



ANNUAL REPORT  
2010



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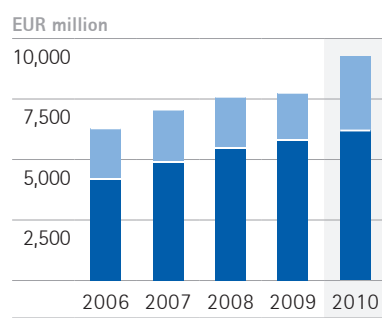
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## MERCK AT A GLANCE

### Key figures for 2010

EUR million	Pharmaceuticals	Chemicals	Corporate and Other	Total	Change in %
Total revenues	6,225.5	3,065.1	-	9,290.6	19.9
Gross margin	5,109.7	1,795.5	-	6,905.2	20.8
Research and development	1,192.0	205.1	-	1,397.1	3.9
Operating result	579.0	624.0	-89.5	1,113.5	71.6
Exceptional items	68.6	-1.0	-68.4	-0.8	-97.3
Earnings before interest and tax (EBIT)	647.6	623.0	-157.9	1,112.7	79.2
EBIT before depreciation and amortization (EBITDA)	1,603.7	1,007.5	-154.3	2,456.9	51.2
Return on sales in % (ROS: operating result/total revenues)	9.3	20.4	-	12.0	
Free cash flow	1,343.6	-4,129.7	-736.4	-3,522.5	-
Underlying free cash flow	1,353.3	812.2	-495.7	1,669.8	96.1

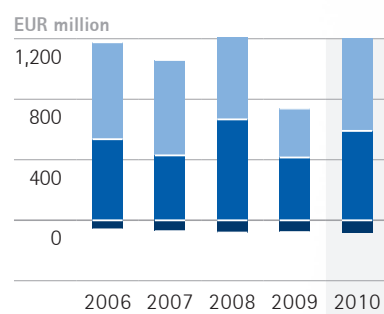
### Total revenues by business sector\*



\*excluding Corporate and Other

■ Pharmaceuticals ■ Chemicals

### Operating result by business sector



■ Pharmaceuticals ■ Chemicals  
■ Corporate and Other

The pharmaceutical, chemical and life science businesses of Merck are organized into four divisions: Merck Serono, Consumer Health Care, Merck Millipore and Performance Materials. Merck employs more than 40,000 people and operates in 67 countries worldwide.



Merck  
Serono

Consumer  
Health Care

Merck  
Millipore

Performance  
Materials

## THE KEY EVENTS OF 2010

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On the whole, 2010 was an eventful and a very good business year for Merck. We pursued the Merck Way, which is based on the principles of “Sustain. Change. Grow.” and were successful in doing so.



OLED technology proves fascinating – also to Angela Merkel, the Chancellor of the Federal Republic of Germany.



A leading life science company – with the Millipore acquisition, Merck makes a successful strategic move.



Merck is significantly expanding its R&D presence in China – the market of the future.

## 2010 AT A GLANCE

**Merck acquired Millipore, a life science company based in the United States.** On February 28, Merck announced the EUR 5.1 billion transaction. The legal closing of the transaction took place on July 14. The new organization, which was merged with parts of the former Performance & Life Science Chemicals division, started operating under its new brand identity on January 1, 2011. Merck Executive Board Chairman Karl-Ludwig Kley said, "By combining Millipore's bioscience and bioprocess knowledge with our own expertise in serving life science customers, we will be able to unlock value in our chemicals business." Analysts also view the acquisition as a good strategic move.

**The confidence of the financial markets** was reflected by the successful issue of a euro bond to finance the Millipore acquisition. The EUR 3.2 billion bond was the largest issue by a German company in Europe in 2010 and was conducted in multiple tranches in a rather difficult market environment.

**China is a market of the future for Merck.** In 2010, Merck strongly expanded its presence in China. Around 2,000 employees contributed to a sales increase of more than 30%. In Beijing, we set up an R&D center in order to coordinate clinical trials locally. More than 200 highly qualified positions will be created.

**Merck experienced both highs and lows** with the regulatory review of its new multiple sclerosis treatment cladribine: Approvals in Russia and Australia, resubmission in the United States, a final negative opinion on the marketing authorization application from the European Medicines Agency. Regulators in the United States will decide on this drug in the first quarter of 2011.

**Merck is a pioneer in LED and OLED development.** To strengthen our position, we opened the new Material Research Center at the Darmstadt site. Merck invested EUR 50 million in the center. Angela Merkel, Chancellor of the Federal Republic of Germany, attended the inauguration on September 23. The world's largest OLED display – with a surface area of nearly nine square meters – is located in the foyer of the main building.

**A future-oriented cooperation agreement with Sanofi-Aventis** was announced on December 17. The agreement involves a global research and development collaboration in oncology. The goal is to research new, experimental combinations of agents that could block specific signaling pathways in cancer cells. Merck hopes the collaboration will lead to new, targeted cancer therapies with high therapeutic potential.

## ABOUT MERCK

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At Merck, the pharmaceutical, chemical and life science businesses are under one roof. We are convinced that in these sectors, the market will reward successful research and technological advances with attractive margins. We focus on specialty businesses. We are not interested in engaging in commodity markets or businesses where competition is dictated by price alone.

### THE MERCK PATH

It all started with a pharmacy in 1668. The Angel Pharmacy, which is still owned by members of the Merck family, is where Merck originated. Like his contemporaries, the pharmacist Friedrich Jacob Merck prepared all medicinal substances himself. At that time, the "art of pharmacy" was still a manual craft.

In 1816 – several generations of pharmacists later – Emanuel Merck took over his father's pharmacy and initiated the move from a manual craft to industrial production in 1827. In his laboratory, he succeeded in extracting pure alkaloids, a class of highly effective plant constituents whose medicinal effect attracted interest from the scientific community. By 1860, the company already offered more than 800 organic and inorganic substances for sale, including many still used in laboratories today.

The roots of the Liquid Crystals business – one of the outstanding Merck success stories – date back to 1904. For decades, liquid crystals remained a laboratory oddity, and their sale was handled by the Laboratory business.

Serono, which was acquired by Merck in 2007, also started out by extracting active substances. In 1906, Cesare Serono founded the "Istituto Farmacologico Serono" in Rome and developed a new method of extracting lecithin from egg yolk. In 1949, the company successfully isolated pure gonadotropin from urine. Gonadotropin plays an important role in reproduction. The production of recombinant gonadotropin transformed Serono into a biotechnology company.

## BECOMING A GLOBAL, PUBLICLY LISTED COMPANY

Merck established initial business relationships with European neighbors in the 1820s. Since 1900, Merck has maintained business relationships on all continents.

In the United States, Georg (later "George") Merck, a grandson of Emanuel Merck, founded a trading company called Merck & Co. in 1891. As a result of World War I, Merck in Darmstadt lost its entire stake in this company under the "Trading with the Enemy Act" of 1917. George Merck succeeded in reacquiring his interest and became president of the public company Merck & Co. Today, the two companies are no longer linked. The U.S. company Merck & Co. owns the exclusive rights to the name within North America while Merck in Darmstadt holds the rights in the rest of the world. In the United States and Canada, the company operates under the name EMD, the abbreviation for Emanuel Merck, Darmstadt.

Acquisitions and divestments have always played an important role at Merck. A decisive step in Merck's expansion was the acquisition of a 50% interest in the Bracco Group of Italy in 1972. Aside from commercializing contrast agents and its own pharmaceutical specialties, Bracco served as Merck's representative in Italy for the entire Merck product range, helping to significantly boost Merck's earning power. In 1991, Merck acquired the French company Société Lyonnaise Industrielle Pharmaceutique (Lipha).

In the mid-1990s, Merck expanded its consumer health care business by acquiring Seven Seas in the United Kingdom and Monot in France. At the same time, the acquisition of Amerpharm of the United Kingdom gave Merck a critical mass in the generic drugs business. The takeover of a large number of laboratory distribution businesses was rounded off with the purchase of VWR Scientific Products, a U.S. laboratory distributor, in 1999.

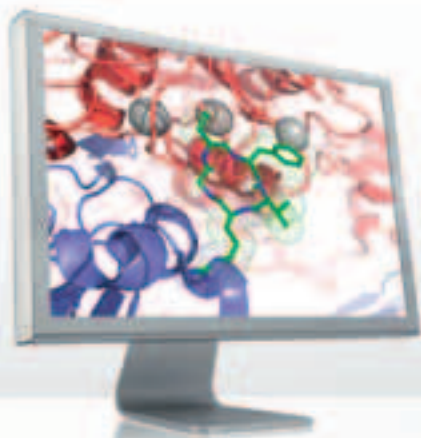


Merck is the market leader  
for liquid crystals.  
By 1983, they were being  
used in car dashboards.



In order to secure the financing of these acquisitions, Merck went public in 1995. A 26% interest in Merck KGaA was sold to shareholders. The Merck family held the remaining 74% via the general partner E. Merck. Following a capital increase in 2007, the ownership ratio shifted to its current 30–70 ratio.

The first half of the past decade saw a significant number of divestments. In 2000, Merck divested its interest in Bracco and vitamin chemicals. In 2004, the company exited from the Laboratory Distribution and Electronic Chemicals businesses. In 2006, Merck was debt-free. In 2007, Merck embarked on a growth course, acquiring the Swiss biopharmaceutical company Serono. Involving a purchase price of EUR 10.3 billion, this was by far the largest acquisition ever made by Merck. As the generics business was sold in the same year for EUR 4.9 billion, the company lowered its debt to less than EUR 1 billion by year-end. Only three years later, Merck made its next major acquisition, purchasing Millipore for EUR 5.1 billion. The EUR 3.2 billion bond issue was the largest euro-bond offering by a German company in 2010. Merck also decided to divest two non-core businesses in 2010: Théramex, a company specializing in women's health, and the Crop BioScience business for improving plant health and crop yields.



Merck is developing targeted cancer therapies such as the molecule cilengitide (in green) shown here at its molecular target.

## MERCK TODAY

Merck is pursuing a business model aimed at creating value for shareholders and owners. Following the acquisition of Millipore, we have a portfolio with a balanced distribution of risk. This portfolio is based on core competences in three businesses with synergetic potential: pharmaceuticals, chemicals and life science.

Merck runs its operating business in four divisions: Merck Serono, Consumer Health Care, Merck Millipore and Performance Materials.

The Merck Serono division markets prescription medicines. It discovers, develops and manufactures both chemical and biological molecules. Merck holds strong positions in neurodegenerative diseases and oncology. In addition, the division markets fertility treatments, a field in which we are the world market leader, and growth hormones as well as a broad portfolio of classic products, especially for cardiovascular and metabolic disorders.

The Consumer Health Care division offers over-the-counter products for preventive health care and the self-treatment of minor ailments.

Merck is the global leader in the liquid crystals market. Besides the display materials business, the Performance Materials division focuses on lighting materials for energy-saving LEDs (light-emitting diodes) and OLEDs (organic LEDs). Pigments for the plastics, printing and coatings industries as well as for cosmetic applications are also an important part of the Performance Materials portfolio. Moreover, the division is the market leader for pearl luster effect pigments – a highly specialized niche within the pigment market.

In 2010, Merck acquired the U.S. life science company Millipore. Founded in 1954 by Jack Bush, the focus at that time was on filtration technology for water treatment and laboratories. This enabled Millipore to achieve a breakthrough worldwide. Later on, further businesses such as bioprocessing and bioanalytical services for the pharmaceutical industry were added, transforming Millipore into a leading global life science company.

With the acquisition of Millipore, Merck is now a leading life science company. The Merck Millipore division offers products for life science research such as assays, biomarkers and target solutions, as well as bioprocessing, lab water purification and filtration. Additionally, the division supplies specialty chemicals mainly to regulated markets, for example the pharmaceutical, cosmetics and food industries. Analytical and scientific laboratories use our reagents and test kits. In total, the Merck Millipore portfolio comprises more than 40,000 products and processes.

## THE FUTURE

Merck will continue to focus on specialty products in its pharmaceutical, chemical and life science businesses while creating synergies. We will also further invest significantly in research and development while pursuing growth both organically and through acquisitions. We will adhere to our very solid finance policy.

## LETTER FROM KARL-LUDWIG KLEY

“We aspire to be a company  
where an enjoyment of work  
and innovative strength meet.”  
Karl-Ludwig Kley



## *Dear Shareholders and Friends,*

During 2010, we made further progress with the transformation of your company into a leading innovative and high-tech enterprise. As part of this process, we achieved several important milestones.

We impressively proved Merck's economic strength following the 2009 crisis year. Our total revenues increased by 20% to EUR 9.3 billion, a record high. The operating result jumped by 72% to EUR 1.1 billion. At nearly EUR 1.7 billion, underlying free cash flow significantly exceeded the billion-euro threshold for the first time. Profit after tax was 70% higher than in 2009. In view of these figures, we will propose to the Annual General Meeting on April 8 an increase in the dividend to EUR 1.25 per share.

With the acquisition of Millipore, we have given our business a decisive boost. By combining Merck and Millipore, we have become a leading global partner to the life science industry. With our portfolio, which ranges from laboratory chemicals to complete solutions for the production of biopharmaceuticals, we are helping our customers to succeed in research, development and production. At the same time, we are capturing opportunities to realize synergies with our own existing businesses and to enter new fields.

We have also set the course for the future with the recent changes in the composition of the Executive Board. On January 1, 2011, Stefan Oschmann succeeded Elmar Schnee, who left the company, as the Board Member responsible for the Pharmaceuticals business. I would also like to take this opportunity to thank Elmar Schnee, who decisively shaped the integration of Merck Serono and contributed greatly to the solid foundations on which we can further develop the business. Kai Beckmann will be joining the Executive Board, taking over responsibility for the newly created Executive Board position for Human Resources on April 1. And on June 1, 2011, Matthias Zachert will succeed Michael Becker as Chief Financial Officer. With this new team, we are creating the perfect conditions to start a new, successful chapter in the unique history of Merck.

We are in a position to develop the company further from the economically robust and highly innovative basis of 2010.

Merck Serono, our division for innovative prescription drugs, outperformed the average global market growth by posting an 8.3% increase in sales. Our two largest products, Rebif® and Erbitux®, continued to perform well. Their sales increased by 8.6% to nearly EUR 1,700 million and 18%

to EUR 820 million, respectively. Core return on sales (ROS) was 22%. Yet we did not reach all our objectives. The Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) issued a final negative opinion regarding the marketing authorization application for cladribine tablets as a treatment for relapsing-remitting multiple sclerosis. In the United States, we are awaiting the FDA's decision.

The Consumer Health Care division, which is responsible for our over-the-counter drugs business, continued its growth course, with the exception of our newly emerging business in China. The restructuring measures underway there not only slowed sales growth, but also adversely impacted profitability.

We began consolidating our life science business, including the acquired Millipore, into the new Merck Millipore division in July. Despite the ongoing integration work, we achieved a marked increase in sales. Adjusted for the acquisition, core ROS was 19%.

The Performance Materials division, which comprises our materials businesses, can look back at a very successful year. With sales increasing by 38%, it was our strongest growth driver. The Liquid Crystals business exceeded the EUR 1 billion sales threshold for the first time. The division's ROS was 42%.

We were also successful on a regional basis. In Asia, our second-largest region after Europe, we grew by 37%, posting sales of EUR 2.3 billion. In the United States, sales increased by 32% to EUR 1.4 billion.

We are looking toward the future with optimism. No doubt we expect the global financial, economic and debt crises to have a further impact. No doubt key economies are still a long way from recovering their former stability and dynamism. The financial sector also remains vulnerable. Despite all the risks, we expect economic developments to be positive in 2011. For Merck, we expect total revenues to increase by between 13% and 18%. We aim to increase the operating result by between 35% and 45%.

Above all, however, we want to further develop the company strategically:

Based on our strong position in display materials, we want to expand into new fields and new technologies. After having successfully developed IPS, VA and PS-VA technologies that produce faster and sharper LCD images and consume less power, we are working on successors. At the same time, we are aiming to establish ourselves as a materials supplier in new

fields, including innovative lighting materials based on LEDs and OLEDs, energy storage materials for the automotive sector, and products for the photovoltaics industry that will be used in the next generation of solar cells.

With Merck Millipore, we want to position ourselves as the leading supplier to the life science industry, for instance in the biopharmaceutical market, which is highly profitable and is currently growing at 12% a year. Cooperating with customers on research and development programs is a common feature of processes in modern biotech production where we transform our expertise in chemicals and pharmaceuticals into innovation. Once the production process has been approved for a drug, this leads to benefits for our customers, who seek joint, long-term success with a supplier they can trust.

At Merck Serono, we are concentrating on specialist therapeutic areas with high unmet medical needs. Our research activities are focused on three areas: Oncology, Neurodegenerative Diseases and Rheumatology. In parallel with the development of specific therapies, it is our aim to develop patient stratification methods: We want to focus even more closely on how our drugs act in certain groups of patients and how therapeutic efficacy can be predicted for individual patients.

We aspire to be a company where an enjoyment of work and innovative strength meet. Merck stands out because it offers an inspiring and motivating work environment in which all employees have the opportunity to make extraordinary achievements while developing themselves further.

And this is why our more than 40,000 employees apply themselves energetically to the benefit of customers and the company. We owe you, our shareholders and customers, our thanks for your support and trust. My Executive Board colleagues and I will continue to do everything we can to merit this trust.

*Sincerely,*  
*Karl Ludwig Hey*

## EXECUTIVE BOARD

### **Karl-Ludwig Kley**

Chairman of the Executive Board

born in 1951, lawyer

Member of the Supervisory Board and Board of Partners of Merck from March 2004 to June 2006, Member of the Executive Board since joining Merck in September 2006

Responsibility for Group-wide functions: Information Services; Human Resources (global); Legal and Compliance; Patents; Auditing and Risk Management; Strategic Planning; Inhouse Consulting; Corporate Communications; Environment, Health and Safety

### **Stefan Oschmann**

Head of the Pharmaceuticals business sector

born in 1957, veterinarian

joined Merck in 2011 as a Member of the Executive Board

Responsibility for Group-wide functions: Pharmaceuticals business sector

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

**Until the end of 2010:**  
**Elmar Schnee**

### **Michael Becker**

Chief Financial Officer

born in 1948, lawyer

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

Responsibility for Group-wide functions: Accounting and Controlling, Finance; Taxes; Insurance; Mergers and Acquisitions; Investor Relations; Purchasing

### **Bernd Reckmann**

Head of the Chemicals business sector

born in 1955, biochemist

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

Responsibility for Group-wide functions: Chemicals business sector

Regional responsibilities: Germany (including HR); Site Management Darmstadt and Gernsheim; Asia; United States (Chemicals); Russia, Australia; New Zealand



Bernd Reckmann



Stefan Oschmann

Michael Becker

Karl-Ludwig Kley



## MANAGEMENT REPORT OF THE MERCK GROUP 2010

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## OVERALL ECONOMIC SITUATION

The global economy recovered from the most severe crisis since the Second World War. In the pharmaceutical sector, emerging countries are gaining ground. The chemical industry, especially that of Germany, recorded an exceptionally good year in 2010.

### Global economy is regaining momentum – Uncertainty remains

The Organization for Economic Cooperation and Development (OECD) reported that economic growth of its 34 member states totaled 2.8% in 2010. Gross domestic product (GDP) of the United States, the world's largest economy, grew by 2.7%, while gross national product (GDP) of the eurozone countries increased by 1.7%. Japan can look back at growth of 3.7%. On the positive side, the OECD noted that company profits, which had grown sharply, were reinvested. However, the renewed drop in real estate prices in the United States as well as growing tension in the foreign exchange markets had a noticeably negative impact.

The International Monetary Fund (IMF), which reports on the development of global economic growth, calculated an increase of 4.8% in 2010. Accordingly, the industrialized countries recorded a 2.7% increase in GDP. However, industrial output in the industrialized countries is still notably below the pre-crisis level. By contrast, the emerging and developing countries achieved a GDP increase of 7.1%. This includes the BRIC countries, namely China (+10.5%), India (+9.7%), Brazil (+7.5%) and Russia (+4%).

The IMF considers the global growth achieved to be weak because the world economy is still recovering from the deepest recession since the Second World War. By contrast, thanks to government incentives, China achieved a self-sustaining recovery fueled mainly by private sector demand. However, economists are noting real estate speculation in some parts of China, which could lead to corrections. According to the IMF, Brazil is leading the recovery in Latin America, yet its economy is currently showing signs of possibly overheating.

The IMF takes a critical view of financial market stability, which had already declined in the first half of 2010 and uncertainty is gaining ground. Growing tensions in the international currency environment as well as the expansive monetary policy of the United States pose risks. Overall, the economic recovery slowed down as of the third quarter of 2010 according to the IMF. Private demand as well as the impact of government economic incentives ending were and still are uncertainties in this context. In 2010, inflation was under 1.5% in the industrialized countries and 5.75% in the economies of emerging countries.

Uncertainties remain despite the market recovery following the crisis

One-third of our global pharmaceutical sales are generated in the United States

### Pharmaceutical markets of the industrialized countries facing stronger headwind

The pharmaceutical market research firm IMS Health reported global pharma sales in 2010 of around USD 840 billion, corresponding to growth of around 4.5%. Sales in the United States, the world's largest pharmaceutical market, totaled USD 310 billion. The more mature markets of the industrialized countries no longer showed particularly strong growth, also as an outcome of health care reforms, for example in France, Spain and Greece. Markets with high growth rates include the BRIC countries, namely Brazil, Russia, India and China, as well as Turkey and Indonesia. In 2010, emerging economics already accounted for 42% of the global growth of the pharmaceutical markets. According to IMS Health, it is becoming increasingly difficult to introduce new medicines to the market and to earn the corresponding returns on investment. IMS Health reports that in several countries, including Spain, Italy and China, regional or even local authorities are becoming increasingly influential alongside national authorities. This lengthens the time to market launch, if a product even makes it that far.

### Chemical industry registers strong growth

According to the European Chemical Industry Council (Cefic), the European chemical industry grew by 10% in 2010 compared to 2009, which was a weak year due to the economic crisis. Germany was the growth engine of the European chemical industry, yet the industry has still not returned to the pre-crisis level of 2007. Global sales totaled EUR 1,871 billion in 2009. The 27 member states of the European Union were responsible for EUR 449 billion, or just 24% of the total. Accounting for 25.5% of European sales, Germany holds the leading position in this region. Globally, Asia is in first place with sales of EUR 834 billion, led by China with EUR 416 billion. Specialty chemicals, which include products from Merck, account for 26% of European chemical sales. According to Cefic data, consumer chemicals, which also include Merck products, account for 14% of European chemical sales. (The figures for 2010 will only be available after the publication of this report).

Growth weakened toward year-end since economic incentives ended in some countries.

Demand outside of Europe was the main growth driver according to Cefic.

The German Chemical Industry Association (VCI) calculated growth of nearly 18% to EUR 170 billion for Germany. The approximately 1,600 member companies invested EUR 6.4 billion in plant and buildings, and spent nearly EUR 9.4 billion on research and development.

The American Chemical Council (ACC) put the volume of the largest market, the United States, at well over USD 670 billion in 2010. Exports were an important component, generating a trade surplus of USD 3.7 billion, compared to a deficit of USD 100 million in 2009. According to the ACC, industrial output in the emerging countries rose by 12% in 2010.

## FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Group financial statements strongly reflect the acquisition of Millipore, which is helping us to position Merck as a life science company.

### 2010 – A successful and eventful business year

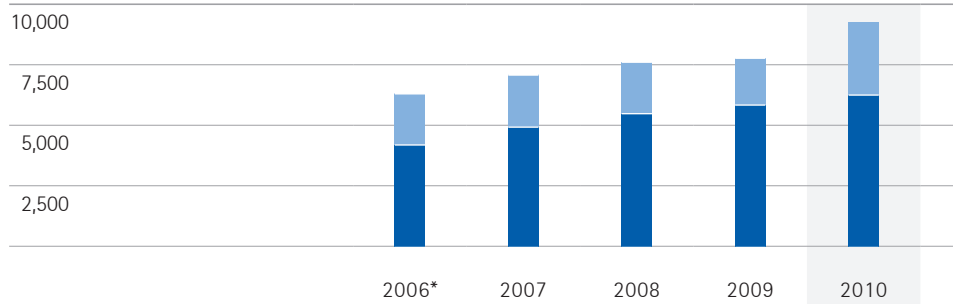
The financial and earnings position developed very positively in 2010. Following the acquisition of Serono of Switzerland within the Pharmaceuticals business sector in 2007, we also made a major acquisition in the Chemicals business sector by purchasing Millipore Corporation of the United States in 2010. This acquisition had a very strong impact on the 2010 financial statements. The revenues and expenses of the Millipore companies have been included in the income statement since July 2010. Moreover, the expenses from the purchase price allocation as well as one-time transaction and integration costs have been taken into account.

Organic sales growth of 7.9%  
for the Merck Group

Product sales of the Merck Group rose in 2010 by 21% to EUR 8,929 million. Declining by 2%, royalty, license and commission income was slightly lower than in 2009. Total revenues, meaning the sum of product sales as well as royalty, license and commission income, rose by 20% to EUR 9,291 million. This sharp increase is related to the purchase of Millipore. However, our business also grew satisfactorily on an organic basis, i.e. adjusted for acquisition and currency effects, by 7.9%.

### Total revenues by business sector

EUR million



\*including Generics

■ Chemicals ■ Pharmaceuticals

Cost of sales increased by 18%. In the course of the purchase price allocation, the inventories from the Millipore acquisition were already recognized at fair values based on realizable sales revenues, and thus stepped up by EUR 86 million. This amount was fully expensed in cost of sales in the second half of 2010, and had a one-time negative impact on gross margin. Overall, gross margin rose by 21%. Marketing and selling expenses increased relatively sharply by 20% since the costs of the Millipore companies were included for six months compared to 2009. Excluding the acquisition and currency effects, the increase amounted to 7.9%.

Owing to the increasing significance of royalty, license and commission expenses, we disclose these separately below marketing and selling expenses. The 15% cost increase is sales-dependent and relates to the positive development of our Merck Serono products Rebif® and Erbitux®.

Royalty, license and commission income and expenses include the royalty, license and commission income reported in total revenues as well as the expenses for marketing licenses and to a lesser extent production licenses. The components are as follows:

#### Royalty, license and commission income and expenses by division in 2010

EUR million	Total	Merck Serono	Consumer Health Care	Merck Millipore	Performance Materials	Corporate and Other
Royalty + license expenses	-183	-163	-	-7	-13	-
Royalty + license income	340	323	2	7	8	-
<b>Total</b>	<b>157</b>	<b>160</b>	<b>2</b>	<b>-</b>	<b>-5</b>	<b>-</b>
Commission expenses	-297	-293	-	-3	-1	-
Commission income	22	22	-	-	-	-
<b>Total</b>	<b>-275</b>	<b>-271</b>	<b>-</b>	<b>-3</b>	<b>-1</b>	<b>-</b>

#### Royalty, license and commission income and expenses by division in 2009

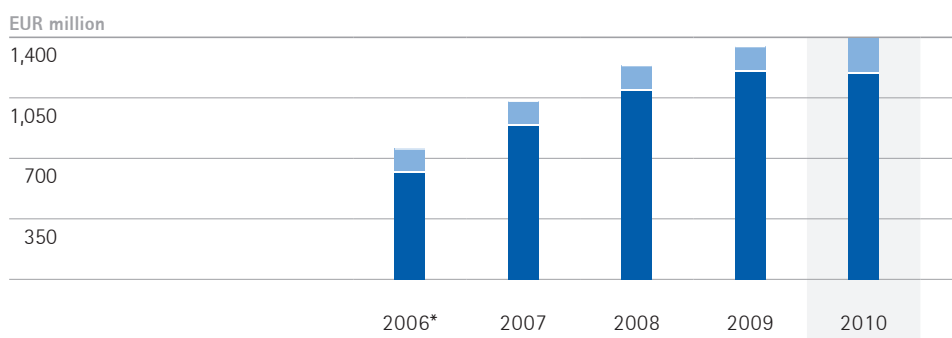
EUR million	Total	Merck Serono	Consumer Health Care	Merck Millipore	Performance Materials	Corporate and Other
Royalty + license expenses	-172	-151	-1	-3	-17	-
Royalty + license income	345	328	2	7	8	-
<b>Total</b>	<b>173</b>	<b>177</b>	<b>1</b>	<b>4</b>	<b>-9</b>	<b>-</b>
Commission expenses	-257	-253	-	-3	-1	-
Commission income	24	23	-	1	-	-
<b>Total</b>	<b>-233</b>	<b>-230</b>	<b>-</b>	<b>-2</b>	<b>-1</b>	<b>-</b>

The marked 12% increase in administration expenses was due mainly to the first-time consolidation of the Millipore companies, as well as to currency effects. Excluding acquisition and currency effects, administration expenses rose by only 1.9%.

Showing a net expense of EUR 390 million, the line item "Other operating income and expenses" grew slightly (EUR -18 million) compared to the net expense reported in 2009. While the figure for 2009 included an increase of around EUR 80 million in expenses due to additions to provisions for litigation, the figure for 2010 includes transaction and integration costs for Millipore totaling EUR 87 million. Transaction costs accounted for around EUR 31 million, which were no longer capitalized as part of the purchase price due to changes in IFRS accounting rules but recognized immediately in the income statement. Additionally, higher impairment losses on intangible assets and property, plant and equipment lowered this item. In total, impairment losses amount to EUR 66 million. These are largely related to the termination of research

projects and research alliances, but also to altered market conditions, which lead us to expect lower sales than previously assumed. In 2010, we recorded EUR 25 million for exchange rate gains, whereas in 2009 we recognized exchange rate losses of EUR 7 million. Research and development costs increased by 3.9% to EUR 1,397 million. Thus, the ratio of R&D expenses to total revenues was 15% compared to 17% in 2009.

**Research and development spending by business sector**



\*including Generics

■ Chemicals ■ Pharmaceuticals

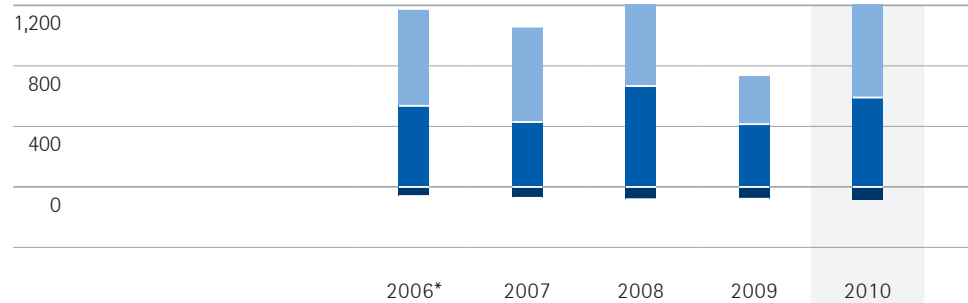
Amortization of intangible assets, which previously related mainly to the Serono purchase price allocation, now also include amortization of the intangible assets identified within the scope of the purchase price allocation for Millipore. These are mainly customer relationships and technologies as well as trademarks and brands, which are amortized over a period of 8 to 17 years. Consequently, depreciation and amortization rose significantly, totaling EUR 96 million for the Merck Millipore division. This item also includes expenses for amortization of intangible assets resulting from the previous Serono purchase price allocation. Due to a reassessment of the potential future sales for safinamide, we recorded an impairment of EUR 134 million to a residual value of EUR 63 million. This reassessment was based on the results of a Phase III study conducted by our development partner Newron. The results led to a reassessment of the market potential especially with regard to the achievable indications. In addition, the new valuation covers a delay in the project as well as an increase in R&D costs owing to increased regulatory requirements.

Group operating result increases by 72%

Overall, the operating result of the Merck Group amounted to EUR 1,113 million, corresponding to an increase of 72% over 2009.

**Operating result by business sector**

in EUR million



\*including Generics

■ Chemicals ■ Pharmaceuticals ■ Corporate and Other

**Exceptional items: Gain on the divestment of Théramex as well as litigation costs**

Exceptional items include the gain on the sale of Théramex amounting to EUR 69 million.

Further information on this can be found in the Notes under "Scope of consolidation".

In connection with the legal risk of our former subsidiary Dey Inc., USA, having allegedly reported false price information, a settlement was reached with the U.S. Department of Justice in 2010. The resulting expenses of EUR 67 million were recorded under exceptional items.

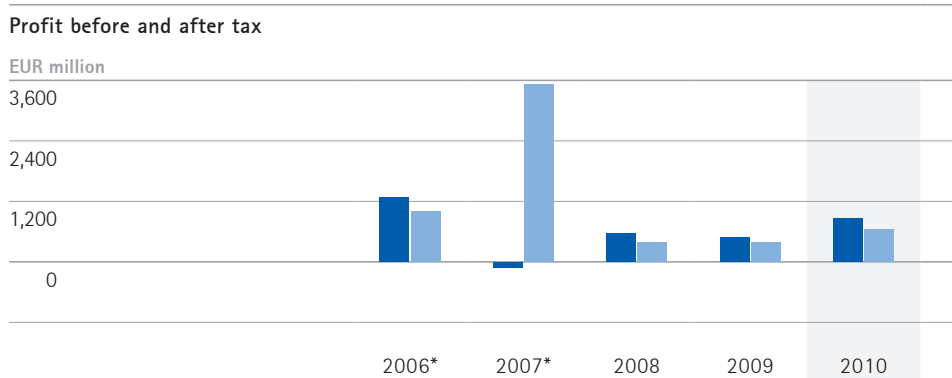
Although Dey Inc. was transferred to Mylan Inc., USA, within the scope of the divestment of the Generics business in 2007, Merck remains liable to Mylan for the costs of this litigation.

Additional expenses amounting to EUR 1 million relate to the sale of the Electronic Chemicals business in 2005 and include a purchase price reimbursement to the buyer for subsequent taxes. Moreover, this item includes transaction costs of EUR 1 million for the planned sale of the Crop BioScience business. The transaction, which is subject to antitrust clearance, is expected to close in 2011.

**Profit after tax up 70%****Sharp increase in profit after tax**

The financial result showed an expense balance of EUR 252 million compared to EUR 134 million in 2009. The marked increase was due mainly to interest expenses for the financing of the Millipore acquisition.

Adjusted for exceptional items, the tax rate was 25.3%, compared to 21.6% in 2009. It should be noted that the capitalization of deferred tax assets on tax loss carryforwards had favorable one-time effects on the tax rate in 2009. Profit after tax amounted to EUR 642 million, which is 70% more than in 2009.



\*including Generics

■ Profit before tax ■ Profit after tax

**Dividend proposal**

[Merck raises dividend to EUR 1.25](#)

We will propose to the Annual Meeting on April 8, 2011 a raise in the dividend from EUR 1.00 to EUR 1.25 per share.

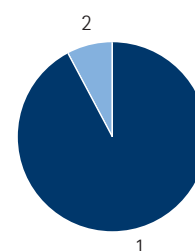
**Good growth in the Pharmaceuticals business sector**

The Pharmaceuticals business sector, comprising the two divisions Merck Serono and Consumer Health Care, increased total revenues by 7.1% to EUR 6,225 million in 2010. Total revenues increased by 7.6% in the Merck Serono division and by 1.1% in the Consumer Health Care division.

**Pharmaceuticals | Total revenues by division**

EUR million / % of total revenues

1 Merck Serono	5,754	92%
2 Consumer Health Care	472	8%



The Pharmaceuticals business sector increased its operating result as well. This figure rose by 44% to EUR 579 million. This was due exclusively to the development of the Merck Serono division (+59%). The operating result of the Consumer Health Care division was 71% lower than in 2009 (more information can be found on page 62).

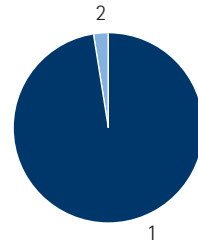
The Pharmaceuticals business sector generated 67% of total revenues and 48% of the operating result of the Merck Group (excluding Corporate and Other). Return on sales increased from 6.9% to 9.3%.



**Pharmaceuticals | Operating result by division**

EUR million / % of operating result

1 Merck Serono	565	98%
2 Consumer Health Care	14	2%

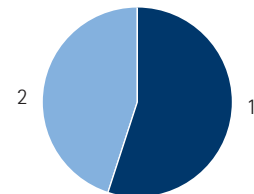
**Chemicals business sector posts revenue growth of nearly 60%**

The Chemicals business sector, comprising the two divisions Merck Millipore and Performance Materials, markedly increased total revenues by 58% to EUR 3,065 million. Both divisions performed very well, with total revenues increasing by 81% for Merck Millipore and by 38% for Performance Materials. However, for the Merck Millipore division, it should be noted that the Millipore companies have only been consolidated since July 2010 and were therefore only included in the financial statements for half a year. Organically, meaning adjusted for acquisition and currency effects, total revenues of the Chemicals business sector increased by 17%.

**Chemicals | Total revenues by division**

EUR million / % of total revenues

1 Merck Millipore	1,681	55%
2 Performance Materials	1,384	45%



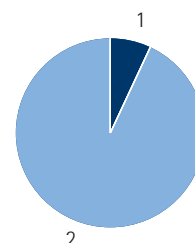
Liquid crystals and Pigments  
post excellent results

The operating result of the Chemicals business sector increased by 92% to EUR 624 million, despite expenses such as the costs of the Millipore integration (EUR 87 million), the one-time inventory step-up within the scope of the Millipore purchase price allocation (EUR 86 million) as well as the amortization of intangible assets (EUR 96 million). Due to the aforementioned one-time expenses in 2010, the operating result of the Merck Millipore division declined by 59%. The significant rise of 166% in the operating result of the Performance Materials division was derived from the Liquid Crystals and Pigments business units.

### Chemicals | Operating result by division

EUR million / % of operating result

1 Merck Millipore	44	7%
2 Performance Materials	580	93%



The Chemicals business sector generated 33% of total revenues and 52% of the operating result of the Merck Group (excluding Corporate and Other). Return on sales increased from 16.8% to 20.4%.

### Growth by quarter

#### Total revenues by quarter

EUR million	1st quarter	2nd quarter	3rd quarter	4th quarter	2010	2009
<b>Total</b>	<b>2,099</b>	<b>2,208</b>	<b>2,438</b>	<b>2,546</b>	<b>9,291</b>	<b>7,747</b>
Pharmaceuticals	1,514	1,564	1,518	1,628	6,225	5,812
Chemicals	585	644	919	918	3,065	1,935
Corporate and Other	-	-	-	-	-	-

#### Components of growth in total revenues by quarter

in %	1st quarter	2nd quarter	3rd quarter	4th quarter	2010	2009
Organic growth	13.2	10.7	3.5	4.5	7.9	2.2
Pharmaceuticals	7.0	6.8	1.6	4.1	4.9	7.0
Chemicals	33.4	22.0	8.7	5.9	16.9	-9.5
Currency effects	-0.5	4.7	5.3	4.8	3.7	-0.2
Acquisitions/divestments	0.2	0.2	16.2	16.1	8.4	-
<b>Total</b>	<b>12.9</b>	<b>15.6</b>	<b>25.0</b>	<b>25.5</b>	<b>19.9</b>	<b>2.1</b>

### Regions: Europe remains our top sales region

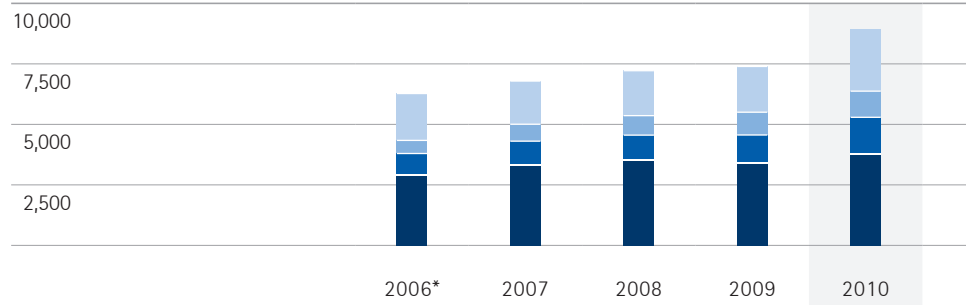
Sales by region showed the following breakdown: Accounting for 42% of sales, Europe remains our largest sales market, followed by Asia (26%), North America (17%) and Latin America (12%).

Sales growth of 10% in Germany

At EUR 3,747 million, sales in Europe increased by 11%. Within Europe, Germany is the top sales country, followed by France and Italy. Sales in Germany grew by 10% in 2010 to EUR 779 million. Within the Pharmaceuticals business sector, France is our largest European market, followed by Germany and Italy. Whereas pharmaceutical sales in Italy increased and stagnated in Germany, we registered a decline in France.

## Merck Group | Sales by region

EUR million



\*including Generics

■ Europe ■ North America ■ Latin America ■ Asia, Africa, Australasia

## Focus on Asian markets

With sales of EUR 2,305 million, Asia is our second largest region and is increasingly gaining in importance, growing by 37% in 2010. In Asia, Taiwan is the leading country by sales for the Merck Group. Sales there increased by 75% to EUR 589 million following a weak 2009, mainly as a result of the Liquid Crystals business. The Chemicals business was responsible for 94% of sales in Taiwan, with the Liquid Crystals business accounting for the largest share.

Our second-largest market in Asia is Japan, where we posted a 57% increase in sales to EUR 486 million. The Pharmaceuticals business sector accounts for about 40% and the Chemicals business sector for around 60% of sales. The sales growth rates achieved by Pharmaceuticals and Chemicals varied, amounting to 39% and 71%, respectively.

South Korea is our third-largest Asian market. Sales increased here by 3.9% to EUR 360 million. The focus is on the Chemicals business, which accounted for 89% of sales.

Our declared growth market of China currently ranks fourth within Asia. We achieved a 26% increase in sales in this market to EUR 240 million. Sales in China are about evenly divided between our Pharmaceuticals and Chemicals business sectors. In India, which follows China in our sales ranking, we achieved sales growth of 38% to EUR 156 million. Pharmaceuticals accounted for 27% and Chemicals for 73% of sales.

Merck expanded sales in North America to EUR 1,530 million in 2010. This represents growth of 31%. At EUR 1,403 million (+31%), more than 90% of sales in this region are generated in the United States. The Pharmaceuticals business sector accounts for around 70% and the Chemicals business sector for around 30% of sales in the United States. This ratio will continue to shift in favor of Chemicals owing to the acquisition of Millipore in mid-2010.

In Latin America, Brazil is by far our largest market, followed by Mexico. Brazil is one of our declared growth markets besides India and China. In 2010, we increased our sales in Brazil by 37% to EUR 359 million. Around 80% of sales there were generated by the Pharmaceuticals business sector.

**Acquisitions: Millipore strengthens the Chemicals business**

On July 14, 2010, Merck successfully completed the acquisition of Millipore Corporation, a leading life science company based in Billerica, Massachusetts, USA. The Millipore companies

were then consolidated in the financial statements of the Merck Group for the first time. The total volume of the transaction was EUR 5,137 million. This includes payments amounting to EUR 4,612 million for the outstanding shares as well as existing options from stock option plans and payments of EUR 525 million to repurchase an outstanding convertible bond that had been issued by Millipore.

On February 28, 2010, Merck announced its offer to acquire all outstanding Millipore shares for USD 107 in cash per share of Millipore common stock. The closing followed the approval of the acquisition by Millipore's shareholders at a special meeting held on June 3, 2010, and the satisfaction of other customary conditions, including antitrust clearance in the United States and Europe. Millipore was delisted from the New York Stock Exchange on July 26, 2010. Likewise, an application for deregistration from the U.S. Securities and Exchange Commission (SEC) was filed on July 26, 2010. The deregistration took effect on October 13, 2010.

#### **Millipore influences balance sheet ratios**

Equity ratio of 46%

The total assets of the Merck Group amounted to EUR 22,388 million as of December 31, 2010.

