilutive shares in the Merck Group are stock options under the Merck stock option program, provided that their exercise requirements are met at the balance sheet date. In this case, this relates to the stock options from tranche 2002 of Merck's stock option program. The weighted average number of shares to calculate diluted earnings per share was 215,917,465 shares (2006: 194,011,560 shares). The resulting dilutive effect is not material. The diluted earnings per share thus correspond to the basic earnings per share.

Notes to the balance sheet

[16] Cash and cash equivalents

The item comprises:

€ million	Dec. 31, 2007	Dec. 31, 2006
Cheques, cash and bank balances	292.6	264.2
Short-term cash investments	134.0	195.9
	426.6	**460.1**

Changes in cash and cash equivalents as defined by IAS 7 are presented in the cash flow statement. This item includes short-term receivables due from related parties and affiliates amounting to € 3.0 million (2006: € 24.8 million).

[17] Marketable securities and financial assets

This item comprises the following categories:

€ million	Dec. 31, 2007	Dec. 31, 2006
Financial investments held to maturity	39.3	39.6
Available for sale financial investments	11.6	60.0
Short-term financial investments/loans to third parties	500.5	20.7
Derivative assets (Financial transactions)	13.9	12.8
	565.3	**133.1**

The funds from the bond issued in the fourth quarter amounting to € 497.9 million were invested in short-term financial investments. Loans to third parties neither declined in value nor were past due for 2007 or 2006. No reclassifications of assets were made across the individual categories during the fiscal year.

[18] Trade accounts receivable

This item comprises:

€ million	Dec. 31, 2007	Dec. 31, 2006
Receivables from other affiliates	0.4	–
Receivables from third parties	1,377.9	1,252.9
	1,378.3	**1,252.9**

Receivables past due are as follows:

€ million	Book value Dec. 31, 2007	thereof: Neither impaired nor past due on the reporting date	thereof: Not impaired, past due in the following periods as of the reporting date			
			up to 3 months	and 6 months	and 12 months	over 1 year
Trade accounts receivable – Third parties	**1,377.9**	1,148.7	155.7	20.9	27.8	24.8

€ million	Book value Dec. 31, 2006	thereof: Neither impaired nor past due on the reporting date	thereof: Not impaired, past due in the following periods as of the reporting date			
			up to 3 months	and 6 months	and 12 months	over 1 year
Trade accounts receivable – Third parties	**1,252.9**	1,044.5	141.6	19.0	25.3	22.5

With regard to trade receivables that are neither impaired nor delayed, as of the reporting date, there are no indications that the debtors will not meet their payment obligations.

In 2007, receivables amounting to € 168.7 million were sold. No further liability exists for these receivables.

[19] Inventories

This item comprises:

€ million	Dec. 31, 2007	Dec. 31, 2006
Raw materials and production supplies	238.9	258.9
Work in progress, finished goods and goods purchased for resale	917.0	958.9
Advance payments	2.6	0.5
	1,158.5	**1,218.3**

Write-downs of inventories amounted to € 98.3 million as of the balance sheet date (2006: € 139.3 million). The fair value of inventories that were written down amounts to € 340.0 million (2006: € 274.9 million). As of the balance sheet date, no inventories were used to secure liabilities. There were no significant contracts to be accounted for in accordance with IAS 11 (Construction Contracts) as of the balance sheet date.

[20] Other assets

This item comprises:

Other current assets

€ million	Dec. 31, 2007	Dec. 31, 2006
Other receivables from associates	–	–
Other receivables from other affiliates	0.9	1.3
Other receivables from third parties	118.4	70.8
Receivables from related parties	26.6	21.7
Derivative assets (operational)	3.1	8.7
Prepaid expenses	32.4	39.9
Deferred pension payments	29.8	20.8
Other assets	15.2	8.9
	226.4	**172.1**

Other non-current assets

€ million	Dec. 31, 2007	Dec. 31, 2006
Other receivables from associates	–	–
Other receivables from third parties	50.4	2.7
Prepaid expenses	1.9	26.6
Other assets	9.5	5.1
	61.8	**34.4**

Other receivables and other assets include in particular refund claims in connection with non-income-related taxes (mainly value added tax), prepayments, interest deferrals as well as claims in connection with duties and import fees. In addition, receivables in the form of profits resulting from co-marketing agreements with other companies for various products are recorded in this item.

Other receivables past due are as follows:

€ million	Book value Dec. 31, 2007	thereof: Neither impaired nor past due on the reporting date	thereof: Not impaired, past due in the following periods as of the reporting date			
			up to 3 months	and 6 months	and 12 months	over 1 year
Other receivables - Third parties	**168.8**	161.0	3.5	3.5	0.2	0.6

€ million	Book value Dec. 31, 2006	thereof: Neither impaired nor past due on the reporting date	thereof: Not impaired, past due in the following periods as of the reporting date			
			up to 3 months	and 6 months	and 12 months	over 1 year
Other receivables - Third parties	**73.5**	68.6	2.2	2.2	0.1	0.4

With regard to other receivables that are neither impaired nor delayed, as of the reporting date, there are no indications that the debtors will not meet their payment obligations.

[21] Tax receivables

Tax receivables amounted to € 43.5 million (2006: € 77.5 million) and result from tax refund claims for tax prepayments that exceed the actual amount of tax payable for the past and prior fiscal years, and from refund claims for prior years owing to tax audits as well as withholding tax credits.

[22] Assets/liabilities held for sale

The balance sheet items allocable to the Generics business are presented collectively under “Assets/liabilities held for sale”. A detailed breakdown of the components is provided under “Companies consolidated”.

[23] Intangible assets

€ million	Patents, licenses and similar rights, as well as brands, trademarks/Other – Finite useful life	Patents, licenses and similar rights, as well as brands, trademarks/Other – Indefinite useful life	Goodwill	Software	Advance payments	Total
Acquisition cost January 1, 2006	**295.1**	**–**	**839.2**	**88.7**	**7.4**	**1,230.4**
Currency translation	–1.1	–	0.7	–2.8	–	–3.2
Changes in companies consolidated	38.8	14.9	14.1	–	–	67.8
Additions	10.1	27.4	–	6.9	12.2	56.6
Disposals	–6.1	–	–	–11.7	–0.7	–18.5
Transfers	5.6	–	–	4.7	–9.5	0.8
December 31, 2006	**342.4**	**42.3**	**854.0**	**85.8**	**9.4**	**1,333.9**
Accumulated amortization and impairment losses January 1, 2006	**–176.1**	**–**	**–0.3**	**–67.6**	**–**	**–244.0**
Currency translation	1.1	–	–	2.1	–	3.2
Changes in companies consolidated	1.3	–	–	–	–	1.3
Amortization and impairment losses	–34.7	–	–0.1	–12.4	–	–47.2
Disposals	5.2	–	–	11.3	–	16.5
Transfers	1.0	–	–	–1.2	–	–0.2
December 31, 2006	**–202.2**	**–**	**–0.4**	**–67.8**	**–**	**–270.4**
Net carrying amount as of December 31, 2006	**140.2**	**42.3**	**853.6**	**18.0**	**9.4**	**1,063.5**
Acquisition cost January 1, 2007	**342.4**	**42.3**	**854.0**	**85.8**	**9.4**	**1,333.9**
Currency translation	0.7	–	–35.9	–0.9	0.1	–36.0
Changes in companies consolidated	6,482.7	321.2	974.5	63.8	–3.3	7,838.9
Additions	25.2	63.0	–	15.6	17.3	121.1
Disposals	–19.9	–1.2	–	–13.0	–1.6	–35.7
Transfers	2.8	1.0	–	15.2	–12.4	6.6
Reclassification to assets held for sale	–0.9	–	–0.2	–	–0.1	–1.2
December 31, 2007	**6,833.0**	**426.3**	**1,792.4**	**166.5**	**9.4**	**9,227.6**
Accumulated amortization and impairment losses January 1, 2007	**–202.2**	**–**	**–0.4**	**–67.8**	**–**	**–270.4**
Currency translation	0.4	–	0.1	0.6	–	1.1
Changes in companies consolidated	–148.9	0.1	0.2	–32.0	–	–180.6
Amortization and impairment losses	–522.6	–90.1	–	–23.4	–	–636.1
Disposals	18.0	–	–	11.9	–	29.9
Transfers	3.0	–0.6	–	–9.4	–	–7.0
Reclassification to assets held for sale	0.1	–	–	–	–	0.1
December 31, 2007	**–852.2**	**–90.6**	**–0.1**	**–120.1**	**–**	**–1,063.0**
Net carrying amount as of December 31, 2007	**5,980.8**	**335.7**	**1,792.3**	**46.4**	**9.4**	**8,164.6**

The changes in the companies consolidated relate almost exclusively to the acquisition of Serono as well as the disposal of the Generics division. A detailed presentation of both transactions can be found in the sections on acquisitions and disposals/discontinued operations. As of December 31, 2007, goodwill from Serono (including exchange differences) totaled € 1,303.5 million. The net carrying amount of the remaining intangible assets including the purchase price allocation was € 6,212.3 million.