This corresponds to an increase of EUR 5,675 million or 34% over December 31, 2009. The most significant impact on the balance sheet structure was the acquisition of Millipore and the financing thereof. To finance the acquisition, a bond consisting of several tranches with a total volume of EUR 3.2 billion was issued during 2010. The equity ratio declined from 56.9% at the beginning of 2010 to 46.3% on December 31, 2010. Apart from profit after tax amounting to EUR 642 million, positive currency effects from the development of foreign currencies versus the euro increased equity by around EUR 841 million.

Within the scope of the purchase price allocation for the Millipore acquisition, the acquired assets, liabilities and contingent liabilities have been recognized at fair values in the balance sheet. This primarily led to an increase in intangible assets by around EUR 5,264 million. This includes the goodwill from the transaction amounting to EUR 2,704 million. The fair value adjustments made within the scope of the purchase price allocation are to be considered as preliminary, with the exception of the measurement of inventories in the balance sheet as of the date of first-time consolidation. As a result of the acquisition, net debt increased to around EUR 4,484 million as of December 31. Primarily owing to the positive development of cash flow, net debt since the acquisition declined during the second half of 2010. Due to the higher debt level resulting from the Millipore acquisition, the two rating agencies Standard & Poor's and Moody's adjusted their ratings. Standard & Poor's issued a rating of BBB+ with a stable outlook on March 2, 2010 (previously: A-) and Moody's adjusted its rating on July 16, 2010, from A3 before the acquisition to Baa2 (stable outlook). In 2009, we started covering the pension provisions of Merck KGaA with financial assets on a long-term basis. This long-term approach will be expanded continuously. As of December 31, 2010, EUR 217 million was disclosed separately as a non-current financial asset.

As of December 31, 2010, the Crop BioScience business was disclosed as assets and liabilities held for sale pursuant to the announcement of the planned sale of this business to Novozymes A/S, Denmark. The Thérax Group was deconsolidated at the end of December. The agreed purchase price of around EUR 270 million was recognized as a receivable in 2010.

Underlying free cash flow  
doubles

### Underlying free cash flow reflects good business performance

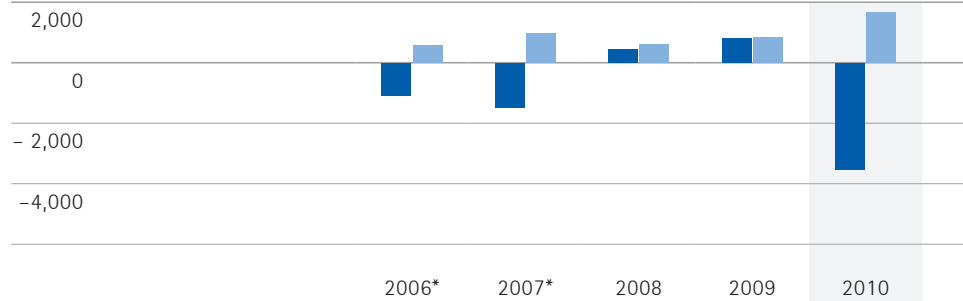
The free cash flow of the Merck Group in 2010 was also strongly affected by the acquisition of Millipore. It amounted to EUR –3,522 million compared to EUR 812 million in 2009. By contrast, adjusted for the effects of acquisitions and divestments, underlying free cash flow rose from EUR 852 million in 2009 to EUR 1,670 million, an increase of 96%.

Firstly, this increase is due to the strong improvement in the performance of the Chemicals business sector compared to 2009. This business sector's contribution to underlying free cash flow rose from EUR 432 million in 2009 to EUR 812 million in 2010, a rise equivalent to around 88%. Secondly, the Pharmaceuticals business sector accounted for 48% or EUR 1,353 million of underlying free cash flow, which was also mainly the result of good business performance. Underlying free cash flow for Corporate and Other, which also includes interest and tax payments, amounted to EUR –496 million, which was nearly consistent with 2009.

Cash flow was lowered by payments amounting to EUR 241 million in connection with our former subsidiary Dey Inc., USA, having allegedly reported false price information. EUR 215 million of these costs relate to the settlement with the U.S. Department of Justice. Although the company Dey Inc. was transferred to Mylan Inc., USA, within the scope of the divestment of the Generics business in 2007, Merck remains liable to Mylan for the costs of this litigation. The overall effect is reported in the segment Corporate and Other but was eliminated in the calculation of underlying free cash flow as adjustments for the divestment of the Generics business.

### Free cash flow and underlying free cash flow

EUR million



\*Including Generics

■ Free cash flow ■ Underlying free cash flow

Europe accounts for more than three-quarters of capital spending

### Capital spending: Decline after years of increases

In 2010, Merck invested a total of EUR 396 million in property, plant and equipment. This was EUR 71 million or 15% less than in 2009. As in previous years, in 2010 we invested above-average amounts, for example to expand biopharmaceutical active ingredient production in Switzerland. As a result, the ratio of capital spending to total revenues was 4.3% in 2010 compared to 6.0% in 2009.

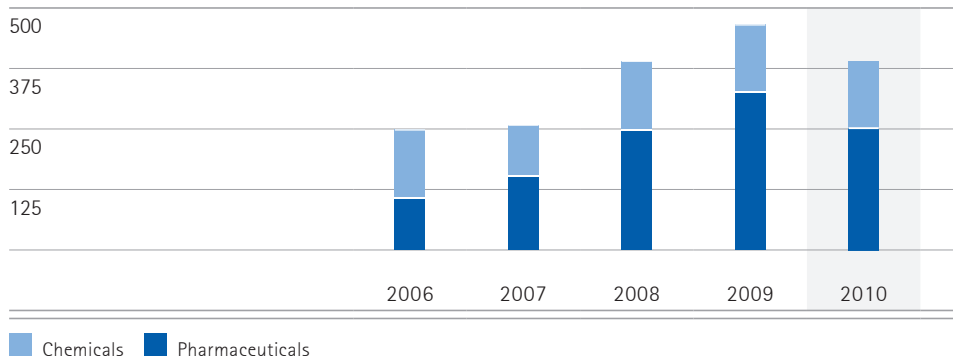
Individual investment projects, each with a value of more than EUR 1 million, accounted for more than two-thirds of capital spending. In regional terms, Europe accounted for around 77% of the total, with the focus on Germany and Switzerland. In Germany, Merck invested EUR 140 million in both new and expanded production capacities as well as in research and development facilities in Darmstadt and Gernsheim in particular, our two largest production sites. In Switzerland, capital spending totaled EUR 109 million, with the majority of this amount used to expand our biopharmaceutical production facilities.

In North America, we invested EUR 57 million – the majority of which went toward the expansion of pharmaceutical research in the Boston area. Capital spending in Latin America totaled EUR 13 million. Our subsidiaries in Asia accounted for a total capital spending volume of EUR 20 million, with the focus on Japan, Taiwan, China, India and South Korea, particularly for the Chemicals business sector.

Capital spending by the Pharmaceuticals business sector totaled EUR 255 million, with the Merck Serono division accounting for the majority of this amount. As in previous years, the main focus of the investments was on the expansion of our biotech production capacities in Corsier-sur-Vevey, Switzerland, which again in 2010 represented the single largest investment project of the Merck Group. Around 20% of capital spending in Pharmaceuticals related to headquarters in Darmstadt, Germany.

### Capital spending on property, plant and equipment

EUR million



Capital spending on property, plant and equipment in the Chemicals business sector amounted to EUR 139 million, with the Merck Millipore division accounting for EUR 80 million and the Performance Materials division for EUR 59 million. Performance Materials invested chiefly at the Darmstadt and Gernsheim sites, our main locations, in order to expand and modernize existing production facilities, to improve infrastructure and to construct new research buildings. The focus of capital spending by the new Merck Millipore division was likewise in Darmstadt and Gernsheim. Around EUR 28 million of the division's total capital spending was attributable to the former Millipore companies, which have been consolidated since July 2010.

### Key financial performance indicators of the Merck Group

Return on sales (ROS or the ratio of operating result to total revenues) and underlying free cash flow on revenues (FCR) are our two key financial performance indicators. The divisions use them to steer their business and we also use them for short- and long-term internally agreed targets. Group ROS increased from 8.4% in 2009 to 12.0% in 2010. This reflects the improvement in the overall business situation, which included a sharp increase in total revenues. FCR also developed positively in line with the good business development, increasing from 11% in 2009 to 18%. We refer to the average, or the arithmetic mean, of the two indicators ROS and FCR as the "Merck Business Target" (MBT). It is used for performance-based short- and long-term compensation systems and amounted to 15% compared to 9.7% in 2009. Both indicators, ROS and FCR, are presented by division in the Segment Reporting, on page 136. For EBITDA, as per the definition, depreciation and amortization of non-current assets are added back to earnings before interest and taxes (EBIT). For Merck, EBITDA is also an important financial indicator. Since the acquisition of Serono, amortization of intangible assets has been lowering the operating result. Owing to the Millipore acquisition, these amortization expenses increased further in 2010. When high impairment losses are also incurred, EBIT or the operating result alone does not reflect the actual earning power of the business. EBITDA increased by nearly 50% from EUR 1,625 million in 2009 to EUR 2,457 million in 2010.

Strong improvement in EBITDA

### 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.

Our corporate result, meaning the sum of total revenues, other income and financial income, amounted to EUR 9,552 million in 2010. After deducting the costs of materials as well as other purchased services and expenses, gross value added amounted to EUR 5,008 million.

Following the deduction of depreciation and amortization, net value added was EUR 3,750 million. With a share of 69%, the majority amounting to EUR 2,597 million benefited employees in the form of personnel expenses. Financial expenses increased over 2009 to EUR 291 million owing to higher financing costs for the acquisition of Millipore. Taxes on income increased significantly to EUR 220 million due to the higher level of profit before tax. At EUR 642 million, profit after tax considerably exceeded the 2009 figure of EUR 377 million.

<b>Net value added statement</b>		
EUR million	2010	2009
Total revenues	9,291	7,747
Other income	221	135
Financial income	40	36
<b>Corporate result</b>	<b>9,552</b>	<b>7,918</b>
Cost of materials	-1,246	-1,052
Other purchased services/expenses	-3,298	-3,075
<b>Gross value added</b>	<b>5,008</b>	<b>3,791</b>
Depreciation and amortization	-1,258	-1,004
<b>Net value added</b>	<b>3,750</b>	<b>2,787</b>

<b>Distribution of net value added</b>		
EUR million	2010	2009
Personnel expenses	2,597	2,129
Financial expenses	291	171
Taxes on income	220	110
Profit after tax	642	377
<b>Net value added</b>	<b>3,750</b>	<b>2,787</b>

### Summary assessment

In 2010, the business performance of Merck was very successful overall. As of the beginning of 2010, we recorded higher total revenues compared to year-earlier quarters. Primarily the Chemicals business sector benefited from improved economic conditions. Additionally, the acquisition of Millipore contributed to the increase in total revenues. The operating result of the Chemicals business sector increased markedly despite the costs of the integration of Millipore and the expenses from the purchase price allocation. In the Pharmaceuticals business sector, the operating result was lowered by one-time expenses from declines in the value of intangible assets.

The balance sheet ratios and the key financial indicators of Merck in 2010 were influenced mainly by the acquisition of Millipore. On the assets side of the balance sheet, acquired intangible assets led to an increase of more than EUR 5 billion. This compares mainly with third-party financing of the Millipore acquisition in addition to deferred taxes resulting from the purchase price allocation. Thanks to the good development of cash flow, Group net financial debt has already fallen since the acquisition.



## CORPORATE RESPONSIBILITY

**We live up to our responsibility for our employees, our products and the environment. We also live up to our responsibility for society. That is because not only ownership, but also business success creates responsibility.**

Responsibility is one of the basic principles of company management

Firmly establishing and managing responsible behavior throughout the company is one of the basic principles of company management at Merck. As the top executive body of the company, the Executive Board examines overarching corporate responsibility issues at least twice a year. During 2010, these included such issues as greenhouse gas emissions, access to medicines, supply-chain monitoring, and Merck's special responsibility as a research-based company. The latter resulted in, among other things, the adoption of policies on stem cell research and on the use of nanotechnology. In November 2010, Merck signed the "Code of Responsible Conduct for Business", an initiative by German companies aimed at firmly establishing measurable standards with respect to fair competition, social partnership, merit, and sustainability. Merck is a member of the FTSE4Good Index, a leading international stock index for socially responsible investing. Environmental protection as well as adherence to and support of human rights are examples of the inclusion criteria.

As part of a materiality analysis, we identified and prioritized those sustainability topics of greatest importance to Merck. The results of the analysis influence the selection of corporate responsibility (CR) activities and key issues described on the following pages as well as in the extensive Corporate Responsibility Report, which is published every two years and posted on our website. The analysis took into account the perspectives of different stakeholder groups, including for instance employees, business associates, site neighbors, and investors.

### EMPLOYEES

As of December 31, 2010, our company had 40,562 employees, which was 7,500 more than in 2009. Merck was represented in 67 countries by 236 companies and had 70 production sites located in 26 countries.

The change in the number of employees was mainly a result of our acquisition of the life science company Millipore, which we completed in July 2010. The following countries saw significant increases in the workforce in connection with this acquisition: In the United States 2,712 employees came from Millipore to Merck, in France 1,323, in Ireland 484, in India 272, in Japan 204, in China 188, in The Netherlands 153, and in Brazil 105.

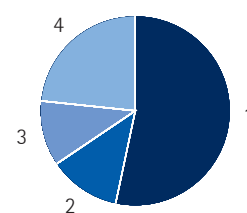
In Germany, Merck had 10,340 employees, which was 436 more than in 2009. Here, the increase was attributable to research and development in the Merck Serono division, to chemical production, to the establishment of a global purchasing organization, and to the addition of

Millipore employees in Germany. Merck Serono in China had 1,230 employees, 333 more than in 2009, as the division opened a new research center there and also expanded its sales and marketing activities.

A total of 512 young people were enrolled in vocational training programs in 19 different occupations at the Darmstadt site, the largest of the Merck Group.

**Number of employees as of December 31, 2010**

1 Europe	21,679	53%
2 North America	4,909	12%
3 Latin America	4,546	11%
4 Asia, Africa, Australasia	9,428	23%



**Integration of Millipore employees**

The acquisition of Millipore gives Merck the possibility to strengthen its position in the attractive life science market and at the same time to expand its geographic reach. Therefore, the expertise and skill of the Millipore employees as well as their commitment are key to the success of this business. Right from the start of the integration process, we made sure when appointing people to positions that the management teams of the new Merck Millipore division could optimally draw on the expertise of both companies. Further key features of the integration process included regular, open communication, change management activities that take specific corporate cultures into account, and concepts designed to maintain employee loyalty.

**CORE TOPICS OF OUR INTERNATIONAL HUMAN RESOURCES WORK**

[Attracting and retaining talented people in the long term](#)

As an integrated global company, Merck has implemented uniform human resources programs worldwide. These include, for example, the Performance Management Process and the Global Rewards Policy, which aim to develop a performance culture based on the joint strategic direction of the company and a performance-related, market-oriented compensation structure. The Talent & Succession Management Process helps us to fill positions with the right people, as well as attract and retain talented employees. In autumn 2010, we adopted a global employer branding concept, the motto of which is "Make great things happen." The aim here is to present to potential applicants those features that make Merck unique. These include an inspiring and motivating work environment in which innovations thrive, the possibility to contribute ideas to benefit customers and the company, and personal development.

Individual development plans  
have high priority

### **Performance management**

Performance management is of crucial importance for promoting entrepreneurial success and for identifying and developing employee potential. Key features of this process are clear objectives, differentiated feedback in performance management, transparent performance assessment, and the preparation of individual development plans. In 2009, Merck started the stepwise implementation of the globally uniform Performance Management Process, in which around 7,100 employees are currently participating. Additional employee groups will be phased into the process, particularly also the employees who have joined Merck from Millipore. A total of around 21,000 employees are to participate in the Performance Management Process by the end of 2011.

### **Global rewards policy**

The compensation structure guidelines describe the principles governing how employees are remunerated depending on their performance and capabilities, and on the situation in the respective labor market. The Global Rewards Policy applies to all Merck companies worldwide and ensures a systematic compensation structure.

### **Career opportunities**

Merck wants to offer its talented employees the opportunity to have an interesting career and to continually develop themselves within the company both personally and professionally. The Talent & Succession Management Process and the Expert Talent Process are two systematic programs that Merck uses to identify and specifically promote employees who show potential for a management position or an expert career path. These programs enable Merck to appoint the right people to management positions and at the same time to retain talented employees. In 2010, 76% of promotions to management positions were filled by internal candidates.

### **Employee engagement survey**

Motivated and committed employees are our most valuable asset. Merck wants to offer its employees adequate scope for them to make their best individual contribution to the success of the company. In order to create the right conditions for this, Merck regularly conducts a Group-wide employee survey in which employees are able to express their assessment of Merck as an employer, their motivation and identification with the company, as well as their needs. The results are incorporated into measures that we use to continuously improve the framework conditions. Altogether 84% of employees participated in the most recent survey, which was conducted at the beginning of 2010 in 28 languages. The overall results show that the majority of employees identify strongly with Merck and engage themselves for the success of the company. All 11 categories saw improvements over the previous year's survey. In seven categories, Merck outperformed the global high-performing companies benchmark. This comprises a group of companies across a range of sectors that are considered to be particularly strong performers due to their excellent financial results as well as high employee engagement scores.

### Further improvement in occupational safety

In terms of accident prevention and occupational safety, we again made significant progress in lowering the most important indicator, the lost time injury rate (LTIR). This internationally used key figure describes the number of workday accidents resulting in lost time per one million working hours. Merck has set itself the goal of reducing the LTIR to 2.5 by 2015. In order to achieve this, we have introduced, for example, the "Safety Behavior Change" program to enhance the safety awareness of each individual employee. We are also increasing our training measures for persons responsible for EHS (Environment, Health, Safety), promoting independent responsibility of our employees, and supporting a wide variety of local occupational safety programs. Despite our efforts to prevent accidents, one accident with a fatal outcome occurred in 2010. A member of the sales force in Colombia died from the injuries she suffered during a car accident.

#### Accidents

	2006	2007	2008	2009	2010
LTIR (Lost Time Injury Rate)	6.9	4.7	3.9	3.4	3.0
Number of fatalities	0	3	1	0	1

Not portfolio-adjusted; 2010 including Merck Millipore

## DIVERSITY IN THE WORKFORCE

As an international company, Merck endeavors to achieve a good balance between different cultures and nationalities, between different age groups, and between male and female employees. Merck is convinced that workforce diversity promotes team performance, contributing to the company's entrepreneurial success. We have therefore implemented measures to sustainably anchor this diversity. Yet we realize that we need to further develop these measures.

### Ratio of men and women

Women currently make up 43% of the workforce. The ratio of female to male employees varies among individual business areas, functions and regions. In the Pharmaceuticals business sector, 47% of all employees are female, in Chemicals 33%, and in Group functions 21%. In North America, 47% of all employees are female, in Europe 46%, in Latin America 43%, and in Asia 33%. Women make up 55% of the workforce in research and development, which is the highest percentage, followed by 50% in administration. The lowest percentages of women are in production (32%) and the infrastructure departments (28%). Merck has set itself the goal of increasing the percentage of female employees wherever they are underrepresented.

Merck is a highly international company

### Internationality

74% of all employees come from countries other than Germany. In 2008, the first year in which we compiled these figures, this was 70%. The increase is primarily due to business expansion in the United States, India and China. One of our basic principles is to hire and develop employees from the respective countries. The company's decision to locate the divisional headquarters of Merck Serono in Geneva (Switzerland) and of Merck Millipore in Billerica, Massachusetts (USA) also contributes to the internationality of the workforce, which we want to further intensify.

Approaches for coping with demographic change

### Age structure

Demographic change, and the aging of the population, is not equally noticeable in all countries in which we operate. However, we must adapt to it, particularly in Germany, some other EU countries, and the United States. In these countries, the average age of our employees already exceeds 40 – and we assume that this figure will increase further. In Europe, we are addressing these demographic challenges in various programs. These include adapting workplaces to the needs of older employees and establishing a health management program to maintain their ability to do their job.

### Management positions

A balanced diversity among the executive staff enhances career advancement opportunities for talented employees. However, it also enables the company to leverage a broad base of experience and allows for more differentiated entrepreneurial decision-making.

The percentage of women in management positions, meaning grade 14 and higher according to the global grading system introduced at Merck two years ago, is currently 22% calculated across the entire company (excluding employees who joined Merck as a result of the Millipore acquisition since the global grading system has not yet been implemented for them). The percentage is higher at the subsidiaries than at corporate headquarters in Darmstadt; it is also higher in the Pharmaceuticals business sector than in Chemicals. The ratio of women in management positions is lower in certain Group functions, such as IT for example. Merck wants to further increase the percentage of women in management positions. Besides the local measures that are already in place – such as the cross-company mentoring program and creating opportunities to help employees reconcile the demands of career and family – we intend to develop further programs during 2011. We set ourselves a global objective of increasing the percentage of women in top management positions to 25% to 30% by 2016. This target may be supplemented by local or unit-specific values. At the same time we have created the function of Chief Diversity Officer to support implementation.

57% of all management positions are held by persons of non-German nationality – altogether 55 different nationalities are represented in such positions. The internationality of our management levels reflects the global nature of our business activities.

## RESPONSIBILITY FOR PRODUCTS AND THE ENVIRONMENT

### Materiality analysis identifies sustainability topics

By conducting a materiality analysis, we identified sustainability issues that are of importance to our Chemicals and Pharmaceuticals businesses. In both business sectors, responsibility for products is at the heart of our corporate responsibility. Group-wide topics include supply-chain sustainability and the use of nanotechnology. Examples of specific topics in Pharmaceuticals are transparency in research, bioethics, animal testing, and access to medicines. Apart from developing safe and effective medicines, our aim is to ensure access to medicines among the people who need them, for example through a range of initiatives and donation programs in developing and emerging countries as well as research projects. The most important issues in Chemicals include product safety, product risk management and resource efficiency.

### REACH and GHS: Turning challenges into opportunities

We are committed to ensuring that no risk arises from our products if used properly. When developing new products, we take the sustainability aspects of their entire life cycle into account. Extensive documentation of product properties and compliance with all legal requirements have high priority for us.

REACH: Understanding requirements as opportunities

We made further excellent progress with the stepwise implementation of the EU regulation REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals), which involves high regulatory challenges. In line with our motto "Turning Challenges into Opportunities", we also offer our customers added value through our professional expertise.

Roughly, REACH is divided into three phases: Depending on the amount produced, a substance must be registered by 2010, 2013, or 2018. Merck registered around 100 substances by the end of the first deadline on December 1, 2010. Apart from the required substances, we also registered several with a later deadline.

### Requirements efficiently implemented in operating business

Besides meeting legal requirements, Merck takes on a leading role in regulatory issues

The Globally Harmonised System of Classification and Labelling of Chemicals (GHS) has led to the European CLP regulation (Classification, Labelling and Packaging of Substances and Mixtures), which we implemented very rapidly. In February 2009, customers received the first CLP-conform deliveries. In September 2010, we were already in a position to include in the new Chemicals catalog all CLP information for all substances and numerous mixtures.

In addition to the reclassification and relabeling of chemicals, the EU has also recently redefined the format and content of the relevant safety data sheets. In time for the December 1 deadline, we provided the required new safety data sheets for all substances in the official EU languages. We thus succeeded in interpreting the new requirements with legal certainty and implementing them very efficiently in our operating business.

In addition to meeting our legal requirements, we provided extensive information material (brochures, posters, e-learning courses) on the Web and held seminars to train customers. This also strengthens Merck's leading role in regulatory matters, reflecting our customer-centric perspective and thus also the Merck brand.

**"Design for Sustainability"**

The Merck Millipore division offers an example of sustainable product development with its "Design for Sustainability" principle. This starts with production and packaging, extends to helping customers to conserve resources in the daily use of products, such as laboratory instruments, and includes their disposal or recycling possibilities. Examples are the Mobius® filter units and bioreactors for biopharmaceutical production.

**Strategic alliance with GIZ in Southeast Asia**

For Merck, product responsibility does not end with the sale of the product. The return and eco-friendly disposal of chemicals and packaging waste is part of our corporate responsibility. Together with the German Society for International Cooperation (Deutsche Gesellschaft für internationale Zusammenarbeit – GIZ), Merck is promoting better chemicals management in Thailand, Indonesia and the Philippines, with the aim of improving eco-awareness and the handling of chemicals in these countries. This project is based on the Retrologistik® concept, which involves the regulated return and safe disposal of packaging waste such as empty chemical bottles. The alliance with the GIZ started in 2010 and is initially planned for three years.

**Nanotechnology: Corporate guidelines**

We are addressing not only the opportunities, but also the risks of nanotechnology. We follow the precautionary principle and take safety issues involving nanomaterials seriously. When manufacturing and processing products, we strictly observe all statutory regulations and other applicable standards. These include the guidelines of the German Federal Institute for Occupational Safety and Health (Bundesanstalt für Arbeitsschutz und Arbeitsmedizin) as well as the German Chemical Industry Association (Verband der Chemischen Industrie). We expanded our guidelines on handling nanomaterials, which apply throughout the Group, to include those aspects of relevance to the Pharmaceuticals business.

**ISO 14001: Group certificate confirmed**

All Merck products come from certified sites

In 2009, Merck had the environmental management system of all its production sites certified in accordance with the international ISO 14001 standard. This globally valid group certificate was confirmed by the annual certification maintenance audit in 2010. Consequently, all products manufactured by Merck come from certified sites.

**Environmental protection spending**

Our spending on environmental protection, health and safety totaled EUR 140 million in 2010. This figure includes depreciation of property, plant and equipment, and operating costs.

**Achieving a 20% reduction in greenhouse gas emissions by 2020**

Our goal remains to reduce all our greenhouse gas emissions – both direct and indirect – by 20% by 2020, compared to the 2006 levels. Direct emissions are those emissions that a company itself releases by burning fossil fuels for steam or power generation, or through production processes. Indirect emissions are those that are generated from purchased energy, such as electricity, steam or distance heating.

<b>Energy</b>					
	2006	2007	2008	2009	2010
Energy consumption (in GWh)	1489	1492	1480	1352	1474
<b>Purchased energy</b>					
Natural gas (in million m <sup>3</sup> )	77.9	75,8	79.0	72.7	78.2
Light heating oil (in kilotons)	7.8	9.5	8.8	6.7	8.6
Heavy heating oil (in kilotons)	0.7	0.9	0.6	0.2	0.3
Electricity (in GWh)	533	536	513	472	511

Portfolio-adjusted in accordance with the Greenhouse Gas Protocol; 2006–2010 including Merck Millipore

<b>CO<sub>2</sub>eq emissions (eq=equivalents)</b>					
Emissions in kilotons	2006	2007	2008	2009	2010
Direct CO <sub>2</sub> eq emissions	321	374	307	304	352
Indirect CO <sub>2</sub> eq emissions	232	237	221	201	222
Total CO <sub>2</sub> eq emissions	553	611	528	505	574

Portfolio-adjusted in accordance with the Greenhouse Gas Protocol; 2006–2010 including Merck Millipore

### **New climate protection program**

EDISON is the name of a new climate protection program that Merck launched in 2009. It systematically pools all Merck Group activities worldwide that are aimed at climate protection and energy efficiency. The objective is to reduce energy consumption, thus cutting costs, conserving resources and protecting the environment. Here we are focusing on the largest producers of greenhouse gas emissions: In recent years, 15 sites were responsible for around 80% of the Merck Group's total emissions. At Darmstadt and Gernsheim, two of the sites that produce the most emissions, activities are already in progress. Specially trained experts in energy, building and air conditioning technology as well as electrical engineering are systematically analyzing the biggest consumers and recommending specific measures to save energy.

Energy conservation audits  
launched globally

Yet this project concerns not only the German sites. Energy consumption and greenhouse gas emissions are being closely examined at our sites around the world. For example, energy conservation audits were already conducted at the Onahama and Atsugi sites in Japan. At our site in Norwood, Ohio (USA), entirely new heating boilers and process refrigeration units were installed. By significantly improving its climate balance, the site is thus capable of contributing to the Merck Group's overall climate objectives. The Merck Serono site in Bari, Italy, which is one of the Merck Group's 15 largest producers of greenhouse emissions, received certification in accordance with the energy management standard EN 16001. Bari is the first pharmaceutical production site in Italy to have received this certification.

### **Utilizing solar energy**

Photovoltaic installations are used to generate energy at multiple locations throughout the Merck Group. The Merck Millipore division took on a pioneering role with its sites in Billerica and Bedford, Massachusetts (USA) and Molsheim (France), where solar energy partly covers energy requirements. Solar energy systems are scheduled to start operating at our Merck Serono sites near Tel Aviv, Israel and Rome, Italy in 2011.



Apart from greenhouse gas emissions, the Merck Group also records other air emissions. Group-wide emissions of these substances at Merck are relatively low.

#### Air emissions

Emissions in kilotons	2006	2007	2008	2009	2010
VOC (volatile organic compounds)	1.8	1.9	1.9	0.2	0.2
Nitric oxides	0.3	0.2	0.2	0.1	0.1
Sulfur dioxide	0.07	0.03	0.05	0.03	0.03
Dust	0.02	0.02	0.02	0.02	0.02

Not portfolio-adjusted; 2010 including Merck Millipore

## RESPONSIBILITY FOR SOCIETY

Our social commitment is divided into local charitable projects that the Merck subsidiaries implement independently, and into global projects. The latter include the Merck Praziquantel Donation Program, the Global Pharma Health Fund (GPHF), and the Merck Philharmonic Orchestra.

#### Praziquantel Donation Program: Combating schistosomiasis

In 2007, we entered into a partnership with the World Health Organization (WHO) to combat the worm disease schistosomiasis in African school children. Merck is donating 200 million tablets of Cesol® 600 containing the active ingredient praziquantel over a ten-year period. This donation will permit the treatment of 27 million children. Schistosomiasis is the most common tropical disease in Africa after malaria, causing primarily children to suffer. In 2010, 3.8 million children were treated within the scope of this partnership.

#### Global Pharma Health Fund: Protection from counterfeit medicines

Combating  
counterfeit medicines

The Global Pharma Health Fund (GPHF), which is funded by Merck, is combating counterfeit medicines in developing and emerging countries. According to WHO estimates, up to 30% of the medicines offered worldwide are either counterfeit or of inferior quality. Many African and Asian countries are especially affected by this since they lack effective regulatory and enforcement systems for medicines. In order to effectively identify counterfeits and quickly remove them from circulation, 394 compact mobile laboratories, or GPHF-Minilabs, were in use in more than 70 countries as of December 31, 2010. They make it possible to rapidly identify pharmaceutical active ingredients and to immediately detect inferior or ineffective drugs.

#### Merck Philharmonic Orchestra: Cultural promotion

The Merck Philharmonic Orchestra is one example of how we promote culture. With around 80 professional musicians and a very diverse concert repertoire, the orchestra is not only an integral part of the cultural life in the vicinity of our corporate headquarters in Darmstadt; it also tours internationally. Special events for children and adolescents as well as cooperation with schools are intended to encourage young people to develop a taste for classical music.

## MERCK IN THE CAPITAL MARKET

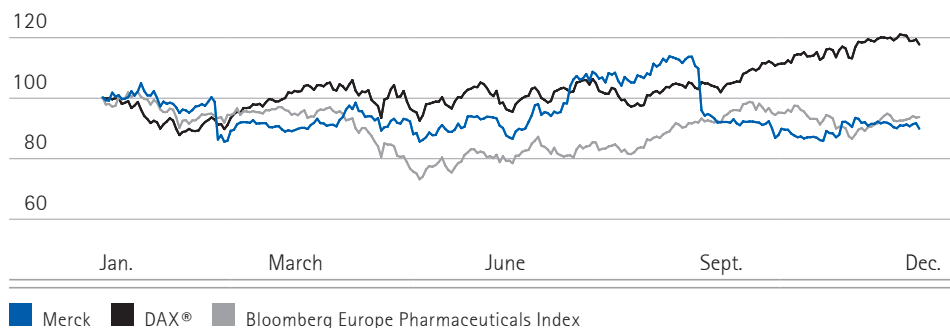
The Merck share price showed strong fluctuations. EUR 3.2 billion euro bond successfully issued.

### Stock market recovery continues

The recovery that began in the first half of 2009 in the international stock markets continued in 2010. This was attributable to several factors, including the further recovery of the global economy, persistently low interest rates set by the leading international central banks, as well as expansionist monetary policies, especially in the United States. However, the after-effects of the global banking crisis that escalated in 2008 had a significant impact on the budgets of a number of eurozone members. Government bond yield spreads increased sharply, prompting the European Central Bank to issue an unprecedented level of guarantees. This also had an impact on the euro, the value of which declined significantly against all international reserve currencies for a time. By contrast, the market for corporate bonds proved to be much more stable, benefiting from high demand despite comparatively low coupons.

### The performance of Merck shares vs. the DAX® and Bloomberg Europe Pharmaceuticals Index in 2010

in %



### Development of the key indices

With the DAX®, Germany's blue-chip index of the 30 largest German stock corporations by free float market capitalization and trading volume, climbing to well over 6,000 points, the German stock market got off to a strong start in 2010. Growing concerns about the credit ratings and liquidity of a number of EU member states – especially Greece and Ireland – damped market sentiment several times throughout the year, in some cases severely. However, the intervention by European monetary authorities repeatedly proved capable of reassuring market participants. The DAX® hit an annual low of 5,434 points on February 5, reached its high of 7,078 points on December 21, and finished the year on December 31 at 6,914 points, a 16% increase for the full year. The development of the BEUPHRM Index (Bloomberg Europe Pharmaceuticals Index), which comprises 22 selected European pharmaceutical companies, was quite different. The

At year-end, the DAX® was just below 7,000 points

annual high of 103.44 points was achieved on January 19, while the low for the year of 81.59 points was reached on May 25. This was primarily attributable to the declines in the share prices of index heavyweights such as AstraZeneca, GlaxoSmithKline, Novartis, and Sanofi-Aventis, which together account for far more than half of the index's weighting. By October 15, the BEUPHRM had nearly recovered from these losses, closing at 100.98 points. However, with a decline of 3.4% as of year-end (December 31: 97.13 points), it remained well behind the development of the DAX®.

#### **Uneven performance of Merck shares**

Merck shares could not benefit from the sentiment in the German stock market, which progressively improved in the course of 2010. During the year, the Merck share price moved dynamically in a range between EUR 57 and EUR 73. However, compared to the price at the beginning of the year (EUR 65.21), Merck shares finished the year 8.2% lower, closing at EUR 59.85. The development of the share price was largely independent of the developments on the German stock market.

The market reacted with disappointment to the company's initial outlook for 2010, which was cautious due to the difficulties encountered in 2009, as well as to the proposal to lower the dividend from EUR 1.50 to EUR 1.00. As a result of this announcement, which was made on February 23, with the publication of the annual results, Merck shares dropped by more than 10%, reaching their annual low of EUR 57.62 two days later. With the announcement of the acquisition of Millipore, the Merck share price rose by 2.9% on March 1. The share price did not exceed EUR 67 until the guidance was significantly raised on July 29 with the publication of the results of the second quarter. A high of EUR 72.28 was achieved on September 10. Just three days later, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) surprised physicians and shareholders with its negative opinion regarding the marketing authorization application for cladribine tablets as a treatment for multiple sclerosis. As a consequence, Merck shares lost slightly more than 10% of their value on September 24. The subsequent selling pressure led to a decline in the share price to EUR 57.75 on November 17. Merck shares recovered slightly as of this date thanks to the news concerning FDA regulatory review of Egrifta™ (tesamorelin), increasing to EUR 59.85 by year-end.

Negative CHMP opinion  
on cladribine tablets  
lowers the share price

**Share data**<sup>1</sup>

	2010	2009
Earnings per share after tax and non-controlling interest in EUR	2.91	1.68
Dividend in EUR	1.25	1.00
Share price high in EUR (Sept. 10, 2010/July 1, 2009)	72.28	74.37
Share price low in EUR (Feb. 25, 2010/March 6, 2009)	57.62	57.24
Year-end share price in EUR	59.85	65.16
Actual number of shares in millions (as of year-end)	64.6	64.6
Theoretical total number <sup>2</sup> of shares in millions (as of year-end)	217.4	217.4
Market capitalization <sup>3</sup> in EUR million (as of year-end)	13,011	14,165

<sup>1</sup> Share-price relevant figures relate to the closing price in Xetra® trading on the Frankfurt Stock Exchange.

<sup>2</sup> 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 EUR 168.0 million as of December 31, 2010 was divided into 64.6 million shares, the corresponding calculation for the general partner's capital of EUR 397.2 million resulted in 152.8 million theoretical shares.

<sup>3</sup> Based on the theoretical number of shares on December 31, 2010.

**Nearly 600,000 shares traded daily**

In 2010, an average of about 574,000 Merck shares were traded daily on the trading platforms of Deutsche Börse. On February 23, the date on which we published the annual results for 2009 and the outlook for 2010, 4.4 million Merck shares changed hands, making this the record-high trading day for 2010. Generally, the tradability of shares, expressed as the liquidity or the trading volume, is an important indicator that influences not only the buying behavior of investors, but also serves, in addition to the free-float market capitalization, as a key criterion in the composition of share indices. Based on a free-float market capitalization of EUR 3,868 million, Merck shares ranked 32nd among the largest German DAX companies at the end of the year. Based on a trading volume of EUR 9,226 million over the past 12 months, Merck shares took 28th place.

**Increasing proportion of investors based in Germany**

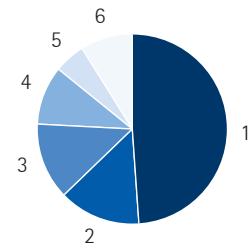
From the shareholder identification survey conducted in October 2010, we identified around 76% of the bearer shares in free float held by institutional investors. The survey provides information about the regional distribution of the institutional investors as well as the classification of the respective institutional investor types. As in the previous years, U.S. institutional investors hold the largest proportion of Merck shares in free float. However, the proportion of U.S.-based shareholders declined from 53% in 2009 to 49% in 2010. By contrast, German institutional investors built up significant stakes and now hold 12% of the share capital as compared with 9% in 2009. The United States still ranks well ahead of both the United Kingdom, where 13% of our shares are held, and Germany. The distribution of investors by investment strategy shows a slight increase in the proportion of value- and growth-oriented investors. The proportion of index-oriented investors rose by seven percentage points to 19%.

Increasing popularity among  
 German investors

### Identified investors by region

in %

1	United States	49%
2	United Kingdom	13%
3	Germany	12%
4	Rest of Europe	9%
5	France	5%
6	Rest of World	8%

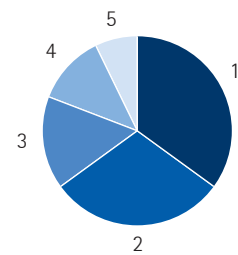


Source: Thomson Reuters (Status September 2010)

### Identified investors by type

in %

1	Value	36%
2	Growth	32%
3	Index	19%
4	GARP (growth at reasonable price)	9%
5	Other	4%



Source: Shareholder survey (Status October 2010)

As of December 31, 2010, the following shareholders reported their holdings in Merck shares to the company in accordance with the German Securities Trading Act:

- 5% – 10% Barclays PLC, London (United Kingdom)
- 5% – 10% BlackRock Inc., New York (USA)
- 5% – 10% Capital Research and Management Company, Los Angeles (USA)
- 5% – 10% Sun Life Financial Inc., Toronto (Canada)
- 5% – 10% Templeton Global Advisors Ltd., Nassau (Bahamas)
- 3% – 5% Capital World Growth and Income Fund, Inc., Los Angeles (USA)
- 3% – 5% Deutsche Bank, Frankfurt (Germany)
- 3% – 5% Fidelity International Ltd., Hamilton (Bermuda)

### **Nearly 60% of the share capital represented at the Annual General Meeting**

At the Annual General Meeting on April 9 in Frankfurt, 37,624,121 out of 64,621,126 outstanding shares were represented. This corresponds to 58.22% of the share capital. With the exception of agenda items 4 and 5, which concerned resolutions on the approval of the actions of the members of the Executive Board and the Supervisory Board and were each passed with 56% of the votes, more than 99% of the votes were in favor of the other five agenda items. Further details can be found on our website at [www.merck.de](http://www.merck.de).

### **Numerous Investor Relations activities**

In the course of 2010, the Executive Board and the Investor Relations team took part in 13 investor conferences in Frankfurt, London, Los Angeles, Munich, New York, Paris and San Francisco. In addition, company representatives visited investors at the key financial centers in the United States and Europe within the scope of 23 roadshows. International investor groups visited Darmstadt on three dates and equity sales briefings were held with the sales staffs of selected banks on three further dates. A large number of face-to-face meetings were held. For the first time since 2007, we held investor and analyst conferences in London and New York in September. The Executive Board gave detailed presentations of the business and financial strategy of Merck.

### **Analysts' assessments of Merck**

Analysts  
positive toward Merck

In 2010, 40 banks and equity analysts reported regularly on and assessed Merck shares. As of the end of 2010, the fair target price for Merck shares as gauged by the analyst community was EUR 67.44. A total of 16 analysts gave our shares a buy recommendation, 17 a hold recommendation and six a sell recommendation. Further details can be found on our website at [www.merck.de/investors](http://www.merck.de/investors).

### **FTSE4Good Index**

Sustainability is the entrepreneurial compass that has guided Merck well for centuries. We understand sustainability as ethical actions taken in line with the economic, ecological and social interests of all Merck stakeholders, such as our customers, suppliers, employees and owners. Our efforts in these areas are continually analyzed and assessed by independent capital market institutes. Since 2008, Merck shares have been in the FTSE4Good Index, which comprises companies with highly sustainable business practices. Additionally, Merck shares are included in the DAX® Global Sarasin Sustainability Germany Index.

**Capital and shares**

As of the balance sheet date, the company's subscribed capital is divided into 64,621,125 no-par value bearer shares plus one registered share. The holder of the registered share is E. Merck Beteiligungen KG. 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 KG.

According to the Articles of Association of the company, the general partners not holding an equity interest who form the Executive Board are appointed by E. Merck KG with the consent of a simple 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 KG. In addition, at the proposal of E. Merck KG 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 General Meeting that requires the approval of the general partners. The resolutions of the Annual General 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 KG, to increase the share capital on one or several occasions until April 3, 2014 by up to a total of EUR 56,521,124.19 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.

### Successful bond issue

Due to the acquisition of Millipore, extensive financing measures were taken in 2010. A major component of the acquisition financing was a bond issue amounting to EUR 3.2 billion. This was the largest euro-bond transaction by a German company in Europe in 2010.

Merck benefited from attractive conditions as a result of the timing of the issue in March. In order to reach diverse investor groups and due to the high demand, the bond issue was structured into three tranches, each with different maturities. As a result, the maturities fit in well with Merck's overall bond profile.

The first tranche has an original term of two years. The volume is EUR 500 million and pays a coupon of 2.125%. The other two tranches each amount to EUR 1,350 million. One of these tranches runs until March 2015 and pays a coupon of 3.375%. The third tranche has a term of ten years, paying a coupon of 4.500%.

[Merck – an esteemed issuer in the bond market](#)

Since the financing measures for the Millipore acquisition have led to higher debt, the two rating agencies Standard & Poor's and Moody's revised their ratings. While Standard & Poor's issued a rating of BBB+ with a stable outlook on March 2, 2010 (previously: A-), Moody's adjusted its rating on July 16, 2010 from A3 before the acquisition to Baa2 (stable outlook). The financing measures have shown that Merck is an esteemed issuer in the capital market. Going forward, the debt market will continue to represent a major element of our corporate financing activities.



Rebismart™, our electronic injection device for the self-administration of Rebif®, is easy and convenient to use.



## MERCK SERONO

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Merck Serono is the largest division of Merck. It markets innovative prescription drugs of chemical and biotechnological origin. The division offers its leading brands in around 150 countries. Merck Serono focuses on highly specialized therapeutic areas such as Neurodegenerative Diseases, Oncology, Fertility, Endocrinology and Rheumatology.

### KEY PRODUCTS BY THERAPEUTIC AREA

- Oncology: Erbitux® (solid tumors)
- Neurodegenerative Diseases: Rebif®, Movectro® (multiple sclerosis)
- Fertility: Gonal-f®, Pergoveris™, Luveris®, Ovitrelle®, Crinone®, Cetrotide® (infertility treatment)
- Endocrinology: Saizen® (growth hormone disorders), Serostim® (HIV-associated wasting), Kuvan® (metabolic disorder hyperphenylalaninemia), Egrifta™ (HIV-associated lipodystrophy)
- CardioMetabolic Care: Concor® franchise (cardiovascular diseases), Glucophage® franchise (type 2 diabetes), Euthyrox® (thyroid disorders)

### KEY DEVELOPMENTS IN 2010

- Sales of Erbitux® rise by 18% to EUR 820 million, Rebif® sales increase by 8.6% to EUR 1,668 million
- Russian and Australian regulatory authorities approve cladribine tablets as the world's first oral disease-modifying treatment for multiple sclerosis (brand name: Movectro®)
- The Committee for Medicinal Products for Human Use of the EMA adopts a final negative opinion regarding the marketing authorization application for cladribine tablets in January 2011. In the United States, the FDA accepts the application for review; FDA feedback on the application is expected by the end of February 2011
- The Japanese drug regulatory authorities approve extended usage for Erbitux® in combination with chemotherapy for first-line treatment of metastatic colorectal cancer (KRAS wild-type tumors)
- Following a suspected unexpected serious adverse reaction we temporarily suspended all studies with the cancer immunotherapy Stimuvax® in March. Phase III trials resumed in non-small cell lung cancer in June
- Egrifta™ approved in the United States to reduce excess abdominal fat in HIV patients with lipodystrophy

## STRONG GROWTH THANKS TO BIOTECH MEDICINES

Sales by the Merck Serono division grew far more strongly than the forecasted average for the pharmaceutical industry. Nearly two-thirds of this growth is attributable to the biopharmaceuticals Rebif® and Erbitux®.

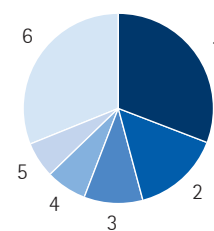
Five top-selling biopharmaceuticals account for 61% of sales

In 2010, the Merck Serono division increased total revenues by 7.6% to EUR 5,754 million. Sales increased by 8.3%, with positive currency effects accounting for 2.6% of the increase. This excellent growth, which exceeded the sector average of 4% to 5% estimated by IMS Health, was once again due to the success of our biopharmaceuticals. We generated EUR 3,288 million or 61% of our sales with our five top-selling biopharmaceuticals Rebif®, Erbitux®, Saizen®, Gonal-f® and Serostim®. Rebif®, a treatment for relapsing-remitting multiple sclerosis, was once again the top-selling product, with sales increasing by 8.6% to EUR 1,668 million. Erbitux®, our targeted cancer therapy, posted another double-digit increase in sales, which rose by 18% to EUR 820 million. In March, Erbitux® received approval in the key market of Japan for extended usage in combination with chemotherapy for the first-line treatment of metastatic colorectal cancer (KRAS wild-type tumors). Cladribine tablets (brand name Movectro®) were approved in Russia in July, becoming the world's first oral disease-modifying treatment for relapsing-remitting multiple sclerosis. Approval in Australia followed in September. In November, the U.S. Food and Drug Administration granted approval of Egrifta™ (tesamorelin for injection) to reduce excess abdominal fat in HIV-infected patients with lipodystrophy.

### Our five top-selling drugs by sales in 2010

EUR million / % of divisional sales

1	Rebif®	1,668	31%
2	Erbitux®	820	15%
3	Gonal-f®	504	9%
4	Concor® franchise	373	7%
5	Glucophage® franchise	316	6%
6	Other products	1,727	32%



At EUR 344 million, royalty, license and commission income was slightly below the previous year's level. In comparison with 2009, the division's gross margin increased by 6.9% to EUR 4,793 million. Due to strong exchange rate effects and investments in new products and emerging markets such as China, marketing and selling expenses were 10% higher than in 2009. Research and development costs declined moderately by 1.4% to EUR 1,167 million. In total, non-recurring expenses were lower than in 2009. The largest single non-recurring item was the impairment loss for safinamide (see page 19). Overall, the operating result improved by 59% to EUR 565 million. Return on sales (ROS) increased to 9.8% in 2010. Underlying free cash flow grew by 51% to EUR 1,308 million.

**Merck Serono | Key figures**

EUR million	2010	2009	Δ in %
Total revenues	5,754	5,345	7.6
Gross margin	4,793	4,485	6.9
R&D	1,167	1,184	-1.4
Operating result	565	355	59
Exceptional items	69	-40	-
Free cash flow	1,298	864	50
Underlying free cash flow	1,308	867	51
ROS in %	9.8	6.6	

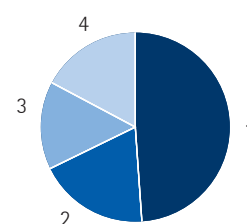
**Growth driven by Asia, Africa, Australasia**

As in the previous year, Europe was the division's top-selling region in 2010. Around one-half of the division's sales were achieved here. European sales increased by 2.9% to EUR 2,632 million. Our largest market within Europe was France, where sales totaled EUR 514 million. Sales there fell by 3.5%, due in part to generic competition faced by our CardioMetabolic Care business. Sales in Germany, our second-largest European market, stagnated at EUR 497 million (+0.1%) as a consequence of a restrictive health care policy. In Italy and Spain, sales increased by 7.1% and 1.8%, respectively, to EUR 308 million and EUR 294 million, putting them nearly on par with each other. Russia and Turkey were two examples of smaller markets that posted strong growth of 36% and 16%, respectively. However, sales in Greece declined by 13% because of the impact of the financial crisis on the health care sector.

**Merck Serono | Sales by region**

EUR million / % of divisional sales

1 Europe	2,632	49%
2 North America	1,035	19%
3 Latin America	809	15%
4 Asia, Africa, Australasia	932	17%



Double-digit sales growth in Latin America

In North America, sales increased 9.4% to EUR 1,035 million, mainly due to the good performance of Rebif® and positive currency influences. Sales in Latin America increased by 14% to EUR 809 million. Brazil, our largest market in this region, posted sales growth of 36% to EUR 286 million. Mexico and Argentina also developed well, increasing sales by 22% and 44%, respectively. However, sales in Venezuela dropped by 54% because of strong currency effects. With sales increasing by 20% to EUR 932 million, the Asia, Africa, Australasia region was the division's geographic growth driver. Our largest market within this region was Japan. Thanks to the success of Erbitux®, sales increased there by 39% to EUR 177 million. With sales of EUR 126 million (+2.4%), China was our second-largest market in the region. We achieved growth of 18% in India, where sales totaled EUR 66 million. Sales climbed by 52% to EUR 39 million in South Africa and by 18% to EUR 60 million in Australia.

**Our activities by therapeutic area**

	Research	Development	Marketing
Oncology	■	■	■
Neurodegenerative Diseases	■	■	■
Rheumatology	■	■	
Fertility	■	■	■
Endocrinology		■	■
CardioMetabolic Care and General Medicine			■

**ONCOLOGY**

Our targeted oncology drug Erbitux® (cetuximab) is approved in combination with chemotherapy for all lines of treatment or as a monotherapy for pretreated patients in epidermal growth factor receptor (EGFR)-expressing, KRAS wild-type metastatic colorectal cancer (mCRC). In addition, the monoclonal antibody is a first-line standard for recurrent and/or metastatic squamous cell carcinoma of the head and neck (SCCHN) in combination with platinum-based chemotherapy, as well as in combination with radiotherapy for locally advanced head and neck cancer. Erbitux® is currently approved for use in colorectal cancer in 86 countries and in head and neck cancer in 82 countries around the world. We are exploring further indications in additional studies. Sales of Erbitux® continued on a growth course in 2010, increasing by 18% to EUR 820 million.

**Approvals in Japan, Australia and Switzerland**

Erbitux® in combination with chemotherapy available in Japan for colorectal cancer in all lines of treatment

In Japan, Erbitux® can now be used in combination with chemotherapy in the first-line treatment of patients with EGFR-expressing, inoperable, advanced or recurrent colorectal cancer carrying the KRAS wild-type gene. The Japanese Pharmaceutical and Medical Devices Agency (PMDA) granted approval of this extended usage for Erbitux® in March 2010 following submission of data from the Phase III CRYSTAL trial. Consequently, Erbitux® is now available for use in combination with chemotherapy for colorectal cancer in all lines of treatment in Japan. In Australia, the Therapeutic Goods Administration (TGA) approved Erbitux® in March 2010 as a first-line treatment in combination with chemotherapy for patients with KRAS wild-type mCRC. In Switzerland, Erbitux® was also approved in 2010 as a first-line treatment option for metastatic colorectal cancer patients with KRAS wild-type tumors. Swissmedic, the Swiss Agency for Therapeutic Products, granted the approval in September 2010.

**Erbitux® is the standard of care in KRAS wild-type metastatic colorectal cancer**

Merck is a leader in innovative, personalized cancer therapy. We are focused on research to identify biomarkers that will help to select the patients who will benefit the most from a specific drug – as is the case with Erbitux® and the KRAS wild-type status of tumors in patients with metastatic colorectal cancer. An international survey conducted in 2010 showed that KRAS mutation analysis is fast becoming an integral part of the management of mCRC. The survey revealed in addition that Erbitux® is now a standard of care for confirmed KRAS wild-type

mCRC. The share of patients in whom the test is performed in order to determine whether they can benefit from a personalized therapy, such as Erbitux<sup>®</sup>, increased from 2.5% in 2008 to 66% in early 2010. The results also show that 73% of physicians in Europe already routinely tested KRAS status at diagnosis of metastatic colorectal cancer. Data from two surveys, which were likewise presented in 2010, show that Erbitux<sup>®</sup> has become a standard of care in the treatment of both locally advanced and recurrent and/or metastatic SCCHN. The results from the survey of 256 specialists in France, Germany, Italy and Spain in the latter indication showed that an Erbitux<sup>®</sup>-based treatment combination was used in almost 60% of cases in the first-line setting.

## NEURODEGENERATIVE DISEASES

Within the Business Unit Neurodegenerative Diseases, we offer Rebif<sup>®</sup> (interferon beta-1a), one of the leading drugs for the treatment of relapsing-remitting multiple sclerosis (MS). According to estimates, around 2 million people suffer from MS worldwide. Owing to its proven efficacy and favorable risk-benefit profile, Rebif<sup>®</sup> is a basic treatment for MS and is approved in more than 90 countries. In 2010, sales of Rebif<sup>®</sup> increased by 8.6% to EUR 1,668 million. The recombinant protein was thus once again our top-selling product and remained the leading MS treatment outside the United States. With sales growing solidly by 6.2% to EUR 752 million, Europe was our strongest region for Rebif<sup>®</sup>. The largest markets were Germany and Italy, where we recorded growth rates of 6.0% and 8.5%, respectively. With sales of EUR 751 million, North America remained our second-largest market for Rebif<sup>®</sup>. Sales in this region grew by 11% over 2009. Sales in Latin America increased by 12% to EUR 108 million. In the region Asia, Africa, Australasia, sales increased by 2.2%.

The serum-free formulation of Rebif<sup>®</sup> with improved injection tolerability is now available in around 40 countries, including all EU member states, Australia, Canada and Switzerland, as well as a number of countries in Asia, Latin America, Africa, and the Middle East. Discussions with the U.S. Food and Drug Administration concerning a potential approval continue. Rebidose<sup>™</sup> is the latest addition to our range of user-friendly injection devices for the self-administration of Rebif<sup>®</sup>. This single-use pen, which is prefilled with Rebif<sup>®</sup>, was approved in the European Union and Australia. Launched in 2009 as the first electronic injection device of its kind for MS, Rebismart<sup>™</sup> is now available in more than 20 countries, including Canada and many EU countries.

### **Movectro<sup>®</sup> approved in Russia and Australia as an oral treatment for MS**

Movectro<sup>®</sup> approved in Russia as the world's first oral disease-modifying drug for MS

In July, the Russian regulatory authorities granted marketing approval for cladribine tablets for the treatment of relapsing-remitting multiple sclerosis. This was the world's first approval of an oral disease-modifying therapy for multiple sclerosis. The next approval followed in Australia in September. Cladribine tablets have been available under the trade name Movectro<sup>®</sup> in both countries since the end of 2010. The approvals are supported by the results of the CLARITY study, which involved 1,326 patients with relapsing-remitting multiple sclerosis. The study results published in the New England Journal of Medicine showed that short-course treatment with cladribine tablets significantly reduced relapse rates, the risk of disability progression, and MRI measures of disease activity at 96 weeks.

We have submitted regulatory applications for cladribine tablets covering around 40 countries worldwide. We resubmitted our regulatory application in the United States in June. The U.S. agency accepted the application for filing in July and granted a Priority Review designation. The FDA informed us in November that it had extended its Priority Review period by three months to February 28, 2011 in order to have more time for a full review of additional information provided under the application. In September, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) issued a negative opinion regarding the marketing authorization application for cladribine tablets. Since we are convinced of the potential of cladribine tablets as a new therapeutic option for people with multiple sclerosis, we appealed and requested re-examination of this opinion. In January 2011, the CHMP adopted a final negative opinion regarding our marketing authorization application.

## FERTILITY

Double-digit increase in sales in important growth markets

The Merck Serono division is the global leader with its portfolio of drugs to treat infertility. We are the only company that offers physicians and patients recombinant versions of the three main reproductive hormones that are important for the treatment of infertility. In 2010, sales by the Business Unit Fertility increased by 6.6% to EUR 657 million. We generated nearly half of our sales in Europe, which remains our largest market. In 2010, sales in Europe were slightly higher than in 2009. We recorded double-digit growth in the regions Asia, Africa, Australasia and Latin America, while sales increased slightly in North America.

### Growth of Gonal-f® continues

Gonal-f® (follitropin alfa for injection) is a recombinant form of the natural follicle-stimulating hormone. It is approved in over 100 countries and is the world's leading female fertility drug. The injection device Gonal-f® pen for the self-administration of Gonal-f® is now available in more than 90 countries, including the largest EU markets, the United States and Japan. Sales of Gonal-f® grew by 3.7% to EUR 504 million, primarily as a result of strong growth of 15% in Asia, Africa, Australasia. Positive currency effects were responsible for more than half of the increase in this region. Gonal-f® was additionally approved in Japan in 2009 for the treatment of infertile women with irregular or absent ovulation. Consequently, sales increased sharply in 2010. In North America, Gonal-f® sales remained at the previous year's level in a declining and hotly contested market. In Europe, which accounts for nearly half of our Gonal-f® sales, we stopped the negative trend of 2009 and maintained sales at the previous year's level despite unabated cost containment pressure in the health care sector. In Italy, our largest European market for this product, sales remained just as stable as in France, our second-largest market. Spain is the third-largest market in Europe and is dominated by private payers, who continued to feel the effects of the economic crisis. Consequently, sales of Gonal-f® declined by 4.3%. By contrast, Gonal-f® performed well in the United Kingdom. Sales grew strongly in this market, mainly on an organic basis, increasing 31% over 2009.

Our recombinant combination treatment Pergoveris™ is used to stimulate follicular development in infertile women with severe follicle-stimulating hormone and luteinizing hormone deficiency. It is the first drug to allow the simultaneous administration of the two key hormones for ovarian stimulation in a single subcutaneous injection. Global sales, which are achieved almost exclusively in Europe, increased by 8.4% to EUR 32 million, primarily thanks to growth of 50% in France. Ovidrel®/Ovitrelle® is a recombinant version of the natural hormone hCG and is used to trigger follicle maturation and ovulation. Sales of Ovidrel®/Ovitrelle® grew strongly by 21% to EUR 45 million, thanks to good growth in all regions. Sales of Cetrotide®, a gonadotropin-releasing hormone antagonist used to prevent premature ovulation, also rose sharply by 23% to EUR 38 million.

#### **Grant to promote innovative fertility projects**

Merck Serono awards around EUR 1 million to further applied research projects in fertility

In June, Merck Serono announced the first recipients of funds from the Grant for Fertility Innovation. We set up this program for innovation in fertility in order to further medical research in this field. Around EUR 1 million was awarded to five innovative applied research projects that aim to help infertile couples improve their chances of conceiving. In the same month, we presented the results of the largest international study aimed at understanding the decision-making process of couples trying to conceive. The findings can help clarify disparities in fertility rates and reveal barriers that may prevent couples with infertility from seeking medical help. More than 10,000 men and women from 18 countries responded to the survey, which was developed in collaboration with Cardiff University in Wales (United Kingdom).

## **ENDOCRINOLOGY**

Our electronic autoinjector Easypod™ for the self-administration of Saizen® now also available in China

The specialized therapies and user-friendly injection devices offered by the Business Unit Endocrinology can help improve the lives of patients with endocrine and metabolic disorders. Sales increased by 21% over 2009 to EUR 317 million thanks to strong growth in all regions. Our top-selling endocrinology product is Saizen®, a recombinant human growth hormone. Saizen® is approved in 79 countries for indications including the treatment of pediatric and adult growth hormone deficiency, Turner syndrome, growth failure in children associated with chronic renal failure, as well as to treat children born small for gestational age (SGA). According to estimates, growth hormone deficiency affects 330,000 children globally and 90,000 adults in Europe. Sales of Saizen® increased sharply by 18% to EUR 226 million. Our top-selling markets were Europe and North America. Latin America as well as Asia, Africa, Australasia showed strong, double-digit growth, also on an organic basis. The ongoing success of Saizen® was favorably impacted by the high acceptance of our electronic injection device Easypod™, which is now available in around 40 countries, including China, where it was approved in July. In order to make Saizen® even more user-friendly, we developed a ready-to-use liquid formulation that eliminates the need to prepare the powder for injection. Saizen® solution for injection was approved in Canada in April. A decentralized procedure was completed in the European Union in October, allowing national approvals in 18 EU member states in the coming



months. To ensure flexibility in meeting the individual needs of patients, the new formulation is available in cartridges of 6 mg, 12 mg and 20 mg, designed for exclusive use with Easypod™ and our needle-free auto-injector Cool.click™2.

With Kuvan® (sapropterin) for the treatment of hyperphenylalaninemia in patients with either phenylketonuria (PKU), a congenital metabolic disorder, or a deficiency of the key coenzyme tetrahydrobiopterin (BH<sub>4</sub>), we began offering the first drug for this orphan disease in Europe in 2009. According to estimates, around 50,000 people are affected in Europe; 20% to 50% of PKU patients could benefit from treatment with Kuvan®, which Merck Serono markets in around 30 countries. In 2010, the product was approved in Switzerland and Croatia as well as a number of countries outside of Europe, including Australia, China (only for BH<sub>4</sub> deficiency), Israel, Mexico and Venezuela. Global sales rose to EUR 20 million.

#### **Egrifta™ approved in the United States**

Egrifta™ is the first FDA-approved drug to reduce excess abdominal fat in HIV-infected patients with lipodystrophy

Our drug Serostim® is used in the United States to treat patients suffering from HIV-associated wasting, which is estimated to affect up to 8% of HIV-infected individuals. Sales of Serostim® increased by 8.1% to EUR 70 million.

In November, the U.S. Food and Drug Administration (FDA) approved Egrifta™ (tesamorelin for injection) as the first, and so far only, treatment indicated to reduce excess abdominal fat in HIV-infected patients with lipodystrophy. Egrifta™ was developed by Theratechnologies, a Canadian biopharmaceutical company, and will be marketed in the United States exclusively by our subsidiary EMD Serono.

## **CARDIOMETABOLIC CARE AND GENERAL MEDICINE**

We are expanding our position with CardioMetabolic Care products in many key growth markets

The Business Unit CardioMetabolic Care and General Medicine comprises our drugs for treating diabetes, cardiovascular diseases and thyroid disorders, as well as other products and regional specialties. The interrelationships that exist between many chronic cardiovascular and metabolic diseases are the causes of multiple complex clinical pictures that call for integrated therapeutic approaches. We are continually working to improve our products, for example by developing new dosage forms and strengths.

At EUR 1,888 million, sales by this Business Unit grew by 4.4%. We expanded our position in many dynamic markets. For example, our CardioMetabolic Care products have made us one of the fastest growing pharmaceutical companies in Latin America and Asia. In Latin America we rank among the top 15 pharmaceutical companies. However, price reductions in Europe and generic competition in France, our largest market in terms of sales, had a negative impact. Overall, the decline in sales of beta-blockers was more than offset by higher sales of diabetes and thyroid medicines.

### **Concor®: Strong performance in growth markets, fierce competition in Europe**

Sales of branded Concor® products containing the active ingredient bisoprolol amounted to EUR 373 million. This was 5.3% less than in 2009. One reason was generic competition in France, where sales dropped by 35% to EUR 62 million. Yet in Europe, our largest market for this product group, bisoprolol remains the leading beta-blocker, used in products such as Lodoz® and Concor® COR.

Sales in Venezuela, our largest market in Latin America, suffered an inflation-induced decline of 50% to EUR 11 million.

By contrast, Concor® branded products were successful in growth markets. Sales in Africa, Asia, Australasia grew 30% to EUR 98 million.

### **Glucophage® franchise continues on a growth course**

Seven million patients use oral metformin products from Merck Serono to treat their diabetes

Worldwide, around 285 million people suffer from type 2 diabetes and the number is rising.

More than seven million patients worldwide rely on our oral metformin products to treat this condition. Metformin, which is contained in our product Glucophage®, remains the drug of choice for first-line treatment of type 2 diabetes.

The branded products from the Glucophage® franchise generated sales of EUR 316 million – an increase of 8.4%. Slight sales declines in Europe were more than offset by double-digit growth in the markets of Latin America and Asia. In Latin America, Glucophage® is the leading product in the diabetes market. With growth of 34%, sales outperformed the market by six percentage points on a U.S. dollar basis. In addition, product line extensions continued to perform successfully. Sales of Glucophage XR® rose by 21% to EUR 69 million. We had launched a 1000 mg dosage strength of this product in 2009. With Glucovance® 1000 mg/5 mg, a combination of the active ingredients metformin and glibenclamide, we began launching a new dosage strength in 2010.

### **Thyroid products show good growth**

Merck is the world's largest supplier of drugs to treat thyroid disorders. Sales of these products grew by 7.6% to EUR 170 million. Despite generic competition, sales in Europe declined by only 1.3%. By contrast, sales in Latin America increased sharply by 30% and by 3.9% in Asia, Africa, Australasia. Sales of our key product, the thyroid hormone Euthyrox®, increased by 7.7% to EUR 148 million. Approximately 15 million patients in about 90 countries around the world receive treatment with Euthyrox®.

Worldwide, more than 300 million people suffer from hypothyroidism yet not even 20% of them are treated. We want to educate the public and promote optimum treatment of these disorders. Therefore, in May we conducted our second major public awareness campaign together with the International Thyroid Association. Activities took place in 45 countries.

### **Strong regional performance of other General Medicine products**

Due to our good competitive positions in major markets outside Europe, our other General Medicine products, some of which are only sold in certain regions, generated sales of EUR 977 million. This was 5.4% more than in 2009.

## RESEARCH AND DEVELOPMENT

At EUR 1,167 million, research and development spending was slightly lower (–1.4%) than in 2009. This decline is due on the one hand to the project delays experienced with Stimuvax<sup>®</sup> and cladribine tablets, and on the other hand to our successful efforts to optimize cost structures through efficiency enhancement measures. We invested around 20% of the total revenues of the Merck Serono division in R&D, which puts us at an above-average level within the pharmaceutical industry. This is mainly the result of the large number of cost-intensive studies in the final phase of clinical development. The pipeline currently comprises nine projects in Phase III clinical trials, seven in Phase II, and six in Phase I.

Our activities are focused on three areas: oncology, where we are seeking new therapeutic options for colorectal cancer, lung cancer, head and neck cancer, brain tumors, breast cancer and gastric cancer; neurodegenerative diseases, where we are working on new therapies for multiple sclerosis, Parkinson's disease and Alzheimer's disease; as well as rheumatology, which includes the autoimmune disease lupus erythematosus and osteoarthritis. We also continue to conduct research in the field of fertility. As of December 31, 2010, the division had around 3,000 employees working in research and development.

Our most important research centers are Darmstadt, Geneva and Boston. Additionally, we are expanding the Beijing site in order to cover Asia, to facilitate regional clinical trials, and to form local alliances. We plan to invest EUR 150 million and create more than 200 qualified positions here by 2013. The expansion work was completed as planned at the Billerica site, where we invested USD 65 million.

### Networks and partnerships help to address challenges

Generic competition, health care reforms, price pressure, increasing regulatory requirements placed on safety, and health technology assessments of new drugs are some of the trends that are posing challenges in the pharmaceutical R&D environment. We want to ensure sustainable success despite rapidly changing framework conditions. Essential elements of this strategy include focusing on specialist indications with high unmet medical needs, rigorously implementing treatment options adapted to specific patient groups (patient stratification) in order to predict the efficacy of therapies in individual patients, and cooperating with partners. We further expanded our network of alliances in 2010.

In R&D, we continue to build on our expertise in both small molecules and biopharmaceuticals. We are also investigating potentially new compound classes that could lead to innovative therapies. For example, we entered into a partnership with the Belgian company Ablynx to co-discover and co-develop Nanobodies<sup>®</sup> for use in the area of rheumatology. Nanobodies<sup>®</sup> are an innovative class of antibody-derived therapeutic proteins that combine the advantages of conventional antibodies with key properties of small molecule drugs.

#### Funding of innovative projects in multiple sclerosis research

In the field of neurodegenerative diseases, we formed an exclusive partnership with Fast Forward—a subsidiary of the American National Multiple Sclerosis Society. In 2010, we gave grants to four recipients. The funding, which will initially amount to nearly USD 1.5 million, will be used to advance innovative multiple sclerosis research projects in the United States, New Zealand, and the United Kingdom. In addition, we entered into a strategic cooperation with the Institute

**Status of our innovative compounds**

Therapeutic area	Compound	Indication	Status	
Oncology	Erbix® (cetuximab, monoclonal anti-EGFR antibody) <sup>1</sup>	Adjuvant colorectal cancer <sup>2</sup>	Phase III	
		Gastric cancer	Phase III	
	Cilengitide (integrin inhibitor)	Glioblastoma (brain tumor)	Phase III	
	Stimuvax® (cancer immunotherapy) <sup>3</sup>	Non-small cell lung cancer (NSCLC)	Phase III	
	Erbix®	Breast cancer	Phase II	
		Cilengitide	Head and neck cancer (SCCHN)	Phase II
			Non-small cell lung cancer (NSCLC)	Phase II
		Monoclonal anti-integrin antibody (DI17E6)	Colorectal cancer	Phase II
		TLR9 immunomodulator (IMO-2055) <sup>4</sup>	Head and neck cancer (SCCHN)	Phase II
		MEK inhibitor (AS703026/ MSC1936369B)	Solid tumors and hematological diseases	Phase I
	c-Met kinase inhibitors (EMD1214063, EMD1204831) <sup>5</sup>	Solid tumors	Phase I	
Neurodegenerative Diseases	Serum-free formulation of Rebif®	Relapsing-remitting forms of multiple sclerosis (MS)	USA: application submitted	
		Clinically isolated syndrome (CIS)	Phase III	
	Cladribine tablets	Relapsing-remitting forms of MS; Russia and Australia: approved, USA: application submitted <sup>6</sup>	Approved/ applications submitted	
		Clinically isolated syndrome (CIS)	Phase III	
	Safinamide <sup>7</sup>	Early-stage Parkinson's disease	Phase III	
		Mid- to late-stage Parkinson's disease	Phase III	
Immune-tolerizing agent (ATX-MS-1467) <sup>8</sup>	Relapsing-remitting forms of MS	Phase I		
Extended-release formulation of interferon beta-1a <sup>9</sup>	Relapsing-remitting forms of MS	Phase I		
Rheumatology	Atacicept (anti-BLYS/anti-APRIL fusion protein) <sup>10</sup>	Systemic lupus erythematosus (SLE)	Phase III	
	Fibroblast growth factor 18 <sup>10</sup>	Cartilage injury	Phase II	
		Osteoarthritis	Phase I	
Endocrinology	Long-acting growth hormone (ARX 201) <sup>11</sup>	Growth hormone deficiency	Phase II	

<sup>1</sup> Developed in cooperation with ImClone LLC: Erbix® is a trademark of ImClone LLC, a wholly owned subsidiary of Eli Lilly & Co.

<sup>2</sup> Sponsored and coordinated by the Fédération Francophone de Cancérologie Digestive (FFCD)

<sup>3</sup> Exclusive worldwide licensing rights acquired from Oncothyreon Inc.

<sup>4</sup> In-licensed from Idera Pharmaceuticals, Inc.

<sup>5</sup> Collaboration with M. D. Anderson Cancer Center

<sup>6</sup> CHMP adopted a final negative opinion on the marketing authorization application in the EU in January 2011

<sup>7</sup> Collaboration with Newron Pharmaceuticals S.p.A.

<sup>8</sup> Collaboration with Apitope Technology (Bristol) Ltd.

<sup>9</sup> Collaboration with Flamel Technologies S.A.

<sup>10</sup> In-licensed from ZymoGenetics, Inc., a wholly owned subsidiary of Bristol-Myers Squibb Company

<sup>11</sup> Collaboration with Ambrx, Inc.

NSCLC: Non-small cell lung cancer

SCCHN: Squamous cell carcinoma of the head and neck

CIS: Clinically isolated syndrome

for Experimental Neurology (INSPE) and the Department of Neurology at the San Raffaele Scientific Institute in Milan, Italy. The aim of the cooperation is to advance clinical research projects in the field of neurodegenerative diseases using new models and technologies. Merck Serono Ventures is the name of our corporate venture capital fund. In 2010, the fund invested in two highly innovative biotech companies. One of the companies is f-Star from Vienna, Austria, which is engaged in the discovery and development of modified antibodies. The most recent investment was made in Auxogyn of San Francisco. This company is developing a non-invasive tool for early assessment of embryo viability within the scope of in vitro fertilization procedures.

Additionally, internal cooperation with Merck Millipore is creating new prospects. Potential synergies exist in areas such as companion diagnostics, systems biology, new biopharmaceutical drug delivery methods, and in the search for new routes in biopharmaceutical production.

#### **Research and development: Additional potential for Erbitux®**

New data on Erbitux® for first-line treatment of metastatic colorectal cancer

Further analysis of the Phase III CRYSTAL trial once again confirmed the therapeutic value of Erbitux®. New data show that patients with KRAS wild-type metastatic colorectal cancer (mCRC) who experienced early tumor shrinkage during first-line Erbitux®-based treatment had an unprecedented overall median survival of 28.3 months. Further Phase III studies are being conducted in gastric cancer (EXPAND) and adjuvant colorectal cancer (PETACC-8). Initial results of the randomized Phase II trial BALL-1 demonstrated the therapeutic potential of Erbitux® in breast cancer. Treatment with Erbitux® in combination with chemotherapy showed positive results in patients with metastatic triple-negative breast cancer (TNBC). Median progression-free survival in women treated with Erbitux® plus chemotherapy more than doubled. Although tumor response nearly doubled, the primary endpoint of the study, response rate, was not met. TNBC is aggressive, difficult to treat, and associated with high rates of metastasis and relapse.

#### **Stimuvax®: Clinical program resumed, obstacles successfully overcome**

In June, Merck resumed the Stimuvax® (BLP25 liposome vaccine) clinical program in patients with non-small cell lung cancer (NSCLC), which includes the Phase III studies START and INSPIRE. The treatment and enrollment of patients has restarted after approval by the local regulatory authorities and ethics committees. This was made possible by a decision by the U.S. Food and Drug Administration (FDA) to partially lift the clinical hold and allow the START trial to resume. The Phase III STRIDE trial in advanced breast cancer was the study that remained on clinical hold by the FDA. Merck Serono decided to close this study.

The clinical hold was put in place by the FDA in March 2010 following a suspected unexpected serious adverse reaction. A patient participating in a Phase II exploratory clinical trial with the cancer immunotherapy in multiple myeloma developed encephalitis. Since 2007, we have been conducting the START trial to evaluate the efficacy and safety of the treatment with Stimuvax® in patients with inoperable stage III non-small cell lung cancer. The decision to initiate this trial was based on the results of a randomized Phase IIb study, in which Stimuvax® showed an increase in overall survival of a subset of patients with locoregional stage IIIb NSCLC from 13.3 months in the control group to 30.6 months in the treatment group. In 2009, we initiated INSPIRE, a Phase III trial in NSCLC in Asia. Should the Phase III trials be successfully completed, this cancer immunotherapy could play an important role in the treatment of lung cancer patients, for whom current therapeutic options are still limited.

#### **Cilengitide trial provides long-term follow-up data in glioblastoma patients**

Cilengitide is the first integrin inhibitor in oncology to have entered Phase III clinical development. In the CENTRIC trial, we are studying this compound in glioblastoma (GBM), the most aggressive type of brain tumor. Integrin inhibitors are thought to work by targeting tumor cells and the vascular network required to nourish the tumor and promote cancer cell growth. Long-term follow-up data from a randomized Phase II study of two different cilengitide doses in recurrent glioblastoma were published in 2010. They showed that 37% of patients who received the higher dose of cilengitide (2000 mg) were still alive after one year. The current prognosis of patients with recurrent glioblastoma is poor with median overall survival between four and seven months and one-year survival rates of approximately 20%.

#### **Pipeline: All resources focused on promising projects**

Merck Serono remains highly committed to research and development in oncology

Merck Serono remains committed to its discovery and development work in the therapeutic area of oncology. Our aim is to offer patients with high unmet medical needs additional therapeutic options in various indications. An important step toward this aim is the worldwide research and development agreement entered into with Sanofi-Aventis at the end of 2010. This agreement allows the experimental combination of Merck's MEK inhibitor with one of two early compounds of the partner, respectively.

We are currently investigating three compounds in Phase I studies in solid tumors and hematological diseases. In addition, five Phase II studies are underway in breast, head and neck, non-small cell lung as well as colorectal cancer.

Since our pipeline includes numerous compounds with high therapeutic potential, we remain committed to moving forward those projects with the greatest promise of sustainable success. At the same time, we will terminate or divest at an early stage those projects that appear to be less promising. This enables us to ensure that our resources are deployed to benefit patients and to manage the risks for our company. In 2010, we terminated the following four early-stage oncology projects: an aurora-kinase inhibitor and the monoclonal antibody sonepizumab in Phase I; the immunocytokine tucotuzomab celmoleukin and the monoclonal antibody adecatumumab in Phase II.

Rebif® significantly delayed conversion to clinically definite MS in patients with CIS

### **Efficacy of Rebif® demonstrated in clinically isolated syndrome**

Within our Neurodegenerative Diseases therapeutic area, we are conducting research to discover new therapeutic options for multiple sclerosis (MS) and Parkinson's disease – two indications with high unmet medical needs. In REFLEX, a two-year Phase III study involving more than 500 patients, we investigated whether patients with clinically isolated syndrome (CIS) at risk of developing MS could benefit from treatment with the serum-free formulation of Rebif®. Study participants with this clinical picture have so far experienced a single MS-like episode, such as optical or sensory disturbances, and have characteristic MRI lesions, putting them at high risk of developing clinically definite multiple sclerosis. At this early stage, these patients have not yet been given a clinically definite diagnosis, yet they are at risk of developing MS. The trial, which was completed in October, met its primary endpoint by demonstrating that Rebif® significantly delays conversion to clinically definite MS in these patients. A three-year double-blind extension of the REFLEX study, called REFLEXION, is currently ongoing in order to provide long-term follow-up data.

### **Progress made with the further development of cladribine tablets**

With cladribine tablets, the Merck Serono division is developing a drug for the oral, short-course treatment of relapsing-remitting multiple sclerosis. In 2010, we received regulatory approvals in Russia and Australia. Our regulatory application received a negative opinion in the European Union. It is currently under review in the United States (see page 51). The clinical development program for cladribine tablets is designed to evaluate the potential therapeutic effects of cladribine tablets in various stages of the disease. Following the successful completion of the CLARITY study, a two-year extension with around 800 patients is currently underway to provide data on the long-term safety and efficacy of cladribine tablets as a monotherapy in relapsing-remitting MS. The two-year Phase III ORACLE-MS study is investigating cladribine tablets as a monotherapy in patients with clinically isolated syndrome. In November, we completed the recruitment of more than 600 study participants. In the Phase II ONWARD study, we are evaluating the safety and tolerability of adding cladribine tablets to established treatment with interferon beta.

Safinamide study misses endpoint, but confirms effect on motor function and safety profile

### **Long-term study completed with safinamide in late-stage Parkinson's disease**

Together with our partner Newron, we are developing safinamide as an oral adjunctive therapy for patients with various stages of Parkinson's disease, which affects an estimated three million people in industrialized countries. In 2009, we had successfully completed the first Phase III clinical trial of safinamide administered as an add-on therapy to levodopa standard treatment in patients with advanced Parkinson's disease (Study 016). Motor function and the ability to perform daily activities improved significantly in patients treated with safinamide compared to placebo. An 18-month extension study (Study 018) was intended to provide data on the long-term efficacy and safety of safinamide in this indication. We announced the results of this long-term study in November 2010. The primary efficacy endpoint measuring dyskinesia after 24 months of treatment was not met. We therefore reassessed the sales potential of safinamide and recorded an impairment (see page 19). By contrast, the results of the analysis of the main secondary endpoint were consistent with the effect on motor function observed in

Study 016. The data from Study 018 also confirm the safety profile of safinamide. With SETTLE, a further Phase III clinical trial is underway in this indication. In the MOTION study, a Phase III clinical trial, we are evaluating safinamide as an add-on therapy to a dopamine agonist in early Parkinson's disease.

#### **Increasing the success rate after in vitro fertilization**

The objective of fertility research and development work at Merck Serono is to help infertile couples at every stage of the reproductive cycle – from follicular development to early pregnancy – to realize their dream of having a child. The innovative drugs and application devices must offer patients maximum ease of use and increase the probability of a pregnancy. In this way, we want to further expand our leading position in the treatment of infertility. Our ongoing research efforts are focused on drugs, technologies and support services that will improve the success rate of in vitro fertilization (IVF) procedures, and thus ultimately increase the take-home baby rate.

#### **Focusing on Rheumatology**

In the field of autoimmune and inflammatory diseases, we shifted our focus to rheumatological diseases and consequently renamed this therapeutic area. Our research and development work is centered on molecules that modulate the key pathogenic mechanisms of these diseases. We are developing the recombinant protein atacicept for the treatment of systemic lupus erythematosus (SLE), an inflammatory rheumatological disease. This innovative compound blocks the two immunomodulatory factors APRIL and BlyS. They are important for the survival and the proliferation of lymphocytes that trigger an abnormal immune reaction against the patient's own normal tissues. SLE is a chronic autoimmune disease that mainly affects women and is an area of great unmet medical need. We are currently conducting a Phase II/III clinical trial with atacicept in SLE. Lupus nephritis (LN) is a particularly severe form of SLE involving the kidneys. We are currently adapting the clinical development plan for atacicept in this indication after having discontinued a Phase II/III study in 2008.

Phase II study of FGF 18 started in a new indication, the treatment of knee cartilage defects

Thanks to its novel mechanism of action, fibroblast growth factor 18 (FGF 18) could be the first disease-modifying treatment for osteoarthritis and the repair of cartilage damage following injury. In the laboratory, FGF 18 has been shown to stimulate the regeneration of defective articular cartilage. FGF 18 may support the healing of degenerative joint disease. We successfully completed a Phase I trial of patients with osteoarthritis of the knee joint. A further clinical trial in osteoarthritis is still in progress. We are investigating the efficacy of FGF 18 in the treatment of knee cartilage defects in a Phase II trial that we initiated in 2010.

#### **Research and development on growth disorders and metabolic diseases**

The aim of our research and development efforts in endocrinology is to offer patients with growth disorders and metabolic diseases new therapeutic options or improved versions of established products based on our own development work or cooperation with partners. The most recent examples include Egrifta™ (tesamorelin for injection) for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy, as well as the development of a liquid formulation of Saizen® for injection.



Sales of the well-established Nasivin® range grew by 23% to EUR 52 million in 2010.



## CONSUMER HEALTH CARE

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The Consumer Health Care division offers high-quality over-the-counter products for preventive health care and self-treatment of minor ailments. Its product range includes global, scientifically based branded products that consumers trust. Consumer Health Care is represented in many countries of Europe, North America, Latin America, Asia and Africa.

### KEY PRODUCTS

- Mobility: Products to strengthen the joints and relieve pain, including the brands Seven Seas<sup>®</sup>, Flexagil<sup>®</sup> and Kytta<sup>®</sup>
- Everyday health protection: Probiotic multivitamin ranges Bion<sup>®</sup> and Multibionta<sup>®</sup>; vitamins and minerals sold under brand names such as Cebion<sup>®</sup> and Diabion<sup>®</sup>
- Women's and children's health: Femibion<sup>®</sup> includes products with folic acid and Metafolin<sup>®</sup> for pregnant and nursing women; Kidabion<sup>®</sup> (Haliborange<sup>®</sup>), a vitamin range for children
- Cough and cold: Cold treatment Nasivin<sup>®</sup> (Iliadin<sup>®</sup>); flu treatment Sedalmerck<sup>®</sup>

### KEY DEVELOPMENTS IN 2010

- Stable growth, with many countries clearly exceeding market growth
- Strategic brands reinforced: Double-digit growth for Femibion<sup>®</sup>, Bion<sup>®</sup>, Seven Seas<sup>®</sup> and Nasivin<sup>®</sup>
- Femibion<sup>®</sup>: a growth driver in Poland, Germany and France
- Bion<sup>®</sup> range: strong increases in France, Belgium and Chile
- Nasivin<sup>®</sup>: strong sales growth in Poland, Russia, South Africa and India
- Research and development further expanded
- Higher expenses due to restructuring measures in China, impairment losses in Mexico, and a warehouse fire in the United Kingdom
- Negative currency effects in Venezuela, one of the division's largest Latin American markets; positive currency effects in Mexico, the United Kingdom and Indonesia

## SOLID SALES DEVELOPMENT

The Consumer Health Care Division stabilized its growth course, growing in line with western Europe, its main market. The global sales of our strategic brands performed well, posting double-digit growth.

### Focus on four health themes

#### Consumers trust Merck

Consumer Health Care specializes in over-the-counter products and focuses on four health themes: Cough and Cold, Mobility, Everyday Health Protection, and Women's and Children's Health. The main distribution channels for our products are pharmacies, as well as retail chains, drug stores and mail order in some countries and certain markets. We are building on the strength of our well-known brands and the long-standing trust consumers place in them with respect to their quality and efficacy.

#### Consumer Health Care | Key figures

EUR million	2010	2009	Δ in %
Total revenues	472	467	1.1
Gross margin	317	319	-0.8
R&D	25	19	28
Operating result	14	48	-71
Exceptional items	-	-	-
Free cash flow	45	49	-7
Underlying free cash flow	45	49	-7
ROS in %	2.9	10.3	

### Above-average market growth in many countries

#### Business in focus countries develops well

In 2010, total revenues of the Consumer Health Care division rose by 1.1% to EUR 472 million. We thus achieved stable growth and grew in line with the market in western Europe, our main market. We recorded organic growth of 2.6% worldwide and exceeded average market growth in many countries. The cornerstones of our strategy are strong brands and regional expansion. With a few exceptions, our focus countries performed well. In one important market, Venezuela, negative currency effects impacted business. In China, we undertook extensive restructuring in the third and fourth quarters. We had expanded outside the four major cities of Beijing, Shanghai, Guangzhou and Shenzhen too quickly. As a consequence, we ended up with considerable stocks that were not being pulled through to consumers. Having concluded an exclusive agreement with the Chinese Medical Doctors Association to offer Diabion in major hospitals, we did not receive the necessary government permission to allow doctors to prescribe the product. Adjusted for the effects in China, the division posted organic growth of 5.2%.