As a result of the disposal of the Generics division, intangible assets declined by € 423.1 million (€ 357.4 million of which was goodwill).

In fiscal 2007, impairment losses on intangible assets with definite useful lives totaled € 8.7 million. The majority of these impairment losses became necessary since the value in use of technologies and patents declined due to lower sales expectations of a business field within the Performance & Life Science Chemicals division.

Since goodwill and intangible assets with indefinite useful lives are not amortized, these are subjected to an annual impairment test. Here, book values were compared with values in use. Consequently, impairment losses of € 90.1 million result in fiscal 2007. Due to changes in sales expectations for a product from the Merck Serono division, capitalized technologies were written down by € 57.4 million to the lower value in use. Owing to the restructuring of diabetes research (Merck Serono division) and the related termination of a project, rights worth € 27.9 million were written off. The remaining impairment losses of € 4.8 million result mainly from the termination of research projects and the related write-off of the capitalized assets.

Impairment losses are recorded under other operating expenses.

Goodwill can be allocated to the divisions as follows:

€ million	Dec. 31, 2007	Dec. 31, 2006
Merck Serono	1,559.5	255.4
Consumer Health Care	148.0	148.0
Performance & Life Science Chemicals	80.7	88.7
Liquid Crystals	4.1	4.1
Discontinued operations	–	357.4
Total	**1,792.3**	**853.6**

[24] 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 cost January 1, 2006	**1,235.3**	**2,036.8**	**685.9**	**179.5**	**4,137.5**
Currency translation	–33.2	–41.2	–12.5	–5.4	–92.3
Changes in companies consolidated	1.9	1.0	0.1	–	3.0
Additions	17.3	53.2	45.1	137.6	253.2
Disposals	–47.8	–92.4	–32.2	–2.6	–175.0
Transfers	43.0	85.4	32.5	–161.7	–0.8
December 31, 2006	**1,216.5**	**2,042.8**	**718.9**	**147.4**	**4,125.6**
Accumulated depreciation and impairment losses January 1, 2006	**–511.6**	**–1,276.5**	**–481.1**	**–10.3**	**–2,279.5**
Currency translation	9.9	29.0	8.9	–	47.8
Changes in companies consolidated	–	–	–	–	–
Depreciation and impairment losses	–43.2	–151.4	–59.0	–0.7	–254.3
Disposals	33.9	75.1	29.9	0.2	139.1
Transfers	–0.2	8.1	–7.7	–	0.2
Write-ups	0.6	0.3	–	–	0.9
December 31, 2006	**–510.6**	**–1,315.4**	**–509.0**	**–10.8**	**–2,345.8**
Net carrying amount as of December 31, 2006	**705.9**	**727.4**	**209.9**	**136.6**	**1,779.8**
Acquisition cost January 1, 2007	**1,216.5**	**2,042.8**	**718.9**	**147.4**	**4,125.6**
Currency translation	–12.4	–9.1	–7.0	–1.5	–30.0
Changes in companies consolidated	536.6	200.5	59.9	13.4	810.4
Additions	22.1	46.3	43.2	171.2	282.8
Disposals	–36.4	–52.1	–60.0	–2.1	–150.6
Transfers	29.8	98.7	5.8	–140.9	–6.6
Reclassification to assets held for sale	–1.3	–1.8	–0.6	–0.1	–3.8
December 31, 2007	**1,754.9**	**2,325.3**	**760.2**	**187.4**	**5,027.8**
Accumulated depreciation and impairment losses January 1, 2007	**–510.6**	**–1,315.4**	**–509.0**	**–10.8**	**–2,345.8**
Currency translation	2.3	6.1	4.7	0.1	13.2
Changes in companies consolidated	–110.8	–125.5	–46.0	0.2	–282.1
Depreciation and impairment losses	–63.5	–150.8	–69.6	–3.6	–287.5
Disposals	32.8	47.5	56.7	–	137.0
Transfers	0.6	–7.7	14.1	–	7.0
Write-ups	2.2	0.2	0.1	0.3	2.8
Reclassification to assets held for sale	0.5	1.2	0.4	–	2.1
December 31, 2007	**–646.5**	**–1,544.4**	**–548.6**	**–13.8**	**–2,753.3**
Net carrying amount as of December 31, 2007	**1,108.4**	**780.9**	**211.6**	**173.6**	**2,274.5**

The changes in the companies consolidated relate almost exclusively to the acquisition of Serono as well as the disposal of the Generics division. A detailed presentation of both transactions can be found in the sections on acquisitions and disposals/discontinued operations. As of December 31, 2007, the net carrying value of property, plant and equipment attributable to Serono amounted to € 729.8 million. The disposal of the Generics division led in the same category to a decline of € 212.3 million.

Impairment losses totaled € 10.5 million in fiscal 2007. This includes write-offs of € 3.8 million in connection with the restructuring of diabetes research in France. Likewise in the Merck Serono division, impairment losses of € 3.1 million were recognized on the originally planned expansion of the production site in Corsier-sur-Vevey, Switzerland. With the decision to build a new large-scale technical facility for biotechnological products at the same location, the already capitalized advance payment was written off in full. Additional smaller impairment losses amounting to € 3.6 million relate mainly to the PLS division and to a lesser extent to the Merck Serono division. The reasons are planned demolitions as well as the depreciation of plants within the scope of restructuring.

Impairment losses are recorded under other operating expenses.

Property, plant and equipment amounting to € 15.9 million serve as collateral (2006: € 8.5 million). Total government grants and subsidies during the fiscal year amounted to € 7.1 million (2006: € 7.0 million).

Property, plant and equipment also includes assets that are rented or leased. The total value of capitalized leased assets amounts to € 12.2 million and the corresponding obligations amount to € 9.9 million (please see Note [26] “Financial liabilities”).

Capitalized leased assets are as follows:

€ million	Dec. 31, 2007	Dec. 31, 2006
Capitalized leased land	–	0.3
Capitalized leased buildings	11.7	–
Capitalized leased facilities	–	0.5
Capitalized leased vehicles	0.2	–
Capitalized leased other property, plant and equipment	0.3	0.5
	12.2	**1.3**

[25] Non-current financial assets and equity method financial assets

	Investments in		Securities		Loans		
€ million	available for sale companies	other affiliates	available for sale financial investments	financial investments held to maturity	and other non-current financial assets	Total	Equity method financial assets
Acquisition cost January 1, 2006	**28.8**	**17.6**	**5.9**	**10.5**	**29.5**	**92.3**	**1.9**
Currency translation	–	–	–	–	–0.2	–0.2	–0.3
Changes in companies consolidated	–	–75.7	–	–	–	–75.7	–
Additions	1,578.7	82.5	–	3.2	4.1	1,668.5	0.1
Disposals	–1.3	–	–0.1	–13.3	–2.8	–17.5	–
December 31, 2006	**1,606.2**	**24.4**	**5.8**	**0.4**	**30.6**	**1,667.4**	**1.7**
Accumulated depreciation and impairment losses January 1, 2006	**–17.9**	**–0.1**	**–4.3**	**–**	**–0.4**	**–22.7**	**–0.4**
Currency translation	–	–	–	–	–	–	–
Changes in companies consolidated	–	–	–	–	–	–	–
Depreciation and impairment losses	–1.5	–	–	–	–	–1.5	–
Disposals	0.6	–	0.1	–	–	0.7	–
Fair value adjustments of long-term investments taken directly to equity	–3.5	–	–	–	–	–3.5	–
December 31, 2006	**–22.3**	**–0.1**	**–4.2**	**–**	**–0.4**	**–27.0**	**–0.4**
Net carrying amount as of December 31, 2006	**1,583.9**	**24.3**	**1.6**	**0.4**	**30.2**	**1,640.4**	**1.3**
Acquisition cost January 1, 2007	**1,606.2**	**24.4**	**5.8**	**0.4**	**30.6**	**1,667.4**	**1.7**
Currency translation	–	–	–	–	–	–	–
Changes in companies consolidated	165.6	–9,974.7	167.5	–	–0.1	–9,641.7	0.3
Additions	16.6	9,272.4	–	11.3	5.8	9,306.1	0.3
Disposals	–118.3	–870.2	–167.7	–	–20.1	–1,176.3	–0.4
Transfers	–1,575.4	1,575.5	–	–	–	0.1	–0.1
December 31, 2007	**94.7**	**27.4**	**5.6**	**11.7**	**16.2**	**155.6**	**1.8**
Accumulated depreciation and impairment losses January 1, 2007	**–22.3**	**–0.1**	**–4.2**	**–**	**–0.4**	**–27.0**	**–0.4**
Currency translation	–0.2	–	–0.3	–	–	–0.5	–
Changes in companies consolidated	–	–	–	–	–	–	–
Depreciation and impairment losses	–	–	–	–	–	–	–
Disposals	3.5	–	–	–	–	3.5	–
Fair value adjustments of long-term investments taken directly to equity	–1.3	–	–	–	–	–1.3	–
December 31, 2007	**–20.3**	**–0.1**	**–4.5**	**–**	**–0.4**	**–25.3**	**–0.4**
Net carrying amount as of December 31, 2007	**74.4**	**27.3**	**1.1**	**11.7**	**15.8**	**130.3**	**1.4**