### Research and development expanded

The operating result of the Consumer Health Care division declined by 71% to EUR 14 million. ROS was 2.9% compared with 10.3% in 2009. Underlying free cash flow was EUR 45 million, which was 7% lower than in 2009. In addition, higher impairment losses in Mexico lowered the operating result. We also incurred losses due to a fire in a warehouse in the United Kingdom. At EUR 25 million, research and development spending in the Consumer Health Care division was 28% higher than in 2009.

### Strategic brands post increases

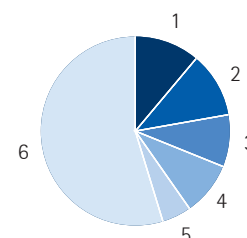
[Femibion® shows strong growth](#)

With one exception, the global sales of our five strategic brands developed positively, posting double-digit increases. The Bion® range generated global sales of EUR 54 million, an increase of 11%, of which France contributed the vast majority, or EUR 32 million. Femibion® grew by 24%, generating sales of EUR 41 million. Its strongest markets are Germany and Poland. France also recently reported strong increases. Seven Seas® recorded a slight sales decline of 1.4% in its core UK market. However, thanks to the positive developments in other countries, sales grew by a total of 14% to EUR 44 million. Nasivin® sales grew by 23% to EUR 52 million, driven primarily by good performance in Poland, Russia, South Africa and India. The Kytta® brand, which is primarily marketed in Germany, registered a 21% decline in sales to EUR 15 million. The development of Kytta in Germany was attributable to overproportionate increases in advertising spending by our competitors compared to 2009.

### Top five brands by sales in 2010

EUR million / % of divisional sales

1 Bion®	54	11%
2 Nasivin®	52	11%
3 Seven Seas®	44	9%
4 Femibion®	41	9%
5 Cebion®	27	6%
6 Other products	252	54%



[Europe – our number-one region](#)

### More than two-thirds of sales generated in Europe

By region, our sales breakdown as follows: 71% in Europe, 17% in Latin America and 12% in Asia, Africa, Australasia. Europe thus remains our largest market with sales of EUR 331 million, an increase of 3.8% over 2009.

### France: our largest market

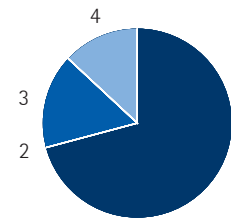
France remains our top-selling country, posting sales of EUR 101 million, or 1.8% more than in 2009. The Bion® range again performed very well, securing its position as the second-leading brand in the French OTC market and as number one for nutritional supplements. Femibion® Maman Active for young mothers was launched in France in 2010.

**Apaisyl® range expanded** Apaisyl® is a very well-known brand in France, which focuses on head lice, skin irritations and mycoses. New products for nail fungus, chapped hands and herpes were added to this product range. The Médiflor® range was also expanded to include a product for sore throats.

#### Consumer Health Care | Sales by region

EUR million / % of total divisional sales

1 Europe	331	71%
2 North America	1	0%
3 Latin America	81	17%
4 Asia, Africa, Australasia	57	12%



#### Femibion®: the clear market leader in Germany

Germany has replaced the United Kingdom as our second most important market. In 2010, our German subsidiary Merck Selbstmedikation GmbH marked its 40th anniversary. Sales in Germany totaled EUR 57 million, representing growth of 1.7%. With a market share of more than 50%, Femibion®, which was launched in Germany 15 years ago, is the clear leader in its market segment, growing by 4.4% in 2010. In the Femibion® range, we launched Flor Intim, a probiotic product to protect and foster healthy vaginal flora. Very good sales were generated by Cape June®, our brand of diet products distributed directly through the QVC home shopping network.

#### A difficult environment in the United Kingdom

In the United Kingdom, a difficult market environment caused sales to drop by 0.7% to EUR 54 million. Femibion®, which was launched here in 2009, did not meet expectations. Our Lamberts Healthcare line showed a positive trend; this brand specializes in the direct sale of nutritional supplements and focuses heavily on e-commerce.

At EUR 27 million, sales in Belgium remained stable at a high level. Poland showed very positive growth of 18%, reaching EUR 29 million. Consumer Health Care also saw strong increases in Russia, Hungary, Austria and Turkey.

### Currency effects in Latin America

In Latin America, total sales decreased by 9.6% to EUR 81 million. This was attributable to exchange rate losses in Venezuela, one of our most important markets in Latin America after Mexico. Although we achieved organic growth of 30%, sales in Venezuela dropped by 52%. In terms of total sales, the positive sales growth in Mexico (7.1%), Brazil (14%) and Chile (45%), for example, was unable to completely compensate for Venezuela. However, we achieved 11% organic growth in the region.

To expand our position in Latin America, we opened a new research and development center in Brazil. The center serves as an R&D hub for Brazil and neighboring countries. The center's goal is to develop regional solutions for the successful strategic brands of Merck Consumer Health Care. This means that existing products and future developments from the worldwide portfolio are to be adapted to regional conditions and local regulatory requirements.

### Growth in major Asian markets


In Asia, sales declined by 4.8% as a result of the aforementioned development in China. We achieved growth in all our major Asian markets, for example in Indonesia (42%), our main market, as well as in India (42%) and Malaysia (22%). In Indonesia, we celebrated the 35th anniversary of Sangobion<sup>®</sup>, our main product in this market. This is a supplement to prevent iron deficiency and anemia in children and adults. In the Philippines, sales grew by 47%, primarily driven by the successful launch of Sangobion<sup>®</sup> in direct sales.

After continuous growth in previous years, South Africa, by far the most important market in Africa, once more saw significant increases, rising by 29% to EUR 9.2 million. Our Slow-Mag<sup>®</sup> line of magnesium products is the clear market leader there, holding a 70% market share. We have expanded this product line to include SlowMag<sup>®</sup> Active+, a magnesium supplement containing vitamins, ginseng, guarana and zinc.

### Research and development

#### R&D spending increases

In 2010, we completed the realignment of our research and development organization, which we had started in 2009. As part of our evidence-based approach to OTC products, we stepped up our investment in clinical studies for additional indications (as in the case of Kytta<sup>®</sup>). This will enable us to meet increased regulatory requirements and further substantiate our health claims based on the study results. The regulatory requirements at the EU level are increasing for dietary and nutritional supplements as well. We are meeting these requirements through far-reaching trials, such as those for Bion<sup>®</sup>, Flexagil<sup>®</sup> and Femibion<sup>®</sup>.

A photograph of a laboratory water purification system. In the foreground, a white Milli-Q workstation with a blue-tipped dispensing arm sits on a white rectangular pedestal. In the background, a larger white Milli-Q system with a purple Elix water reservoir is visible. The scene is brightly lit with a soft, diffused light, and a vertical orange bar is on the left edge of the frame.

Milli-Q® and Elix® laboratory  
water purification system:  
Ultrapure water for research  
laboratories around the world

## MERCK MILLIPORE

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With the completion of the acquisition of Millipore on July 14, 2010 and the resulting formation of the Merck Millipore division, a world-class partner to the life science industry was created. The new division combines the Millipore businesses with the majority of Merck's Performance & Life Science Chemicals division. Merck Millipore comprises three business units: Bioscience sells products used by life science laboratories in academia and industry; Lab Solutions supplies general lab products and equipment for applications in both life science and industrial markets; and Process Solutions markets products used in the production of chemical and biopharmaceutical drugs. All three business units increased their total revenues in 2010.

### KEY PRODUCT GROUPS

- Products for protein research and cell biology, e.g. multiplex immunoassay and ELISA kits, protein detection products, as well as flow cytometry instruments and kits
- Laboratory chemicals and consumables for research, educational and industrial applications in organic and inorganic chemistry, chromatography, food and environmental analysis as well as microscopy and lab water instruments, consumables and services to meet diverse water purification needs
- Products used in the manufacture of biopharmaceutical drugs and to support clarification, purification, viral clearance, sterile filtration, process monitoring and process development through scale-up to full-scale production

### KEY DEVELOPMENTS IN 2010

- Acquisition of Millipore closes on July 14, figures consolidated for the first time in the third quarter, integration almost completed
- Total revenues amount to EUR 1,681 million, return on sales 2.6%
- Strong sales performance driven by growth in the Americas and Asia, strong demand from global biotech customers, and the positive impact of new product introductions
- Nearly 40% of total revenues generated in Europe, Merck Millipore's largest market



## ACCELERATING THE INNOVATION STRATEGY

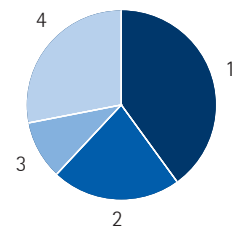
In 2010, the division continued to accelerate its innovation strategy, launching several critical new products such as Scepter™, the world's first automated handheld cell counter. With a broad-based portfolio, Merck Millipore is focusing on the growing demand for integrated and more sophisticated research tools from the life science industry.

Total revenues of Merck Millipore amounted to EUR 1,681 million in 2010. This corresponds to growth of 81%. The revenues and expenses of Millipore have been included since July 2010. Organic growth of the division, meaning excluding acquisitions and currency effects, amounted to 5.6%.

### Merck Millipore | Sales by region

EUR million / % of divisional sales

1 Europe	657	39%
2 North America	394	24%
3 Latin America	157	9%
4 Asia, Africa, Australasia	465	28%



The realignment of the Chemicals business sector as a result of the acquisition is enabling Merck to achieve leading positions in high-margin, fast-growing markets, e.g. the biotech industry

Merck Millipore generated nearly 40% of its total revenues in Europe, the division's largest market. Double-digit growth rates were achieved in the other regions, not least thanks to the acquisition. The division also recorded organic sales growth, with Asia posting a double-digit increase.

The operating result of the Merck Millipore division was EUR 44 million, corresponding to a decline of 58.7% compared to 2009. It should be noted here that the operating result for 2010 was lowered by transaction and integration costs of EUR 87 million. Moreover, cost of sales, and consequently gross margin, were impacted by one-time expenses of EUR 86 million in connection with the purchase price allocation for the acquired Millipore inventories (more information can be found under "Financial position and results of operations"). Additionally, the division bore the ongoing amortization expense for the acquired intangible assets recognized within the scope of the purchase price allocation. In total, amortization of intangible assets was EUR 96 million and related almost exclusively to the second half of 2010.

### Merck Millipore | Key figures

EUR million	2010	2009	Δ in %
Total revenues	1,681	929	81
Gross margin	871	434	101
R&D	78	32	141
Operating result	44	106	-59
Exceptional items	-	11	-
Free cash flow	-4,672	123	-
Underlying free cash flow	263	128	106
ROS in %	2.6	11.5	

The division's ROS amounted to 2.6% compared to 11.5% in 2009. Underlying free cash flow was EUR 263 million compared to EUR 128 million in 2009.

#### Strong position in fast-growing markets

The realignment of the Chemicals business sector as a result of the acquisition is enabling Merck to achieve leading positions in high-margin, fast-growing markets, e.g. the biotech industry. The company is now even less exposed to economic cycles. The steady, resilient revenue stream from the Merck Millipore division balances the Liquid Crystals business within Performance Materials and the Pharmaceuticals business sector. Merck Millipore is positioned globally as a strategic supplier driven by innovation, premium brand products, and competitive differentiation in increasingly competitive sectors.

## BIOSCIENCE

#### For easier and more efficient research

With its products for life science research in the pharmaceutical and biotechnology industries as well as academia, the Bioscience Business Unit accounts for about 20% of the division's total revenues. It is focused on offering solutions that help scientists to conduct life science research easily, efficiently and economically.

The Bioscience Business Unit provides an increasing number of tools and services to support researchers seeking to understand complex biological systems as well as to identify and characterize new therapeutic targets.

Tools and services from our Bioscience Business Unit help researchers meet increasing demands as pharmaceutical researchers come under increasing competitive pressure to screen and identify new drugs with more speed and accuracy.

Therefore, our goal is to create products and services that simplify the work flow for researchers, offering consolidated and validated solutions. The business unit's products help to advance life science research in a wide variety of areas ranging from neuroscience, infectious disease, oncology, and metabolic disorders to stem cells, cell signaling, nuclear function, and chromatin biology.

Thousands of products developed  
for applications in protein research  
and cell biology

### **Products for protein research and cell biology**

The Bioscience Business Unit sells thousands of products, primarily into the protein research and cell biology markets. These include instruments, consumable devices, reagents and services to help customers better understand diseases and biological functions. Their work typically involves conducting experiments on biological samples, such as cells, proteins, and nucleic acids. Merck Millipore also offers a wide variety of kits that improve research productivity and efficiency. Kits enhance research productivity by combining in one box all the disposables, reagents, and protocols needed to reliably and reproducibly conduct a particular experiment.

### **Measuring the effect of drugs on protein biomarkers**

Within the protein research market, we offer multiplex immunoassay and ELISA kits, protein detection products, and flow cytometry instruments and kits. Researchers use our multiplex immunoassay kits to understand which proteins may be indicative of a disease state, measure how a drug affects protein biomarkers, and determine what side effects a drug creates. We are developing multiplex kits, reagents, and assays for researchers studying immunology, inflammation, and metabolic diseases (e.g. diabetes, obesity, cardiovascular disorders).

### **An integrated range**

The Bioscience Business Unit is increasingly seeking to integrate instrumentation, reagent kits, validated protocols and technical support. One example of this approach is in flow cytometry, where we are bringing the advantages to the bench tops of cell biologists.

A major challenge for our customers is to find promising drug candidates faster and then ensure that they will not generate unwanted or unexpected side effects in clinical trials or when they are commercially available on the market. To improve the efficiency and economy of this research, customers outsource research work to the Bioscience Business Unit rather than conduct

the work in-house. We provide services to identify disease targets and better understand how to improve the efficacy of drugs on targeted patient groups and prevent side effects.

Merck Millipore's service offering helps customers better understand the safety and efficacy of biologic drugs and vaccines. With the increasing development of biologics, companies are leveraging our expertise to help them evaluate the efficacy of these drugs. We offer our customers a broad range of services to assist with evaluating and advancing these therapeutics from the drug development pipeline to the market. The offering includes biomarker analytical services, assay transfer/development, validation and sample analysis, pharmacokinetics, toxicokinetics, immunogenicity, biological potency, and vaccine services.

## LAB SOLUTIONS

### **Contributing to excellence in science and analytics**

The Lab Solutions Business Unit supplies products for research, analytical and clinical laboratories in a wide variety of industries. Accounting for about 40% of the division's total revenues, it is one of the leading suppliers of laboratory chemicals, lab water equipment and consumables. Merck Millipore has a strong track record of developing packaging concepts and chemical packaging that protect high-quality solvents prior to use. In addition, the division is the leading supplier of lab water and water treatment technologies.

For inorganic chemistry, we offer reagents of high purity such as salts, acids, caustics, volumetric solutions, buffers, reference materials for instrumental analysis and products for inorganic trace analysis. For organic chemistry, we supply a full range of basic products for synthesis, including building blocks, reagents and solvents most commonly used in organic synthesis from laboratory scale to bulk production.

As a supplier of chromatography products, Merck Millipore is also advancing the development of analytical separation technologies. The product focus is on analytical high-performance liquid chromatography (HPLC) and innovations to the monolithic Chromolith® HPLC columns for ultrafast separations.

**Stringent requirements in food and environmental analysis**

We have tailored our testing products for food, water and waste water analysis, spectrophotometry and quality control to growing analytical demand. This includes products such as the spectrophotometer Spectroquant® Pharo and the Spectroquant® Colorimeter Picco Cl2/O3/ClO2/CyA/pH as well as an extended product line of instant visual test kits such as Merckoquant® test strips.

Visual test kits such as pH indicator strips and papers, Aquamerck®, Microquant®, and Aquaquant®, as well as testing instruments such as Reflectoquant® and Turbiquant® are also part of the range. The product range for microscopy is tailored to classical hematology, cytology, histology, and bacteriology. Laboratory supplies and third-party products round off the offerings to research, quality, analytical, and clinical labs.

**Competence in BioMonitoring**

BioMonitoring activities are another area of competence within the Lab Solutions Business Unit. Our products help to detect microbiological contamination and to conduct protein and cellular analysis targeting customers in the pharmaceutical, biopharmaceutical and food industries. The business unit also sells membranes, antibodies, and other diagnostic reagents to diagnostic and medical device manufacturers. Beverage companies also benefit from the use of BioMonitoring products to identify microbiological contamination from bacteria and yeast. We are also focused on developing next-generation technologies that are faster and more sensitive and enable drug manufacturers to identify contamination earlier in their processes. These products are capable of significantly reducing the time-to-result from days or weeks to hours.

**Water purification equipment and products for laboratories**

As the leading supplier of lab water applications, Merck Millipore also offers lab water instruments, consumables and services to meet diverse water purification needs. These products remove microorganisms, dissolved gases, particulates, and organic and inorganic compounds from water. The quality of the water is a critical variable for researchers as it can have a lasting impact on the scientific results of their research. The demands placed on water quality depend largely on the complexity of the scientific experiment, with ultrapure water required for complex experiments.

## PROCESS SOLUTIONS

### Consolidating resources

The Process Solutions Business Unit supplies products used to manufacture biopharmaceutical drugs. It accounts for about 40% of the division's total revenues. The business unit enables pharmaceutical and biotechnology companies to develop and manufacture clinical and commercial drug materials safely and efficiently. By combining the resources of Millipore and Merck, we can expand our portfolio of integrated bioprocessing technologies and offer an attractive range of development and regulatory services to biopharmaceutical manufacturers.

### Biological safety

Products offered by the Process Solutions Business Unit support clarification, purification, viral clearance, sterile filtration, process monitoring and process development through scale-up to full-scale production. The portfolio helps ensure biological safety, for example with products for sterile and virus filtration as well as hardware and support for downstream processing. With a comprehensive range of products and services for purification, e.g. ultrafiltration and chromatography, Merck Millipore helps biopharmaceutical developers and manufacturers to efficiently and effectively purify biologic drugs. Some of the products within this portfolio include Pelicon® for tangential flow filtration, Millistak® Pod and ProStak™ for clarification, ChromaSorb™, and ProSep® chromatography media. The purification portfolio is complemented by Fractogel® and Eshmuno® from the Merck chromatography business.

Products and services support developers and manufacturers of biopharmaceuticals

### Advanced separation technologies

The Mobius® single-use product line provides integrated solutions that bring together Merck Millipore's advanced separation technologies, differentiated single-use products, applications expertise, and expert validation support. Mobius® FlexReady Solutions are optimized, complete single-use solutions that integrate process-ready hardware systems with Mobius® Flexware assemblies.

As it eliminates the time-consuming steps involved in cleaning, autoclaving and assembling, the Mobius® CellReady 3L single-use, stirred tank bioreactor considerably reduces the downtime typical of glass bioreactors. This enables process development engineers to focus more on experimentation and data analysis in order to obtain results faster.

The business unit's portfolio covers the entire pharmaceutical production value chain

### Pharmaceutical excipients

Moreover, the business unit's portfolio covers the entire pharmaceutical production value chain. Apart from regulated starting materials and active pharmaceutical ingredients, our pharmaceutical raw materials, for example from the ParTECK® range, are used as excipients for the production of solid, semi-solid, and liquid formulations. Cell culture supplements complement the range of products and services for upstream processing. Merck has combined its range of excipients and active ingredients for pharmaceutical production processes under the Emprove® brand.

Ultrathin televisions: better image quality, greater contrast and less power consumption thanks to PS-VA technology



## PERFORMANCE MATERIALS

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Liquid crystals from Merck are used around the world in LCD televisions, monitors, tablet PCs, notebooks, mobile phones, and digital cameras. Besides high-tech chemicals and materials for liquid crystal displays, the Performance Materials division also offers new lighting and display technologies such as OLEDs as well as innovative effect pigments for the plastics, printing and coatings industries. Our pigments are also used, for example, in skin care and color cosmetics. In view of climate change and high energy prices, we are also active in growth markets in the field of renewable energy sources. We are working to utilize solar energy more efficiently and to develop innovative technologies for energy-saving LEDs.

### KEY PRODUCTS

- licristal® – Liquid crystal mixtures for displays
- Iriodin® – Pearl luster pigments for a wide range of color effects

### FURTHER PRODUCT GROUPS

- livilux® – Materials for OLEDs (organic light-emitting diodes) in displays and for innovative lighting
- isishape® – Efficient, eco-friendly materials for structuring solar cells and touch screens
- Innovative effect pigments, such as Xirallic®, which creates glitter effects, for use in coatings, packaging and product design, imparting not only decorative but also security-relevant features, such as brand and anti-counterfeit protection

### KEY DEVELOPMENTS IN 2010

- Growing demand for high-tech liquid crystals: total revenues up 38% compared to 2009
- Technology leader in innovative liquid crystal mixtures, for example PS-VA (polymer-stabilized vertical alignment) technology
- Total revenues of the Pigments business unit rise by 37% compared to the 2009 crisis year
- Production capacity utilization at a high level for both liquid crystals and pigments
- Operating result more than doubled to EUR 580 million from EUR 218 million
- New Material Research Center inaugurated at the Darmstadt site; at EUR 50 million it represents the largest single R&D investment in the Chemicals business sector to date



## STRENGTH BOOSTED

Merck has combined its materials businesses and activities in the new Performance Materials division, which was created after completing the acquisition of the U.S. life science company Millipore on July 14. The division consists of the Liquid Crystals, Pigments and Cosmetics business units, as well as Advanced Technologies, which offers materials for LEDs (light-emitting diodes) and photovoltaics along with other innovative technologies.

Production capacity utilization was at a high level for both liquid crystals and pigments, reflecting the recovery from the downturn in 2009. Total revenues of the division rose by 38% to EUR 1,384 million from EUR 1,006 million in 2009. Positive currency effects of 9.7% and organic growth of 27% contributed to this increase. The division generated more than 70% of its total revenues with liquid crystals. At EUR 925 million (2009: EUR 478 million), gross margin grew faster than expenses. Thus, the division's operating result more than doubled, increasing to EUR 580 million from EUR 218 million in 2009. Return on sales (ROS) rose to 41.9% from 21.7% in 2009. Underlying free cash flow amounted to EUR 549 million, compared to EUR 304 million in 2009.

### Performance Materials | Key figures

EUR million	2010	2009	Δ in %
Total revenues	1,384	1,006	38
Gross margin	925	478	93
R&D	127	109	17
Operating result	580	218	166
Exceptional items	-1	1	-
Free cash flow	542	288	88
Underlying free cash flow	549	304	81
ROS in %	41.9	21.7	

At EUR 50 million, the new Material Research Center in Darmstadt is the largest single R&D investment in the Chemicals business sector to date

In order to defend and expand our leadership position in display materials, among other fields, we continued to invest in research and development. R&D spending rose to EUR 127 million from EUR 109 million in 2009. In September, the new Material Research Center was opened at the Darmstadt site. At EUR 50 million, this represents the largest single R&D investment in the Chemicals business sector to date. Covering a surface area of approximately 11,000 square meters, it houses some areas of liquid crystal research as well as OLED (organic light-emitting diodes) research, among other activities. Our researchers at the center are also working on materials for mobile energy storage systems, for example for use in hybrid or electric vehicles.

## LIQUID CRYSTALS

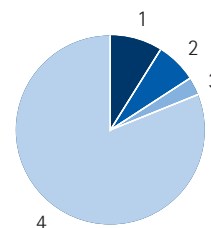
### Upturn sustained

As a result of the growing demand for high-tech liquid crystals from Merck, total revenues increased in 2010 to EUR 1,013 million, which is 38% more than in 2009. The quarterly development of Liquid Crystals also reflects the rapid recovery of the global business for liquid crystal displays (LCD) after the crisis-related drop in 2009. Quarterly business performance continued to improve in 2010, with a 50% rise in revenues in the second quarter, reaching a record level of EUR 284 million. In the first half of 2010 alone, total revenues increased over the same period in 2009 by 63% to EUR 523 million. The operating result increased fourfold to EUR 263 million. Although still at a high level, total revenues were slightly lower in the third and fourth quarters. This was the result of the onset of inventory corrections in the LCD market, with display manufacturers reducing their production, as well as slightly unfavorable exchange rates.

### Performance Materials | Sales by region

EUR million / % of divisional sales

1 Europe	127	9%
2 North America	99	7%
3 Latin America	33	3%
4 Asia, Africa, Australasia	1,118	81%



New technologies such as LED backlighting, 3D functionality and Internet connectivity are setting the trend in the television market

The market research firm DisplaySearch forecasts annual global shipments of over 268.8 million liquid crystal (LCD) televisions by 2014. The higher demand for LCD televisions is closely linked with new technologies such as LED backlighting, 3D functionality, and Internet connectivity.

Strong demand for liquid crystals based on PS-VA technology added crucial impetus to business

### New display technologies continue to advance

The overall significant increase in total revenues in 2010 and the high capacity utilization of our LC production was largely due to the strong demand for liquid crystals based on the patented PS-VA (polymer-stabilized vertical alignment) technology, with which Merck further expanded its technology leadership. Besides improved moving picture quality, the technical advantages of PS-VA are faster switching times, higher contrast and better brightness with lower energy consumption.

PS-VA technology opens up new possibilities for LCD producers to achieve previously unattained screen properties – warmer, more natural colors, spatial depth and livelier movement. In Taiwan, South Korea and Japan, this technology is already being used in mass production. The term LED TVs is used to describe LCD televisions in which only the backlight consists of LEDs (light-emitting diodes), thus improving picture contrast, reducing energy consumption and producing more lifelike images. Individual areas of the illuminated surface for displaying a deep black can be separately dimmed or switched off completely, thus enhancing the contrast. This combines the advantages of LED and LCD. Further significant advantages include the low energy consumption and slim design of the flat screens.

#### **Liquid crystals for 3D televisions and tablet PCs**

In addition, Merck supplies innovative liquid crystal mixtures needed for devices such as 3D televisions and touch screens used in tablet PCs, which are becoming more and more popular. The liquid crystal mixtures used for special 3D glasses for watching 3D television contributed to the positive business performance, as did light-converting isiphor® phosphors used for LED backlighting.

In addition, we are working on reactive mesogens, which are polymerizable liquid crystals that can be used, for example, as material for optical films. They help to enhance the image quality and improve the power consumption of 2D and 3D screens.

#### **New Liquid Crystals research center in South Korea**

With the inauguration of the Advanced Technology Center in Poseung, South Korea, we have created additional possibilities to research and develop the latest liquid crystal technologies and have laid the foundations for further innovations. We invested EUR 11 million in this research center.

#### **OLED technology is progressing rapidly**

OLED technology for more energy-efficient light

Besides liquid crystal technology, our researchers are also working on materials for innovative displays. Here the special focus of development is on OLED materials, which are already being used in mobile phones and MP3 players. In our efforts to advance OLED technology, we are increasingly participating in research networks. The development of "new materials for OLEDs from solutions" (NEMO) is the focus of a project in which Merck is participating as the consortium leader together with partners from industry and science. The aim of this collaboration, which is funded by the German Federal Ministry of Education and Research, is to develop innovative, soluble materials for use in large-area OLED components for applications such as flat screens, electronic traffic signs or lighting systems.

OLEDs are solid-state devices composed of thin films of organic semiconductor molecules that create light when electrical current is applied. OLED tiles are produced on glass plates or flexible substrates and can emit white light that is more homogeneous and more energy-efficient than the light from conventional fluorescent lamps. The main difference to inorganic light-emitting diodes (LEDs) is their lower current density and laminar light density and the fact that no crystalline materials are required. They consume little energy and offer sharp images from nearly every viewing angle. By using ultra-thin luminescent layers, OLED technology makes it possible

to produce unique, large-area, homogeneous lighting surfaces with a total layer thickness of just a few millimeters.

Compared to the vacuum evaporation process used today, these new materials should significantly improve scalability, structurability and coating efficiency in particular. To this end, the NEMO project partners are focusing on soluble, phosphorescent materials for red, green and blue applications. In order to develop marketable solutions quickly, different injection, transport and electrode materials as well as adhesives are being researched, evaluated and tested for their performance in parallel. In addition, as the leading producer of high-performance OLED materials, Merck is collaborating with Braunschweig Technical University and the U.S.-based company Applied Materials on a project called "Light InLine" to develop processes to reduce the production costs of OLED lighting.

### **Photovoltaics – a key technology**

Photovoltaics are one of the key technologies with respect to renewable energy sources. In this field, the Performance Materials division is focusing on the development of materials and printing technologies for solar cell production.

With the isishape® range, we already offer the producers of crystalline solar cells printable structuring materials that improve solar cell efficiency and enable eco-friendly production processes.

Our material platform Ilicon® offers customers organic semiconductors for printed, flexible and robust organic photovoltaic (OPV) cells. Developing materials further to increase solar cell efficiency is the key to reaching mass markets. To this end, Merck is collaborating with other leading industrial companies on a development project sponsored by the German Federal Ministry of Research and Education. This project aims to achieve fully printed, flexible solar cells with a minimum of 10% efficiency by 2012. At our Technical Centre in Chilworth, near Southampton, United Kingdom, we are focusing intensely on these goals.

In parallel, we are working with leading partners worldwide on new technologies, for example dye-sensitized solar cells. These imitate nature's photosynthesis process. The electrolytes in the dye-sensitized solar cells are increasingly based on the use of ionic liquids, in whose development and manufacture Merck has a globally leading role. The use of ionic liquids creates the possibility to produce both rigid and flexible solar cells with high efficiency and stability. This special feature will enable us to develop many new fields of application in the future.

### **Scientific alliances**

Together with the University of Freiburg, we launched a project in November to develop and produce new battery materials. The Merck Battery Materials Lab, which is jointly run and operated with the university, is working to develop fundamentally new conductive salts for lithium-ion batteries to power hybrid and electric cars.

With such concept labs, Merck has been pursuing a new approach since 2006 aimed at building strong alliances with external and internal partners and an international research and technology network. These concept labs are an important element of the Advanced Technologies (AT) unit of the Performance Materials division. The goal of this unit is to develop innovative products through to market launch with the use of new promising technologies.

[Flexible solar cells – new approaches  
in material development](#)

The concept labs are located at hot-spots of academic research around the world and focus internationally on strategic growth areas within the chemical industry. The systematic use of in-house expertise and the core competencies of Merck create the preconditions for generating new technologies and innovative products for Merck's Chemicals business. At the same time, external knowledge as well as in-licensing, cooperation and promotion possibilities are utilized. Merck concept labs are located in Darmstadt, Heidelberg, Atsugi (Japan), and Boston (United States).

Additionally, Merck is cooperating as part of a network of German companies and universities to develop concepts for the economical mass production of organic electronic circuits, storage devices and sensors, power generation through organic photovoltaics, as well as energy conservation through the use of more economical organic light-emitting diodes. To implement the project, the pacesetter partners have established a common platform, namely InnovationLab GmbH based in Heidelberg.

## PIGMENTS / COSMETICS

### Recovery from the drop in demand

Upswing also due to the marked increase in demand from the automotive industry

The Pigments business recovered well from the weak global demand in 2009. Total revenues of the Pigments business unit in 2010 amounted to EUR 325 million, which is 37% more than in the 2009 crisis year. Total revenues were especially high in the third quarter. This upswing was due to the marked increase in demand in the automotive industry, which returned to, or even exceeded, pre-crisis levels. With effect pigments for automotive coatings, Merck is an important supplier to the industry.

Demand for consumer goods revived following a long period of consumer restraint. This favorably impacted the business with pigments for plastics, print products and cosmetic products, as did the generally positive consumer sentiment. Positive currency effects provided an additional boost to the business unit.

We also continue to focus our innovation efforts on profitable pigments such as Candurin® pigments for coating foods and pharmaceuticals, and on the Pyrisma™ line of products, which covers a wide color range and offers intense effects.

### Full capacity utilization

The generally strong order situation resulted in a return to full production capacity utilization in March 2010. We shifted some of our standard pigment production from Onahama in Japan to Gernsheim in Germany so that we could expand capacities for Xyrallic® pigment production at the Japanese site. The reason for this is the strong demand for these pigments containing aluminum oxide flakes – particularly from the automotive industry.

Additionally, in October we laid the cornerstone for the construction of a new plant to produce Meoxal™ at the Onahama site in Japan. Commercial production of Meoxal™, an effect pigment based on aluminum flakes coated with metal oxide, is scheduled to start in 2012. The pigment is distinguished by high color saturation, good hiding power and superior corrosion resistance. High demand is expected particularly from the automotive and cosmetics industries. By completing the integration of Suzhou Taizhu Technology Development, the leading supplier of effect pigments in China, we further expanded our position in the fast-growing Chinese market. The acquisition in 2009 gave us the possibility to more actively target the mid-range price segment with an expanded range of products.

#### **New cosmetic applications**

[Portfolio of functional fillers for cosmetics significantly expanded](#)

In 2010, Merck significantly expanded its portfolio in both cosmetic functional fillers and in the core pearl luster pigments business. With RonaCare® Cyclopeptide-5, Merck introduced the world's first cyclic peptide for the cosmetics industry. Thanks to its cyclic molecular design, the active ingredient displays high stability and high selectivity for its biological target site in the skin. The peptide is capable of reactivating the decelerated repair processes of mature skin and stimulating its natural regeneration. The appearance of lines and wrinkles is reduced after just brief use. The skin becomes significantly more supple, elastic and firm.

#### **Scratch-resistant automotive coatings based on nanotechnology**

The innovative additive Tivida™ has provided additional impetus. Based on nanotechnology, this product improves the scratch resistance of automotive coatings. The additive can be perfectly incorporated into the composition of the binding agent, thus changing its structure. The nanoparticles make the solvent-based coating system harder and at the same time more elastic due to the cross-linking of the polymer shell with the binding agent. Tivida™ provides the desired protection against scratches long after a fresh coating is applied, lasting throughout the subsequent use of the coated item. Tivida™ AS 1010, the first product in the brand family, makes it possible to protect high-gloss surfaces, for example the majority of clear coatings used in the automotive industry, against minor everyday scratches much longer than previously possible.

For plastics laser marking, Merck offers Micabs®C 431 and Micabs®C 411, two new additives in granulate form. They are free from heavy metals and thus approved for laser marking of food packaging as well as for toy production.

## CORPORATE AND OTHER

The segment Corporate and Other comprises Group administrative costs, the financial result, taxes as well as certain exceptional items not allocated to individual divisions.

Segment significantly influenced  
by the Millipore acquisition

Group administrative costs relate primarily to Merck KGaA and consist of typical holding company functions. These include, for example, the corporate finance and accounting, tax, procurement, communications and human resources departments to the extent that their services cannot be allocated to the divisions. Corporate costs also include expenses for central, non-allocated IT functions and corporate IT projects in connection with the expansion and harmonization of IT systems within the Merck Group.

The operating result of the segment Corporate and Other totaled EUR –90 million in 2010 compared to EUR –78 million in 2009. In connection with the legal risk of our former subsidiary Dey, Inc. having allegedly falsely reported certain price information, we incurred expenses of EUR 67 million, which were recognized as an exceptional item in the segment Corporate and Other. Although Dey Inc. was transferred to Mylan Inc., USA, within the scope of the sale of the Generics business in 2007, Merck remains liable to Mylan for the costs incurring from this legal dispute. Additional expenses of EUR 1 million relate to the sale of the Electronic Chemicals business in 2005 and include a purchase price reimbursement to the buyer for subsequent taxes. This expense is also disclosed as an exceptional item in the segment Corporate and Other. At EUR –252 million, the financial result for 2010 worsened mainly as a result of higher interest expenses in connection with the financing of the Millipore acquisition. Interest expenses increased by EUR 118 million from EUR –134 million in 2009.

At EUR 220 million, tax expenses consist of corporation and trade income taxes for the companies domiciled in Germany as well as comparable income taxes for companies domiciled abroad. This item contains not only effective taxes but also deferred taxes, which take into consideration the difference in the carrying values between the tax accounts of the Group companies and the consolidated balance sheet. The latter results primarily from purchase price allocations for Serono and Millipore.

Free cash flow was EUR –736 million in 2010, compared to EUR –511 million in 2009. In 2010, payments totalling EUR 241 million (2009: EUR 16 million) were made in connection with existing legal risks stemming from the sale of our former Generics subsidiary Dey Inc., USA. This includes the payment of EUR 215 million pursuant to the settlement with the U.S. Department of Justice. Further payments amounting to EUR 26 million relate to compensation payments as well as legal advisory fees in connection with this legal risk. Additionally, free cash flow reflects Group administrative costs as well as interest and tax payments.

Adjusted for the effects of the divestment of the Generics business, underlying free cash flow of the segment Corporate and Other amounted to EUR –496 million, thus remaining at the level of 2009.

#### Corporate and Other | Key figures

EUR million	2010	2009	Δ in %
Total revenues	–	–	–
Gross margin	–	–	–
R&D	–	–	–
Operating result	–90	–78	14
Exceptional items	–68	–	–
Free cash flow	–736	–511	44
Underlying free cash flow	–496	–496	–



## RISK REPORT

Corporate risk management enables us to identify and manage risks. At present, we are not aware of any risks that could jeopardize the continued existence of the Merck Group.

## RISK AND OPPORTUNITY MANAGEMENT

Every business decision is based on weighing the associated risks and opportunities. Merck is part of a complex, global business world and is therefore exposed to a multitude of external and internal risks. The aim of our risk management activities is to identify risks early on as well as to assess, manage, and deal with them. The basis for this is a Group-wide risk management process, which we use to systematically record the risks of the Merck Group and to present them in a transparent and comparable manner. Opportunity management in the Merck Group is conducted in the operating units on the basis of the corporate strategy. In this connection, we refer to the Report on Expected Developments starting on page 95.

Within the context of the Group-wide risk management process, the division heads, managing directors of Merck subsidiaries, and the heads of Group functions are specified as employees with responsibility for risks. Every six months, they report their active risk status and report to the risk manager their entire risk portfolio using a uniform, Group-wide reporting system. Risks are assessed based on their potential impact on EBIT and the likelihood of their occurrence. Furthermore, executives with responsibility for risks report existing and planned measures to avert risks and to minimize damage. The risk manager reviews the information and uses it to produce a risk report that reflects the current risk portfolio of the Group and the individual companies. All major aspects of the risk management process are described in a Group guideline. The Executive Board, Supervisory Board and Finance Committee receive the risk report every six months. Significant changes in the assessment of already known risks as well as new, significant risks are reported on an ad hoc basis.

## INTERNAL CONTROL SYSTEM FOR THE CONSOLIDATED ACCOUNTING PROCESS

The objective of the internal control system for accounting is to implement controls that provide assurance that the financial statements are prepared in compliance with the relevant accounting laws and standards. It covers measures designed to ensure the complete, correct and timely transfer and presentation of information that is relevant for the preparation of the consolidated financial statements and the management report of the Merck Group. The control system is subject to continuous further development and is an integral component of the accounting and financial reporting processes in all relevant local units and Merck Group functions. With respect to the accounting process, the internal control system measures are intended to minimize the risk of material false statements in the consolidated accounting process of the Merck Group.

### Key tools

The internal control system is geared to ensuring the accuracy of the consolidated accounting process and the preparation of compliant financial statements.

Group Accounting and Controlling centrally steers the preparation of the consolidated financial statements of Merck KGaA as the parent company of the Merck Group. This Group function defines the reporting requirements that the Merck subsidiaries must meet as a minimum requirement. At the same time, this function steers and monitors the scheduling and process-related requirements of the consolidated financial statements.

The Group-wide accounting guidelines form the basis for the preparation of the statutory financial statements of the parent company as well as the subsidiaries in Germany and abroad. These are available to all employees in the relevant units via the Merck intranet. The intranet is also used to adapt the guidelines to changes in the financial regulatory environment and update them in accordance with internal reporting requirements. One of the requirements of the Group-wide guidelines is to present Group-internal business processes as the basis for proper settlement of intercompany balances. Additional controls have been implemented in the consolidation process.

Group Accounting and Controlling also ensures the timely central management of changes to the equity holding structure and correspondingly adapts the Merck Group's scope of consolidation. The individual companies have a local internal control system. Where finance processes are covered via the Shared Service Center, the internal control system of the Shared Service Center is additionally applied. They ensure that accounting complies with IFRS accounting standards and with the Merck Group accounting guidelines.

Group Accounting and Controlling provides support to the local contacts throughout the entire reporting process. In case of important innovations in the reporting process and IT applications, the function trains employees involved and thus ensures a consistently high quality of reporting. The reporting process, either via the individual company or the Shared Service Center directly to Group Financial Reporting, ensures fast reporting cycles. The reported financial figures of the subsidiaries are validated via a three-step process between the local finance organization, divisional controlling and Group-wide controlling. Financial figures are checked for their plausibility and content by comparing them with the figures of the previous year and the budget. The accounting process is designed at all levels to ensure a clearly defined segregation of duties and assignment of responsibilities to the units involved in the accounting process at all times within the scope of continuous dual control.

For the assessment of balance sheet items, the Group Accounting and Controlling function closely cooperates with Merck Group Risk Management in order to correctly reflect potential balance sheet risks. For special issues, such as the evaluation of intangible assets and pension obligations, external experts are additionally involved where necessary.

For the Group accounting process, Merck globally uses a standard SAP software tool. Via a detailed authorization concept to limit user rights on a need-to-have basis, the system contains both single entity reporting and the consolidated financial statements. The financial data are transmitted in encrypted form. Routine system backups are performed in order to prevent a potential loss of data.

The local management of the individual companies is responsible for implementation. The effectiveness of Merck's internal control system with regard to accounting and the compliance of financial reporting is confirmed by the local managing director and the head of finance by signing the single entity reporting.

All of the structures and processes described are subject to constant review by Internal Auditing based on an annual audit plan specified by the Executive Board. The results of these audits are dealt with regularly in meetings of the Executive Board, the Supervisory Board and the Finance Committee.

The internal control system at Merck makes it possible to lower the risk of materially false accounting statements to a minimum. However, no internal control system – regardless of its design – can prevent a residual risk.

## BUSINESS-RELATED RISKS

Merck has integrated its risk management system into the 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 report. We can, therefore, take countermeasures in good time if any events lead to deviations from the business plan. Risks in connection with investment decisions are minimized by the use of detailed guidelines.

### **Political and regulatory risks**

As a global company, Merck faces political and regulatory changes in many countries and markets. In 2010, increasingly restrictive requirements were imposed in the pharmaceutical environment in terms of pricing, reimbursement and approval. We assume that further changes will follow in the future. These can negatively impact the profitability of our products and jeopardize the success of market launches and new approvals. Close communication with health and regulatory authorities is a preventive measure to avert risks. Together with monetary policy changes, the destabilization of political systems and possible erection of trade barriers can lead to declines in sales in certain countries and regions. Diversification in terms of products, industries and regions serves to mitigate potential negative effects.

### **Research and development risks**

For Merck, innovation is a major element of the strategies of its Pharmaceuticals and Chemicals business sectors. Research and development projects can experience delays, expected budgets can be exceeded or targets remain unmet. Research and development are of special importance to the Pharmaceuticals business sector. Research and development projects are constantly monitored by a portfolio management system. In the course of portfolio management, we regularly evaluate and, if necessary, refocus research areas and all R&D pipeline projects. Sometimes development projects are discontinued after high levels of investment at a late phase of clinical development. Decisions – such as those relating to the transition to the next clinical phase – are taken with a view to minimizing risk. Furthermore, there is a risk that the regulatory authorities either do not grant approval or delay approval, which can have an impact on earnings. For instance, our oral multiple sclerosis treatment is currently in the final stage of the U.S. Food and Drug Administration's regulatory review process. In September 2010, the European regulatory authorities issued a negative opinion regarding our marketing

authorization application. Merck had appealed this decision. In January 2011, the European regulatory authorities issued a final negative opinion. Additionally, there is the danger that undesirable side effects of a pharmaceutical product could remain undetected until after approval or registration, which could result in a restriction of approval or withdrawal from the market.

#### **Product quality and availability risks**

Although Merck is exposed to product liability risks, these are minimized by means of quality controls along the entire value chain. This starts with the qualification of our suppliers. Comprehensive quality requirements for raw materials, purchased semifinished products and plants must be mentioned, as well as long-term strategic alliances in the case of supply- and price-critical precursor products. Overstocking and possible shelf-life risks associated with this are avoided by means of demand-driven production. This risk cannot be completely excluded because of production lead times, which are substantial in some cases. Total revenues and the operating result of the Merck Group depend on a large number of pharmaceutical and chemical products for various industries. This diversification lowers 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.

## **FINANCIAL RISKS**

As a company that operates internationally and due to its presence in the capital market, Merck is exposed to various financial risks. These are primarily liquidity, default, currency and market-price risks, as well as risks of changing fair values of tangible and intangible assets, and fluctuations in the valuation of pension obligations.

#### **Liquidity and financial risks**

In order to ensure its continued existence, a company must be able to fulfill its commitments from operating and financial activities at all times. A central Group-wide liquidity management reduces potential liquidity risks. In addition, we have a EUR 2 billion syndicated multicurrency credit facility, which expires in 2014. This ensures Merck's continuing solvency in case there should be any liquidity bottlenecks in spite of the Group's positive operating cash flow. As our loan agreements do not contain any financial covenants, these agreed credit lines can be accessed even if Merck's credit rating should deteriorate. In 2009, Merck set up a debt issuance program that forms the contractual basis for the issue of bonds. In 2010, the volume of this program was doubled from EUR 5 billion to EUR 10 billion.

**Default risks**

Default risks arise in connection with financial investments, loans and financing commitments as well as receivables in operating business. As a result of the financial crisis, the default risks for receivables in the eurozone have increased to some extent. Merck has therefore reviewed all its positions in the respective countries and taken precautions for default risks to the necessary extent. Merck minimizes these risks by spreading its financial positions and the associated active management of its trading partners. Significant financial transactions involving credit risk are only entered into with banks that have a good credit rating and a minimum rating of A- from Standard & Poor's. In addition, Merck's large banking syndicate – the existing credit line of EUR 2 billion was syndicated by 17 banks – reduces possible losses in the event of default. Nevertheless, the default of individual trading partners cannot be fundamentally excluded, even if they have an excellent credit rating.

**Currency and interest rate risks**

Due to its international business operations in different currency and interest rate regions, Merck is inevitably exposed to currency and interest risks. Merck is affected by market price risks owing to its global group structure and the associated financial transactions, receivables in operating business, as well as expected future cash flows from sales and costs in foreign currency. We use derivative financial instruments to minimize currency risks and financing costs caused by exchange rate or interest rate fluctuations. Financial transactions, receivables and liabilities recognized in foreign currency are generally hedged. In certain cases, the company also hedges anticipated sales and future costs for a period of up to three years. More information can be found in Notes (40) to (42) of the Consolidated Financial Statements.

**Market price and market value risks**

The values of individual items in the balance sheet are exposed to the risk of changing market and business circumstances and thus also to changes in fair values. The need for write-downs could significantly impact profit and lead to changes in balance sheet ratios. This applies in particular to the high level of intangible assets including goodwill, which have become significantly more important to the Merck Group due to the acquisitions of Serono in 2007 and Millipore in 2010. Further details can be found in Note (23) to the Consolidated Financial Statements.

**Risks in connection with pension obligations**

Merck has commitments in connection with pension obligations. The present value of these obligations can be influenced by changes in the relevant valuation parameters, e.g. the interest rate, salary increase rate or death probabilities. Pension obligations are regularly evaluated based on external actuarial valuations prepared annually. The majority of these obligations is covered by the pension provisions disclosed in the balance sheet, while the smaller remainder is externally funded or covered by long-term monetary investments made for this purpose and

disclosed in the balance sheet. The latter amounted to EUR 217 million in 2010. As far as pension obligations are covered by plan assets consisting of interest-bearing securities, shares, real estate and other financial assets, decreasing or negative returns on these assets can adversely impact the value of the plan assets and thus require further additions to pension provisions. The risk of market fluctuations in the value of plan assets is reduced by a diversified investment strategy.

#### **Assessments by independent rating agencies**

The capital market makes use of the assessments published by rating agencies in order to assist lenders in evaluating the risks of a financial instrument. Merck is currently rated by the agencies Standard & Poor's and Moody's. In December 2010, Standard & Poor's gave Merck a long-term rating of BBB+, with a stable outlook. In December 2010, Moody's gave Merck a long-term rating of Baa2, with a stable outlook. Thus, both agencies confirm a stable investment grade rating for us.

## **LEGAL RISKS**

Merck is exposed to litigation risks. These include in particular risks in the areas of product liability, competition and antitrust law, pharmaceutical law, patent law, tax law and environmental protection. As a research-based company, Merck has a valuable portfolio of industrial property rights, such as patents and trademarks. These property rights can become the target of attacks and infringements.

We are engaged in legal proceedings and government investigations, the outcome of which cannot currently be predicted. We also continue to bear the risks from certain proceedings against companies of the Generics group that we sold to Mylan in 2007. Thus Merck continues to be responsible for risks arising from cases concerning drug pricing in the United States. 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. In the United States, our subsidiary EMD Serono is engaged in settlement negotiations with the U.S. Department of Justice and at the state level. The settlement negotiations concern a civil claim relating to sales of a product. In Germany, Merck is involved in antitrust proceedings concerning its exclusive distribution agreement with the laboratory wholesale distributor VWR International. Owing to a decision by the German Federal Antitrust Office, Merck is obliged to supply a number of products from its Laboratory business to other laboratory wholesale distributors in Germany. The company has taken all possible measures to protect its own legal position.

Generally, Merck strives to minimize and manage its legal risks. We have taken the necessary precautions to identify threats and defend our rights where necessary. Risks arising in connection with litigation are continually identified, assessed and communicated.

A compliance program applies to our employees worldwide, which 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 guidelines for ethical behavior. This is complemented by a training and testing program, a SpeakUp Line for reporting compliance violations, as well as 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.

## HUMAN RESOURCES RISKS

Merck's success is significantly influenced by the competence and dedication of its employees. Due to intensive competition, it is increasingly difficult to recruit and retain qualified specialists, particularly in the pharmaceutical sector.

We are meeting this challenge by continuously enhancing our range of international personnel marketing measures. Merck addresses specialists and executives by means of a Talent & Succession Management process established throughout the Group. This process helps to identify internal talent for management positions and facilitates the objective assessment and development of talent, thus enabling positions to be quickly filled with suitable employees as a result of targeted selection via an internal talent pool. Vacancies arising over the short term are managed by means of clearly defined, appropriate deputizing arrangements. Key factors for employee retention and satisfaction are identified and evaluated by means of regular, corporate-wide employee surveys. We derive measures from the results of these surveys and monitor their efficacy in follow-up surveys. A performance management system applicable to the whole Merck Group was introduced to better measure employee contributions to the company's success. This is to facilitate a consistent evaluation of the degree to which personal goals are achieved and for measuring the degree to which the Merck Values are lived. On this basis, individual HR development measures are identified and implemented. This ensures the targeted preparation of employees for new business challenges and their motivation to solve these challenges for the benefit of the company. The Rewards Policy system complements this process by ensuring that performance-related payment components are handled consistently throughout the Group. The Merck Long-Term Incentive Plan offers eligible executives and experts a long-term, profit-related compensation component. More information can be found in Note (32).

## INFORMATION TECHNOLOGY RISKS

Merck's strategic objectives cannot be achieved without IT support. The future focus and globalization of Merck will only succeed if consistent standards, systems and processes are in place. Reacting timely and flexibly to changing market developments, conducting innovative research, running production reliably, and supplying customers rapidly require reliable, high-performance IT.

### **Risks resulting from the complexity of internal and external requirements**

IT risks with an impact on the business result occur when information is unavailable or erroneous, unintentionally disclosed or when the processes to be depicted have been implemented in IT systems in a way that is too inflexible, too complex or illegal. Security gaps that are recognized too late, or in the worst case not at all, and insufficient emergency planning measures can quickly become incidents that affect the entire company. IT systems that do not reflect the expectations of the businesses have the potential to massively hinder the economic development of companies. Undesired data protection violations owing to incorrect or absent authorizations create a negative external impression. The increasing dependency on IT as well as the growing interconnectivity of IT landscapes in international companies make it necessary for companies to invest heavily in maintenance, in the integration of new applications or even systems, and in the mapping of new processes. This development, in conjunction with constantly new national and international legal requirements, makes data processing a time-consuming and costly activity. As the complexity of the IT landscape increases, so do the potential risks.

### **Risks resulting from external threats**

In addition, the general risk situation means more professional threats can be expected, with the trend moving away from general viruses and toward targeted industrial espionage and sabotage.

Significant potential IT risk scenarios for Merck include the failure of the central ERP (Enterprise Resource Planning) systems, the publication of classified confidential research and business development data, the manipulation of IT systems in chemical process control, as well as the revocation of drug registrations due to deficient validation of the relevant IT systems.

The IT infrastructure of Merck has been consolidated to improve service quality while simultaneously optimizing costs. Subsequent to the acquisition of Millipore, the Millipore IT systems were combined with the Merck IT systems within the scope of a controlled integration program.



**Risk minimization strategy**

Merck ensures the necessary availability of business-critical application systems and access to business-relevant data – even in the event that individual components fail – by means of redundant structures of technical components, networks and sites, as well as suitable, tested contingency measures. Security guidelines are in place for the entire Merck Group. They 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 and reviewed by Internal Auditing as well as external auditors. A dedicated IT risk management process ensures that IT risks are evaluated and appropriate measures taken. Based on the measures taken, we assume that the likelihood of a serious IT risk occurring is low.

**ENVIRONMENTAL AND SAFETY RISKS**

Merck is a company with global production operations and is exposed to risks of possible damage to people, goods and its image. We minimize the risks to people and the environment by means of auditing, advising and training in matters of environmental protection as well as occupational health and safety. Merck systematically conducts audits both at its own locations as well as at suppliers and contract manufacturers. We constantly update these preventive measures and thus ensure the continuity of plant and equipment. By adhering to high technical standards and our rules of conduct, as well as by implementing all legal requirements in environmental protection and occupational health and safety, we ensure the preservation of our goods and our assets.

**MANAGEMENT ASSESSMENT OF THE OVERALL RISK SITUATION**

Currently no risks can be identified that could jeopardize 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.

## REPORT ON EXPECTED DEVELOPMENTS

For 2011 and 2012, the Executive Board assumes that the sales and the operating result of the Merck Group will show growth. Overall, we expect business developments to be good, however we cannot rule out setbacks due to economic cycles in individual countries, also as a result of high national debt levels.

### Deviations of actual business developments from previously reported forecasts

The deviations of actual business developments from the guidance given for 2010 are as follows, broken down by division and for the Group as a whole:

Deviations	Forecast 2010	adjusted actual values 2010*
<b>Total revenues growth*</b>		
Merck Group	3% – 7%	12%
Merck Serono	2% – 5%	8%
Consumer Health Care	5% – 10%	1%
Liquid Crystals*	5% – 10%	38%
Performance & Life Science Chemicals*	3% – 8%	17%
<b>Operating result growth*</b>		
Merck Group	20% – 30%	88%
Merck Serono	30% – 40%	59%
Consumer Health Care	–10% – 0%	–71%
Liquid Crystals*	15% – 25%	132%
Performance & Life Science Chemicals*	15% – 20%	111%

\*The Chemicals divisions have been restated on a comparable basis. Excluding Millipore.

Owing to the acquisition of Millipore, a new segment structure was adopted for the Chemicals business sector in 2010. Therefore, the 2010 results are compared to the 2010 forecast based on the former segment structure. The acquired Millipore business was excluded from the actual values. All 2010 actual values for Liquid Crystals, Performance & Life Science Chemicals and the Merck Group have therefore been adjusted.

In an improving economic environment, Merck overall exceeded the guidance provided for 2010.

In the Annual Report for 2009, we forecasted for 2010 an increase in total Group revenues ranging between 3% and 7%. Total revenues increased by 12% to EUR 8,650 million. The operating result rose by 88% to a total of EUR 1,222 million. In our forecast, we predicted growth of between 20% and 30%.

For the Merck Serono division, we predicted an increase in total revenues of between 2% and 5%. In 2010, Merck Serono actually increased its total revenues by 8% to EUR 5,754 million. We had expected the operating result to increase by 30% to 40%, but instead it increased by 59%, rising to EUR 565 million. Better business developments as well as more favorable exchange rate developments contributed to this growth. On the cost side, we took steps to manage our marketing and selling as well as our research and development expenses more efficiently.

Sales of the Consumer Health Care division were expected to rise between 5% and 10%, but instead only grew by 1% to EUR 472 million. The operating result was forecast to grow between -10% and 0%. The actual operating result dropped by 71%, leading to EUR 14 million. The forecast was not achieved due to negative effects of business developments in China and Mexico as well as from impairments.

Sales in the former Liquid Crystals division were predicted to rise in the range between 5% and 10%, but they actually grew by 38% to EUR 1,013 million. The operating result was forecast to increase by between 15% and 25%, yet the division significantly exceeded that, rising 132% to EUR 527 million in 2010. This was due to the fact that business recovered far better than expected. Furthermore, new technologies, especially PS-VA, and favorable exchange rates also contributed to this increase.

Sales in the former Performance & Life Science Chemicals division were expected to grow between 3% and 8%. However, total revenues grew by 17% to EUR 1,411 million. The operating result increased 111% to EUR 205 million, which significantly exceeded the forecast of 15% to 20%. In this division, this was attributable likewise to positive business development and favorable currency effects.

#### **Global economic developments**

For 2011, the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) assess differently the economic environment in which Merck operates. Merck orients toward the forecasts made by the OECD.

For the OECD's 34 member countries, the OECD expects a global increase in gross domestic product (GDP) of 2.3% in 2011 and 2.8% in 2012. For the United States, the OECD expects GDP to grow by 2.2% in 2011 and by 3.1% in 2012. It forecasts the GDP of the eurozone to grow by 1.7% in 2011 and by 2.0% in 2012. For Japan, the forecasts are somewhat lower. GDP is expected to increase by 1.7% in 2011 and by 1.3% in 2012.

The OECD expects an economic recovery, albeit one which will involve risks. For the near future and for a sustainable recovery from the crisis, the OECD calls for governments to immediately concern themselves with consolidating state finances in order to achieve more stability in the financial markets. Moreover, it is essential to end the different economic stimulus programs at the right time. The OECD expects that interest rates will not return to a normal level until the first half of 2012, as it predicts weak growth in the United States and the eurozone. In addition, the OECD is encouraging a shift in economic policy away from crisis management and toward crisis prevention.

The growth prospects for emerging countries such as Brazil, China and India are significantly better. Nevertheless, there is inflationary pressure in both Brazil and China, while India has to contend with its tax deficit.

The IMF predicts global GDP to increase by 4.4% in 2011, yet warns against excessively low consumer demand. The IMF forecasts a 2.5% increase in GDP for developed countries in 2011 (including a rise of 3.0% in the United States, 2.2% in Germany and 1.6% in Japan). For emerging and developing countries, GDP is predicted to increase in 2011 by 6.5%, including a rise of 9.6% in China, 8.4% in India and 4.5% in Russia. According to IMF data, global GDP is predicted to grow by 4.5% in 2012. The United States is expected to show GDP growth of 2.7% in 2012, which is slightly lower than in 2011, Germany growth of 2.0%, which is also slightly lower, and Japan growth of 1.8%, which is slightly higher than in 2011. At 4.4% and 9.5%, respectively, GDP growth in Russia and China is expected to maintain almost exactly the same level as in 2011. According to the data available, GDP growth of 8.0% is expected for India in 2012, which would be slightly less than in 2011.

The IMF sees risks for 2011 in the high levels of national debt, the volatility of the financial markets, the financing of banks and uncompleted reforms of the financial markets, as well as the weakness of real-estate markets in some countries. These countries additionally suffer from persistently high unemployment rates owing to slow growth in industrialized countries.

We assume that uncertainties in the overall economic development of certain countries are also to be expected in the future. Consequently, our forecasts have taken these uncertainties into account.

### Forecast for the Merck Group

Our forecasts for Merck take into account the company's weighing up of risks and opportunities in accordance with our operational plans and medium-term assumptions. However, possible acquisitions, divestments and exceptional items are not included. The forecasts assume a moderate development of energy and raw material prices, as well as increasing personnel costs. Since we produce specialty chemicals, we are largely independent of oil price developments. Overall, we expect our businesses to see stable prices or market-oriented price increases. We only see ourselves exposed to significant price pressure in the Performance Materials division. We also see continued price pressure in the pharmaceutical sector, especially due to structural problems of health care systems.

The forecast development for total revenues of the entire Merck Group is presented in the following table:

#### Overall overview 2010–2011

EUR million	Total revenues	
	adjusted actual values 2010*	Forecast 2011
Merck Serono	5,754	5% – 10%
Consumer Health Care	472	7% – 12%
Merck Millipore*	1,613	51% – 56%
Performance Materials*	1,452	2% – 7%
<b>Merck Group</b>	<b>9,291</b>	<b>13% – 18%</b>

\* The Chemicals divisions have been restated on a comparable basis.

As of 2011, the Cosmetics Actives business became part of the Performance Materials division. By contrast, in 2010 this was still part of the Merck Millipore division. The growth rates forecasted for these divisions in this report are therefore based on adjusted actual figures for 2010. Against the background of expected overall economic development and based on total revenues of EUR 9,291 million in 2010, the Executive Board assumes an increase in total revenues between 13% and 18% in 2011, and further growth for 2012. Furthermore, the Executive Board expects the Group operating result of EUR 1,113 million in 2010 to increase between 35% and 45% in 2011 and to increase as well in 2012. Profit after tax, irrespective of potential exceptional items, will likewise improve during this period.

Our debt has increased as a result of the Millipore acquisition. Merck had an equity ratio of 46.3% and net debt of EUR 4,484 million in 2010, and we expect the equity ratio to increase slightly at a high level. In the next few years, we plan to reduce debt by around EUR 2 billion. Based on the very high underlying free cash flow of EUR 1,670 million in 2010, we expect underlying free cash flow to remain at a high level in 2011 and 2012. Should payments for litigation be necessary, this would have a negative impact on underlying free cash flow. In the coming years, capital spending on property, plant and equipment will be lower than in 2010. Based on research and development spending of EUR 1,397 million in 2010, Merck will reach the 2010 research spending ratio of around 14% to 15% in 2011 and 2012. Merck has an extensive risk and opportunity management system, which is described in the Risk Report (see page 86 et seq). Relative to the forecast period of two years published in the Report on Expected Developments, we mainly see business-related opportunities and risks. Owing to Merck's diversification and broad product portfolio, a very different spectrum of important opportunities and risks results for each individual division. The relevant explanations are given for the respective divisions.

#### **Forecast for the pharmaceutical sector in general**

The market research institute IMS Health expects global sales of pharmaceuticals to increase in 2011 by between 5% and 7% to USD 880 billion. The United States remains the world's largest market and is, according to IMS Health, predicted to grow between 3% and 5% in 2011. In 2011, the Japanese market, the second largest in the world, will not be affected by the obligatory statutory price cuts that take place every two years. For this reason, we predict 5% to 7% growth in 2011. According to IMS Health, China, now the world's third largest pharmaceutical market, will grow between 25% and 27%, reaching a volume of around USD 50 billion. The five largest EU markets (Germany, France, Italy, Spain, and the United Kingdom) are expected to grow between 1% and 3%. Countries with emerging pharmaceutical markets, meaning those in which governments are increasing health spending or in which demand is rising, are predicted to achieve growth of between 15% and 17% to between USD 170 billion and USD 180 billion. IMS Health considers the "BRIC countries", i.e. Brazil, Russia, China, and India, to be among these 17 countries in total.

IMS Health expects the global pharmaceutical market to grow until 2014 by an annual average of between 5% and 8% , to between USD 1,130 billion and USD 1,160 billion in total. By 2014, the five largest markets in the EU are predicted to increase 1% to 4%, (to between USD 170 billion and USD 200 billion). Japan should grown between 2% and 5% (to between USD 100 billion and USD 130 billion) and the United States between 3% and 6% (to between USD 360 billion and USD 390 billion). The health care markets of the 17 emerging pharmaceutical markets are predicted to achieve growth of between 14% and 17% (to between USD 260 billion and USD 290 billion).

Seen by therapeutic area, IMS Health predicts growth of more than 10% by 2014 for products such as those to fight cancer and multiple sclerosis as well as to treat HIV and diabetes since many products for these therapeutic areas are expected on the market. For 2011 alone, market researchers expect launches of five new products with blockbuster potential (meaning products generating sales of more than USD 1 billion).

#### **Forecast for the Merck Serono division**

For the Merck Serono division, the Executive Board is expecting an increase in total revenues in 2011 ranging between 5% and 10%, relative to EUR 5,754 million in 2010, and predicts continued growth for 2012. Relative to EUR 565 million in 2010, we want to achieve significant growth in the operating result in 2011 and a further increase in 2012. The stronger increase as compared to total revenues can be attributed to a moderate cost increase, especially in marketing and sales. Furthermore, high write-downs and impairments impacted the operating result in 2010. As a regularly recurring expense, the result includes write-downs on intangible assets to their fair value as a result of the acquisition of Serono. Amortization is expected to amount to around EUR 600 million in both 2011 and 2012.

In the years to come, R&D spending will continue to be at the target level of 20% of total revenues of the Merck Serono division.

Cancer and multiple sclerosis are very important for Merck, as they are markets in which we offer patients therapeutic options. According to calculations made by Evaluate Pharma, a pharmaceutical service company, cancer therapies will continue to be the therapeutic area with the highest sales. In the global market for all pharmaceuticals, oncology treatments had a share of 7.9% in 2009, which is expected to rise to 8.8% by 2016, reaching sales of USD 70 billion. With sales of USD 10 billion, drugs to treat multiple sclerosis ranked number 14. Here, Evaluate Pharma forecasts an average annual increase of 3% to USD 12 billion up to 2016.

Biotech drugs accounted for 31% of the 100 best-selling pharmaceuticals in 2009. This share is expected to increase to 48% by 2016. This figure is of interest to Merck, as biotech drugs already account for 50% of our pharmaceuticals sold.

We see important opportunities and risks for the Merck Serono division closely linked to the successful launch of new products:

Consequently, the special focus of Merck Serono will be on the market launch of cladribine tablets. Cladribine was approved in Russia and Australia in 2010. For Europe, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) issued a negative opinion regarding the marketing authorization application in September 2010.

We filed an appeal with the EMA against the decision for another review of the application. In January 2011, the CHMP confirmed its previous position and adopted a final negative opinion regarding the marketing authorization application for cladribine tablets. Our forecast has taken this into account. After resubmitting our application for approval of cladribine tablets with the U.S. Food and Drug Administration (FDA) in June 2010, the FDA granted the application Priority Review status. In November 2010, the FDA extended the review period by three months. A decision is expected at the end of February 2011. We will continue to focus our efforts on offering an oral, disease-modifying drug to treat relapsing-remitting multiple sclerosis.

Moreover, the existing business offers growth opportunities, particularly in markets such as Asia – especially China – Russia and Latin America, as well as in the further development of existing products (life cycle management), for example with new dosage forms.

Further risks in this division arise from the high levels of national debt in some countries and the resulting health care cost-containment measures, which can lead to lower sales.

#### **Forecast for the Consumer Health Care division**

With total revenues of EUR 472 million in 2010, the Executive Board forecasts an increase in total revenues in the Consumer Health Care division of between 7% and 12% in 2011 and a further increase in 2012. Based on an operating result of EUR 14 million in 2010, we want to achieve significant growth in the operating result in 2011. We expect a further increase in 2012. The expected improvement in the operating result is attributable to higher margins and to moderate cost increases. Due to the difficult business situation in China and Mexico, the division's sales did not meet our expectations for 2010. Besides these two effects, the operating result was also impacted by a warehouse fire in the United Kingdom as well as impairment losses.

For 2011, market researchers from the company Nicholas Hall are predicting key markets for OTC medicines to grow globally by 4.8%. This growth will be contingent on the markets' continued recovery and on the upswing that has followed the economic crisis. The experts provide the following breakdown for individual markets: they predict the strongest growth for Latin America (8.8%), followed by Asia-Pacific (7.9%). For Europe, they are expecting growth of 3.5%, but only 0.5% for Japan.



We see opportunities from a strengthening growth trend, based on the product portfolio focus on strategic brands. These brands are established in the premium price segment and are growing above-average relative to the global OTC market. In addition to dynamically growing markets in Latin America, our regional focus continues to be Europe. The Consumer Health Care division faces risks from changing health care policy framework conditions, which can negatively impact the business.

#### **Forecast for the chemical industry in general**

Compared to 2010, CEFIC (European Chemical Industry Council) expects a relatively moderate 2.5% increase in European chemical output for 2011. This is due to the prevailing uncertainties in the market regarding the development of the euro and U.S. monetary policy. The high demand for chemicals, particularly from the Asian region, is pushing up the prices of basic chemicals, which, according to CEFIC forecasts, will create a fear of destabilizing price peaks. In addition, many governments will be forced to adopt cost-cutting measures and to reduce or eliminate state spending in order to stimulate their economies.

The German Chemical Industry Association (VCI) forecasts that international production output will grow by 2.5% in 2011, with sales rising 4% to EUR 177.4 billion. This forecast expects 2010 output and capital expenditure to be 0.6% and 4.6% higher, respectively, than the peak levels of 2007, which was the best-performing year for the German chemical industry to date.

#### **Forecast for the Merck Millipore division**

With the acquisition of Millipore, we have created a successful business model for the life science industry, in which we will occupy a strong market position in the future as well.

For the Merck Millipore division, which generated total revenues of EUR 1,613\* million in 2010, the Executive Board forecasts that total revenues will increase between 51% and 56% in 2011 and will increase again in 2012. Based on an operating result of EUR 48\* million in 2010, this is expected to rise significantly in 2011 and to increase further in 2012.

The significant changes in total revenues and the operating result are also due to the fact that the newly acquired Millipore business was only consolidated for six months of 2010. Moreover, it must be noted that the inventories from the acquisition were already recognized at fair value and thus stepped up by EUR 86 million. This amount was fully expensed in cost of sales in the second half of 2010, and had a one-time negative impact on gross margin. As a recurring expense, the result includes the write-downs on intangible assets to their fair values resulting from the acquisition of Millipore. Amortization is expected to amount to around EUR 200 million for both 2011 and 2012. In addition, further integration costs are expected for 2011.

\* Figure adjusted to reflect the new reporting structure

The new Bioscience Business Unit of Merck Millipore develops products that help scientists to better understand complex biological systems and to discover and develop new therapies. The extensive product portfolio of Merck Millipore is well positioned to grow in the dynamic bioscience market, parts of which will continue to face challenges. For this division we see risks particularly associated with the consolidation and restructuring of the pharmaceutical industry, but also with the expiration of patents and the development of new products. The Lab Solutions Business Unit supplies a broad portfolio of innovative, reliable high-quality products for general laboratory applications in a wide variety of industries. Growth is achieved by offering excellent products and direct sales. In addition, opportunities are arising in China, India as well as North and Latin America, where we want to grow with the market in coming years. For the new Process Solutions Business Unit, opportunities lie particularly in the strong sales growth and product portfolio of our customers and of our products for chromatography. The most significant risks are associated with the cost pressure in the biopharmaceutical industry and delivery by other suppliers.

Overall, we aim to achieve significant growth in the result in an uncertain market environment by offering a broad product portfolio, aligning our business globally, leveraging regional strengths and identifying synergies.

#### **Forecast for the Performance Materials division**

In the Performance Materials division, Merck is estimating that the total revenues of EUR 1,452\* million in 2010 will increase in 2011 by between 2% and 7% and will continue to rise in 2012. The operating result of EUR 576\* million is predicted to remain unchanged in 2011 and to resume growth in 2012.

This division supplies specialty chemicals and materials for liquid crystal displays and for new lighting and display technologies such as OLEDs (organic light-emitting diodes), as well as effect pigments for the plastics, print and coatings industries. Merck pigments are also used in skincare and in color cosmetics. The division is also active in growth markets in the field of renewable energy.

\*Figure adjusted to reflect the new reporting structure

DisplaySearch, a market research company for the display industry, predicts that the liquid crystal display market will continue to grow. The LCD market is being driven by the heavily increasing demand for TVs and notebooks in the emerging economies of Asia, as well as by devices such as tablet computers. According to the opinion of market researchers, the total surface area of liquid crystal displays should grow 8% per year on average between 2010 and 2017. This includes televisions, monitors and notebooks, among other products. For 2011, DisplaySearch is expecting the surface area of liquid crystal panels to increase by 11% relative to 2010. Flat panel production has so far been concentrated in South Korea and Taiwan, followed distantly by Japan. According to Display Search, however, China will have assumed third place by the end of 2012.

Since producers of automotive coatings are one of our customer sectors, the development of automotive sales figures is important to us. The U.S. market researchers from CSM Automotive predict that global automotive sales will grow in 2011 by 11%, rising to 61 million vehicles. This will put the automotive industry back at the level of 2008, but will still not as high as in 2007, which was a very good year. According to market researchers, the Indian market will show the strongest growth in 2011, followed by China, Brazil and South Korea. JD Power, a marketing information firm, is expecting production of 73 million cars in 2011, which would significantly exceed the 70.4 million vehicles sold in 2007, a record year. However, this growth is predicted to come only from emerging markets. The market research firm Polk is predicting a further increase in production, to 78 million cars in 2012.

Euromonitor, a key market research company for the cosmetics industry, predicts growth of 5.2% to USD 369 billion for the personal care and cosmetics sector in 2011 and further growth of 3.7% in 2012 relative to 2011. Performance Materials is also active in this market.

Additional opportunities for the Liquid Crystals Business Unit lie in the improved business performance of the display markets. For our PS-VA technology, we are expecting very satisfactory increases as a result of market growth. To maintain our leading technology position in liquid crystals, we will correspondingly intensify our R&D activities. Programs for increasing production efficiency will help keep the operating result at a high level. We face particular risks due to price pressure in the area of LC materials and due to the possible emergence of new competitors on the market. In view of Merck's so far dominant position, the emergence of competitors particularly in PS-VA technology could negatively impact sales and the operating result.

The Pigments and Cosmetics Business Unit has recovered significantly from the crisis year and will continue to grow in the coming years. The portfolio will continue to shift toward high-quality products. Opportunities and risks are especially linked with the growth of the automotive industry. This sector is showing a trend toward high-quality paints, an area in which Merck is extremely active. Other opportunities could arise from a shift in the automotive industry from the current trend of white-silver and black hues back to bright colors.

#### **Forecast for the Corporate and Other segment**

Corporate and Other comprises the costs for the Merck Group functions. This includes the costs of Corporate Auditing, of the Legal and Tax departments, of the Annual General Meeting, etc. Taxes for the Merck Group are also disclosed here as well as the financial result. Based on a figure of EUR -90 million for 2010, the operating result will remain unchanged in 2011. We forecast a further rise in costs for 2012.

#### **Dividend development**

For 2010, we are proposing to the Annual General Meeting the payment of a dividend of EUR 1.25 per share. Based on our earnings expectations, the family of owners and Merck shareholders can continue to expect to receive an earnings-oriented dividend.

#### **Summary**

For both 2011 and 2012, the Executive Board expects growth in both the total revenues and operating result of the Merck Group. The higher financial liabilities of the Merck Group, which resulted from the Millipore acquisition, will steadily decrease over the next several years, also as a result of our high free cash flow. This will continue to lead to solid balance sheet ratios. The actual results of the Merck Group and its divisions may deviate substantially from the expectations of predicted developments. This would be the case if one or other of the uncertainties mentioned were to occur, or if the planning assumptions were to prove inaccurate.

## SUBSEQUENT EVENTS

In January 2011, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) confirmed its previous position and adopted a final negative opinion regarding our marketing authorization application for cladribine tablets in Europe.

On February 7, 2011, all the conditions for the closing of the divestment of the Crop BioScience activities were fulfilled. At a selling price of EUR 208 million, the pre-tax gain on the sale is expected to be around EUR 160 million. As of December 31, 2010, the activities were recorded in the Group financial statements as assets and liabilities held for sale.

## CORPORATE GOVERNANCE

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## STATEMENT ON CORPORATE GOVERNANCE

The Statement on Corporate Governance contains the Statement of Compliance, relevant information on practices within the company, the compensation report as well as a description of the procedures of the corporate bodies.

### JOINT REPORT OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD ACCORDING TO SECTION 3.10 OF THE GERMAN CORPORATE GOVERNANCE CODE INCLUDING STATEMENT OF COMPLIANCE

The German Corporate Governance Code is geared exclusively toward the conditions at a German stock corporation (Aktiengesellschaft). Merck KGaA has resolved to apply the Code correspondingly to a corporation with general partners (Kommanditgesellschaft auf Aktien) to serve the interests of shareholders. In order to enable shareholders to compare the situation at other companies more easily, we base corporate governance on the conduct recommendations made by the Code Commission relating to management and supervision (governance) and forego having our own, equally permissible, code. With a few exceptions, the recommendations of the Code, the intent and meaning of which are applied, were complied with in the past and will continue to be complied with in the future.

For a clearer understanding, the following gives a general explanation of the Kommanditgesellschaft auf Aktien (KGaA) company form followed by the specific situation at Merck with additional references to the General Meeting and shareholder rights.

#### **Corporation with general partners (Kommanditgesellschaft auf Aktien)**

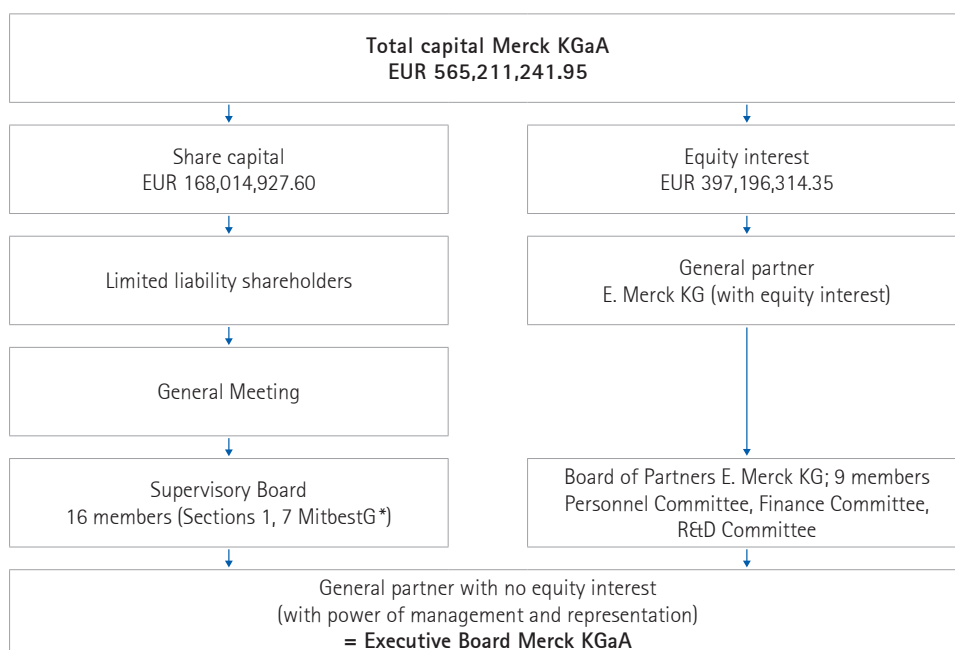
"The corporation with general partners is a company which constitutes a separate legal entity, in which at least one partner has unlimited liability with regard to the creditors of the company (general partner) and the other shareholders are not personally liable for the obligations of the company (limited shareholders) (section 278 (1) of the German Stock Corporation Act – hereinafter referred to as "AktG"). It is therefore a hybrid of an Aktiengesellschaft (German stock corporation) and a Kommanditgesellschaft (limited partnership) with a focus on German 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 (see page 125 for a description of the supervisory board procedures). This legal form also involves special features with regard to the General Meeting. For example, many of the resolutions made require the consent 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 KG holds around 70% of the total capital of Merck KGaA (equity interest); the shareholders hold the remainder, which is divided into shares (share capital). E. Merck KG 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 KG has a strong interest in the businesses of Merck KGaA operating efficiently and in compliance with procedures, and exercises its influence accordingly. Merck KGaA's participation in the profit/loss of E. Merck KG in accordance with Articles 26 et seq. of the Articles of Association further harmonizes the interests of the shareholders and of E. Merck KG.

E. Merck KG appoints and dismisses the Executive Board. In addition, E. Merck KG has created bodies – complementing the expertise and activities of the Supervisory Board – to monitor and advise the Executive Board. This task applies primarily to the Board of Partners of E. Merck KG. 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 rules for the Executive Board and its supervision that meet the requirements of the Code. The investors, who bear the entrepreneurial risk, are protected as provided for by the Code.

This is illustrated by the following chart:



\*German Co-Determination Act



### **The General Meeting of Merck KGaA**

The Annual General Meeting takes place within the first eight months of the fiscal year. The fifteenth General Meeting of Merck KGaA was held in Frankfurt am Main, Germany, on April 9, 2010. With 58.22% of the share capital represented, shareholder participation at the meeting was stable. At 59% in 2009, the rate was only marginally higher.

In accordance with Article 21 para 3 of the company's Articles of Association, the annual financial statements, the management report, the report of the Supervisory Board, and the proposal on the appropriation of net retained profit must be presented to the General Meeting and explained during the General Meeting. In particular, the Annual General Meeting passes resolutions concerning the approval of the annual financial statements, the appropriation of net retained profit, the approval of the actions of the Executive Board members and the Supervisory Board members, as well as the choice of the auditor. At the same time, the General Meeting has the power to pass resolutions concerning changes to the Articles of Association. With the exception of the measures listed in section 285 (2) sentence 2 AktG, the resolutions of the General Meeting require the approval of the general partners.

All the documents and information concerning upcoming General Meetings are posted on our website. Moreover, the General Meeting is webcast live on the Internet from its commencement until the end of the speech by the Chairman of the Executive Board. The introductory speeches by the Chairman of the Executive Board and the Chairman of the Supervisory Board are recorded in order to make them available to interested members of the public at any time after the meeting. In this way, we are satisfying our own high transparency requirements.

### **Shareholder rights**

The shareholders of Merck KGaA exercise their rights at the General Meeting. Each Merck share grants the holder one vote at the General Meeting.

Shareholders may exercise their voting rights personally, through an authorized representative, or a proxy appointed by the company. Voting rights are only subject to special restrictions in accordance with Article 22 para 5 of the company's Articles of Association. Accordingly, insofar as general partners hold shares, they cannot exercise the voting rights deriving from their shares with respect to the election and dismissal of the Supervisory Board, the approval of the actions of the Executive Board members and the Supervisory Board members, the choice of the auditor, the appointment of special auditors and the resolution on indemnification claims.

A summary explanation of shareholder rights is available in German on the company's website.

### **Deviations from the Corporate Governance Code:**

1. Until June 30, 2010, for its Executive Board and Supervisory Board members Merck KGaA maintained a Directors & Officers ("D&O") liability insurance policy that did not include a deductible in accordance with section 93 (2) sentence 3 AktG and section 3.8 (2) and (3) of the German Corporate Governance Code. The company dispensed with a deductible in the past because D&O insurance policies with the required deductible were not actively offered by the insurance industry and the individual agreement on a deductible is not offset by a substantial reduction in the premium.

Effective July 1, 2010, Merck KGaA introduced a deductible in accordance with section 93 (2) sentence 3 AktG and section 3.8 (2) and (3) of the German Corporate Governance Code. This takes into account the minimum requirements specified by the German Corporate Governance Code, since a deductible of at least 10% of the loss up to at least one and a half times the fixed annual compensation of the Executive Board member or Supervisory Board member has been agreed.

2. Contrary to section 5.4.1 sentence 2, an age limit is not taken into account when proposing candidates for election to the Supervisory Board. The age of Supervisory Board members is not a criterion for their qualifications and competence. Moreover, we do not wish to forgo the many years of experience of Supervisory Board members.

## **COMPENSATION REPORT**

(Section 4.2.5 and 5.4.6 of the German Corporate Governance Code)

The compensation report is part of the audited Notes to the Consolidated Financial Statements.

### **Compensation of members of the Executive Board of Merck KGaA**

Contrary to members of the Board of Management of German stock corporations, the members of the Executive Board of Merck KGaA are not employed officers of the company. Rather, they are personally liable general partners of both Merck KGaA and the general partner E. Merck KG, and in this capacity they receive profit-based compensation from E. Merck KG. Therefore, the obligation to individually publish the compensation of management board members of publicly listed German stock corporations does not apply to the Executive Board of Merck KGaA. The following presentation of individual compensation is therefore being made on a voluntary basis.

Contrary to publicly listed German stock corporations, at Merck KGaA it is not the Supervisory Board, but the Board of Partners of E. Merck KG that decides on the amount and composition of compensation. E. Merck KG has transferred the execution of this right to its Personnel Committee. Among other things, the Personnel Committee is responsible for the following decisions: contents of contracts with Executive Board members, granting of loans and advance salary payments, approval for taking on honorary offices, board positions and other sideline activities, as well as the division of responsibilities within the Executive Board of Merck KGaA. The compensation system defined by the Personnel Committee for Executive Board members takes into account various compensation-relevant aspects, including the responsibility of the individual Executive Board members, their individual performance, the performance of the company, as well as the amount of compensation paid to executive board and management

board members of comparable companies. The Personnel Committee regularly commissions an independent compensation consultant to review the appropriateness of compensation.

#### Features of the compensation system

The compensation paid to the Executive Board members of Merck KGaA comprises fixed components, variable compensation and additions to pension provisions. Benefits in kind and other benefits are additionally granted.

#### Fixed compensation

Fixed compensation is paid in the form of 12 equivalent monthly installments. The following table provides an overview of the amount of the fixed compensation paid in 2009 and 2010.

#### Compensation of the Executive Board members of Merck KGaA

EUR thousand	Fixed compensation	
	2010	2009
Dr. Karl-Ludwig Kley	1,000	1,000
Dr. Michael Becker	800	800
Dr. Bernd Reckmann	750	750
Elmar Schnee*	900	900
<b>Total</b>	<b>3,450</b>	<b>3,450</b>

\* Elmar Schnee received fixed compensation from Merck Serono S.A. in Geneva for his duties as president of the company.

#### Variable compensation

Variable compensation is based on the three-year rolling average of profit after tax of the E. Merck Group. Exceptional factors that amount to more than 10% of the Group profit and for which the Executive Board member is not responsible, are eliminated. The members of the Executive Board receive an individually fixed per mille rate of the Group profit calculated in this manner. Additionally, the Personnel Committee can decide on a one-time payment based on the achievement of qualitative objectives.

The following table provides an overview of the amount of the variable compensation paid in 2009 and 2010:

EUR thousand	Variable compensation	
	2010*	2009**
Dr. Karl-Ludwig Kley	2,144	1,282
Dr. Michael Becker	1,286	769
Dr. Bernd Reckmann	1,072	641
Elmar Schnee	1,715	1,025
<b>Total</b>	<b>6,217</b>	<b>3,717</b>

\* The variable compensation for 2010 is based on an extrapolation since the consolidated result of the E. Merck Group was not yet available when this information was prepared.

\*\* The variable compensation stated for 2009 deviates from the data provided in 2009 since the consolidated result of the E. Merck Group was not yet available when this information was prepared and was therefore extrapolated.

### Total compensation

Consequently, this results in the following total compensation for the Executive Board members of Merck KGaA:

EUR thousand	Fixed compensation		Variable compensation		Total	
	2010	2009	2010	2009	2010	2009
Dr. Karl-Ludwig Kley	1,000	1,000	2,144	1,282	3,144	2,282
Dr. Michael Becker	800	800	1,286	769	2,086	1,569
Dr. Bernd Reckmann	750	750	1,072	641	1,822	1,391
Elmar Schnee	900	900	1,715	1,025	2,615	1,925
<b>Total</b>	<b>3,450</b>	<b>3,450</b>	<b>6,217</b>	<b>3,717</b>	<b>9,667</b>	<b>7,167</b>

### Pension provisions

The individual contractual pension obligations grant the members of the Executive Board entitlement to a lifelong old-age pension or surviving dependents' pension in the event of reaching the individual contractually agreed age limit, permanent disability, and death.