As of December 31, 2007, non-current financial assets available for sale (investments) were carried at cost with a book value of € 18.5 million since a market price could not be determined.

No non-current financial assets were reclassified between the individual categories of financial instruments during the fiscal year. The following amounts arising from non-current financial assets classified as "available-for-sale" were recognized in equity as of the balance sheet date:

€ million	Available for sale investments	Available for sale securities	Total Dec. 31, 2007	Available for sale investments	Available for sale securities	Total Dec. 31, 2006
Fair values/ Book values	74.4	1.1	75.5	1,583.9	1.6	1,585.5
Amortized acquisition cost	–73.5	–1.1	–74.6	–1,585.2	–1.6	–1,586.8
Unrealized gains/losses	0.9	–	0.9	–1.3	–	–1.3

A statement of the Merck Group's equity interests is filed with the electronic Federal Gazette and can be accessed at www.unternehmensregister.de. Major companies of the Merck Group as of December 31, 2007 are presented in the following table:

Major companies of the Merck Group by region	Direct equity interest in %	Sales[1] € million	Profit after tax[1] € million	Net equity[1] € million	Employees
Germany/Europe					
Merck KGaA, Darmstadt, Germany	Parent company	2,057.6	21.4	4,944.4	8,952
Ares Trading S.A., Aubonne, Switzerland[2]	100.00	2,123.2	193.4	217.3	30
Laboratoires Serono S.A., Coinsins, Switzerland[2]	100.00	1,336.7	–366.9	8,182.1	577
Merck Serono S.p.A., Rome, Italy	96.72	1,007.7	48.0	236.3	632
Merck Lipha Santé S.A.S., Lyon, France	100.00	435.3	23.9	60.2	498
Merck Santé S.A.S., Lyon, France	100.00	412.3	56.2	362.3	1,165
Serono Benelux B.V., Den Haag, Netherlands	100.00	382.1	2.1	6.9	44
Merck Farma y Quimica S.L., Madrid, Spain	100.00	366.8	15.1	90.8	947
Merck Pharma GmbH, Darmstadt, Germany	100.00	214.0	12.2	–	380
Serono GmbH, Darmstadt, Germany	100.00	199.5	5.6	15.2	156
Laboratoire Théramex S.A.M., Monaco	99.88	102.9	6.6	35.0	384
Merck CHC France Group, Lyon, France	100.00	101.4	7.6	37.0	214
Seven Seas Group, Hull, United Kingdom	100.00	91.2	6.0	17.2	382
Serono Ltd., Feltham, United Kingdom	100.00	79.8	0.3	2.7	76
Merck UK, West Drayton, United Kingdom	100.00	76.7	12.4	15.2	222
Serono France S.A.S., Lyon, France	100.00	64.3	5.0	9.7	68
Merck AG, Zug, Switzerland and Darmstadt, Germany	100.00	–	470.9	1,688.3	–
North America					
EMD Serono US Group, Rockland, MA United States	100.00	635.0	54.5	214.7	671
EMD Chemicals, Inc., Gibbstown, NJ United States	100.00	246.3	14.5	235.9	960
EMD Serono Canada Inc., Mississauga, Canada	100.00	79.1	3.1	15.2	89
Latin America					
Merck, S.A. de C.V., Mexico City, Mexico	100.00	184.5	29.1	59.2	961
Merck S.A., Rio de Janeiro, Brazil	100.00	157.2	7.2	56.6	996
Merck S.A., Caracas, Venezuela	100.00	73.3	12.6	16.7	242
Ares Trading Uruguay S.A., Montevideo, Uruguay	100.00	67.7	21.6	11.7	15
Serono Produtos Farmaceuticos Ltda., Sao Paulo, Brazil	100.00	59.2	–5.3	1.7	69
Merck S.A., Bogota, Colombia	100.00	51.6	3.6	27.2	540
Asia, Africa, Australasia					
Korean companies, South Korea	100.00	399.8	52.4	95.6	325
Taiwanese companies, Taiwan	100.00	379.7	27.1	62.0	372
Merck Ltd., Tokyo, Japan	100.00	313.9	35.5	75.8	456
Serono Singapore Pte. Ltd., Singapore	100.00	62.9	–0.7	1.4	–
Merck Ltd., Mumbai, India	51.00	55.6	10.8	76.7	922
Merck Indonesia Group, Jakarta, Indonesia	73.99	43.5	7.0	20.2	707

[1] Figures for the entire company unconsolidated, irrespective of the equity interest
[2] Values subsequent to the purchase price allocation

[26] Financial liabilities

This item comprises:

Current financial liabilities

€ million	Dec. 31, 2007	Dec. 31, 2006
Bonds	–	–
Commercial Paper	7.0	293.6
Bank loans and overdrafts	126.6	51.6
Loans from third parties	22.9	36.1
Liabilities to related parties	93.5	–
Other financial liabilities	2.3	3.6
Financial liabilities to other affiliates	7.1	5.7
Financial leasing liabilities	1.0	0.5
Liabilities from derivatives (financial transactions)	40.0	107.3
	300.4	**498.4**

Non-current financial liabilities

€ million	Dec. 31, 2007	Dec. 31, 2006
Bonds	969.2	477.5
Bank loans and overdrafts	15.5	74.4
Loans from third parties	52.9	61.0
Liabilities to related parties	–	–
Other financial liabilities	–	0.1
Financial leasing liabilities	8.9	0.6
Liabilities from derivatives (financial transactions)	0.1	–
	1,046.6	**613.6**

Bank credit facilities to the Merck Group are as follows:

€ million	Bank credit facilities	Utilization* as of Dec. 31, 2007	Interest	Due
Syndicated loan 2007	2,000.0	–	variable	2014
Bilateral credit facilities with banks	22.5	11.3	fixed	2017
Bilateral credit facilities with banks	4.7	4.7	fixed	2009
Various bank lines	531.8	126.8	fixed/variable	< 1 year
	2,559.0	**142.8**		

*Booked disagios are not taken into account in the disclosure

The € 11.5 billion syndicated multi-currency term loan concluded in 2006 to finance the acquisition of Serono S.A., Switzerland, was completely repaid and canceled in fiscal 2007. A new € 2 billion multi-currency term loan and revolving credit facility was agreed at much better conditions. The new loan has a term of seven years and was placed with an international banking syndicate.

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

in %	Dec. 31, 2007	Dec. 31, 2006
Euros	68.8	78.3
U.S. dollars	0.6	0.4
Pounds sterling	–	–
Swiss francs	–	0.2
Yen	1.8	1.0
Other currencies	28.8	20.1
	100.0	**100.0**

In 2005, Merck KGaA launched its first euro Benchmark Bond in the European debt capital market via Merck Finanz AG, Luxembourg. The size of the issue was € 500 million with a maturity of seven years. The bond pays a coupon of 3.75% and was issued at a price of 99.716%. The interest expense of the bond has been made variable through interest rate swaps based on six-month Euribor. The measurement reflects fair value taking into account disagios and transactions costs.

In 2007, Merck KGaA launched another euro Benchmark Bond for € 500 million in the European debt capital market. It has a term of three years. The bond pays a coupon of 4.75% and was issued at a price of 99.7%. The measurement reflects amortized cost.