The amount of the old-age pension is determined by a percentage share of pensionable compensation defined by the Personnel Committee.

The individual values are presented in the following table:

	Pensionable compensation in EUR thousand	Percentage entitlement
Dr. Karl-Ludwig Kley	790	70
Dr. Michael Becker	560	75
Dr. Bernd Reckmann	470	54
Elmar Schnee	570	46

The percentage entitlement increases up until retirement annually by 1% up to 65% for Dr. Reckmann and annually by 3% up to 70% for Mr. Schnee.

The following amounts were added to pension provisions in 2010:

EUR thousand	Additions to pension provisions		Amount of pension provisions as of Dec. 31, 2010
	2010	2009	
Dr. Karl-Ludwig Kley	2,162	1,890	6,966
Dr. Michael Becker	1,216	1,218	6,055
Dr. Bernd Reckmann	829	801	3,616
Elmar Schnee	777	802	2,442
<b>Total</b>	<b>4,984</b>	<b>4,711</b>	<b>19,079</b>

The surviving dependents' pension grants the spouse a lifelong surviving dependents' pension amounting to 60% of the pension entitlement, dependent children either a half-orphan's or an orphan's pension maximally until the age of 25.

#### **Benefits in the event of termination of the duties as an Executive Board member**

Above and beyond existing pension obligations, no further obligations exist in the event of the premature termination of the contractual relationships of the Executive Board members.

### **Miscellaneous**

The members of the Executive Board additionally receive certain benefits, mainly contributions to insurance policies as well as a company car, which they are entitled to use privately. The members of the Executive Board must declare these benefits in their tax returns. In total, the value of miscellaneous benefits amounted to EUR 86 thousand in 2010 (2009: EUR 86 thousand). Of this amount, in 2010 EUR 29 thousand was attributable to Dr. Kley (2009: EUR 29 thousand), EUR 24 thousand to Dr. Becker (2009: EUR 24 thousand), EUR 26 thousand to Dr. Reckmann (2009: EUR 26 thousand) and EUR 7 thousand to Mr. Schnee (2009: EUR 7 thousand).

The members of the Executive Board do not receive additional compensation for serving on the boards of Group companies.

Should members of the Executive Board be held liable for financial losses while executing their duties, under certain circumstances this liability risk is covered by a D&O insurance policy from Merck KGaA. The D&O insurance policy has a deductible in accordance with the legal requirements and the recommendations of the German Corporate Governance Code.

### **Payments to former Executive Board members and their surviving dependents**

Pension payments to former members of the Executive Board or their surviving dependents amounted to EUR 9,091 thousand in 2010 (2009: EUR 7,764 thousand). Pension provisions totaling EUR 90,082 thousand exist for pension claims of this group of persons (2009: EUR 85,545 thousand).

### **Compensation of the Supervisory Board members of Merck KGaA**

The compensation of the Supervisory Board members is defined by Article 20 of the Articles of Association of Merck KGaA. Apart from reimbursement of their expenses, the members of the Supervisory Board receive fixed and variable compensation.

The fixed compensation amounts to EUR 7,000 per year. The Chairman receives double this amount and the Vice Chairman receives one and a half times this amount.

The members of the Supervisory Board also receive EUR 550 for each percent of the dividend resolved by the General Meeting in excess of 6% of the share capital, with a corresponding portion for fractions of a percent. The Chairman receives double this amount and the Vice Chairman receives one and a half times this amount.

Supervisory Board members who have only been in office for part of the fiscal year receive lower compensation in proportion to their term of office. The company reimburses the value-added tax levied on the compensation.

The individual values are presented in the following table:

#### Compensation of Supervisory Board members of Merck KGaA

EUR	Fixed compensation		Variable compensation		Total compensation	
	2010	2009	2010	2009	2010	2009
Prof. Dr. Dr. h.c. Rolf Krebs <sup>1</sup> (Chairman since July 1, 2009, previously ordinary member)	14,000	10,500	46,288	26,779	60,288	37,279
Heiner Wilhelm (Vice Chairman)	10,500	10,500	34,716	26,779	45,216	37,279
Crocifissa Attardo (since Oct. 1, 2009)	7,000	1,750	23,144	4,463	30,144	6,213
Dr. Mechthild Auge (since March 25, 2009)	7,000	5,408	23,144	13,793	30,144	19,201
Johannes Baillou <sup>4</sup>	7,000	7,000	23,144	17,853	30,144	24,853
Frank Binder <sup>4</sup>	7,000	7,000	23,144	17,853	30,144	24,853
Dr. Wolfgang Büchele <sup>2</sup> (since July 1, 2009)	7,000	3,500	23,144	8,926	30,144	12,426
Michael Fletterich	7,000	7,000	23,144	17,853	30,144	24,853
Edeltraud Glänzer	7,000	7,000	23,144	17,853	30,144	24,853
Michaela Freifrau von Glenck <sup>5</sup>	7,000	7,000	23,144	17,853	30,144	24,853
Frieder Kaufmann	7,000	7,000	23,144	17,853	30,144	24,853
Dr. Hans-Jürgen Leuchs <sup>2</sup> (since July 1, 2009)	7,000	3,500	23,144	8,926	30,144	12,426
Albrecht Merck <sup>3</sup>	7,000	7,000	23,144	17,853	30,144	24,853
Dr. Karl-Heinz Scheider (since March 25, 2009)	7,000	5,408	23,144	13,793	30,144	19,201
Prof. Dr. Theo Siegert <sup>1</sup>	7,000	7,000	23,144	17,853	30,144	24,853
Osman Ulusoy	7,000	7,000	23,144	17,853	30,144	24,853
Prof. Dr. Wilhelm Simson <sup>6</sup> (until June 30, 2009, Chairman)	0.0	7,000	0.0	17,853	0.0	24,853
Dr. Daniele Bruns (until March 24, 2009)	0.0	1,591	0.0	4,060	0.0	5,651
Claudia Flauaus (until Sept. 30, 2009)	0.0	5,250	0.0	13,389	0.0	18,639
Judith Delp (until March 24, 2009)	0.0	1,591	0.0	4,060	0.0	5,651
Dr. Arend Oetker <sup>6</sup> (until June 30, 2009)	0.0	3,500	0.0	8,926	0.0	12,426
<b>Total</b>	<b>122,500</b>	<b>122,498</b>	<b>405,020</b>	<b>312,424</b>	<b>527,520</b>	<b>434,922</b>

<sup>1</sup> As members of corporate bodies of E. Merck KG, these Supervisory Board members each received an additional payment of EUR 150,000 for performing this function in 2010 (2009: EUR 120,000).

<sup>2</sup> As members of corporate bodies of E. Merck KG, these Supervisory Board members each received an additional payment of EUR 140,000 for performing this function in 2010 (2009: EUR 60,000).

<sup>3</sup> As members of corporate bodies of E. Merck KG, these Supervisory Board members each received an additional payment of EUR 120,000 for performing this function in 2010 (2009: EUR 120,000).

<sup>4</sup> As members of corporate bodies of E. Merck KG, these Supervisory Board members each received an additional payment of EUR 120,000 for performing this function in 2010 (2009: EUR 100,000).

<sup>5</sup> As members of corporate bodies of E. Merck KG, these Supervisory Board members each received an additional payment of EUR 80,000 for performing this function in 2010 (2009: EUR 80,000).

<sup>6</sup> As members of corporate bodies of E. Merck KG, these Supervisory Board members, who retired from the Supervisory Board in 2009, and were simultaneously members of bodies of E. Merck KG, each received an additional payment of EUR 60,000 for performing this function in 2009.

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

(Section 6.6 of the German Corporate Governance Code)

As of December 31, 2010, the members of the Executive Board and of the Supervisory Board held 21,298 shares. Their total ownership represents less than 1% of the issued shares of Merck KGaA. In fiscal 2010, Merck KGaA reported the following transactions in accordance with section 15a of the German Securities Trading Act (WpHG):

Date of the transaction	Name, Function	Type and place	Financial instrument and ISIN	Number	Price in EUR	Total volume in EUR
Feb. 23, 2010	Dr. Hans-Jürgen Leuchs Member of the Supervisory Board	Purchase via Xetra	Bearer shares Merck KGaA DE 0006599905	1,000	60.20	60,200.00
May 7, 2010	Dr. Hans-Jürgen Leuchs Member of the Supervisory Board	Sale via Xetra	Bearer shares Merck KGaA DE 0006599905	500	61.1173	30,558.65
Sept. 27, 2010	Dr. Karl-Ludwig Kley Chairman of the Executive Board	Purchase via Xetra	Bearer shares Merck KGaA DE 0006599905	780	62.52	48,765.60
Sept. 27, 2010	Dr. Frank Stangenberg-Haverkamp Vice Chairman of the Executive Board and General Partner of E. Merck KG	Purchase via Xetra	Bearer shares Merck KGaA DE 0006599905	8,000	62.30568	498,445.44
Oct. 5, 2010	Dr. Frank Stangenberg-Haverkamp Vice Chairman of the Executive Board and General Partner of E. Merck KG	Purchase via Xetra	Bearer shares Merck KGaA DE 0006599905	2,000	60.8225	121,645.00

All transactions have been published on the company's website at [www.merck.de/investors](http://www.merck.de/investors) → Corporate Governance → Directors' Dealings



## INFORMATION ON CORPORATE GOVERNANCE PRACTICES

### Reporting

It is Merck KGaA's objective to provide the latest information to all shareholders, media, financial analysts and interested members of the public, while creating the greatest possible transparency. For this reason, Merck uses a wide range of communication platforms to engage in a timely dialog with all interested parties about the situation of the company and business changes. Merck's principles include providing factually correct, comprehensive and fair information.

Information subject to disclosure requirements, as well as information that is not, can be accessed worldwide on the Merck KGaA website ([www.merck.de](http://www.merck.de)), which is the company's most important publication platform. Apart from a detailed financial calendar, quarterly and half-year financial reports covering the past six years are available here in German and English. In addition, in line with the legal requirements, ad hoc announcements are published on the website. These contain information on circumstances that could impact the Merck share price.

Regular press conferences, investor meetings on the occasion of investor conferences as well as roadshows offer another platform for dialog. The company presentations prepared for this purpose are also available on the Merck KGaA website. In addition, the Investor Relations team is always available to private and institutional investors who wish to receive further information. To ensure the greatest possible transparency, all documents concerning the Annual General Meeting are available on the company website. Additionally, some parts of the Annual General Meeting are webcast live on the Internet.

In the coming year, we will continue to attach high importance to fulfilling all the relevant standards as regards reporting to the capital market.

### Dealing with insider information

Dealing properly with insider information is very important to us. Our insider committee examines the existence of insider information, ensures compliance with legal obligations, and prepares any necessary measures. The members of the insider committee are appointed by the Executive Board; at least two members work in Corporate Legal & Compliance. The insider committee meets at regular intervals, yet also meets when circumstances require.

In order to ensure a high level of protection of insider information, in 2011 the Executive Board will issue an internal insider guideline applicable throughout the Group worldwide. This guideline will inform employees about their responsibilities under insider trading laws and give clear instructions for compliant behavior. In addition, the function of the insider committee will be described in detail. Moreover, our Code of Conduct, which is binding on all employees, also contains an explicit, detailed reference to the ban on using insider information. Within the scope of obligatory training courses, all employees are instructed on the subject of insider trading.

#### **Accounting and audits of financial statements**

Merck KGaA prepares its consolidated financial statements and Group management report in accordance with International Financial Reporting Standards (IFRS), as applicable in the EU, as well as the supplementary rules applicable under section 315a (1) of the German Commercial Code (HGB) and as stipulated by our Articles of Association.

The Group financial statements and the Group management report are prepared by the Executive Board and an auditor, taking into account the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW).

The Supervisory Board commissioned KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, to audit the Group financial statements and the Group management report for 2010. Neither party identified any conflicts of interest. Moreover, the Supervisory Board agreed with KPMG AG that the auditor shall inform the Supervisory Board without delay of any grounds for bias or disqualification occurring during the audit if these cannot be immediately rectified.

Additionally, the auditor shall immediately report to the Supervisory Board any findings and issues which emerge during the audit that have a direct bearing upon the tasks of the Supervisory Board. The auditor shall inform the Supervisory Board or note in the audit report if any circumstances are determined during the audit that would render inaccurate the Statement of Compliance made by the Executive Board and the Supervisory Board. It has also been agreed with the auditor that in order to assess whether the Executive Board has fulfilled its obligations in accordance with section 91 (2) AktG, the audit will also cover the company's early warning risk identification system. Moreover, the auditor is required to examine and evaluate the accounting-relevant internal control system insofar as this is necessary and appropriate for assessing the accuracy of financial reporting.

### Values and compliance

In accordance with its Mission Statement, "We at Merck do what we say and then measure ourselves on this basis," Merck relies on a common set of values: courage, achievement, responsibility, respect, integrity and transparency. Based on a corporate culture that places the fundamental company values at the center of our entrepreneurial actions, the Code of Conduct helps those involved in the business process to implement the values when dealing with one another on a daily basis.

Merck has created the Code of Conduct as a set of rules and regulations intended to help Merck employees to act responsibly and to make the right decisions in their daily work. The Code of Conduct explains the principles for dealings with business associates, general partners, colleagues and employees, and in the communities in which we operate. Thus, it supports all employees in acting ethically – not only in their dealings with one another, but also outside the company. The Code of Conduct is thus the main set of rules for our compliance program.

Merck has striven throughout the centuries to follow ethical principles and values. All employees shall be treated fairly and in compliance with local laws and regulations. Merck has defined the principles for this in a social charter.

To Merck, compliance means observing legal and company-internal regulations and the basic ethical principles anchored in the company values. With the Code of Conduct and the various unit-specific compliance rules, the values are integrated into daily work and business practice. The Code of Conduct is binding on all employees, both at headquarters as well as the subsidiaries abroad. The Compliance Office monitors observance of the Code of Conduct with support from corresponding auditing and training programs throughout the Group. All employees are called upon to report compliance violations to their supervisor, Legal, HR or other relevant departments. Merck created the position of Group Compliance Officer in 2002. This employee is responsible for setting up, maintaining and further developing our global compliance program. By taking appropriate measures, he/she helps to lower the risk of serious legal violations, of for instance antitrust law and anticorruption rules. The role of the Group Compliance Officer is reflected in the subsidiaries by the approximately 80 local compliance officers, who ensure that compliance measures are implemented in the countries. This Group-wide network is used to steer the global compliance program. Regular regional and global compliance meetings are held to promote the exchange of information within the network. Newcomer training seminars were introduced in 2010 for newly appointed compliance officers. These seminars serve to build up compliance expertise and strengthen teambuilding within the compliance organization.

A high degree of importance is attached to regular compliance seminars, which are conducted as on-site events, as well as via web-based training courses. By presenting various training topics on corruption, antitrust and competition law, health care compliance and the Code of Conduct, they serve to sensitize employees and management to the consequences of compliance violations and to show ways to avoid them.

By setting up a central speak-up line, employees can report compliance violations by telephone or via a web-based application in their respective national language. The speak-up line is available free of charge and around the clock. Mutual communication is also possible anonymously based on case numbers.

The reports received are individually reviewed. If a compliance violation exists, corresponding corrective action is taken based on concrete action plans. If necessary, disciplinary measures are taken. These range from a simple warning up to the dismissal of the employee who violated a compliance rule.

In cooperation with Internal Auditing, the Compliance Office regularly reviews the implementation of Group-wide compliance measures at the subsidiaries. The audits regularly focus on the local compliance structure, the compliance measures taken, as well as the existence of corresponding compliance guidelines and processes.

The Compliance function reports regularly to the Executive Board, informing it of the status of compliance activities, compliance risks as well as serious compliance violations. The Executive Board informs the supervisory bodies at least once a year about the key compliance issues.

#### **Risk and opportunity management**

The Executive Board, the Supervisory Board and the Finance Committee are regularly informed about the risk portfolio of the Group and the individual companies. More detailed information can be found in the Risk report on page 86 et seq.

#### **Avoidance of conflicts of interest**

Within the framework of their work, all Executive Board members and Supervisory Board members Merck KGaA are exclusively committed to the interests of the company and pursue neither personal interests nor grant unjustified advantages to third parties.

Before an Executive Board member takes on honorary offices, board positions or other sideline activities, this must be approved by the Personnel Committee of the Board of Partners of E. Merck KG.

The Chairman of the Executive Board, Dr. Karl-Ludwig Kley, and the Chief Financial Officer, Dr. Michael Becker, are both members of the Executive Board of E. Merck KG. This does not, however, lead to conflicts of interest.

In its report to the General Meeting, the Supervisory Board discloses any conflicts of interest involving its members and how they were dealt with. Consultancy agreements as well other service and work contracts of a Supervisory Board member with Merck require the approval of the Supervisory Board. In fiscal 2010, there were neither conflicts of interest nor consultancy agreements or other service or work contracts with Merck involving Supervisory Board members.

#### **Adherence to labor and social standards**

Merck has set itself high social standards in the Merck Social Charter.

At Merck, closed-loop thinking guides the way in which we address environmental concerns and environmental protection issues. To this end, we integrate precautionary measures into our planning processes. Our Environment, Health and Safety Policy with its principles and strategies implements the guidelines formulated by the national and international associations of the chemical industry in the Responsible Care® guidelines. The Responsible Care® Global Charter developed by the International Council of Chemical Associations (ICCA) in 2006 puts even more emphasis than before on overall responsibility for products, supply chains and the community. Merck signed this expanded version of Responsible Care® for the entire Group in February 2007.

Many guidelines specify how the sites and employees of the Merck Group are to observe the principles in their daily work. The Group function Environment, Health, Safety, Security & Quality steers these global activities and ensures compliance with regulatory requirements, standards and business needs throughout the entire company. In this way, Group-wide risks are minimized and continuous improvement is promoted in the areas of Environment, Health, Safety, Security & Quality. Corporate Responsibility reports are also published at regular intervals.

## PROCEDURES OF THE EXECUTIVE BOARD, SUPERVISORY BOARD, BOARD OF PARTNERS AND ITS COMMITTEES

### Members of the Executive Board of Merck KGaA

Notes on memberships of statutory supervisory boards and comparable German and foreign supervisory bodies

(section 285 sentence 1, No. 10 HGB in conjunction with section 125 (1) sentence 5 AktG)

Member	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
<b>Dr. Karl-Ludwig Kley</b> Darmstadt Chairman	(a) – Bertelsmann AG, Gütersloh – BMW AG, Munich (Vice Chairman since May 18, 2010) – 1. FC Köln GmbH & Co KGaA, Cologne (Chairman)
<b>Dr. Michael Becker</b> Darmstadt	(b) – Bâloise Holding AG, Basel, Switzerland (since April 23, 2010)
<b>Dr. Bernd Reckmann</b> Seeheim-Jugenheim	(b) – Millipore Corp., Billerica, USA (since July 2010) – Millipore Corp., Cidra, Puerto Rico (since July 2010)
<b>Elmar Schnee</b> Darmstadt	(b) Member of the Board of Directors: – ChemGenex Pharmaceuticals Ltd., Geelong, Australia – Merck Serono S.A., Coinsins, Switzerland
<b>Dr. Stefan Oschmann</b> Munich (as of Jan. 1, 2011)	no board positions

The general partners with no equity interest (Executive Board) manage the business activities in accordance with the laws, the Articles of Association and the rules of procedure. They are appointed by E. Merck KG with the consent of a simple majority of the other general partners. The members of the Executive Board are jointly responsible for the entire management of the company. The Executive Board is responsible for preparing the annual financial statements of Merck KGaA, the quarterly and half-year financial statements, as well as the annual financial statements of the Merck Group. In addition, the Executive Board ensures that all provisions of law, official regulations and the company's internal policies are abided by, and works to achieve their compliance by all the companies of the Merck Group.

The Executive Board provides the Supervisory Board with regular, up-to-date and comprehensive reports about all company-relevant issues concerning planning, business developments, the risk situation and risk management. A Supervisory Board resolution regulates further details on the information and reporting duties of the Executive Board vis-à-vis the Supervisory Board. The Executive Board informs the Board of Partners and the Supervisory Board at least quarterly of the progress of business and the situation of the company. In addition, the Executive Board informs the stated boards at least annually of the company's annual plans and strategic considerations.

The Executive Board passes its resolutions in meetings that are normally held twice a month.

## Supervisory Board

Member	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
<b>Prof. Dr. Dr. h. c. Rolf Krebs</b> Mainz, Retired physician, Chairman	(a) – Epigenomics AG, Berlin (Chairman) – Ganymed Pharmaceuticals AG, Mainz (Chairman) – Merz GmbH & Co. KGaA, Frankfurt – Senator GmbH & Co KGaA, Frankfurt – Merz Pharmaceuticals GmbH, Frankfurt (b) – Board of Partners E. Merck KG, Darmstadt – Air Liquide S.A., Paris
<b>Heiner Wilhelm</b> Reinheim, Chairman of the Works Council of the Darmstadt site of Merck KGaA, Vice Chairman	no board positions
<b>Crocifissa Attardo</b> Full-time member of the Works Council of the Darmstadt site of Merck KGaA	no board positions
<b>Dr. Mechthild Auge</b> Wehrheim, Project manager for planning and information western Europe	no board positions
<b>Johannes Baillou</b> Vienna, Austria, Entrepreneur	(b) – Board of Partners E. Merck KG, Darmstadt (Vice Chairman)
<b>Frank Binder</b> Zurich, Switzerland, Entrepreneur	(a) – Landbell AG für Rückhol-Systeme, Mainz (Chairman) (b) – Board of Partners E. Merck KG, Darmstadt – Board of Directors BMR-Yachting AG, Zurich (Chairman) – Board of Directors Athena AG, Zurich
<b>Dr. Wolfgang Büchele</b> Mannheim, Chief Executive Officer of BorsodChem Zrt, Hungary	(b) – Board of Partners E. Merck KG, Darmstadt – BorsodChem Zrt, Kazincbarcika, Hungary (Chairman of the Board) – Kemira Oy, Helsinki, Finland – First Chemical Holding Kft, Budapest, Hungary
<b>Michael Fletterich</b> Gernsheim, Chairman of the Works Council of the Gernsheim site of Merck KGaA	no board positions
<b>Edeltraud Glänzer</b> Wiesbaden, Member of the Managing Board of Industriegewerkschaft Bergbau, Chemie, Energie (IG BCE)	(a) – B. Braun Melsungen AG, Melsungen – Solvay Deutschland GmbH, Hannover (Vice Chairman)
<b>Michaela Freifrau von Glenck</b> Zurich, Switzerland, Educator	no board positions
<b>Frieder Kaufmann</b> Rossdorf, Full-time member of the Works Council of the Darmstadt site of Merck KGaA	no board positions
<b>Dr. Hans-Jürgen Leuchs</b> Cobham, United Kingdom Retired graduate chemist	(a) – Zeton B.V., Enschede, The Netherlands – Zeton International Inc., Burlington ONT, Canada (since Nov. 3, 2010) (b) – Board of Partners E. Merck KG, Darmstadt
<b>Albrecht Merck</b> Schriesheim, Businessman	(b) – Board of Partners E. Merck KG, Darmstadt
<b>Dr. Karl-Heinz Scheider</b> Gross-Zimmern, Chemist	no board positions

Member	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
<b>Prof. Dr. Theo Siegert</b> Düsseldorf, Managing Partner of de Haen Carstanjen & Söhne, Düsseldorf	(a) – Deutsche Bank AG, Frankfurt – ERGO AG, Düsseldorf (until May 12, 2010) – E.ON AG, Düsseldorf – Henkel AG & Co KGaA, Düsseldorf (b) – Board of Partners E. Merck KG, Darmstadt – Board of Directors DKSH Holding Ltd., Zurich, Switzerland
<b>Osman Ulusoy</b> Wiesbaden, Regional Director of Industriegewerkschaft Bergbau, Chemie, Energie (IG BCE)	(a) – Evonik Röhm GmbH, Darmstadt (Vice Chairman)

The Supervisory Board performs a monitoring function. It supervises the management of the company by the Executive Board. In comparison with the supervisory board of a German stock corporation, the role of the supervisory board of a corporation with general partners (KGaA) is limited. This is due to the fact that the members of the Executive Board are personally liable partners and therefore are responsible for the management of the company themselves. In particular, the Supervisory Board is not responsible for appointing and dismissing general partners or for regulating the terms and conditions of their contracts. The authority for this belongs to E. Merck KG. Nor does the Supervisory Board have the authority to issue rules of procedure for the Executive Board or a catalog of business transactions requiring approval. This authority likewise belongs to E. Merck KG (Art. 13 (3) sentence 1 and (4) sentence 1 of the Articles of Association). However, the fact that the Supervisory Board has no possibilities to directly influence the Executive Board restricts neither its information rights nor audit duties. The Supervisory Board must monitor the Executive Board in terms of legality, regularity, usefulness and economic efficiency. In particular, the Supervisory Board has the duty to examine the reports provided at least quarterly by the Executive Board about the progress of business – in particular sales and the position of the company. In addition, by means of consultation with the Executive Board, it creates the basis for supervision of the management of the company by the Supervisory Board according to section 111 (1) of the German Stock Corporation Act (AktG). The Supervisory Board deals with the quarterly and half-year consolidated financial statements and examines the annual financial statements of the Merck Group as well as the annual financial statements of Merck KGaA, taking into account the auditor's reports. The adoption of the annual financial statements is not the responsibility of the Supervisory Board, but of the General Meeting. The Supervisory Board normally meets four times a year. Further meetings may be convened if demanded by a member of either the Supervisory Board or the Executive Board. As a rule, resolutions of the Supervisory Board are passed at meetings. At the instruction of the chairman, in exceptional cases a resolution may be passed by other means, details of which are given in the rules of procedure.

The members of the Board of Partners of E. Merck KG and of the Supervisory Board may be convened to a joint meeting if so agreed by the chairmen of the two boards.

The rules of procedure prescribe that the Supervisory Board may form committees as and when necessary. The Supervisory Board currently has no committees. Because of the limited authority of the Supervisory Board, it does not appear appropriate to subdivide it further.



### Board of Partners of E. Merck KG

Some of the responsibilities that lie with the supervisory board of a German stock corporation are fulfilled at Merck by E. Merck KG. This applies primarily to the Board of Partners of E. Merck KG. Therefore, the Board of Partners and the composition and procedures of its committees are described in the following.

The Board of Partners has nine members:

Member	Memberships of (a) other statutory supervisory boards and (b) comparable German and foreign supervisory bodies of corporations
<b>Johannes Baillou</b> Vienna, Austria, Entrepreneur, Vice Chairman	(a) – Supervisory Board of Merck KGaA, Darmstadt
<b>Jon Baumhauer</b> Munich, Chairman of the Executive Board and General Partner of E. Merck KG	no board positions
<b>Frank Binder</b> Zurich, Switzerland, Entrepreneur	(a) – Supervisory Board of Merck KGaA, Darmstadt – Landbell AG für Rückhol-Systeme, Mainz (Chairman) (b) – Board of Directors BMR-Yachting AG, Zurich (Chairman) – Board of Directors Athena AG, Zurich
<b>Dr. Wolfgang Büchele</b> Mannheim, Chief Executive Officer of BorsodChem Zrt, Hungary	(a) – Supervisory Board of Merck KGaA, Darmstadt (b) – BorsodChem Zrt, Kazincbarcika, Hungary (Chairman of the Board) – Kemira Oy, Helsinki, Finland – First Chemical Holding Kft, Budapest, Hungary
<b>Prof. Dr. Dr. h. c. Rolf Krebs</b> Mainz, Retired physician	(a) – Supervisory Board of Merck KGaA, Darmstadt – Epigenomics AG, Berlin (Chairman) – Ganymed Pharmaceuticals AG, Mainz (Chairman) – Merz GmbH & Co. KGaA, Frankfurt – Senator GmbH & Co KGaA, Frankfurt – Merz Pharmaceuticals GmbH, Frankfurt (b) – Air Liquide S.A., Paris
<b>Dr. Hans-Jürgen Leuchs</b> Cobham, United Kingdom, Retired graduate chemist	(a) – Supervisory Board of Merck KGaA, Darmstadt – Zeton B.V., Enschede, The Netherlands – Zeton International Inc., Burlington ONT, Canada (since Nov. 3, 2010)
<b>Albrecht Merck</b> Schriesheim, Businessman	(a) – Supervisory Board of Merck KGaA, Darmstadt
<b>Prof. Dr. Theo Siegert</b> Düsseldorf, Managing Partner of de Haen Carstanjen & Söhne, Düsseldorf	(a) – Supervisory Board of Merck KGaA, Darmstadt – Deutsche Bank AG, Frankfurt – ERGO AG, Düsseldorf (until May 12, 2010) – E.ON AG, Düsseldorf – Henkel AG & Co KGaA, Düsseldorf (b) – Board of Directors DKSH Holding Ltd., Zurich
<b>Dr. Frank Stangenberg-Haverkamp</b> Darmstadt, Vice Chairman of the Executive Board and General Partner of E. Merck KG, Chairman	(a) – Fortas AG, Rösrath (Chairman) (b) – Travel Asset Group Ltd., Feltham, United Kingdom (Chairman)

The Board of Partners supervises the Executive Board in its management of the company. It informs itself about the business matters of Merck KGaA, and may inspect and examine the company's accounts and other business documents, and the assets for this purpose. The Board of Partners convenes as and when necessary, however it meets at least four times a year. The members of the Executive Board of Merck KGaA are invited to all meetings of the Board of Partners, unless the Board of Partners resolves otherwise in individual cases. The members of the Board of Partners may convene a joint meeting with the Supervisory Board of Merck KGaA if so agreed by the chairmen of the two boards.

The Board of Partners may confer the responsibility for individual duties to committees. Currently the Board of Partners has three committees in place: the Personnel Committee, the Finance Committee, and the Research and Development Committee.

#### **Personnel Committee**

The Personnel Committee has four members: Jon Baumhauer, Prof. Dr. Dr. h.c. Rolf Krebs, Prof. Dr. Theo Siegert and Dr. Stangenberg-Haverkamp.

The Personnel Committee is convened as and when necessary. Meetings of the Personnel Committee are attended by members of the Executive Board of Merck KGaA upon request of the Committee. They attend only in an advisory capacity.

The Personnel Committee is responsible for, among other things, the following decisions concerning members and former members of the Executive Board: Contents of employment contracts and of pension contracts, granting of loans and advance payments, approval for taking on honorary offices, mandates and other sideline activities, as well as division of responsibilities within the Executive Board of Merck KGaA. The Personnel Committee passes its resolutions by a simple majority – in matters concerning the Chairman of the Executive Board unanimity is required. The Personnel Committee regularly informs the Board of Partners of its activities.

#### **Finance Committee**

The Finance Committee has four members: Johannes Baillou, Dr. Wolfgang Büchele, Prof. Dr. Theo Siegert and Dr. Frank Stangenberg-Haverkamp.

The Finance Committee holds at least four meetings a year, at least one of which is a joint meeting with the auditor. Further meetings are convened as and when necessary. Meetings of the Finance Committee are attended by members of the Executive Board of Merck KGaA upon request of the Committee. The Chairman of the Executive Board and the Chief Financial Officer regularly attend these meetings. The members of the Executive Board attend only in an advisory capacity. The Finance Committee is responsible for, among other things, analyzing and discussing the annual financial statements and the respective auditor's report as well as the quarterly and half-year financial reports. In addition, it is concerned with the financial position, results of operations and liquidity of Merck as well as accounting issues.

### **Research and Development Committee**

The Research and Development Committee has three members: Prof. Dr. Dr. h.c. Rolf Krebs, Dr. Hans-Jürgen Leuchs and Dr. Stangenberg-Haverkamp.

The Research and Development Committee is convened as and when necessary, but holds at least four meetings a year. Meetings of the Research and Development Committee are attended by members of the Executive Board of Merck KGaA upon request of the Committee. These meetings regularly include the Chairman of the Executive Board as well as the members of the Executive Board responsible for Pharmaceuticals and Chemicals. The members of the Executive Board attend only in an advisory capacity. The Research and Development Committee is responsible, among other things, for analyzing and discussing the research activities of Pharmaceuticals and Chemicals. The Pharmaceuticals and Chemicals business sectors present the status of their respective research to the Research and Development Committee in special meetings. The Committee deals thoroughly with the pharmaceutical research progress report and with developments of new medicines in Phases II and III of clinical research. The Research and Development Committee reports to the Board of Partners twice a year on the insights gained from the meetings held.

## **REPORT OF THE SUPERVISORY BOARD**

The Supervisory Board again properly executed its duties in 2010 in accordance with the law as well as the company's Articles of Association and rules of procedure. In particular, the Supervisory Board monitored the work of the Executive Board diligently and regularly.

### **Cooperation with the Executive Board**

The cooperation with the Executive Board was characterized by intensive, trustworthy exchange. During fiscal 2010, 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 the macroeconomic development, the financial position of the company and its subsidiaries along with their earnings development, as well as corporate planning. Within the scope of quarterly reporting, the sales and operating results were presented for the Merck Group as a whole, and broken down by division and region. Aside from the Supervisory Board meetings, the Chairman of the Supervisory Board also maintained and continues to maintain a regular exchange of information with the Chairman of the Executive Board.

### **Key topics of the Supervisory Board meetings**

Four Supervisory Board meetings were held in fiscal 2010. In these meetings, the Supervisory Board discussed the reports of the Executive Board in detail and discussed company developments and strategic issues together with the Executive Board.

In the meeting held on February 18, 2010, the Supervisory Board dealt mainly with the annual financial statements and consolidated financial statements for 2009. The Executive Board reported on business developments in 2009 and the key information contained in the 2009 annual financial statements. In addition, the auditor reported on the examination of the financial statements. Lastly, the Supervisory Board approved the proposals to be made to the Annual

General Meeting and adopted the statement on corporate governance including the Statement of Compliance with the German Corporate Governance Code in a joint report of the Executive Board and Supervisory Board.

The meeting held on April 27, 2010 focused on current business developments. In particular, the effects of economic recovery on the Chemicals business were discussed. Moreover, the Executive Board informed the Supervisory Board about the current status of the Millipore transaction.

In its meeting held on July 28, 2010, the Supervisory Board discussed the positive business development in the first half of 2010 and also dealt intensively with the internal auditing system and company risk management. For this purpose, the head of Corporate Auditing and the company risk manager presented their annual report. These reports are a standard part of the July meeting every year. With regard to risk management, important individual risks were identified, which were reported in detail to the Supervisory Board. No risks that threaten the continued existence of the company were identified.

The fourth Supervisory Board meeting in fiscal 2010 was held on October 25, 2010. In this meeting, the Supervisory Board focused mainly on the report of the Executive Board on business developments in the third quarter of 2010. In addition, the head of Corporate Legal & Compliance presented the compliance report of 2010 to the Supervisory Board. This report is a standard part of the October meeting every year. In addition, the Supervisory Board was informed about current changes to the German Corporate Governance Code and discussed the objectives with regard to its composition.

### **Annual financial statements**

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 AG 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 addition, the auditors audited the calculation of Merck KGaA's participation in the profits of E. Merck KG in accordance with Art. 27 (2) 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 the net retained profit 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 the net retained profit and the auditor's report presented in accordance with Art. 27 (2) 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 AG Wirtschaftsprüfungsgesellschaft.

The discussion of the relevant agenda item at the Supervisory Board's meeting on February 17, 2011 to approve the financial statements was also attended by the auditors who sign the audit opinion on the annual financial statements of Merck KGaA and the consolidated financial

statements of the Merck Group, and 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 raised 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 (2) of the Articles of Association. The Supervisory Board gives its consent to the proposal for the appropriation of the net retained profit.

#### **Corporate governance and Statement of Compliance**

Corporate governance is a topic of high priority for the Supervisory Board. According to its own estimation, the Supervisory Board consists of a sufficient number of independent members. There were no conflicts of interest, as defined by the German Corporate Governance Code, involving Supervisory Board members during 2010. After addressing corporate governance topics in detail, the Executive Board and Supervisory Board resolved to adopt and issued the updated Statement of Compliance on February 8, 2011 (Executive Board) and on February 17, 2011 (Supervisory Board) in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz). The statement is permanently available on the website of Merck KGaA ([http://www.merck.de/en/investors/corporate\\_governance/reports/corporate\\_governance\\_reports.html](http://www.merck.de/en/investors/corporate_governance/reports/corporate_governance_reports.html)). More information about corporate governance at Merck KGaA, including the compensation of the Executive Board and Supervisory Board, is given in the Statement of Compliance on pages 108 et seq of the Annual Report.

#### **Committees**

The Supervisory Board of Merck KGaA currently has no committees on account of the special features that apply to the Supervisory Board of a corporation with general partners (KGaA) under German company law and because a corresponding need for this has not emerged to date. Therefore, no report is given on the work of committees.

#### **Personnel matters**

With just a few exceptions, all members of the Supervisory Board attended the four Supervisory Board meetings held in 2010. Ms. Edeltraud Glänzer, Dr. Karl-Heinz Scheider, Mr. Osman Ulusoy and Mr. Heiner Wilhelm were absent from the third meeting, and were excused.

There were no personnel decisions or changes in the composition of the Supervisory Board in 2010. In particular, there were no new elections, new appointments to bodies or formations of new bodies.

Darmstadt, February 17, 2011  
The Supervisory Board of Merck KGaA



Prof. Dr. Dr. h.c. Rolf Krebs  
Chairman

## OBJECTIVES OF THE SUPERVISORY BOARD WITH RESPECT TO ITS COMPOSITION

### Initial situation

According to section 5.4.1 (2) and (3) of the German Corporate Governance Code, the Supervisory Board shall specify concrete objectives regarding its composition which, while considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board, and diversity.

### General notes on the composition of the Supervisory Board

The Supervisory Board of Merck KGaA consists of 16 members, eight of whom represent the shareholders and a further eight who represent the employees. The eight employee representative members are elected by employee delegates pursuant to the provisions of the German Co-determination Act (Mitbestimmungsgesetz – "MitbestG"). These include six company employees, including a senior executive, as well as two union representatives. The Supervisory Board has no statutory proposal right with respect to electing the delegates or employee representatives. Owing to a delegation right of E. Merck Beteiligungen KG, two of the eight shareholder representatives are specified. The Supervisory Board likewise has no statutory proposal right with respect to exercising this delegation right. The remaining six shareholder representatives are elected by the General Meeting. In accordance with section 124 (3) sentence 1 AktG, the Supervisory Board shall propose to the General Meeting Supervisory Board members for election. These proposals require a majority of the votes of the shareholder representative members of the Supervisory Board. The General Meeting is not required to follow the election proposals. The appointment objectives that the Supervisory Board applies as set forth below therefore do not represent requirements to be met by those eligible to elect or to delegate members, respectively. Instead, they are intended to express the objectives pursued by the Supervisory Board in office with regard to its advisory and monitoring functions.

### Objectives of the Supervisory Board with respect to its composition

In accordance with section 5.4.1 of the German Corporate Governance Code, the Supervisory Board specifies the following objectives with respect to its composition:

#### Expertise

Professional qualifications and personal expertise are the two most important prerequisites for appointments to seats on the Supervisory Board. When proposing Supervisory Board candidates for election or delegation, the Supervisory Board will always give top priority to these prerequisites, which are essential for fulfilling its legal duties.

#### Diversity

Overall, the Supervisory Board's objective is to optimally meet its monitoring and advisory duties by having a diversity of members. Diversity includes, in particular, internationality as well as different experience backgrounds and career paths. The proportion of women on the Supervisory Board is also considered to be an aspect of diversity. When preparing proposals for election or delegation, due consideration shall be given in individual cases to the extent to which different, yet complementary professional profiles, career and life experiences as well as appropriate representation of both genders can benefit the work of the Supervisory Board.

Additionally, the Supervisory Board shall support the Executive Board in its efforts to increase diversity within the company.

#### **Knowledge of the company**

The Supervisory Board shall have at least four members with in-depth knowledge and experience in fields that are important to the company, including at least one expert in pharmaceuticals and one in chemicals.

#### **Management experience**

The Supervisory Board shall have at least three members who have experience in managing or supervising a medium- or large-sized company.

#### **Family-owned company**

The Supervisory Board shall have at least one member who has experience in managing medium- or large-sized family-owned companies.

#### **Internationality**

The Supervisory Board shall have at least three members with business experience in the main sales markets of Merck KGaA. Currently, the main sales markets of Merck KGaA are Europe, North and Latin America and Asia-Pacific.

#### **Women on the Supervisory Board**

Four women are currently members of the Supervisory Board of Merck KGaA. This corresponds to 25% of the Supervisory Board. When nominating candidates for election to the Supervisory Board or making proposals for delegations, the Supervisory Board shall examine whether the percentage of women can be increased by suitable candidates.

#### **No material conflicts of interest**

No one who is likely to have a lasting conflict of interest shall serve as a member of the Supervisory Board. Therefore, no one shall be proposed for election or delegation to the Supervisory Board who simultaneously serves on a body of or advises a major competitor of the company, or owing to another function, e.g. advisor to major contract partners of the company, could potentially become involved in a conflict of interest. Moreover, the Supervisory Board complies with the requirements of the German Corporate Governance Code with respect to conflicts of interest.

#### **No age limit**

An age limit for Supervisory Board members is not specified, since age is not a criterion for qualifications and expertise. Moreover, we do not wish to forgo the many years of experience of Supervisory Board members.

The achievement of the aforementioned objectives shall be pursued initially until 2015, taking into account applicable law within the scope of elections and reelections, delegations as well as court appointments of replacement members if these become necessary. All Supervisory Board members will correspondingly influence those eligible to elect or delegate. Taking into consideration the aforementioned criteria and in accordance with its duties under German stock corporation law, the Supervisory Board will also propose to the General Meeting the candidates it believes to be best suited in each case. The Supervisory Board will provide information on the status of implementing its objectives every year in the Annual Report.

## CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCK GROUP FOR 2010

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## INCOME STATEMENT OF THE MERCK GROUP

Notes to the  
Income Statement:  
see page 156

EUR million	Note	2010	2009
<b>Sales</b>	[1]	<b>8,928.9</b>	<b>7,377.7</b>
Royalty, license and commission income	[2]	361.7	369.3
<b>Total revenues</b>		<b>9,290.6</b>	<b>7,747.0</b>
Cost of sales	[3]	-2,385.4	-2,029.3
<b>Gross margin</b>		<b>6,905.2</b>	<b>5,717.7</b>
Marketing and selling expenses*	[4]	-2,234.5	-1,859.3
Royalty, license and commission expenses*	[5]	-477.0	-413.0
Administration expenses	[6]	-478.2	-424.9
Other operating expenses and income	[7]	-390.4	-372.7
Research and development	[8]	-1,397.1	-1,344.6
Amortization of intangible assets	[9]	-818.6	-657.8
Investment result	[10]	4.1	3.5
<b>Operating result</b>		<b>1,113.5</b>	<b>648.9</b>
Exceptional items	[11]	-0.8	-28.0
<b>Earnings before interest and tax (EBIT)</b>		<b>1,112.7</b>	<b>620.9</b>
Financial result	[12]	-251.6	-134.5
<b>Profit before tax</b>		<b>861.1</b>	<b>486.4</b>
Income tax	[13]	-219.6	-109.7
<b>Profit after tax</b>		<b>641.5</b>	<b>376.7</b>
Non-controlling interest	[14]	-9.4	-10.4
<b>Net profit after non-controlling interest</b>		<b>632.1</b>	<b>366.3</b>
<b>Earnings per share (in EUR)</b>	[15]		
basic		2.91	1.68
diluted		2.91	1.68

\*The figures for 2009 have been adjusted for the disclosure of royalty, license and commission expenses.

## BALANCE SHEET OF THE MERCK GROUP

Notes to the  
Balance Sheet:  
see page 163

EUR million	Note	Dec. 31, 2010	Dec. 31, 2009
<b>Current assets</b>			
Cash and cash equivalents	[16]	943.7	541.4
Marketable securities and financial assets	[17]	55.6	1,503.2
Trade accounts receivable	[18]	2,296.3	1,788.7
Inventories	[19]	1,673.5	1,367.9
Other current assets	[20]	564.7	275.6
Tax receivables	[21]	93.7	55.3
Assets held for sale	[22]	36.7	-
		<b>5,664.2</b>	<b>5,532.1</b>
<b>Non-current assets</b>			
Intangible assets	[23]	12,484.1	7,598.4
Property, plant and equipment	[24]	3,241.5	2,607.6
Investments at equity	[25]	5.0	1.6
Non-current financial assets	[26]	130.3	118.4
Financial assets covering pensions	[27]	216.9	209.6
Other non-current assets	[20]	52.9	99.5
Deferred tax assets	[13]	593.1	545.4
		<b>16,723.8</b>	<b>11,180.5</b>
<b>Total assets</b>		<b>22,388.0</b>	<b>16,712.6</b>
<b>Current liabilities</b>			
Current financial liabilities	[28]	356.1	705.2
Trade accounts payable	[29]	1,200.1	935.7
Other current liabilities	[30]	1,054.6	638.2
Tax liabilities	[31]	368.4	274.5
Current provisions	[32]	374.5	266.4
Liabilities directly related to assets held for sale	[22]	5.9	-
		<b>3,359.6</b>	<b>2,820.0</b>
<b>Non-current liabilities</b>			
Non-current financial liabilities	[28]	5,127.4	1,602.1
Other non-current liabilities	[30]	42.9	16.9
Non-current provisions	[32]	524.2	685.0
Provisions for pensions and other post-employment benefits	[33]	1,581.6	1,311.5
Deferred tax liabilities	[13]	1,380.5	763.5
		<b>8,656.6</b>	<b>4,379.0</b>
<b>Net equity</b>	[34]		
Equity capital		565.2	565.2
Reserves		8,484.2	8,318.7
Gains/losses recognized immediately in equity		1,280.4	576.2
<b>Equity attributable to shareholders of the parent company</b>		<b>10,329.8</b>	<b>9,460.1</b>
Non-controlling interest		42.0	53.5
		<b>10,371.8</b>	<b>9,513.6</b>
<b>Total liabilities and stockholders' equity</b>		<b>22,388.0</b>	<b>16,712.6</b>

## SEGMENT REPORTING OF THE MERCK GROUP

Part of the Notes, for details see page 183

Information by business sector and division	Merck Serono		Consumer Health Care		Pharmaceuticals	
	2010	2009	2010	2009	2010	2009
EUR million						
Sales	5,409.0	4,993.8	469.7	464.9	<b>5,878.7</b>	5,458.7
Royalty, license and commission income	344.5	351.1	2.3	2.1	<b>346.8</b>	353.2
Total revenues	5,753.5	5,344.9	472.0	467.0	<b>6,225.5</b>	5,811.9
Gross margin	4,792.8	4,485.5	316.9	319.5	<b>5,109.7</b>	4,805.0
Marketing and selling expenses**	-1,451.4	-1,316.1	-235.9	-211.9	<b>-1,687.3</b>	-1,528.0
Royalty, license and commission expenses**	-456.2	-403.0	-1.2	-1.5	<b>-457.4</b>	-404.5
Administration expenses	-269.9	-263.6	-24.7	-24.3	<b>-294.6</b>	-287.9
Other operating expenses and income	-169.6	-317.4	-12.1	-9.9	<b>-181.7</b>	-327.3
Research and development	-1,167.1	-1,183.6	-24.9	-19.5	<b>-1,192.0</b>	-1,203.1
Operating result	565.1	354.7	13.9	48.3	<b>579.0</b>	403.0
Exceptional items	68.6	-39.8	-	-	<b>68.6</b>	-39.8
Earnings before interest and tax (EBIT)	633.7	314.9	13.9	48.3	<b>647.6</b>	363.2
Net operating assets	10,359.7	10,015.9	310.8	336.0	<b>10,670.5</b>	10,351.9
Segment liabilities	-1,268.9	-1,078.2	-86.4	-76.9	<b>-1,355.3</b>	-1,155.1
Capital spending on property, plant and equipment	247.7	317.2	6.9	10.0	<b>254.6</b>	327.2
Investments in intangible assets	85.1	74.8	1.3	1.4	<b>86.4</b>	76.2
Depreciation and amortization	-766.5	-749.6	-11.6	-9.5	<b>-778.1</b>	-759.1
Impairment losses	-171.0	-99.1	-7.1	-	<b>-178.1</b>	-99.1
Net cash flows from operating activities	1,590.1	1,250.7	46.6	58.0	<b>1,636.7</b>	1,308.7
Net cash flows from investing activities	-292.0	-386.3	-1.1	-9.1	<b>-293.1</b>	-395.4
Free cash flow	1,298.1	864.4	45.5	48.9	<b>1,343.6</b>	913.3
Underlying free cash flow	1,307.8	866.8	45.5	48.9	<b>1,353.3</b>	915.7
FCR in %	22.7	16.2	9.6	10.5	<b>21.7</b>	15.8
ROS in %	9.8	6.6	2.9	10.3	<b>9.3</b>	6.9

\*As a result of the acquisition of Millipore, the Chemicals business sector was reorganized. The figures for 2009 have been adjusted.

\*\*The figures for 2009 have been adjusted for the disclosure of royalty, license and commission expenses.

Information by country and region	Germany		France		Switzerland		Rest of Europe	
	2010	2009	2010	2009	2010	2009	2010	2009
EUR million								
Sales by customer location	779.4	708.1	714.2	684.6	111.4	84.9	2,141.8	1,896.1
Sales by company location	1,315.0	1,113.4	810.4	796.1	149.9	167.0	1,819.4	1,601.8
Total revenues	1,333.2	1,137.5	821.6	806.0	364.6	388.8	1,836.3	1,619.1
Intangible assets	184.0	180.0	343.9	217.7	6,701.0	6,648.2	2,452.1	209.8
Property, plant and equipment	1,088.5	1,113.5	140.0	82.4	987.3	815.7	399.5	238.6
Research and development	-649.7	-636.4	-49.4	-46.3	-566.4	-553.4	-32.8	-37.1
Number of employees	10,340	9,904	2,916	1,985	2,407	2,275	6,016	4,412

Merck Millipore*		Performance Materials*		Chemicals		Corporate and Other		Group	
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
1,673.5	921.2	1,376.7	997.8	<b>3,050.2</b>	1,919.0	-	-	<b>8,928.9</b>	7,377.7
7.2	8.2	7.7	7.9	<b>14.9</b>	16.1	-	-	<b>361.7</b>	369.3
1,680.7	929.4	1,384.4	1,005.7	<b>3,065.1</b>	1,935.1	-	-	<b>9,290.6</b>	7,747.0
871.0	434.5	924.5	478.2	<b>1,795.5</b>	912.7	-	-	<b>6,905.2</b>	5,717.7
-427.7	-231.8	-116.6	-99.2	<b>-544.3</b>	-331.0	-2.9	-0.3	<b>-2,234.5</b>	-1,859.3
-9.9	-5.7	-9.7	-2.8	<b>-19.6</b>	-8.5	-	-	<b>-477.0</b>	-413.0
-76.4	-43.1	-38.5	-35.8	<b>-114.9</b>	-78.9	-68.7	-58.1	<b>-478.2</b>	-424.9
-140.0	-14.0	-47.5	-8.1	<b>-187.5</b>	-22.1	-21.2	-23.3	<b>-390.4</b>	-372.7
-78.0	-32.5	-127.1	-109.0	<b>-205.1</b>	-141.5	-	-	<b>-1,397.1</b>	-1,344.6
44.0	106.5	580.0	217.8	<b>624.0</b>	324.3	-89.5	-78.4	<b>1,113.5</b>	648.9
-	10.6	-1.0	1.2	<b>-1.0</b>	11.8	-68.4	-	<b>-0.8</b>	-28.0
44.0	117.1	579.0	219.0	<b>623.0</b>	336.1	-157.9	-78.4	<b>1,112.7</b>	620.9
6,486.7	781.2	1,238.6	1,176.2	<b>7,725.3</b>	1,957.4	74.7	37.4	<b>18,470.5</b>	12,346.7
-374.3	-111.5	-153.9	-118.7	<b>-528.2</b>	-230.2	-14.9	-15.7	<b>-1,898.4</b>	-1,401.0
80.3	57.6	59.1	82.1	<b>139.4</b>	139.7	2.2	0.4	<b>396.2</b>	467.3
7.2	4.9	3.6	7.5	<b>10.8</b>	12.4	7.0	8.0	<b>104.2</b>	96.6
-172.7	-46.0	-98.2	-87.6	<b>-270.9</b>	-133.6	-3.2	-1.9	<b>-1,052.2</b>	-894.6
-11.0	-1.4	-16.4	-8.1	<b>-27.4</b>	-9.5	-0.2	-0.8	<b>-205.7</b>	-109.4
252.7	174.7	610.4	392.9	<b>863.1</b>	567.6	-717.2	-505.0	<b>1,782.6</b>	1,371.3
-4,924.6	-52.1	-68.2	-105.0	<b>-4,992.8</b>	-157.1	1,403.5	-1,608.2	<b>-3,882.4</b>	-2,160.7
-4,671.9	122.6	542.2	287.9	<b>-4,129.7</b>	410.5	-736.4	-511.4	<b>-3,522.5</b>	812.4
263.4	127.7	548.8	304.0	<b>812.2</b>	431.7	-495.7	-495.8	<b>1,669.8</b>	851.6
15.7	13.7	39.6	30.2	<b>26.5</b>	22.3	-	-	<b>18.0</b>	11.0
2.6	11.5	41.9	21.7	<b>20.4</b>	16.8	-	-	<b>12.0</b>	8.4

North America		Latin America		Asia		Africa, Australasia		Group	
2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
1,529.6	1,171.3	1,080.6	941.8	2,305.5	1,685.6	266.4	205.3	<b>8,928.9</b>	7,377.7
1,512.6	1,146.0	1,054.0	923.2	2,114.9	1,520.8	152.7	109.4	<b>8,928.9</b>	7,377.7
1,514.8	1,147.3	1,055.9	926.7	2,211.5	1,612.2	152.7	109.4	<b>9,290.6</b>	7,747.0
2,537.9	120.2	15.4	13.6	249.2	208.7	0.6	0.2	<b>12,484.1</b>	7,598.4
358.6	116.1	79.7	79.3	181.1	156.2	6.8	5.8	<b>3,241.5</b>	2,607.6
-56.8	-32.9	-7.3	-7.3	-31.4	-28.1	-3.3	-3.1	<b>-1,397.1</b>	-1,344.6
4,909	2,051	4,546	4,272	8,681	7,462	747	701	<b>40,562</b>	33,062

## CASH FLOW STATEMENT OF THE MERCK GROUP

Notes to the  
Cash Flow Statement:  
see page 185

EUR million	Note	2010	2009
<b>Profit after tax</b>		<b>641.5</b>	<b>376.7</b>
Depreciation/amortization/impairment losses/write-ups		1,257.9	1,003.8
Changes in inventories		38.0	51.7
Changes in trade accounts receivable		-187.0	-118.7
Changes in trade accounts payable		117.5	92.7
Changes in provisions		-73.6	156.9
Changes in other assets and liabilities		97.8	-179.6
Neutralization of gain/loss on disposals of assets		-102.4	-15.8
Other non-cash income and expenses		-7.1	3.6
<b>Net cash flows from operating activities</b>	[35]	<b>1,782.6</b>	<b>1,371.3</b>
Purchase of intangible assets		-104.2	-96.6
Purchase of property, plant and equipment		-396.2	-467.3
Acquisitions		-4,843.7	-23.5
Investments in financial assets		-16.0	-16.5
Disposal of non-current assets		54.8	45.4
Purchase/sale of marketable securities		0.2	-0.4
Changes in financial assets covering pensions		-8.6	-201.3
Changes in other financial assets		1,431.3	-1,400.5
<b>Net cash flows from investing activities</b>	[36]	<b>-3,882.4</b>	<b>-2,160.7</b>
Dividend payments		-86.1	-104.8
Profit transfers to E. Merck KG and changes in reserves		-261.1	-177.8
Changes in liabilities to E. Merck KG		150.6	-32.6
Bonds issued		3,181.7	976.1
Repayment of bonds		-500.0	-
New borrowings of other current and non-current financial liabilities		84.4	7.6
Repayments of other current and non-current financial liabilities		-32.0	-31.3
<b>Net cash flows from financing activities</b>	[37]	<b>2,537.5</b>	<b>637.2</b>
<b>Changes in cash and cash equivalents</b>		<b>437.7</b>	<b>-152.2</b>
Changes in cash and cash equivalents due to currency translation		-34.2	0.9
Cash and cash equivalents as of January 1		541.4	692.7
Cash and cash equivalents as of December 31		944.9	541.4
Less cash and cash equivalents included in assets held for sale		-1.2	-
<b>Cash and cash equivalents as of December 31 (Group balance sheet)</b>	[38]	<b>943.7</b>	<b>541.4</b>

## FREE CASH FLOW OF THE MERCK GROUP

Part of the Notes, for details see page 185

EUR million	Note	2010	2009
<b>Net cash flows from operating activities</b>		<b>1,782.6</b>	<b>1,371.3</b>
Purchase of intangible assets		-104.2	-96.6
Purchase of property, plant and equipment		-396.2	-467.3
Acquisitions		-4,843.7	-23.5
Investments in financial assets		-16.0	-16.5
Disposal of non-current assets		54.8	45.4
Purchase/sale of marketable securities		0.2	-0.4
<b>Free cash flow</b>	[39]	<b>-3,522.5</b>	<b>812.4</b>
Acquisition-related payments		4,941.9	23.5
Payments related to divestments		250.4	15.7
<b>Underlying free cash flow</b>	[39]	<b>1,669.8</b>	<b>851.6</b>

## STATEMENT OF COMPREHENSIVE INCOME OF THE MERCK GROUP

EUR million	Note	2010	2009
<b>Profit after tax</b>		<b>641.5</b>	<b>376.7</b>
<b>Available-for-sale financial assets</b>	[34]		
Fair value adjustments		-6.5	37.9
Reclassification to income statement		-17.1	-2.0
Deferred taxes		1.8	-2.1
Changes recognized in equity		<b>-21.8</b>	<b>33.8</b>
<b>Derivative financial instruments</b>	[34]		
Fair value adjustments		-125.3	47.5
Reclassification to income statement		17.2	-64.8
Reclassification to assets		-24.4	-
Deferred taxes		23.9	0.7
Changes recognized in equity		<b>-108.6</b>	<b>-16.6</b>
<b>Actuarial gains and losses from defined benefit obligations and similar obligations</b>	[33]		
Changes in actuarial gains and losses		-170.7	-178.1
Deferred taxes		28.5	40.3
Changes recognized in equity		<b>-142.2</b>	<b>-137.8</b>
<b>Exchange differences on translating foreign operations</b>	[34]	<b>840.5</b>	<b>-20.1</b>
<b>Gains/losses recognized immediately in equity</b>		<b>567.9</b>	<b>-140.7</b>
<b>Comprehensive income</b>		<b>1,209.4</b>	<b>236.0</b>
of which attributable to shareholders of the parent company		1,194.4	230.2
of which attributable to non-controlling interest		15.0	5.8

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

For details see Note [34]

EUR million	Equity capital		Reserves				Equity at- tributable to shareholders of the parent company	Non- con- trolling interest	Equity
	General partner's equity Merck KGaA	Subscribed capital Merck KGaA	Capital reserves (share premium) Merck KGaA	Retained earnings/ Net retained profit	Actuarial gains and losses	Gains/losses recognized immediately in equity			
<b>Balance as of January 1, 2009</b>	<b>397.2</b>	<b>168.0</b>	<b>3,813.7</b>	<b>4,642.3</b>	<b>-90.3</b>	<b>574.5</b>	<b>9,505.4</b>	<b>57.6</b>	<b>9,563.0</b>
Profit after tax	-	-	-	366.3	-	-	366.3	10.4	376.7
Gains/losses recognized immediately in equity	-	-	-	-	-137.8	1.7	-136.1	-4.6	-140.7
<b>Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>366.3</b>	<b>-137.8</b>	<b>1.7</b>	<b>230.2</b>	<b>5.8</b>	<b>236.0</b>
Dividend payments	-	-	-	-96.9	-	-	-96.9	-7.9	-104.8
Profit transfers to/from E. Merck KG including transfers to reserves	-	-	-	-177.8	-	-	-177.8	-	-177.8
Changes in scope of consolidation/Other	-	-	-	-0.2	-0.6	-	-0.8	-2.0	-2.8
<b>Balance as of December 31, 2009</b>	<b>397.2</b>	<b>168.0</b>	<b>3,813.7</b>	<b>4,733.7</b>	<b>-228.7</b>	<b>576.2</b>	<b>9,460.1</b>	<b>53.5</b>	<b>9,513.6</b>
<b>Balance as of January 1, 2010</b>	<b>397.2</b>	<b>168.0</b>	<b>3,813.7</b>	<b>4,733.7</b>	<b>-228.7</b>	<b>576.2</b>	<b>9,460.1</b>	<b>53.5</b>	<b>9,513.6</b>
Profit after tax	-	-	-	632.1	-	-	632.1	9.4	641.5
Gains/losses recognized immediately in equity	-	-	-	-	-141.9	704.2	562.3	5.6	567.9
<b>Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>632.1</b>	<b>-141.9</b>	<b>704.2</b>	<b>1,194.4</b>	<b>15.0</b>	<b>1,209.4</b>
Dividend payments	-	-	-	-64.6	-	-	-64.6	-21.5	-86.1
Profit transfers to/from E. Merck KG including transfers to reserves	-	-	-	-261.1	-	-	-261.1	-	-261.1
Changes in scope of consolidation/Other	-	-	-	0.8	0.2	-	1.0	-5.0	-4.0
<b>Balance as of December 31, 2010</b>	<b>397.2</b>	<b>168.0</b>	<b>3,813.7</b>	<b>5,040.9</b>	<b>-370.4</b>	<b>1,280.4</b>	<b>10,329.8</b>	<b>42.0</b>	<b>10,371.8</b>

## NOTES

**Company information** The accompanying consolidated financial statements have been prepared with Merck KGaA, Darmstadt, which manages the operations of the Merck Group, as parent company. In accordance with the provisions of the German financial reporting disclosure law (Publizitätsgesetz), consolidated financial statements are also prepared for E. Merck KG, the ultimate parent company and general partner of Merck KGaA with an equity interest of 70.27% as of December 31, 2010. 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 then be accessed at [www.ebundesanzeiger.de](http://www.ebundesanzeiger.de).

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

The following amendments to standards and the following interpretations take effect as of fiscal 2010:

- Amendment to IAS 27 "Consolidated and Separate Financial Statements"
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement: Eligible Hedged Items"
- Revised version and subsequent amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- Amendment to IFRS 2 "Share-based Payment"
- Revised version of IFRS 3 "Business Combinations "
- "Improvements to International Financial Reporting Standards" (issued by the IASB in April 2009)
- IFRIC 12 "Service Concession Arrangements"
- IFRIC 15 "Agreements for the Construction of Real Estate"
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 17 "Distributions of Non-cash Assets to Owners"
- IFRIC 18 "Transfers of Assets from Customers"

The revised version of IFRS 3 was applied to the first-time consolidation of Millipore. The major consequence of this was recognizing acquisition-related costs as expenses. Details on the first-time consolidation of Millipore can be found under "Scope of consolidation". The other new rules do not have any material effects on the consolidated financial statements.



The following amendments to standards as well as the following interpretation and amendment to an interpretation will take effect as of fiscal 2011:

- Revised version of IAS 24 "Related Party Disclosures"
- Amendment to IAS 32 "Financial Instruments: Presentation – Classification of Rights Issues"
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters"
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
- Amendment to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

We currently do not expect the new rules to have any material effects on the consolidated financial statements.

In addition, the following standard and amendments to standards were published by the International Accounting Standards Board (IASB), but not yet adopted by the EU:

- IFRS 9 "Financial Instruments"
- Amendment to IAS 12 "Income taxes"
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- Amendment to IFRS 7 "Financial Instruments: Disclosures"
- "Improvements to International Financial Reporting Standards" (issued by the IASB in May 2010)

The effects that IFRS 9, which is expected to be adopted as of 2013, will have on the consolidated financial statements are currently being examined. We currently do not expect the other new rules to have any material effects on the consolidated financial statements.

## SCOPE OF CONSOLIDATION

Including the parent company Merck KGaA, Darmstadt, 236 (2009: 176) German and foreign companies are fully consolidated in the annual financial statements of the Merck Group. Of these companies, 214 (2009: 154) are located abroad. Due to the first-time consolidation of Millipore, the number of fully consolidated companies increased by 62. Ten companies were consolidated for the first time due to their formation or increased importance to the Merck Group, and twelve companies were deconsolidated, four of which were the result of a company merger. Four companies were liquidated; one company was deconsolidated due to secondary importance. In addition, three companies were deconsolidated as a result of the Théramex divestment. No companies are currently consolidated on pro rata basis. With the first-time consolidation of Millipore, a further associate has been added. Consequently, two associates are now included using the equity method.

Due to secondary importance 27 (2009: 32) subsidiaries are not consolidated. The impact of these subsidiaries on sales, profit after tax, assets and equity is less than 1% relative to the entire Merck Group. The interests in subsidiaries not consolidated due to secondary importance are measured at cost and presented under non-current financial assets. A list of all the Merck Group's shareholdings can be found in Note [54].

**Acquisition of Millipore** On July 14, 2010, Merck successfully completed the acquisition of 100% of the shares in Millipore Corporation, a leading life science company based in Billerica, Massachusetts, USA. The Millipore companies were then consolidated for the first time in the financial statements of the Merck Group. The combination with Millipore makes it possible to cover the entire value chain for pharmaceutical and biopharmaceutical customers. Offering integrated solutions that extend beyond the existing Merck Chemicals portfolio will create new growth opportunities for Merck. The total purchase price amounted to EUR 5,137.1 million and was paid in cash. It consists of the payment of EUR 4,611.9 million for the outstanding shares as well as existing options from stock option plans and a payment of EUR 525.2 million to buy back the outstanding convertible bond of the Millipore Corporation. Acquisition-related costs of EUR 31.2 million were incurred, which were reported under "Other operating expenses" as project costs. On February 28, 2010 Merck had announced its intention to acquire Millipore for USD 107 in cash per share of Millipore common stock. The closing followed the approval of the acquisition by Millipore's shareholders at a special meeting held on June 3, 2010 and the satisfaction of other customary conditions, including antitrust clearance in the United States and Europe. Millipore was delisted from the New York Stock Exchange on July 26, 2010. Likewise, an application for deregistration from the U.S. Securities and Exchange Commission (SEC) was filed on July 26, 2010. The deregistration took effect on October 13, 2010.

Within the scope of the following overview of the purchase price allocation in accordance with IFRS 3, the acquired assets, liabilities and contingent liabilities have been recognized at fair values in the balance sheet:

EUR million	Fair value on the acquisition date
<b>Current assets</b>	
Cash and cash equivalents, marketable securities and other financial assets	300.0
Inventories	265.5
Receivables	257.0
Other current assets	13.8
	<b>836.3</b>
<b>Non-current assets</b>	
Goodwill	2,704.4
Other intangible assets	2,559.5
Property, plant and equipment	474.2
Investments at equity	2.2
Other non-current assets	3.2
Deferred tax assets	96.3
	<b>5,839.8</b>
<b>Assets</b>	<b>6,676.1</b>
<b>Current liabilities</b>	
Current financial liabilities	574.8
Other current liabilities	341.7
	<b>916.5</b>
<b>Non-current liabilities</b>	
Non-current financial liabilities	288.4
Provisions for pensions and other post-employment benefits	54.9
Other non-current liabilities	20.3
Deferred tax liabilities	790.2
	<b>1,153.8</b>
<b>Liabilities</b>	<b>2,070.3</b>
<b>Net assets acquired</b>	<b>4,605.8</b>
<b>Non-controlling interest</b>	<b>6.1</b>
<b>Net assets acquired/purchase price</b>	<b>4,611.9</b>
<b>Equity-like purchase price components (convertible bond)</b>	<b>525.2</b>
<b>Purchase price including convertible bond</b>	<b>5,137.1</b>

The most significant impact of the purchase price allocation on the balance sheet and the income statement results from the fair value adjustment of intangible assets and inventories. The adjustments to intangible assets relate mainly to the measurement of the existing customer relationships, technologies, trademarks and brands as well as ongoing development projects. The amortization of intangible assets resulting from the acquisition of Millipore is disclosed in the income statement under "Amortization of intangible assets". Additionally, fair value adjustments totaling EUR 85.8 million were made in respect of Millipore inventories acquired as part of the acquisition. The complete

turnover of these inventories by December 31, 2010 led to additional cost of sales, which compares with the sales generated by the acquired inventories. As a result, sales of the acquired inventories did not generate any additional income. The gross amounts of the acquired receivables amounted to EUR 259.7 million as of the acquisition date. The best possible estimate of the irrecoverable debts was EUR 2.7 million. The deferred tax liabilities disclosed relate in particular to the step-up of intangible assets and inventories. The remaining difference between the purchase price, including the convertible bond, of EUR 5,137.1 million and fair values of EUR 2,432.7 million is reported as goodwill. Goodwill attributable to non-controlling interest was not capitalized. Goodwill attributable to the shareholders of Merck KGaA mainly includes the expertise of the workforce, market share increases, as well as synergies from combining the two companies, and amounts to EUR 2,704.4 million. Synergies are primarily expected in the areas of administration, purchasing, production as well as by combining certain subsidiaries abroad. Goodwill is being allocated equally in U.S. dollars and euros because we expect that the level of synergies and future positive earning contributions will be roughly equivalent in these two key currency zones. The fair value adjustments made as part of the purchase price allocation as of December 31, 2010 are still to be considered as preliminary. Only the measurement of inventories as of the first-time consolidation has been finalized. Accounting-relevant analyses and calculations have not yet been completed for all other balance sheet items. Therefore, adjustments to these items could occur in 2011 as a result of new information.

The impact of the consolidation of Millipore on total revenues as well as the operating result was EUR 640.4 million and EUR -20.8 million, respectively. The operating result also includes amortization of intangible assets remeasured within the scope of the purchase price allocation as well as higher cost of sales due to the step-up of the acquired inventories to fair values. Additionally, restructuring expenses and integration costs of EUR 87.3 million were incurred in 2010.

Had Millipore been included in the consolidated financial statements of the Merck Group as of January 1, 2010, for the period from January 1 to December 31, 2010, total revenues and profit after tax would have amounted to EUR 9,974 million and EUR 682 million, respectively. The calculation of these figures assumed that the adjustments of the book values as a result of the purchase price allocation would have been identical. Consequently, amortization of intangible assets is included for twelve months. The step-up of the acquired inventories to fair values – in accordance with the assumed inventory turnover period – has been taken into consideration in full. The information on the hypothetical consolidation of the Millipore Group as of January 1, 2010 in the consolidated financial statements of the Merck Group is required under IFRS and only intended for comparability purposes. The comparison does not necessarily present a development that would have resulted had the Millipore Group actually been consolidated as of January 1, 2010. Nor are these statements intended to project future events or results.

#### Further acquisitions

At the end of December 2010, Merck acquired 100% of the share capital in Beijing Skywing Technology Co., Ltd., Beijing, China. The acquired company, which has been assigned to the Merck Millipore division, is a leading supplier to the Chinese biopharmaceutical industry. The payment of the purchase price of EUR 13.6 million will be made in 2011 as contractually agreed. Therefore, a corresponding liability was recognized in the balance sheet as of December 31, 2010. The company will be consolidated for the first time in 2011.

**Divestment of Théramex** Pursuant to a contract dated October 28, 2010, Merck sold Théramex, a Monaco-based pharmaceutical company specialized in women's health and gynecology, to Asaph Farmaceutische Onderneming B.V., Teva Italia S.r.l. and Teva Pharmaceuticals Ltd. (collectively "Teva"). Teva took over all the activities of Théramex, including 100% of the shares in two subsidiaries, for EUR 269.3 million. The contract was subject to not only the customary closing conditions, but especially the condition precedent that antitrust clearance be obtained in the respective countries. Antitrust clearance from the French authorities was granted on December 20, 2010 as the final condition for the closing. The payment of the purchase price was made on January 5, 2011 as agreed. Consequently, a corresponding receivable was recognized in the balance sheet as of December 31, 2010. The sale includes the marketing rights to Théramex products in a number of countries, including Spain and Brazil. Merck Serono will continue to market Théramex products in certain other countries. Apart from the payment of the purchase price, Merck is entitled to certain performance-related milestone payments. Merck generated a gain of EUR 68.6 million from the sale, which was disclosed in the income statement under exceptional items. The divested business of Théramex contributed around EUR 84 million to Group sales in 2010.

The divestment of Théramex had the following effect on the consolidated balance sheet:

EUR million	2010
<b>Current assets</b>	
Cash and cash equivalents	9.2
Receivables	15.8
Inventories	22.4
Other current assets	2.0
	<b>49.4</b>
<b>Non-current assets</b>	
Goodwill	159.0
Property, plant and equipment	7.3
Other non-current assets	1.5
	<b>167.8</b>
<b>Assets</b>	<b>217.2</b>
<b>Current liabilities</b>	
Trade accounts payable	10.6
Other current liabilities	5.7
	<b>16.3</b>
<b>Non-current liabilities</b>	<b>8.3</b>
<b>Liabilities</b>	<b>24.6</b>
<b>Net assets</b>	<b>192.6</b>
<b>Selling price/receivable</b>	<b>269.3</b>
<b>Gain before transaction costs</b>	<b>76.7</b>
<b>Transaction costs and other costs</b>	<b>8.1</b>
<b>Gain from divestment</b>	<b>68.6</b>

## ACCOUNTING POLICIES

With the exception of the presentation changes described below, the accounting policies have remained unchanged in comparison with 2009. In 2010, Merck started to report royalty, license and commission expenses separately in the income statement. These expenses were so far reported under marketing and selling expenses.

**Assumptions and estimates** The preparation of the consolidated financial statements requires that assumptions and estimates be made to a certain extent. This affects in particular the amount and the presentation of assets and liabilities, information on contingent liabilities, as well as reported income and expenses. Corresponding scope for discretion results, for example, when performing impairment tests of intangible assets and of property, plant and equipment, as well as when recognizing and measuring provisions. In each case, the assumptions and estimates are based on the state of knowledge and data currently available, however the actual results may deviate from the expected values and lead to corresponding adjustments of book values for the relevant assets and liabilities. The assumptions and estimates relevant to the preparation of the consolidated financial statements are reviewed on an ongoing basis. Changes to estimates are taken into account in the period in which the change was made as well as in later periods insofar as the change relates to both the reporting period and later periods. The material assumptions and parameters for the estimates made are presented in the Notes.

**Consolidation methods** The consolidated financial statements are based on the single-entity financial statements of the consolidated companies as of December 31, 2010, which were prepared applying consistent accounting policies in accordance with IFRS.

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 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 an impairment test if there are indications of impairment, or at least once a year.

In cases where a company was not acquired in full, the pro rata carrying value of the non-controlling interest is recognized.

When additional shares in non-controlling interest are acquired, the difference between the purchase price and the book value of this interest is recognized immediately in equity.

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

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

**Currency translation** The functional currency concept applies to the translation of financial statements of consolidated companies prepared in foreign currencies. The companies of the Merck Group conduct their operations independently. The functional currency of these companies is generally the respective local currency. In accordance with IAS 21, 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. Any currency translation differences arising during consolidation of Group companies are taken directly to equity. If Group companies are deconsolidated, existing currency differences are reversed and recognized in income.

Business transactions that are conducted in currencies other than the functional currency are recorded using the current exchange rate on the date of the transaction. Foreign currency monetary items (cash and cash equivalents, receivables and payables) in the single-entity financial statements of the consolidated companies prepared in the functional currency are translated at the respective closing rates. Exchange differences from the translation of monetary items are recognized in the income statement with the exception of net investments in a foreign operation. Hedged items are likewise carried at the closing rate 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.

In 2010, the reporting currency of our subsidiary Merck Serono S.A., Geneva, Switzerland, was changed from Swiss francs to euros. This move reflects the fact that the transactions of this subsidiary are now primarily conducted in the new reporting currency.

Currency translation is based on the following key exchange rates:

	Average annual rate		Closing rate	
	2010	2009	Dec. 31, 2010	Dec. 31, 2009
1 EUR =				
British pound (GBP)	0.858	0.895	0.861	0.888
Chinese renminbi (CNY)	8.995	9.545	8.818	9.807
Japanese yen (JPY)	116.583	130.329	108.670	133.283
Swiss franc (CHF)	1.380	1.506	1.253	1.485
Taiwanese dollar (TWD)	41.787	45.926	38.938	45.951
U.S. dollar (USD)	1.329	1.396	1.336	1.436

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

In addition to revenue from the sale of goods, sales also include revenue from services, but the volume involved is insignificant. Depending on the substance of the relevant agreements, royalty, license and commission income is recognized either immediately or on an accrued basis if further contractual obligations exist.

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

**Research and development** The breakdown of research and development costs by division and region 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 achievement of certain milestones.

With respect to this situation, an assessment is required as to whether these upfront or milestone payments represent compensation for services performed (research and development expense) or whether the payments represent the acquisition of a right which has to be capitalized. Reimbursements for R&D are offset against research and development costs.

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

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



Financial assets and financial liabilities are generally measured at fair value on initial recognition, if necessary including transaction costs. The fair value of a financial instrument is the amount which would be agreed by two willing, independent parties in an arm's length transaction for that financial instrument. If quoted prices in an active market are available, they are used to measure the financial instrument. In other cases, generally accepted financial techniques using observable prices on the market or third-party valuations are used.

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

**Financial instruments:  
Categories and classes of  
financial instruments**

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

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

Merck only assigns derivatives to the "held for trading" measurement category. Special accounting rules apply to derivatives that are designated as hedging instruments in a hedging relationship (hedge accounting).

"Held-to-maturity investments" are non-derivative financial assets with fixed or determinable payments and fixed maturity that are quoted in an active market. To be able to assign a financial asset to this measurement category, the entity must have the positive intention and ability to hold it to maturity.

These investments are subsequently measured at amortized cost. If there is objective evidence that such an asset is impaired, an impairment loss is recognized in profit or loss. Subsequent reversals of impairment losses are also recognized in profit or loss up to the amount of the original cost of the asset. At Merck, this measurement category is used for short-term securities and other current financial assets, as well as long-term investments.

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

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

Reversals of impairment losses on previously impaired debt instruments are recognized in profit or loss up to the amount of the impairment loss. Any amount in excess of this is recognized directly in equity. At Merck, this measurement category is used in particular for short-term securities and other current financial assets, as well as long-term financial investments and securities.

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

"Other financial liabilities" are non-derivative financial liabilities that are subsequently measured at amortized cost. Differences between the amount received and the amount to be repaid are amortized to profit or loss over the maturity of the instrument. Merck primarily assigns financial liabilities, trade payables, and miscellaneous other non-derivative current and non-current liabilities to this category. There were no reclassifications between the aforementioned measurement categories during the fiscal year.

The classes required to be disclosed in accordance with IFRS 7 consist of the measurement categories set out above. Additionally, cash and cash equivalents with an original maturity of up to 90 days, finance lease liabilities, and hedging derivatives used in hedge accounting are also classed in accordance with IFRS 7. See Note [42] for a detailed overview.

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

Changes in the fair value or cash flows of the hedged item and the hedging instrument must be effective at all times. In both cash flow and fair value hedges, the ineffective portion of the gain or loss on a hedging instrument is recognized in profit or loss. Merck uses the dollar offset method to measure hedge effectiveness. There are strict documentation requirements for hedge accounting. Derivatives that do not or no longer meet the documentation or effectiveness requirements for hedge accounting, or whose hedged item no longer exists, are reported as "financial assets and liabilities at fair value through profit or loss." Changes in fair value are then recognized in profit or loss. As a rule, the purpose of a fair value hedge is to offset the exposure to changes in the fair value of recognized hedged items (financial assets or financial liabilities) through offsetting changes in the fair value of a hedging instrument. Offsetting gains and losses on the hedging instrument resulting from changes in fair value are recognized in profit or loss, net of deferred taxes. Offsetting gains and losses on the hedged item that are attributable to the hedged risk are also recognized in profit or loss, irrespective of the item's allocation to a measurement category.

At Merck, cash flow hedges are normally a hedge of the exposure to variability in cash flows resulting from highly probable forecast transactions in foreign currencies. In cash flow hedges, the effective portion of the gains and losses on the hedging instrument is recognized in equity until the hedged item occurs. This is also the case if the hedging instrument expires, is sold, or is terminated before the hedged transaction occurs. The ineffective portion of a cash flow hedge is always recognized in profit or loss. See Note [40] for a detailed overview.

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

**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. 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 recognized at cost and are classified as assets with finite and indefinite useful lives. Self-developed intangible assets are not capitalized. Intangible assets with indefinite useful lives acquired in the course of business combinations are recognized at fair value on the date of acquisition. This includes purchased goodwill and intangible assets used in products that have not yet reached market maturity. Intangible assets with indefinite useful lives are not amortized, however they are tested for impairment when a triggering event arises or at least once a year. Goodwill is tested for impairment either annually or if there are indications of impairment, and is allocated to cash-generating units. A cash-generating unit is normally a division as presented under Segment Reporting.

The carrying amounts of the cash-generating units are compared with their recoverable amounts and impairment losses are recognized where the recoverable amount is lower than the carrying amount. The recoverable amount of a cash-generating unit is determined as the higher of fair value less costs to sell and value in use estimated using the discounted cash flow method. When measuring goodwill, Merck determines the recoverable amount by discounting expected cash flows and therefore uses the value in use method. Initially, reference is made to existing forecasts that usually cover a period of four years. Cash flows for periods in excess of this are included using a long-term growth rate of 1.0% that is applied uniformly to all cash-generating units, with the exception of Merck Millipore. Business plans assuming growth rates of 3.8% were used to measure the goodwill of the Merck Millipore division in order to take the specific business and the imminent growth prospects thereof into account. The expected future cash flows are discounted using a weighted average cost of capital (WACC) of 8.5% (2009: 7.5%). A 10% reduction in future cash flows was assumed when calculating sensitivity. We regard greater volatility as unlikely based on our experience. Even if the actual future cash flows were 10% lower than the expected cash flows, there would be no need to record impairment losses for goodwill.

Any impairment losses on other intangible assets with indefinite useful lives are calculated in the same way as for goodwill.

Impairment losses recognized on indefinite-lived intangible assets other than goodwill are reversed if the original reasons for impairment no longer apply. Intangible assets with a finite useful life are depreciated using the straight-line method. The useful lives of acquired patents, licenses and similar rights, brand names, trademarks and software are between 3 and 15 years. Amortization of intangible assets other than software is reported separately. This item primarily comprises amortization in connection with the Serono and Millipore purchase price allocations, but also to a certain extent amortization of other intangible assets. Amortization of software is allocated to the functional costs in the income statement.

An impairment test is performed if there are indications of impairment. Impairment losses are determined using the same methodology as for indefinite-lived intangible assets. Impairment losses recognized on finite-lived intangible assets are reversed if the original reasons for impairment no longer apply.

**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 capitalized if material. In accordance with IAS 20, costs of acquisition or manufacture are reduced by the amount of government grants in those cases where government grants or subsidies have been paid for the acquisition or manufacture of assets (investment grants). Grants related to expenses which no longer offset future expenses are recognized in income. Property, plant and equipment is depreciated by the straight-line method over the useful life of the asset concerned. Depreciation of property, plant and equipment is based on the following useful lives:

Useful life of property, plant and equipment	Useful life
Production buildings	maximum of 33 years
Administration buildings	maximum of 40 years
Plant and machinery	6 to 20 years
Other facilities	3 to 10 years
Operating and office equipment	3 to 10 years

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

**Investment property** Assets of this category are of minor importance to the Merck Group and are carried at cost. As of December 31, 2010, an investment property with a value of EUR 5.5 million (2009: EUR 5.3 million) was concerned. It was recognized under "Land, land rights and buildings including buildings on third-party land".

**Leasing** Where assets are leased and economic ownership lies with the Group company (finance lease), the asset is recognized at the present value of the lease payments or the lower fair value in accordance with IAS 17 and depreciated over its useful life. The corresponding payment obligations from future lease payments are recorded as liabilities.

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

**Provisions** Provisions are recognized in the balance sheet if Merck has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be measured reliably. The carrying value of provisions takes into account the amounts required to cover future payment obligations, recognizable risks and uncertain obligations of the Merck Group to third parties. Measurement is based on the settlement amount with the highest probability or if the probabilities are equivalent, it is based on the expected value of the settlement amounts. Long-term provisions are discounted and carried at their present value as of the balance sheet date. To the extent that reimbursement claims exist as defined in IAS 37, they are recognized separately as an asset if their realization is virtually certain.

**Provisions for pensions and other post-employment benefits** Provisions for pensions and other post-employment benefits are recorded in the balance sheet in accordance with IAS 19. 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. As a rule, 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 disclosed here. The smaller portion is covered by funded pension obligations. These provisions also contain other post-employment benefits, such as accrued future health care costs for pensioners in the United States.

The obligations of our companies under defined benefit plans are measured using the projected unit credit method. Under the projected unit credit method, dynamic parameters are taken into account in calculating the expected benefit payments after an insured event occurs; these payments are spread over the entire period of service of the participating employees. Annual actuarial opinions are prepared for this purpose. In accordance with the option under IAS 19.93A, actuarial gains and losses resulting from changes in actuarial assumptions and/or experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) are recognized immediately in equity as soon as they are incurred, taking deferred taxes into account. Consequently, the balance sheet discloses the full scope of the obligations while avoiding the fluctuations in expenses that can result especially when the calculation parameters change. The actuarial gains and losses recorded in the respective reporting period are presented separately in the Statement of Comprehensive Income.

## NOTES TO THE INCOME STATEMENT

- [1] **Sales** Sales are generated primarily from the sale of goods and to a limited degree include revenues from services rendered. Merck Group sales totaled EUR 8,928.9 million in 2010, which represents an increase of 21.0% compared to 2009. Adjusted for the impact of currency and acquisitions, primarily as a result of the Millipore acquisition, organic growth amounted to 8.5%. Sales are presented by business sector, division and region in the Segment Reporting.
- [2] **Royalty, license and commission income** In 2010, royalty and license income totaled EUR 339.4 million (2009: EUR 344.9 million) and mainly included royalty and license income from the products Avonex® (Biogen Idec), Humira® (Abbott), Enbrel® (Amgen), Puregon® (Merck & Co.) and vilazodone (Clinical Data), as well as income from the active pharmaceutical ingredients bisoprolol and metformin. In 2010, commission income totaled EUR 22.3 million (2009: EUR 24.4 million). This primarily consisted of cooperation and distribution agreements, such as for Ikorel® (Sanofi-Aventis), Euthyrox® (Bracco) and Allergan products. The breakdown of royalty, license and commission income by business sector and division is presented in the Segment Reporting.
- [3] **Cost of sales** 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. We also disclose write-downs of inventories as part of cost of sales. The Millipore inventories from the acquisition were stepped up by EUR 85.8 million to fair values as of the first-time consolidation. This amount was fully expensed in cost of sales in the second half of 2010 and had a one-time negative impact on gross margin.
- [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 and logistics. The increase compared to 2009 is due largely to the first-time consolidation of Millipore. The breakdown of marketing and selling expenses by business sector and division is presented in the Segment Reporting.
- [5] **Royalty, license and commission expenses** In 2010, royalty and license expenses amounted to EUR 179.5 million (2009: EUR 156.2 million) and commission expenses totaled EUR 297.5 million (2009: EUR 256.8 million). The breakdown of royalty, license and commission expenses by business sector and division is presented in the Segment Reporting.
- [6] **Administration expenses** Personnel costs and material expenses of management and administrative functions are recorded under this item unless they have been charged to other cost centers as internal services. The increase in administration expenses is due among other things to the first-time consolidation of Millipore as well as currency effects. The breakdown of administration expenses by business sector and division is presented in the Segment Reporting.