In order to meet short-term capital requirements, Merck KGaA issued a commercial paper program with a volume of € 500 million, which had not been utilized as of the reporting date. Merck companies in Taiwan issued commercial paper for an equivalent of € 7.0 million as of the balance sheet date.

Liabilities from financial leasing represent the discounted amount of future payments arising from finance leases. This item primarily relates to liabilities from finance leases for buildings.

Information on liabilities due to related parties can be found in Note [48].

[27] Trade accounts payable

Trade accounts payable consist of the following:

€ million	Dec. 31, 2007	Dec. 31, 2006
Liabilities due to associates	–	–
Liabilities due to other affiliates	0.3	0.4
Liabilities due to third parties	646.6	607.6
	646.9	**608.0**

Trade accounts payable include accrued amounts of € 355.5 million (2006: € 222.6 million) for outstanding invoices and accrued reductions in sales revenues.

[28] Other liabilities

This item comprises:

Other current liabilities

€ million	Dec. 31, 2007	Dec. 31, 2006
Other liabilities to associates	–	–
Other liabilities to other affiliates	1.5	1.6
Other liabilities to third parties	75.3	66.2
Advance payments received from customers	6.9	6.3
Liabilities to related parties	533.2	224.5
Liabilities from profit distributions	0.3	0.4
Liabilities from derivatives (operational)	1.9	1.1
Payroll liabilities	51.2	51.5
Deferred income	6.9	1.9
Accruals for personnel expenses	304.1	198.8
	981.3	**552.3**

Other non-current liabilities

€ million	Dec. 31, 2007	Dec. 31, 2006
Other liabilities to associates	–	–
Other liabilities to other affiliates	0.1	–
Other liabilities to third parties	25.6	2.5
Advance payments received from customers	–	–
Payroll liabilities	0.1	0.9
Deferred income	13.7	3.9
	39.5	**7.3**

Other liabilities due to other companies include liabilities in connection with non-income-related taxes as well as obligations in connection with duties and import fees. Liabilities due to insurance companies as well as contractually agreed payment obligations vis-à-vis other companies are also disclosed here.

The deviation in liabilities due to related parties compared with 2006 is mainly the result of an increase in the profit transfers to E. Merck OHG.

[29] Tax liabilities

Tax liabilities amount to € 337.1 million (2006: € 205.5 million). This item also includes provisions for tax liabilities amounting to € 272.9 million (2006: € 131.8 million).

[30] Provisions

Provisions developed as follows:

€ million	Restructuring	Personnel	Litigation	Other	Total
January 1, 2007	**46.2**	**126.8**	**168.6**	**144.0**	**485.6**
Exchange differences	–1.4	–1.0	–11.1	–0.5	–14.0
Utilizations	–21.9	–47.4	–50.2	–56.6	–176.1
Additions	94.7	62.4	87.9	150.2	395.2
Release	–3.7	–2.8	–8.7	–22.6	–37.8
Changes in companies consolidated/Other	–11.1	11.8	226.1	–12.7	214.1
December 31, 2007	**102.8**	**149.8**	**412.6**	**201.8**	**867.0**
thereof current	80.3	51.9	58.7	106.1	297.0
thereof non-current	22.5	97.9	353.9	95.7	570.0

Provisions for restructuring: This item mainly includes provisions for project-related severance payments for employees, contractually agreed severance obligations and contingent liabilities. The relevant provisions are recognized in accordance with IAS 37 when detailed restructuring plans have been prepared and communicated.
Provisions for personnel: Personnel provisions mainly include the expenses of obligations for the partial early retirement program, severance pay and anniversary bonuses.

Provisions for litigation: Provisions for litigation risks in connection with our former U.S. generics subsidiary Dey Inc. concerning allegedly false reporting of price information amounted to € 107.0 million on the balance sheet date. There are also provisions amounting to the equivalent of € 24.0 million in connection with the legal dispute at our former subsidiary Generics UK Ltd. for having allegedly taken part in pricing agreements for certain drugs. Although both companies were disposed of within the scope of the sale of the Generics business to Mylan Inc., PA (USA), Merck continues to be liable for costs incurring from the above-mentioned legal disputes.

Provisions for litigation increased sharply (€ 236.2 million) primarily as a result of the first-time inclusion of Serono. As of the balance sheet date, there are provisions in connection with the legal dispute with the company Israel Bio-Engineering Project Limited Partnership (IBEP), in which IBEP claims intellectual property rights and license fees in connection with funding and developing Rebif® and other products.

In addition, there are provisions in connection with a legal dispute with Italfarmaco S.p.A., Italy. The background is a license and supply agreement relating to the product Rebif® that was concluded between the parties and has been terminated by Italfarmaco S.p.A. in the meantime on account of alleged violations of the agreement by Serono. Italfarmaco S.p.A. claims compensation for, among other things, loss of profit.

In connection with the hormone preparation Serostim®, various persons and associations allege impermissible sales practices for Serostim®.

For various smaller pending legal disputes at companies of the Merck Group, provisions that are considered appropriate from today's perspective have been set up.

Other provisions: This item includes provisions for uncertain commitments in the context of environmental protection measures as well as contributions, duties and fees.

[31] Provisions for pensions and other post-employment benefits

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

in %	2007	2006
Discount rate	5.2	4.6
Future salary increases	3.2	3.2
Future pension increases	2.1	2.2
Staff turnover	2.1	2.1
Expected return on plan assets	5.9	6.0
Future increases in health care benefits	9.0	10.0

These are average values weighted by the present value of the respective benefit obligation. The average expected return on plan assets is weighted by the fair value of the respective plan assets. Plan assets for funded benefit obligations primarily comprise equities, fixed-income securities and real estate. They do not include financial instruments issued by Merck Group companies or real estate used by Group companies.

The balance sheet item "Provisions for pensions and other post-employment benefits" can be broken down as follows:

€ million	Dec. 31, 2007	Dec. 31, 2006
Present value of benefit obligations funded by provisions	1,129.2	1,206.0
Present value of funded benefit obligations	536.7	401.2
Present value of all benefit obligations	**1,665.9**	**1,607.2**
Fair value of plan assets of all funds	–520.5	–346.2
Funded status	**1,145.4**	**1,261.0**
Other changes	10.3	0.5
Net liability recognized in the balance sheet	**1,155.7**	**1,261.5**
Deferred pension payments	29.8	20.8
Provisions for pensions and other post-employment benefits	**1,185.5**	**1,282.3**

In 2007, the following items were recognized in income:

€ million	2007	2006
Current service cost	61.6	47.5
Past service cost	–2.8	0.5
Interest cost on pension obligations	77.6	67.9
Expected return on plan assets	–26.0	–18.3
Other effects	–4.1	–3.5
Total amount recognized in income	**106.3**	**94.1**

The actual return on plan assets amounted to € 18.2 million (2006: € 31.7 million). Apart from the interest component stemming from provisions for pension obligations, which is disclosed in the financial result, the relevant expense of defined benefit and defined contribution plans is distributed across the individual functional areas.

During 2007, the present value of all defined obligations changed as follows:

€ million	2007	2006
Present value of all defined benefit obligations on January 1	1,607.2	1,491.4
Currency translation differences	–28.9	–2.8
Current service cost	61.6	47.5
Interest cost on pension obligations	77.6	67.9
Other effects recognized in income	–4.1	–3.1
Actuarial gains/losses	–115.3	37.7
Pension payments in the reporting period	–84.7	–67.5
Transfers/Changes in companies consolidated/Other changes	152.5	36.1
Present value of all defined benefit obligations on December 31	**1,665.9**	**1,607.2**

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

€ million	2007	2006
Fair value of the plan assets on January 1	346.2	276.5
Currency translation differences	–22.3	–0.7
Expected return on plan assets	26.0	18.3
Other effects recognized in income	–	0.2
Actuarial losses/gains	–7.2	12.9
Employer contributions	50.1	21.4
Employee contributions	8.5	2.1
Pension payments in the reporting period	–32.0	–18.0
Transfers/Changes in companies consolidated/Other changes	151.1	33.5
Fair value of the plan assets on December 31	**520.5**	**346.2**

In the reporting period, actuarial gains (+) and losses (-) as well as the effects of limiting accrued pension payments in accordance with IAS 19.58 amounting to € +102.4 million (2006: € –24.8 million) were taken to equity.

As of December 31, 2007, for the aforementioned reasons a cumulative total of € –164.8 million (2006: € –267.2 million) was taken to equity.

The fair value of the plan assets can be allocated to the individual asset categories as follows. Weighted average values are used here:

in %	Dec. 31, 2007	Dec. 31, 2006
Equity instruments	44.2	53.3
Debt instruments	39.7	37.4
Real estate	5.8	2.1
Other assets	10.3	7.2

On average, the expected rate of return on equity instruments is 8.3%, on debt instruments 4.3% and on real estate 5.2%. The respective rates of return take into account country-specific conditions and are based, among other things, on interest and dividend income expected over the long term as well increases in the value of the investment portfolio after the deduction of directly allocable taxes and expenses.

Over the past five years, the funded status, composed of the present value of the defined benefit obligations and the fair value of the plan assets, has changed as follows:

€ million as of Dec. 31	2007	2006	2005	2004	2003
Present value of the defined benefit obligations	1,665.9	1,607.2	1,491.4	1,301.3	1,355.0
Fair value of the plan assets	–520.5	–346.2	–276.5	–234.9	–308.8
Funded status	1,145.4	1,261.0	1,214.9	1,066.4	1,046.2

It is expected that the payments to beneficiaries from unfunded pension plans will amount to around € 59 million in 2008 (2007: € 54 million) while payments to fund-financed pension plans will probably amount to around € 31 million in 2008 (2007: € 20 million).

The cost of ongoing contributions in 2007 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 € 13.5 million in 2007 (2006: € 13.2 million). In addition, employer contributions of € 45.6 million (2006: € 42.3 million) were transferred to the German statutory pension insurance system and of € 7.7 million (2006: € 7.1 million) to statutory pension insurance systems abroad.

[32] Net equity

A strong equity position is important for Merck to ensure the continued existence of the company. Based on our financial strategy, the Executive Board regularly reviews various key figures that reflect the capitalization of the company. Gearing (ratio of net debt and pension provisions to net equity) and the equity ratio are important indicators here.

Within the scope of the capital increase conducted in February, the subscribed capital of the company was increased by 13,278,927 shares from 51,313,889 non-par-value shares to 64,592,816. The general partner E. Merck OHG participated in the capital increase with the same rights and conditions by increasing the number of theoretical shares it holds by 13,067,816 from 139,699,997 to 152,767,813. As a result, limited liability shareholders now hold a 29.72% interest and the general partner E. Merck OHG a 70.28% interest in the company's share capital. As a result of the capital increase, the equity capital increased by € 2,055.2 million. Transaction costs of € 17.6 million related to the capital increase were recognized in equity. Moreover, during the reporting period a further 20,310 shares were issued as part of the stock option program. This led to a further increase in the number of shares to a total of 64,613,126. The amount resulting from the issue of shares by Merck KGaA exceeding the nominal amount is recognized in the capital reserves. The reserves also contain the retained earnings and the net retained profit of the consolidated subsidiaries as well as the income and expenses taken directly to equity. The currency translation difference includes the differences not recognized in income from currency translation by subsidiaries abroad. Currency translation differences decreased equity in 2007 by € 205.8 million (2006: decreased by € 128.6 million). Accordingly, as of December 31, 2007, currency translation differences in equity amounted to a loss of € 348.4 million (2006: € 317.4 million). Accumulated exchange rate losses of € 174.9 million were recognized with the disposal of the Generics companies.

The disclosure of minority interest is 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 interests of other shareholders in net equity mainly relates to the minority interests in Merck Ltd. India, the Merck Indonesia Group and Merck Ltd., Thailand.

In addition to the dividend payments to the shareholders of Merck KGaA and to minority shareholders in subsidiary companies of the Merck Group, the appropriation of profits includes the transfer of profits from Merck & Cie KG to E. Merck OHG in accordance with the company agreements and the reciprocal transfer of profits between E. Merck OHG and Merck KGaA in accordance with the Articles of Association. In accordance with the capital ratios, E. Merck OHG has a 70.28% interest in the profit/loss of Merck KGaA while Merck KGaA has an interest of 29.72% in the profit/loss of E. Merck OHG. Merck KGaA's profit from ordinary activities less trade income tax, on which the appropriation of its profit is based, amounts to € 92.6 million. Merck KGaA transferred € 65.1 million of its profit to E. Merck OHG (2006: € 400.9 million). In 2007, € 30.4 million was transferred from Merck & Cie KG (2006: € 28.3 million). In 2007, € 438.2 million was transferred from the net retained profit and other retained earnings of Merck KGaA to E. Merck OHG (2006: E. Merck OHG transferred € 203.8 million to the net retained profit and retained earnings of Merck KGaA). The profit/loss of E. Merck OHG, on which the appropriation of profit/loss is based, amounts to € –7.2 million (2006: € –1.7 million). Consequently, Merck KGaA will take over a loss of € 2.1 million (2006: € 4.0 million).

For 2007, a dividend of € 1.20 per share plus a bonus of € 2.00 per share will be proposed. This corresponds to a total dividend payment of € 206.8 million to the limited liability shareholders.

The following table shows the development of changes taken directly to equity as a result of recognizing financial instruments at fair value in accordance with IAS 39.

€ million	Available-for-sale current and non-current financial assets	Derivative financial instruments	Total
Balance as of January 1, 2007	**6.0**	**–77.9**	**–71.9**
Fair value adjustments	2.1	–5.2	–3.1
Reclassification to income statement	–11.2	–0.7	–11.9
Reclassification to assets	3.5	82.9	86.4
Subsequent measurement in fiscal year	**–5.6**	**77.0**	**71.4**
Deferred taxes recognized in equity	0.5	1.1	1.6
Currency translation difference	–	–0.1	–0.1
Balance as of December 31, 2007	**0.9**	**0.1**	**1.0**

As part of the stock option program for senior executives resolved by the Merck KGaA Annual General Meeting 2000, the creation of € 5,720,000 contingent capital for issuing stock rights was approved. As a result, a maximum of 2,200,000 stock options may be issued from the approved contingent capital. To date, 2,153,500 options have been granted in two tranches. Each option entitles the bearer to acquire one share of Merck KGaA, provided that the exercise requirements are met. The term of the program for both tranches is six years. Both tranches had a minimum vesting period of 25 months. Stock options may only be exercised after the minimum vesting period if the stock price on the day before exercise is at least 30% higher than the option exercise price. The exercise price is the mean value of Merck's shares in the Frankfurt XETRA trading system, commencing 30 days before the date of issue of the stock rights. In addition, the rights are subject to a lockup period that begins two calendar weeks before the date of publication of the Q1 and Q3 reports and eight calendar weeks before the date of publication of the H1 and Annual Reports. When granted, the first tranche included 766,500 options. As of October 2002, the options in the first tranche could be exercised at an exercise price of € 37.41, provided that Merck shares were quoted at a price of at least € 48.63. When granted, the second tranche included 1,387,000 options. These stock options may be exercised as of May 2004, at an exercise price of € 34.35, provided that Merck's share price is not below € 44.66. Upon exercising the options, the shares carry dividend rights for the current and following fiscal years.

The development of all options on shares of Merck KGaA is presented in the following table:

	2007		2006	
	Tranche 1	Tranche 2	Tranche 1	Tranche 2
Outstanding options as of January 1	**–**	**40,310**	**29,300**	**96,310**
Options exercised during the period	–	20,310	16,750	51,000
Options forfeited during the period	–	0	12,550	5,000
Outstanding options as of December 31	**–**	**20,000**	**0**	**40,310**
thereof exercisable as of December 31	–	20,000	0	40,310
Recognized capital increase (in € million)	–	0.7	0.6	1.8

The weighted average price of Merck KGaA's shares in XETRA trading at the time of exercise of the stock options was € 93.85 in 2007.

Moreover, options that have not been exercised or converted into cash are neither recorded in the balance sheet nor recognized in income in these financial statements.

Notes to the segment reporting

The classification of asset and income figures as well as of other key figures by business sector or by region in accordance with IAS 14 is presented in "Segment Reporting". Segmentation was performed in accordance with the internal reporting of the Merck Group. The financial result and taxes on income are allocated in full in the Corporate and Other segment. The operating segments are described in detail in the chapter about the divisions in this Annual Report.

With the sale of our Electronic Chemicals business in April 2005, we reclassified the remaining contract manufacture business as well as the figures reported under this segment to the segment "Corporate and Other".

Transfer prices for intragroup sales are determined on an arm's-length basis. There were no significant intercompany relations between the business segments. In the Segment Reporting, the United States and Canada are combined to form a single region "North America", as the two countries are managed as a single territory in the Merck Group's internal reporting.

Operating assets included in "Segment Reporting" were as follows:

€ million	Dec. 31, 2007	Dec. 31, 2006
Assets	14,922.3	8,102.5
Monetary assets (cash and equivalents, loans, securities)	–1,020.5	–625.2
Non-operating receivables, tax receivables, deferred taxes and accruals and deferred pension payments	–567.0	–373.3
Trade accounts payable	–646.9	–608.0
Other operating liabilities	–481.1	–331.5
Operating assets of discontinued operations	–26.9	–1,042.3
Operating assets	**12,179.9**	**5,122.1**

Notes to the cash flow statement

[33] Net cash flows from operating activities

Tax payments in 2007 totaled € 209.0 million (2006: € 215.5 million). Interest expense totaled € 302.8 million (2006: € 29.4 million) and interest income totaled € 51.6 million (2006: € 42.7 million). Other non-cash expenses include the write-downs of the Serono inventories that were remeasured within the scope of the purchase price allocation and amount to € 734.0 million.

[34] Net cash flows from investing activities

In 2007, € 7,318.0 million was spent on acquisitions of and investments in other financial assets. The majority of this amount was attributable to the acquisition of Serono. Together with the acquisition of the holding company Bertarelli Biotech S.A., a total of € 9,267.2 million was paid in 2007. The acquired liquid assets amount to € 1,987.6 million, resulting in a total net cash outflow of € 7,279.6 million. In 2006, € 1,575.4 million was paid for the acquisition of Serono, resulting in a total of € 8,855.0 million for the acquisition.

€ million	2007
Purchase price	9,267.2
Cash and cash equivalents acquired	1,987.6
Net cash outflows	**7,279.6**

The disposal of non-current assets led to a net cash inflow of € 4,995.8 million, which was mainly the result of the disposal of the Generics business.

The Generics business was sold for € 4,900 million (net) plus compensation for cash and cash equivalents disposed of and net liabilities as well as other purchase price adjustments. This led to gross cash inflows of € 5,225.7 million. After the deduction of payments due in 2007 - mainly for transaction costs and taxes - net cash inflows of € 4,828.8 million result. Along with the business, cash and cash equivalents amounting to € 98.0 million were disposed of.

€ million	2007
Consideration received, satisfied in cash	5,225.7
Cash and cash equivalents disposed of	–98.0
Compensation for net liabilities/other purchase price adjustments	–227.7
Selling price	**4,900.0**
Transaction costs, taxes, other net cash inflows	–71.2
Net cash inflow	**4,828.8**

[35] 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	2007		2006	
Dividend payments				
Dividends to shareholders	–67.8		–43.6	
Dividends to minority shareholders	–9.2	**–77.0**	–6.1	**–49.7**
Net profits transferred by Merck KGaA to E. Merck OHG				
Profit transfer in accordance with the Articles of Association from E. Merck OHG to Merck KGaA	–2.1		–4.0	
Profit transfer in accordance with the Articles of Association from Merck KGaA to E. Merck OHG	–65.1		–400.9	
Appropriation by E. Merck OHG to reserves/ profit carried forward of Merck KGaA	–438.2	**–505.4**	203.8	**–201.1**
Profit transfer from Merck & Cie KG to E. Merck OHG		**–30.4**		**–28.3**
Total dividend payments and profit transfers		**–612.8**		**–279.1**

Free cash flow after dividend payments and profit transfers totaled € –2,085.9 million (2006: € –1,352.5 million).

[36] Cash and cash equivalents

The composition of cash and cash equivalents is presented under “Notes to the Balance Sheet”.

[37] Free cash flow

Free cash flow is an indicator that we use internally to measure the contribution of our 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. We do not include in free cash flow 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.

Other disclosures

[38] Derivative financial instruments

We use derivative financial instruments exclusively to hedge currency and interest rate positions, and thereby minimize currency risks and financing costs caused by exchange rate or interest rate fluctuations. The instruments used are marketable forward exchange and currency option contracts and interest rate swaps. The strategy to hedge the transaction risk arising from currency fluctuations is set by a Group interest rate and currency committee, which meets on a regular basis. A review period of up to 24 months normally serves as the basis. Every hedge must relate to an underlying transaction that either already exists or is definitely expected to take place (ban on speculation). Currency risks from financial assets or loans denominated in foreign currencies are generally hedged. The use of such derivatives contracts is governed by internal regulations, and derivative transactions are subject to continuous risk management procedures. Trading, settlement and control functions are strictly separated, and this separation is monitored by our internal audit department. Derivatives contracts are only entered into with prime-rated banks and are restricted to the hedging of our business operations and related financing transactions.

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

	Nominal volume		Fair value	
€ million	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Forward exchange contracts	2,927.2	8,410.4	4.6	–65.8
Interest rate swaps	500.0	500.0	–28.3	–22.0
Currency options	–	16.0	–	0.9
	3,427.2	**8,926.4**	**–23.7**	**–86.9**

The nominal volume is the aggregate of all buy and sell amounts relating to derivatives 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 contracts were closed out as of balance sheet date. The fair values are calculated on the basis of quoted prices or current market data provided by a recognized information service.

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, 2007	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2006
Forward exchange contracts	2,717.0	210.2	2,927.2	8,410.4	–	8,410.4
Interest rate swaps	–	500.0	500.0	–	500.0	500.0
Currency options	–	–	–	16.0	–	16.0
	2,717.0	**710.2**	**3,427.2**	**8,426.4**	**500.0**	**8,926.4**

Gains and losses on the fair value of derivatives and underlyings are usually recognized directly in the income statement. If cash flows are being hedged and the requirements for hedge accounting in accordance with IAS 39.88 are met, the effective portions of the gains and losses from the fair value measurement of derivatives are recognized in equity until the underlying transaction occurs. These amounts are only reclassified from equity and carried to the income statement after accounting for the underlying transactions. Amounts reclassified to the income statement are either recognized in the operating result, or in the financial result if liabilities have been hedged.

Hedge accounting in accordance with IAS 39 was used for some hedging transactions:

	Nominal volume		Fair value	
€ million	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Forward exchange contracts	863.0	7,688.3	–0.1	–71.5
Interest rate swaps	500.0	–	–28.3	–
Currency options	–	16.0	–	0.9
Derivatives without hedge accounting	2,064.2	1,222.1	4.7	–16.3
	3,427.2	**8,926.4**	**–23.7**	**–86.9**

The forward exchange contracts that are entered into to reduce the exchange rate risk with a total nominal volume of € 2,927.2 million primarily serve to hedge intercompany financing in foreign currency. These primarily served to hedge fluctuations in the exchange rates of the U.S. dollar (€ 721.9 million), the Swiss franc (€ 1,538.6 million), the Japanese yen (€ 319.4 million) and the British pound (€ 191.4 million).

Forecast transactions are only hedged if the occurrence can be assumed to be highly probable. The nominal volume of hedged future transactions amounted to € 760.9 million as of the balance sheet date and related mainly to the hedging of future sales in U.S. dollars, Taiwanese dollars and future costs in Swiss francs. The occurrence of hedged items is expected within the next 24 months. During the fiscal year, gains of € 5.2 million from the fair value measurement of derivatives were recognized in equity. € 0.7 million was transferred from equity to income.

	Nominal volume		Fair value	
€ million	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Hedging of future transactions	760.9	7,288.5	0.1	–76.4
Hedging of recognized transactions	2,166.3	1,121.9	4.5	10.6
Total forward exchange contracts	**2,927.2**	**8,410.4**	**4.6**	**–65.8**

The interest expense of the euro benchmark bond, which was issued in 2005 with a volume of € 500.0 million, was made variable through interests rate swaps from a fixed rate of 3.75% to six-month Euribor.

[39] Management of financial risks

Fluctuations in the price of currencies and interest rates can result in significant profit and cash flow risks for Merck. Therefore, Merck centralizes these risks as far as possible and steers them in a forward-looking manner, also by using derivative financial instruments.

Foreign currency risks

Transaction risks: Owing to its international business focus, Merck is subject to currency risks within the scope of both ordinary business and financing activities. Different strategies are used to limit or exclude these risks.

In principle, currency risks from financing activities are eliminated as far as possible through the use of forward exchange contracts. Currency risks arising from operating business are analyzed regularly and reduced if necessary through forward exchange contracts or currency options using hedge accounting.

The following table presents the net currency risk from expected and recognized transactions in 2008 in the most important currencies:

€ million as of Dec. 31	CHF	GBP	JPY	TWD	USD
Foreign exchange risk from balance sheet items	–984.0	181.0	136.1	9.9	–97.0
Foreign exchange risk from contingent business and anticipated transactions	–477.2	73.8	197.9	359.4	665.8
Transaction-related foreign exchange position	–1,461.1	254.8	334.0	369.3	568.9
Position hedged by derivatives	1,347.3	–191.1	–130.8	–36.0	–129.7
Open-end foreign exchange risk position	–113.8	63.7	203.3	333.3	439.2
Change in foreign exchange position due to a 1% appreciation of the euro	1.1	–0.6	–2.0	–3.3	–4.4

Translation risks: Many Merck companies are outside the euro zone. The financial statements of these companies are translated into euros. Exchange differences in the assets of these companies resulting from currency fluctuations are recognized in equity.

Interest rate risks

Interest rate risks relate mainly to financial liabilities and monetary deposits. If necessary, derivative financial instruments are used to change fixed interest payments into variable interest payments. The aim is to optimize the interest result and to minimize interest rate risks. Relative to net interest liabilities on the balance sheet date, a parallel shift in interest rates by 100 basis points would affect profits by € –2.6 million.

Liquidity risks

The liquidity risk, i.e. the risk that Merck cannot meet its financial obligations, is limited by the creation of the necessary financial flexibility and by effective cash management. Apart from liquid assets of € 991.9 million, Merck has at its disposal a multi-currency revolving credit line of € 2 billion to be used for business purposes with a term of seven years as well as bilateral credit facilities of € 559.0 million. Moreover, a commercial paper program with a volume of € 500 million exists. The following table presents the contractually set payments such as repayments and interest on financial liabilities carried in the balance sheet and derivative financial instruments with a negative market value:

	Book value Dec. 31,	Cash flows 2008		Cash flows 2009–2013		Cash flows 2014–2020	
€ million	2007	Interest	Repayment	Interest	Repayment	Interest	Repayment
Debt securities and Commercial Paper	976.1	41.4	6.9	114.6	1,000.0	–	–
Bank loans and overdrafts	142.6	3.9	129.7	1.7	7.6	0.4	4.9
Other financial liabilities	78.1	3.8	25.2	5.4	42.0	–	10.9
Miscellaneous other liabilities	100.6	4.0	100.6	–	–	–	–
Financial leasing liabilities	9.9	0.1	9.4	0.1	0.6	–	–
Derivative financial liabilities	40.1	7.0	11.7	27.7	0.1	–	–
	1,347.0	**60.1**	**283.4**	**149.5**	**1,050.3**	**0.4**	**15.8**

Credit risks

Merck is subject to a very low credit risk, i.e. the unexpected loss of payment funds or income. On the one hand, financial contracts are only entered into with prime-rated banks. On the other hand, the broad-based business structure of the Merck Group means that there is no particular concentration of credit risks as regards either customers or specific countries.

[40] Other disclosures on financial instruments

The carrying values of financial instruments by category are as follows:

		Balance sheet measurement according to IAS 39			
€ million	Book value Dec. 31, 2007	Amortized cost	Acquisition cost	Fair value recognized in equity	Fair value included in profit/loss
Assets					
Cash and cash equivalents	426.6	426.6	–	–	–
Trade receivables	1,378.3	1,378.3	–	–	–
Loans	515.1	515.1	–	–	–
Other receivables	196.3	196.3	–	–	–
Other designated financial assets of the category					
Held to maturity	51.0	51.0	–	–	–
Available for sale	86.4	–	23.7	62.7	–
Held for trading	0.7	–	–	–	0.7
Derivative financial assets					
Unhedged derivatives	16.1	–	–	–	16.1
Hedged derivatives	2.1	–	–	1.2	0.9
Liabilities					
Debt securities and Commercial Paper	976.1	504.8	–	–	471.3
Bank loans and overdrafts	142.2	142.2	–	–	–
Other financial liabilities	178.7	178.7	–	–	–
Trade accounts payable	646.9	646.9	–	–	–
Miscellaneous other liabilities	642.8	642.8	–	–	–
Financial leasing liabilities	9.9	–	–	–	–
Derivative financial liabilities					
Unhedged derivatives from financing transactions	10.7	–	–	–	10.7
Other unhedged derivatives	0.9	–	–	–	0.9
Hedged derivatives	30.5	–	–	1.1	29.4
thereof aggregated by category acc. to IAS 39					
Loans and receivables	2,516.3	2,516.3	–	–	–
Assets of the category					
Held to maturity	51.0	51.0	–	–	–
Available for sale	86.4	–	23.7	62.7	–
Held for trading	16.8	–	–	–	16.8
Liabilities of the category					
Carried at amortized cost	2,115.4	2,115.4	–	–	–
Carried at fair value, included in profit/loss	482.9	–	–	–	482.9

			Balance sheet measurement according to IAS 39					
Carrying value according to IAS 17	Fair value Dec. 31, 2007	Book value Dec. 31, 2006	Amortized cost	Acquisition cost	Fair value recognized in equity	Fair value included in profit/loss	Carrying value according to IAS 17	Fair value Dec. 31, 2006
–	426.6	460.1	460.1	–	–	–	–	460.1
–	1,378.3	1,252.9	1,252.9	–	–	–	–	1,252.9
–	515.1	51.0	51.0	–	–	–	–	51.0
–	196.3	96.6	96.6	–	–	–	–	96.6
–	51.0	40.1	40.1	–	–	–	–	40.1
–	86.4	1,644.5	–	2.1	1,641.2	1.2	–	1,644.5
–	0.7	0.7	–	–	–	0.7	–	0.7
–	16.1	7.3	–	–	–	7.3	–	7.3
–	2.1	14.2	–	–	6.4	7.8	–	14.2
–	977.3	771.1	293.6	–	–	477.5	–	771.1
–	141.6	126.0	126.0	–	–	–	–	126.0
–	182.0	106.4	106.4	–	–	–	–	106.4
–	646.9	608.0	608.0	–	–	–	–	608.0
–	641.7	301.5	301.5	–	–	–	–	301.5
9.9	8.9	1.1	–	–	–	–	1.1	1.1
–	10.7	22.0	–	–	–	22.0	–	22.0
–	0.9	1.6	–	–	–	1.6	–	1.6
–	30.5	84.9	–	–	82.9	2.0	–	84.9
–	2,516.3	1,860.6	1,860.6	–	–	–	–	1,860.6
–	51.0	40.1	40.1	–	–	–	–	40.1
–	86.4	1,644.5	–	2.1	1,641.2	1.2	–	1,644.5
–	16.8	8.0	–	–	–	8.0	–	8.0
–	2,118.2	1,435.5	1,435.5	–	–	–	–	1,435.5
–	482.9	501.1	–	–	–	501.1	–	501.1

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

	Interest	Subsequent measurement		
2007 in € million		Write-downs	Write-up	Disposal gains/losses
Loans and receivables	40.9	–10.0	17.9	–
Assets of the category				
Held to maturity	3.4	–	–	0.1
Available for sale	17.3	–	–	2.8
Held for trading	–	–	–	–
Liabilities of the category				
Carried at amortized cost	–251.1	–	–	–
Held for trading	–	–	–	–
2006 in € million				
Loans and receivables	43.2	–2.0	15.4	–
Assets of the category				
Held to maturity	2.0	–	–	–
Available for sale	4.0	–0.2	–0.2	378.0
Held for trading	–	–	–	–
Liabilities of the category				
Carried at amortized cost	–37.6	–	–	–
Held for trading	–	–	–	–

In 2007, exchange rate gains of € 3.8 million resulting from receivables and payables in operating business were recognized (2006: losses of € 9.3 million). A total of € 7.7 million was recorded for hedging transactions in operating business (2006: € 30.3 million). Exchange rate gains of € 8.5 million (2006: exchange rate losses of € 8.9 million) were booked for financial receivables/payables. A loss of € 2.5 million (2006: gain of € 4.6 million) was booked for hedging of financing transactions.

The interest expense of the bond has been made variable through an interest rate swap. The fair value measurement of the bond led to an expense of € 6.7 million (2006: € 18.9 million). This was offset by the same amount of income from an interest rate swap.

[41] Contingent liabilities

€ million	Dec. 31, 2007	thereof subsidiaries	Dec. 31, 2006	thereof subsidiaries
Bills endorsed and in circulation	0.1	–	0.1	–
Guarantees	57.4	–	37.1	2.4
Warranties	0.7	–	0.1	–
Other contingent liabilities	34.1	–	16.6	–

Most of the guarantees exist in connection with our Serono business in Italy, where pursuant to tax legislation, guarantees for reimbursements of tax receivables from the Italian fiscal authorities exist. Other contingent liabilities include, among other things, collateral security given on property, plant and equipment, for example buildings. The increase over the previous year is mainly the result of the consolidation of the companies of the former Serono Group.

[42] Other financial obligations

Other financial obligations comprise the following:

€ million	Dec. 31, 2007	thereof subsidiaries	Dec. 31, 2006	thereof subsidiaries
Obligations to acquire intangible assets	1,247.7	–	246.9	–
Orders for capital expenditure on property, plant and equipment	76.3	–	25.2	–
Future rental payments	62.9	–	64.8	–
Future operating lease payments	87.4	–	48.3	–
Long-term purchase commitments	0.3	–	0.3	–
Other financial obligations	30.9	–	13.0	–
	1,505.5	–	**398.5**	–

Obligations to acquire intangible assets exist 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 € 1,247.7 million (2006: € 246.9 million) for the acquisition of intangible assets. The obligations are as follows:

€ million	potential due date in 1 year	potential due date in 1–5 years	potential due date over 5 years	Total Dec. 31, 2007
Obligations to acquire intangible assets	78.7	423.7	745.3	**1,247.7**

Other financial obligations are carried at nominal value. Liabilities from lease agreements are composed as follows:

€ million	Remaining maturity less than 1 year	Remaining maturity 1 to 5 years	Remaining maturity more than 5 years	Total Dec. 31, 2007
Present value of future payments from finance leases	1.0	8.9	–	9.9
Interest component of finance leases	–	0.5	–	0.5
Future finance lease payments	1.0	9.4	–	**10.4**
Future operating lease payments	22.0	45.3	20.1	**87.4**

[43] Personnel expenses/Headcount

Personnel expenses comprise the following:

€ million	2007	2006
Wages and salaries	1,586.8	1,144.2
Compulsory social security contributions and special financial assistance	225.1	185.6
Pension expenses	121.5	82.7
(in both years excluding discontinued operations (Generics))	**1,933.4**	**1,412.5**

As of December 31, 2007, the companies of the Merck Group had 30,968 employees (2006: 29,999; 4,468 of which were attributable to discontinued operations). The average number of employees during the year was 30,791 (2006: 29,774; 4,557 of which were attributable to discontinued operations).

[44] Material costs

Material costs amounted to € 1,133 million in 2007 (2006: € 874 million), in both years excluding discontinued operations (Generics). Discontinued operations accounted for € 608 million (2006: € 759 million).

[45] Auditors' fees

The costs of the auditors of the financial statements of the Merck Group (KPMG) can be broken down as follows:

	2007		2006	
Cost in € million for	Merck Group	thereof Germany	Merck Group	thereof Germany
Audits of financial statements	8.3	3.9	3.9	0.8
Other audit-related services	0.4	0.1	0.3	0.1
Tax consultancy services	0.4	0.1	0.4	0.1
Other services	2.2	1.7	1.1	0.7
	11.3	**5.8**	**5.7**	**1.7**

[46] 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 Web site (www.corporategovernance.merck.de) in February 2007 and thus made permanently available.

[47] Companies opting for exemption under Section 264 (4) of the German Commercial Code

The following companies, which have been consolidated in these financial statements, have opted for exemption under Section 264 (4) of the German Commercial Code:

Merck Pharma GmbH, Darmstadt
Chemische Fabrik Lehrte Dr. Andreas Kossel GmbH, Lehrte
Merck Selbstmedikation GmbH, Darmstadt

[48] Related-party disclosures

Related parties in respect of the Merck Group are E. Merck OHG as well as the companies Emanuel Merck Vermögens KG and E. Merck Beteiligungen OHG. 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 Board of Management and the Board of Partners of E. Merck OHG as well as close members of their families are also related parties.

As of December 31, 2007, there were liabilities by Merck KGaA and Merck & Cie KG, Altdorf, to Merck OHG in the amount of € 626.6 million (2006: € 224.5 million). In addition, Merck KGaA was owed receivables in the amount of € 20.8 million (2006: € 37.6 million) by E. Merck OHG as of December 31, 2007. The balances result mainly from the profit transfers by Merck & Cie to E. Merck OHG, the reciprocal profit transfers between Merck KGaA and E. Merck OHG, as well as the extension of loans by E. Merck OHG to Merck KGaA as well as the extension of loans by Merck KGaA to E. Merck OHG. These financial payables of € 93.5 million (2006: receivables of € 22.6 million) are subject to standard market interest rates. In 2007, Merck KGaA performed services for E. Merck OHG with a value of € 1.1 million (2006: € 0.9 million). In exchange, E. Merck OHG performed services for Merck KGaA with a value of € 0.5 million (2006: € 0.5 million). As of December 31, 2007, Merck KGaA had receivables from E. Merck Beteiligungen OHG in the amount of € 5.8 million (2006: € 6.7 million). In 2007, Merck KGaA performed services for E. Merck Beteiligungen OHG with a value of € 0.3 million (2006: € 0.5 million). In addition, Merck KGaA performed services for Emanuel Merck Vermögens KG with a value of € 0.1 million (2006: € 0.1 million).

Business transactions with major subsidiaries have been eliminated during consolidation and are not disclosed further in the Notes. Information on pension funds that are classified as funded defined-benefit plans in accordance with IAS 19 can be found in Note [31]. There were no further material transactions with these pension funds.

During the fiscal year, companies of the Merck Group supplied goods with a value of € 3.9 million (2006: € 4.3 million) to associates. During the same period, associates provided services to companies of the Merck Group with a value of € 5.2 million (2006: € 0.0 million). There were no further material transactions with associates in 2007.

The remuneration of the Executive Board of Merck KGaA is largely paid by the general partner, E. Merck OHG, and recorded as an expense in its income statement. For January to December 2007, fixed salaries of € 3.0 million (2006: € 3.0 million) and variable compensation of € 21.9 million (2006: € 10.5 million) were recorded for Members of the Executive Board of Merck KGaA. Variable compensation is in principle based on the three-year rolling average of profit after tax of the E. Merck Group. Due to the one-time effects of the reporting period, a special agreement was made. Furthermore, additions to pension provisions of E. Merck OHG include current service cost of € 2.0 million (2006: € 0.9 million) and in the previous year past service cost of € 8.0 million for members of the Executive Board of Merck KGaA.

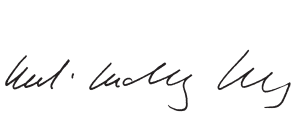
Subject to the approval of the Annual General Meeting on the proposed distribution of a € 1.20 dividend per share plus a bonus of € 2.00 per share, the remuneration of the Supervisory Board amounting to € 964 thousand (2006: € 350 thousand) consists of a fixed portion of € 95 thousand (2006: € 95 thousand) and a variable portion of € 869 thousand (2006: € 255 thousand).

Further material transactions, for example the provision of services or the extension of loans, between companies of the Merck Group and members of the Executive Board and the Supervisory Board of Merck KGaA, the Board of Management and the Board of Partners of E. Merck OHG or close members of their families did not take place in 2007.

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, January 30, 2008

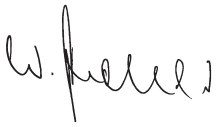


Karl-Ludwig Kley

Michael Becker

Bernd Reckmann

Elmar Schnee



Walter W. Zywottek

Auditor's Report

"We have audited the consolidated financial statements prepared by Merck Kommanditgesellschaft auf Aktien, Darmstadt, comprising the balance sheet, the income statement, statement of recognized income and expense, the cash flow statement and the notes to the consolidated financial statements together with the group management report, for the Merck Group for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). 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 § 315a Abs. 1 HGB 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."

Mannheim, January 31, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Walter
Wirtschaftsprüfer

Heublein
Wirtschaftsprüfer

Financial calendar for 2008

Annual press conference
Monday, February 18

Annual General Meeting
Friday, March 28

Interim Report 1st quarter
Wednesday, April 23

Interim Report 2nd quarter
Wednesday, July 23

Autumn press conference
Interim Report 3rd quarter
Monday, October 27

More information

The Merck Annual Report for 2007 is available in German and English. An abridged version is also available in German and English. Both reports are available as navigable online versions on the Web at www.financialreports.merck.de.

More information about Merck can be found on the Web at www.merck.de and in the following publications, which you may read or order (in German and English) at www.publications.merck.de:

Responsibility for Employees, the Environment and the Community _____ 2007 Report

Merck – Facts & Figures _____ (also available in French and Spanish)

A Strong Site _____ A Global Player Rooted in Darmstadt

You can order these publications from Corporate Communications, Merck KGaA, 64271 Darmstadt, Germany, or via the following e-mail address: corpcom@merck.de.

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