[7] Other operating expenses and income comprise the following:

EUR million	2010	2009
Litigation	-89.2	-166.9
Project costs	-79.2	-69.3
Impairment losses	-65.5	-37.9
Restructuring and integration costs	-64.4	-14.5
Bonuses, fees and contributions	-52.8	-46.7
Non-income-related taxes	-23.7	-19.5
Write-downs of receivables	-19.7	-30.8
Special environmental protection costs	-10.7	-4.6
Losses on disposals of assets	-3.0	-5.5
Exchange rate differences from operating activities	-	-6.6
Other operating expenses	-118.6	-64.7
<b>Total other operating expenses</b>	<b>-526.8</b>	<b>-467.0</b>
Gains from disposals of assets	37.6	10.7
Payments for services performed	26.8	17.3
Exchange rate differences from operating activities	24.7	-
Release of write-downs of receivables	10.0	2.9
Write-ups	-	0.2
Other operating income	37.3	63.2
<b>Total other operating income</b>	<b>136.4</b>	<b>94.3</b>
<b>Other operating expenses and income</b>	<b>-390.4</b>	<b>-372.7</b>

Integration costs for Millipore totaled EUR 87.3 million, of which EUR 33.9 million was recorded under "Project costs". This includes acquisition-related costs of EUR 31.2 million. A further EUR 53.4 million was recorded under "Restructuring and integration costs." This amount includes impairment losses on property, plant and equipment amounting to EUR 5.7 million. In addition to the costs in connection with the acquisition of Millipore, project costs relate mainly to the costs incurred in connection with Group-wide IT projects. These include, for example, projects to harmonize IT applications and infrastructure throughout the Group. The increase in impairment losses compared to 2009 is primarily attributable to the termination of research projects and research collaborations, as well as altered market estimates and the resulting decline in expected sales. Property, plant and equipment accounted for impairment losses of EUR 18.0 million and intangible assets for EUR 47.5 million. Other operating expenses include, among other things, expenses for services performed for third parties as well as costs from ancillary business. Other operating income includes, among other things, income from ancillary business such as rental and leasing agreements as well as income from catering services. The breakdown of other operating expenses and income by business sector and division is presented in the Segment Reporting.



**[8] Research and development** Research and development costs rose in 2010 by 3.9% to EUR 1,397.1 million. The increase relates entirely to the Chemicals divisions, including Merck Millipore. Reimbursements for R&D amounting to EUR 21.9 million (2009: EUR 13.3 million) were offset against research and development costs. The breakdown of research and development costs by business sector and division is presented in the Segment Reporting.

**[9] Amortization of intangible assets** Due to the particular significance of the amortization of intangible assets, this item is disclosed separately in the income statement. It primarily comprises amortization and impairment losses in connection with the purchase price allocations resulting from the Serono and Millipore acquisitions. In 2010, this amount includes EUR 579.4 million for the amortization of intangible assets of Merck Serono and EUR 95.8 million for the first-time amortization of intangible assets of Merck Millipore. Additionally, impairment losses of EUR 134.0 million were incurred owing to a reassessment of the future sales potential of safinamide. The reassessment was based on the results of a Phase III study conducted by our development partner Newron, which led to a reevaluation of the market potential, especially with regard to the achievable indications. The decision also takes into account a delay in the project and an increase in R&D costs due to more stringent regulatory requirements. To a lesser extent this item also includes amortization of other intangible assets, for example from milestone payments. Amortization of software is allocated to functional costs instead.

**[10] Investment result**

EUR million	2010	2009
Investment result from associates (equity method)	0.9	0.1
Other investment income/expense	3.2	3.4
	<b>4.1</b>	<b>3.5</b>

**[11] Exceptional items**

Exceptional items comprise:

EUR million	2010	2009
Gain from divestment of Théramex	68.6	-
Litigation Dey Inc., USA	-67.2	-
Selling price adjustments for the Electronic Chemicals business	-1.2	-
Transaction costs divestment of the Crop BioScience business	-1.0	-
Exit cost Raptiva®	-	-39.7
Divestment of natural substances business in Brazil	-	10.6
Release of provisions	-	1.1
<b>Exceptional items</b>	<b>-0.8</b>	<b>-28.0</b>

The gain on the sale of Théramex amounting to EUR 68.6 million is recorded under this item. More information on this transaction can be found under "Scope of consolidation". In connection with litigation relating to our former subsidiary Dey Inc., USA, having allegedly reported certain price information falsely, a settlement payment was made to the U.S. Department of Justice in 2010. The resulting expenses of EUR 67.2 million were recorded as an exceptional item. Although Dey Inc. was transferred to Mylan, Inc., USA, as part of the sale of the Generics business in 2007, Merck remains liable to Mylan for the costs of this litigation (see Note [32]).

Transaction costs of EUR 1.0 million already incurred in 2010 in relation to the announced divestment of the Crop BioScience business are likewise included under this item.

In 2010, "Exceptional items" also include expenses of EUR 1.2 million related to the sale of the Electronic Chemicals business in 2005. This figure includes reimbursements of subsequent taxes to the buyer.

The breakdown of exceptional items by business sector and division is presented in the Segment Reporting.

**[12]**  
**Financial result** The change in the financial result is mainly attributable to the interest expenses arising in connection with the financing of the Millipore acquisition.

EUR million	2010	2009
Interest income and similar income	33.0	33.6
Interest expenses and similar expenses	-208.9	-88.7
Interest component from currency hedging transactions	-11.8	-3.3
	<b>-187.7</b>	<b>-58.4</b>
Interest component of the additions to pension provisions and other non-current provisions	-72.2	-74.4
Exchange rate differences from financing activities	1.1	-3.8
Income from financial interests	7.2	2.1
	<b>-251.6</b>	<b>-134.5</b>

**[13]**  
**Income tax**

EUR million	2010	2009
Current taxes in the period	-329.8	-270.8
Current taxes in the period on exceptional items	-0.1	6.1
Taxes for previous periods	-8.8	-6.3
Deferred taxes in the period	120.5	166.2
Deferred taxes in the period on exceptional items	-1.4	-4.9
	<b>-219.6</b>	<b>-109.7</b>
Tax ratio	25.5%	22.6%
Tax ratio before exceptional items	25.3%	21.6%

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. Changes in tax rates at individual companies resulted in total deferred tax expense of EUR -0.1 million (2009: EUR 2.6 million tax income).

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

EUR million	2010	2009
Change in deferred tax assets (balance sheet)	47.7	65.3
Change in deferred tax liabilities (balance sheet)	-617.0	132.7
Deferred taxes credited/debited to equity	-54.2	-38.9
Changes in scope of consolidation/currency translation/Other changes	742.6	2.2
<b>Deferred taxes (income statement)</b>	<b>119.1</b>	<b>161.3</b>

At EUR 693.9 million, "Changes in scope of consolidation/currency translation/Other changes" are mainly due to the first-time consolidation of Millipore. The other changes were primarily the result of fluctuations in the exchange rates of the U.S. dollar and the Swiss franc.

Tax loss carryforwards are structured as follows:

EUR million	Dec. 31, 2010			Dec. 31, 2009		
	Germany	Abroad	Total	Germany	Abroad	Total
Tax loss carryforwards	2.0	194.2	<b>196.2</b>	164.3	121.9	<b>286.2</b>
thereof:						
Including deferred tax asset	-	125.7	<b>125.7</b>	98.2	32.4	<b>130.6</b>
Deferred tax asset	-	39.2	<b>39.2</b>	14.5	8.3	<b>22.8</b>
thereof:						
Excluding deferred tax asset	2.0	68.5	<b>70.5</b>	66.1	89.5	<b>155.6</b>
Theoretical deferred tax asset	0.5	20.5	<b>21.0</b>	10.5	17.1	<b>27.6</b>

The decrease in tax loss carryforwards compared to 2009 was mainly the result of the positive business development of the relevant Group companies. Deferred tax assets are recognized for tax loss and interest carryforwards only if realization of the related tax benefits is probable in the foreseeable future.

The vast majority of the tax loss carryforwards either has no expiry date or can be carried forward for up to 20 years. The interest carryforward results from the German earnings stripping rule and has no expiry date. Deferred tax assets on interest carryforwards from 2009 amounting to EUR 7.5 million were fully utilized in 2010. In 2010, the income tax expense was reduced by EUR 20.0 million (2009: EUR 15.6 million) due to the utilization of tax loss carryforwards from prior years for which no deferred tax asset had been recognized in prior periods.

The tax loss carryforwards accumulated in Germany for corporation tax amounted to EUR 1.5 million (2009: EUR 73.8 million) and to EUR 0.5 million (2009: EUR 90.5 million) for trade tax.

The additional theoretically possible deferred tax assets amounted to EUR 21.0 million (2009: EUR 27.6 million).

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

EUR million	Dec. 31, 2010		Dec. 31, 2009	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	33.7	1,374.3	31.8	704.2
Property, plant and equipment	15.6	88.1	7.3	68.2
Current and non-current financial assets	5.9	19.3	2.6	15.7
Inventories	305.6	3.7	242.0	5.0
Current and non-current receivables/ Other assets	44.6	2.8	22.4	11.9
Provisions for pensions and other post- employment benefits	129.7	18.1	87.2	11.9
Current and non-current other provisions	169.4	15.2	172.0	9.4
Current and non-current liabilities	27.8	5.8	17.6	6.1
Tax loss carryforwards	39.2	-	22.8	-
Tax refund claims/Other	58.2	89.8	20.0	11.4
Offset deferred tax assets and liabilities	-236.6	-236.6	-80.3	-80.3
<b>Total deferred taxes</b>	<b>593.1</b>	<b>1,380.5</b>	<b>545.4</b>	<b>763.5</b>

Deferred tax liabilities of EUR 16.7 million (2009: EUR 11.4 million) were set up for temporary differences for interests in subsidiaries. These relate to planned dividend payments. Additionally, a deferred tax claim of EUR 3.0 million was recognized for the announced divestment of Crop BioScience. No deferred tax liabilities were recognized for other temporary differences since the reversal of these differences is not foreseeable.

In addition to deferred tax assets on tax loss carryforwards, deferred tax assets of EUR 553.9 million (2009: EUR 522.6 million) were recognized for other temporary differences.

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

EUR million	2010	2009
Consolidated profit before tax	861.1	486.4
Exceptional items	-0.8	-28.0
<b>Consolidated profit before tax and exceptional items</b>	<b>861.9</b>	<b>514.4</b>
Tax rate	30.7%	30.7%
Theoretical tax expense before exceptional items	-264.6	-157.9
Tax rate differences	45.7	4.8
Tax effect of companies with a negative contribution to consolidated profit	-9.0	-3.5
Tax for other periods	-8.8	-6.3
Tax credits	22.9	28.1
Tax effect on tax loss carryforwards	25.8	39.3
Effect of non-deductible expenses/tax-free income/other tax effects	-30.1	-15.4
<b>Tax expense before exceptional items</b>	<b>-218.1</b>	<b>-110.9</b>
Tax ratio before exceptional items	25.3%	21.6%
Taxes on exceptional items	-1.5	1.2
<b>Tax expense according to income statement</b>	<b>-219.6</b>	<b>-109.7</b>
Tax ratio according to income statement	25.5%	22.6%

**[14] Non-controlling interest** Non-controlling interest in net profit is primarily composed of the minority interests in the listed companies Merck Ltd., India, and PT Merck Tbk., Indonesia, as well as in Merck Ltd., Thailand, Merck (Pvt.) Ltd., Pakistan, and Allergopharma J. Ganzer KG, Germany.

**[15] Earnings per share** Basic earnings per share are calculated by dividing the net profit after non-controlling 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. The share capital of EUR 168.0 million is divided into 64,621,126 shares. Accordingly, the general partner's capital of EUR 397.2 million is divided into 152,767,813 theoretical shares. Overall, the total capital thus amounts to EUR 565.2 million or 217,388,939 theoretical shares outstanding.

As of December 31, 2010 there were no potentially dilutive shares.

	2010	2009
Net profit after non-controlling interest (EUR million)	632.1	366.3
Weighted average number of theoretical shares outstanding (in millions)	217.4	217.4
<b>Basic earnings per share (EUR)</b>	<b>2.91</b>	<b>1.68</b>

## NOTES TO THE BALANCE SHEET

**[16]**  
Cash and cash equivalents

This item comprises:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Cheques, cash and bank balances	233.6	282.9
Short-term cash investments	710.1	258.5
	<b>943.7</b>	<b>541.4</b>

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 EUR 8.6 million (2009: EUR 4.5 million).

Short-term cash investments mainly comprise fixed-term deposits with banks that have a very good credit rating. In 2010, the average interest rate on all investments was 1.8%.

**[17]**  
Marketable securities and  
financial assets

This item comprises the following categories:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Financial investments held to maturity	22.7	48.4
Available-for-sale financial investments	11.3	262.5
Short-term financial investments/loans to third parties	0.3	1,150.7
Derivative assets (financial transactions)	21.3	41.6
	<b>55.6</b>	<b>1,503.2</b>

The significant decline in marketable securities and financial assets is related to the financing of the Millipore acquisition.

Loans to third parties were neither adjusted (2009: EUR 1.3 million) nor past due. Owing to the receipt of a payment amounting to EUR 1.1 million in 2010, the adjustment reported in 2009 was restated by this amount. The balance of EUR 0.2 million was derecognized. Fair value adjustments of EUR -2.0 million, which were recognized in equity, were made on "available-for-sale financial investments" (2009: EUR +2.0 million).

**[18]**  
Trade accounts receivable

This item comprises:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Receivables from affiliates	0.3	0.6
Receivables from associates	0.8	-
Receivables from third parties	2,295.2	1,788.1
	<b>2,296.3</b>	<b>1,788.7</b>

The increase in trade accounts receivable resulted in particular from the first-time consolidation of the Millipore companies.

Trade accounts receivable past due are as follows:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Neither impaired nor past due	1,659.0	1,314.9
Past due, but not impaired		
up to 3 months	265.7	209.1
up to 6 months	107.4	80.4
up to 12 months	96.4	64.2
over 1 year	109.5	56.2
Impaired	58.3	63.9
<b>Book value</b>	<b>2,296.3</b>	<b>1,788.7</b>

The corresponding write-downs developed as follows:

EUR million	2010	2009
<b>January 1</b>	<b>-46.0</b>	<b>-16.6</b>
Additions (net)	-10.8	-27.9
Utilizations	5.2	1.9
Currency translation and other changes	-7.3	-3.4
<b>December 31</b>	<b>-58.9</b>	<b>-46.0</b>

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

**[19]** This item comprises:  
**Inventories**

EUR million	Dec. 31, 2010	Dec. 31, 2009
Raw materials and production supplies	189.7	174.1
Work in progress, finished goods and goods purchased for resale	1,483.8	1,193.8
Advance payments	-	-
	<b>1,673.5</b>	<b>1,367.9</b>

Write-downs of inventories amounted to EUR 138.7 million in 2010 (2009: EUR 141.7 million). As of balance sheet date, the fair value of inventories that were written down amounts to EUR 757.5 million (2009: EUR 526.3 million). In 2010, inventory write-ups of EUR 27.0 million were recorded. Inventories amounting to EUR 2,385.4 million (2009: EUR 2,029.3 million) were recognized as an expense in the reporting period. As of the balance sheet date, no inventories were used to secure liabilities.

[20] **Other assets** Other receivables and other assets include an amount of EUR 269.3 million from the sale of Théramex (see "Scope of consolidation – Divestment of Théramex") and mainly prepayments as well as interest deferrals. In 2010, a separate line item was introduced for non-income-related taxes (mainly value added tax). The previous year's figures have been adjusted.

Other assets comprise the following:

EUR million	current	non-current	Dec. 31, 2010	current	non-current	Dec. 31, 2009
Receivables from third parties	385.6	2.1	387.7	76.5	2.1	78.6
Receivables from related parties	17.0	–	17.0	14.9	–	14.9
Receivables from affiliates	2.4	–	2.4	–	–	–
<b>Other receivables</b>	<b>405.0</b>	<b>2.1</b>	<b>407.1</b>	<b>91.4</b>	<b>2.1</b>	<b>93.5</b>
Receivables from non-income related taxes	72.8	36.0	108.8	83.3	54.5	137.8
Prepaid expenses	48.2	2.7	50.9	48.9	3.7	52.6
Refund claims on plan assets	18.8	–	18.8	15.2	–	15.2
Derivative assets (operational)	2.2	0.4	2.6	29.5	28.6	58.1
Other assets	17.7	11.7	29.4	7.3	10.6	17.9
	<b>564.7</b>	<b>52.9</b>	<b>617.6</b>	<b>275.6</b>	<b>99.5</b>	<b>375.1</b>

Other receivables from third parties past due are as follows:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Neither impaired nor past due	345.0	68.7
Past due, but not impaired		
up to 3 months	8.4	7.8
up to 6 months	4.8	1.3
up to 12 months	0.6	0.2
over 1 year	2.0	0.6
Impaired	26.9	–
<b>Book value</b>	<b>387.7</b>	<b>78.6</b>

A settlement payment was made to the U.S. Department of Justice in 2010 in connection with the litigation of our former subsidiary Dey, Inc., USA, which we sold to Mylan (see Note [32]). Insofar as this payment is tax-deductible, Merck is entitled to claim reimbursement from Mylan in the amount of the tax credit. The exact amount cannot be definitively determined at this point in time. Merck wrote down this claim by EUR 52.6 million to a residual value of EUR 26.9 million. The expense resulting from this write-down is recorded under "Exceptional items". Write-ups of other receivables from third parties were not necessary in either 2010 or 2009. 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 amounted to EUR 93.7 million (2009: EUR 55.3 million) and resulted from tax pre-payments that exceeded the actual amount of tax payable for 2010 and prior fiscal years, and from refund claims for prior years as well as withholding tax credits.

**[22]** Merck announced on December 20, 2010 the sale of the Crop BioScience business, which was part of the Performance Materials division, to Novozymes A/S, Denmark. The agreement is subject to customary regulatory approvals. The transaction is expected to close at the beginning of 2011. The Crop BioScience business generated sales of around EUR 46 million in 2010. For this item, EUR 36.7 million was disclosed in the consolidated balance sheet as of December 31, 2010 as assets held for sale and EUR 5.9 million as liabilities directly related to assets held for sale.

The following table presents this item in more detail:

EUR million	Dec. 31, 2010
<b>Current assets</b>	
Cash and cash equivalents	1.2
Inventories	4.6
Receivables	10.6
Other current assets	0.6
	<b>17.0</b>
<b>Non-current assets</b>	
Intangible assets	13.4
Property, plant and equipment	4.4
Other non-current assets	1.9
	<b>19.7</b>
<b>Assets held for sale</b>	<b>36.7</b>
<b>Current liabilities</b>	
Trade accounts payable	1.0
Other current liabilities	4.7
	<b>5.7</b>
<b>Non-current liabilities</b>	<b>0.2</b>
<b>Liabilities directly related to assets held for sale</b>	<b>5.9</b>

[23] Intangible assets

EUR million	Patents, licenses and similar rights, brands, trademarks and other		Goodwill	Software	Advance payments	Total
	Finite useful life	Indefinite useful life				
<b>Acquisition cost January 1, 2009</b>	<b>7,540.6</b>	<b>543.0</b>	<b>1,971.3</b>	<b>177.9</b>	<b>17.2</b>	<b>10,250.0</b>
Currency translation	-5.9	-0.8	-0.7	1.5	-	-5.9
Changes in scope of consolidation	4.7	-	15.7	-	-	20.4
Additions	5.7	31.4	-	30.7	28.8	96.6
Disposals	-9.3	-11.9	-3.6	-15.7	-0.3	-40.8
Transfers	62.9	-60.4	-	18.4	-12.8	8.1
<b>December 31, 2009</b>	<b>7,598.7</b>	<b>501.3</b>	<b>1,982.7</b>	<b>212.8</b>	<b>32.9</b>	<b>10,328.4</b>
<b>Accumulated amortization and impairment losses January 1, 2009</b>	<b>-1,757.8</b>	<b>-129.3</b>	<b>-42.2</b>	<b>-117.3</b>	<b>-</b>	<b>-2,046.6</b>
Currency translation	-4.5	-0.1	-0.2	-0.3	-	-5.1
Changes in scope of consolidation	-	-	-	-	-	-
Amortization and impairment losses	-664.4	-21.1	-	-30.3	-	-715.8
Disposals	7.6	11.6	3.6	14.7	-	37.5
Transfers	-0.1	-	-	0.1	-	-
Write-ups	-	-	-	-	-	-
<b>December 31, 2009</b>	<b>-2,419.2</b>	<b>-138.9</b>	<b>-38.8</b>	<b>-133.1</b>	<b>-</b>	<b>-2,730.0</b>
<b>Net carrying amount as of December 31, 2009</b>	<b>5,179.5</b>	<b>362.4</b>	<b>1,943.9</b>	<b>79.7</b>	<b>32.9</b>	<b>7,598.4</b>
<b>Acquisition cost January 1, 2010</b>	<b>7,598.7</b>	<b>501.3</b>	<b>1,982.7</b>	<b>212.8</b>	<b>32.9</b>	<b>10,328.4</b>
Currency translation	704.5	37.0	89.4	14.5	1.7	847.1
Changes in scope of consolidation	2,534.9	9.3	2,545.3	11.3	-	5,100.8
Additions	23.0	20.8	-	17.3	43.1	104.2
Disposals	-10.1	-0.5	-	-27.2	-0.1	-37.9
Transfers	76.5	-76.3	4.9	48.4	-35.7	17.8
Reclassification to assets held for sale	-29.8	-	-	-0.3	-	-30.1
<b>December 31, 2010</b>	<b>10,897.7</b>	<b>491.6</b>	<b>4,622.3</b>	<b>276.8</b>	<b>41.9</b>	<b>16,330.3</b>
<b>Accumulated amortization and impairment losses January 1, 2010</b>	<b>-2,419.2</b>	<b>-138.9</b>	<b>-38.8</b>	<b>-133.1</b>	<b>-</b>	<b>-2,730.0</b>
Currency translation	-234.8	-10.3	0.2	-11.2	-	-256.1
Changes in scope of consolidation	1.2	-	-	2.2	-	3.4
Amortization and impairment losses	-701.7	-164.4	-	-40.1	-	-906.2
Disposals	7.7	-	-	26.3	-	34.0
Transfers	0.1	-	-3.6	-4.5	-	-8.0
Write-ups	-	-	-	-	-	-
Reclassification to assets held for sale	16.4	-	-	0.3	-	16.7
<b>December 31, 2010</b>	<b>-3,330.3</b>	<b>-313.6</b>	<b>-42.2</b>	<b>-160.1</b>	<b>-</b>	<b>-3,846.2</b>
<b>Net carrying amount as of December 31, 2010</b>	<b>7,567.4</b>	<b>178.0</b>	<b>4,580.1</b>	<b>116.7</b>	<b>41.9</b>	<b>12,484.1</b>

The changes in scope of consolidation include additions amounting to EUR 5,263.9 million (2009: EUR 20.6 million) and disposals of EUR 159.7 million (2009: EUR 0.2 million). The additions relate almost exclusively to the acquisition of Millipore. Details of this transaction are presented under "Scope of consolidation – Acquisition of Millipore". At the time of the acquisition, the goodwill of Millipore amounted to EUR 2,704.4 million and the fair value of the other intangible assets was EUR 2,559.5 million. The disposals from the scope of consolidation relate in particular to the divestment of Théramex.

The change in currency translation differences relative to 2009 is due mainly to the translation of intangible assets reported in U.S. dollars and Swiss francs into euros – the reporting currency of the Merck Group.

The net carrying amount of "Patents, licenses and similar rights, brands, trademarks and other" with finite useful lives amounting to EUR 7,567.4 million mainly include the recognized assets from the Millipore purchase price allocation in 2010 and the Serono purchase price allocation in 2007. The vast majority is attributable to technologies and know-how. The remaining useful lives of these assets range between 8 and 15.5 years. This item also includes licenses from this acquisition with remaining useful lives of between 2 and 7 years.

In fiscal 2010, impairment losses on intangible assets with finite useful lives totaled EUR 17.1 million. Of this amount, EUR 16.4 million was attributable to the Liquid Crystals business unit. This impairment was required due to amended market estimates and the related decline in sales expectations. This is reflected within "Other operating expenses" in the income statement. The changes in goodwill caused by currency effects resulted almost exclusively from translating the goodwill for Serono from Swiss francs into euros, the reporting currency of the Merck Group, and from translating the goodwill for Millipore, half of which is carried in U.S. dollars, into euros.

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 EUR 164.4 million result in fiscal 2010. Safinamide is responsible for EUR 134.0 million of this amount. Owing to a reassessment of the sales potential, this impairment resulted in a residual value of EUR 63.4 million. This is disclosed in the income statement under "Amortization of intangible assets". The reassessment was based on the results of a Phase III study conducted by our cooperation partner Newron, which led to a reevaluation of the market potential, especially as regards potential indications. The decision also takes into account a delay in the project and an increase in R&D costs due to more stringent requirements set by the U.S. Food and Drug Administration.

The other impairment losses amounting to EUR 17.2 million relate to write-offs of the capitalized assets related to the termination of research projects from the Merck Serono division and are recorded under "Other operating expenses". Owing to the outlicensing of an active ingredient attributable to an acquisition, its net present value was remeasured. This led to the need for an impairment loss of EUR 13.2 million in the Merck Serono division, which was recognized under "Other operating expenses".

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

EUR million	Remaining useful life in years	Merck Serono	Consumer Health Care	Merck Millipore	Performance Materials	Total Dec. 31, 2010	Total Dec. 31, 2009
<b>Patents, licenses and similar rights, brands, trademarks and other</b>							
<b>Finite useful life</b>		<b>5,165.1</b>	<b>20.1</b>	<b>2,367.0</b>	<b>15.2</b>	<b>7,567.4</b>	<b>5,179.5</b>
Rebif®	11	3,296.5	-	-	-	3,296.5	3,221.5
Gonal-f®	8	759.6	-	-	-	759.6	765.2
Saizen®	9	276.6	-	-	-	276.6	275.3
Humira®	7	257.3	-	-	-	257.3	267.9
Avonex®	2.5	120.3	-	-	-	120.3	152.7
Enbrel®	2	74.9	-	-	-	74.9	109.1
Cladribine	10	51.7	-	-	-	51.7	-
Puregon®	4	45.8	-	-	-	45.8	51.3
Technologies	0.5 to 15.5	280.6	3.7	532.0	11.7	828.0	309.2
Brands	4.75 to 13.5	1.0	16.4	316.9	0.3	334.6	20.5
Customer relationships	0.5 to 16.5	0.8	-	1,518.1	3.2	1,522.1	6.8
<b>Indefinite useful life</b>		<b>167.8</b>	<b>-</b>	<b>8.7</b>	<b>1.5</b>	<b>178.0</b>	<b>362.4</b>
Safinamide	-	63.4	-	-	-	63.4	176.8
Cladribine	-	-	-	-	-	-	48.2
Other	-	104.4	-	8.7	1.5	114.6	137.4
<b>Goodwill</b>		<b>1,681.6</b>	<b>164.7</b>	<b>2,714.6</b>	<b>19.2</b>	<b>4,580.1</b>	<b>1,943.9</b>

Intangible assets with an indefinite useful life primarily relate to rights that Merck has acquired for products or technologies that are still in the research and development stage. Amortization will only begin once the products start to be marketed.

## [24] Property, plant and equipment

EUR million	Land, landrights 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
<b>Acquisition cost January 1, 2009</b>	<b>1,885.8</b>	<b>2,391.6</b>	<b>774.7</b>	<b>315.7</b>	<b>5,367.8</b>
Currency translation	0.8	3.0	1.5	2.6	7.9
Changes in scope of consolidation	3.5	2.9	2.2	-	8.6
Additions	26.9	48.3	45.2	346.9	467.3
Disposals	-60.5	-61.3	-52.3	-5.6	-179.7
Transfers	37.7	71.0	33.6	-150.4	-8.1
<b>December 31, 2009</b>	<b>1,894.2</b>	<b>2,455.5</b>	<b>804.9</b>	<b>509.2</b>	<b>5,663.8</b>
<b>Accumulated depreciation and impairment losses January 1, 2009</b>	<b>-720.4</b>	<b>-1,644.6</b>	<b>-547.4</b>	<b>-15.3</b>	<b>-2,927.7</b>
Currency translation	-1.2	-1.8	-1.3	-	-4.3
Changes in scope of consolidation	-0.4	-0.6	-0.3	-	-1.3
Depreciation and impairment losses	-73.7	-145.6	-66.3	-	-285.6
Disposals	54.1	57.1	46.5	4.8	162.5
Transfers	0.2	-0.4	0.2	-	-
Write-ups	0.1	-	0.1	-	0.2
<b>December 31, 2009</b>	<b>-741.3</b>	<b>-1,735.9</b>	<b>-568.5</b>	<b>-10.5</b>	<b>-3,056.2</b>
<b>Net carrying amount as of December 31, 2009</b>	<b>1,152.9</b>	<b>719.6</b>	<b>236.4</b>	<b>498.7</b>	<b>2,607.6</b>
<b>Acquisition cost January 1, 2010</b>	<b>1,894.2</b>	<b>2,455.5</b>	<b>804.9</b>	<b>509.2</b>	<b>5,663.8</b>
Currency translation	129.1	78.1	21.9	41.6	270.7
Changes in scope of consolidation	240.5	109.4	14.6	75.8	440.3
Additions	14.1	33.2	37.8	311.1	396.2
Disposals	-12.8	-76.9	-38.8	-2.3	-130.8
Transfers	61.9	70.1	6.6	-155.6	-17.0
Reclassification to assets held for sale	-5.1	-5.5	-1.6	-0.9	-13.1
<b>December 31, 2010</b>	<b>2,321.9</b>	<b>2,663.9</b>	<b>845.4</b>	<b>778.9</b>	<b>6,610.1</b>
<b>Accumulated depreciation and impairment losses January 1, 2010</b>	<b>-741.3</b>	<b>-1,735.9</b>	<b>-568.5</b>	<b>-10.5</b>	<b>-3,056.2</b>
Currency translation	-42.9	-64.9	-17.0	-	-124.8
Changes in scope of consolidation	-	13.9	12.7	-	26.6
Depreciation and impairment losses	-97.0	-177.7	-77.0	-	-351.7
Disposals	10.5	75.3	35.4	0.4	121.6
Transfers	-5.1	-0.3	12.6	-	7.2
Write-ups	-	-	-	-	-
Reclassification to assets held for sale	3.3	4.1	1.3	-	8.7
<b>December 31, 2010</b>	<b>-872.5</b>	<b>-1,885.5</b>	<b>-600.5</b>	<b>-10.1</b>	<b>-3,368.6</b>
<b>Net carrying amount as of December 31, 2010</b>	<b>1,449.4</b>	<b>778.4</b>	<b>244.9</b>	<b>768.8</b>	<b>3,241.5</b>

The changes in scope of consolidation include additions amounting to EUR 474.2 million (2009: EUR 25.8 million) and disposals amounting to EUR 7.3 million (2009: 18.5 million) that are due to the acquisition of Millipore and the divestment of Theramex.

Impairment losses totaled EUR 23.7 million in fiscal 2010. These were particularly attributable to impairment losses on production units in the Merck Millipore, Consumer Health Care and Merck Serono divisions and are recorded under "Other operating expenses".

Property, plant and equipment amounting to EUR 8.1 million served as collateral (2009: EUR 8.1 million). Total government grants and subsidies during the fiscal year amounted to EUR 11.5 million (2009: EUR 5.4 million).

Property, plant and equipment also includes assets that are leased. The total value of capitalized leased assets amounted to EUR 11.6 million (2009: EUR 13.0 million) and the corresponding obligations amounted to EUR 7.1 million (2009: EUR 10.4 million) (see Note [28]).

The book values of capitalized leased assets were as follows:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Capitalized leased buildings	9.3	11.7
Capitalized leased vehicles	2.3	1.1
Capitalized leased other property, plant and equipment	-	0.2
	<b>11.6</b>	<b>13.0</b>

[25]

#### Investments at equity

EUR million	2010	2009
Book value January 1	1.6	1.3
Additions	-	-
Share of profit	0.9	0.1
Disposals	-	-
Currency translation	0.3	0.2
Changes in scope of consolidation	2.2	-
<b>Book value December 31</b>	<b>5.0</b>	<b>1.6</b>

The changes in scope of consolidation reflect the first-time consolidation of Millipore.

## [26] Non-current financial assets

EUR million	Investments in		Securities		Loans and other non-current financial assets	Total
	available-for-sale affiliates	available-for-sale companies	available-for-sale financial investments	financial investments held to maturity		
<b>Book value January 1, 2009</b>	<b>45.6</b>	<b>25.5</b>	<b>0.9</b>	<b>10.1</b>	<b>15.3</b>	<b>97.4</b>
Currency translation	-	-	-0.1	-	0.1	-
Changes in scope of consolidation	-	-34.3	-	-	-	-34.3
Additions	9.6	35.6	1.1	-	4.3	50.6
Impairment losses	-1.9	-	-0.7	-	-	-2.6
Disposals	-	-4.2	-0.2	-10.1	-3.7	-18.2
Fair value adjustments of long-term investments taken directly to equity	25.5	-	-	-	-	25.5
Transfers	0.6	-0.6	-	-	-	-
<b>Book value December 31, 2009</b>	<b>79.4</b>	<b>22.0</b>	<b>1.0</b>	<b>-</b>	<b>16.0</b>	<b>118.4</b>
<b>Book value January 1, 2010</b>	<b>79.4</b>	<b>22.0</b>	<b>1.0</b>	<b>-</b>	<b>16.0</b>	<b>118.4</b>
Currency translation	-	-	-	-	0.2	0.2
Changes in scope of consolidation	-	-4,419.8	-	-	-	-4,419.8
Additions	9.2	4,628.0	6.8	-	22.4	4,666.4
Impairment losses	-	-	-	-	-	-
Disposals	-15.2	-201.7	-0.3	-	-4.1	-221.3
Fair value adjustments of long-term investments taken directly to equity	-13.6	-	-	-	-	-13.6
Transfers	1.1	-1.1	-	-	-	-
<b>Book value December 31, 2010</b>	<b>60.9</b>	<b>27.4</b>	<b>7.5</b>	<b>-</b>	<b>34.5</b>	<b>130.3</b>

As of December 31, 2010, non-current financial assets available-for-sale (investments) with a book value of EUR 57.2 million (2009: EUR 48.2 million) were carried at cost since fair value could not be reliably determined.

The changes in the scope of consolidation include additions of EUR 192.8 million (2009: 0.5 million) and disposals of EUR 4,612.6 million (2009: EUR 34.8 million). Additions to the scope of consolidation are due almost exclusively to the divestment and deconsolidation of Théraxem. The disposals relate in particular to the acquisition and the first-time consolidation of Millipore. A detailed presentation of this item can be found under "Scope of consolidation - Acquisition of Millipore".

The following amounts arising from non-current financial assets classified as available-for-sale were recognized in equity as of the balance sheet date:

EUR million	Available-for-sale interests	Available-for-sale securities	Total Dec. 31, 2010	Available-for-sale interests	Available-for-sale securities	Total Dec. 31, 2009
Fair values/ Book values	88.3	7.5	95.8	101.4	1.0	102.4
Amortized acquisition cost	90.5	7.5	98.0	90.0	1.0	91.0
Unrealized gains/losses	-2.2	-	-2.2	11.4	-	11.4

[27]  
Financial assets covering  
pension obligations

EUR million	Available-for-sale financial assets	Financial assets held to maturity	Total
<b>Book value January 1, 2009</b>	-	-	-
Currency translation	-	-	-
Changes in scope of consolidation	-	-	-
Additions	187.2	61.1	248.3
Impairment losses	-	-	-
Disposals	-47.0	-	-47.0
Fair value adjustments of longterm investments taken directly to equity	8.3	-	8.3
Transfers	-	-	-
<b>Book value December 31, 2009</b>	<b>148.5</b>	<b>61.1</b>	<b>209.6</b>
<b>Book value January 1, 2010</b>	<b>148.5</b>	<b>61.1</b>	<b>209.6</b>
Currency translation	-	-	-
Changes in scope of consolidation	-	-	-
Additions	72.1	21.0	93.1
Impairment losses	-	-	-
Disposals	-60.2	-17.5	-77.7
Fair value adjustments of longterm investments taken directly to equity	-8.1	-	-8.1
Transfers	-	-	-
<b>Book value December 31, 2010</b>	<b>152.3</b>	<b>64.6</b>	<b>216.9</b>

In fiscal 2009, Merck began to cover the pension obligations of Merck KGaA with financial assets appropriated for this purpose. Covering pension obligations with underlying financial assets is long term and will be continuously expanded. These assets are actively being managed by an external service provider within the scope of asset management agreements. Merck is steering the investments via restrictions with respect to ratings and the choice of investments. Performance and risk controlling take place on a regular basis and include monthly performance measurements. In addition, the investment strategy and structure as well as the implementation thereof are reviewed for conformity with the objectives. The strategic spread of assets is highly cautious, with approximately 75% invested in fixed-income securities. All investments will be denominated exclusively in euros.



These financial assets are primarily allocated to the measurement category "Available-for-sale financial assets", otherwise to the measurement category "Held-to-maturity investments". To ensure reporting transparency, we are disclosing these financial assets separately in the balance sheet. The following amounts arising from financial assets covering pension obligations classified as available-for-sale were recognized in equity as of the balance sheet date:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Fair values/Book values	152.3	148.5
Amortized acquisition cost	152.1	140.2
Unrealized gains/losses	0.2	8.3

[28] This item comprises:  
Financial liabilities

EUR million	current	non- current	Dec. 31, 2010	current	non- current	Dec. 31, 2009
Bonds	25.3	4,948.3	4,973.6	499.4	1,490.9	1,990.3
Commercial paper	10.0	-	10.0	-	-	-
Bank loans and overdrafts	85.7	30.0	115.7	57.3	30.1	87.4
Liabilities to related parties	190.3	-	190.3	118.8	-	118.8
Loans from third parties and other financial liabilities	14.3	63.8	78.1	11.9	71.0	82.9
Liabilities from derivatives (financial transactions)	28.7	80.0	108.7	16.0	1.5	17.5
Finance lease	1.8	5.3	7.1	1.8	8.6	10.4
	<b>356.1</b>	<b>5,127.4</b>	<b>5,483.5</b>	<b>705.2</b>	<b>1,602.1</b>	<b>2,307.3</b>

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

EUR million	Bank credit facilities	Utilization* as of Dec. 31, 2010	Interest	Due
Syndicated loan 2007	2,000.0	-	variable	2014
Bilateral credit facilities with banks	5.9	5.9	fixed	2012
Bilateral credit facilities with banks	9.1	9.1	fixed	2017
Bilateral credit facilities with banks	15.0	15.0	fixed	2018
Various bank lines	294.8	85.7	fixed/variable	< 1 year
	<b>2,324.8</b>	<b>115.7</b>		

\*Booked disgios are not taken into account in the disclosure

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

in %	Dec. 31, 2010	Dec. 31, 2009
Euros	30.0	56.0
U.S. dollars	0.1	5.6
Pounds sterling	0.2	0.4
Swiss francs	-	-
Yen	0.3	-
Other currencies	69.4	38.0
	<b>100.0</b>	<b>100.0</b>

In fiscal 2007, a EUR 2 billion multi-currency term loan and revolving credit facility was agreed. The loan has a term of seven years and was agreed with an international banking syndicate. In 2009, Merck set up a debt issuance program that forms the contractual basis for the issue of bonds with a nominal volume of up to EUR 5 billion. In 2010, this volume was increased to EUR 10 billion.

The following bonds were issued by the Merck Group:

Issuer	Nominal value	Maturity	Nominal interest rate	Issue price
Merck Financial Services GmbH, Germany	EUR 500 million	March 2010 – March 2012	2.125 %	99.775
Merck Finanz AG, Luxembourg	EUR 500 million	December 2005 – December 2012	* 2.2 %	99.716
Merck Financial Services GmbH, Germany	EUR 750 million	March 2009 – September 2013	4.875 %	99.697
Merck Financial Services GmbH, Germany	EUR 1,350 million	March 2010 – March 2015	3.375 %	99.769
Merck Financial Services GmbH, Germany	EUR 100 million	December 2009 – December 2015	** 3.615 %	100.000
Millipore Corporation, USA	EUR 250 million	June 2006 – June 2016	5.875 %	99.611
Merck Financial Services GmbH, Germany	EUR 60 million	November 2009 – November 2016	4.000 %	100.000
Merck Financial Services GmbH, Germany	EUR 70 million	December 2009 – December 2019	4.250 %	97.788
Merck Financial Services GmbH, Germany	EUR 1,350 million	March 2010 – March 2020	4.500 %	99.582

\* made variable by interest rate swaps based on six-month EURIBOR and fixed in 2010 by interest rate futures based on six-month EURIBOR

\*\* fixed by interest rate swaps

Moreover, the Millipore Corporation, USA, still has convertible bonds with a nominal volume of USD 27.2 million. The possibility to convert these bonds into shares no longer exists. The bonds issued by Merck Financial Services GmbH in 2010 serve to finance the acquisition of Millipore Corporation, USA, and are admitted to trading on the regulated market of the Luxembourg Stock Exchange. In the fourth quarter of 2010, a bond issued by Merck KGaA with a volume of EUR 500 million matured and was repaid in full.

In order to meet short-term capital requirements, Merck KGaA issued a commercial paper program with a volume of EUR 2 billion, of which a nominal amount of EUR 10.0 million had been utilized as of the reporting 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 [47].

[29] Trade accounts payable consist of the following:

Trade accounts payable

EUR million	Dec. 31, 2010	Dec. 31, 2009
Liabilities due to third parties	1,200.0	935.7
Liabilities due to affiliates	0.1	-
	<b>1,200.1</b>	<b>935.7</b>

Trade accounts payable include accrued amounts of EUR 648.1 million (2009: EUR 614.2 million) for outstanding invoices and accrued reductions in sales revenues.

[30] This item comprises:

Other liabilities

EUR million	current	non-current	Dec. 31, 2010	current	non-current	Dec. 31, 2009
Liabilities to related parties	260.6	-	260.6	173.8	-	173.8
Liabilities to affiliates	3.2	-	3.2	1.8	-	1.8
Accrued interests	103.5	-	103.5	14.3	-	14.3
Payroll liabilities	65.0	0.6	65.6	50.2	0.6	50.8
Liabilities from profit distributions	0.7	-	0.7	1.3	-	1.3
Other financial liabilities to third parties	48.7	4.0	52.7	58.7	1.8	60.5
<b>Sundry other financial liabilities</b>	<b>481.7</b>	<b>4.6</b>	<b>486.3</b>	<b>300.1</b>	<b>2.4</b>	<b>302.5</b>
Accruals for personnel expenses	443.0	-	443.0	293.6	-	293.6
Deferred income	29.0	27.2	56.2	14.6	13.1	27.7
Advance payments received from customers	12.6	-	12.6	5.1	1.4	6.5
Liabilities from derivatives (operational)	26.8	11.1	37.9	1.4	-	1.4
Liabilities from non-income related taxes	61.5	-	61.5	23.4	-	23.4
	<b>1,054.6</b>	<b>42.9</b>	<b>1,097.5</b>	<b>638.2</b>	<b>16.9</b>	<b>655.1</b>

Liabilities to related parties exist vis-à-vis the general partner E. Merck KG and result from profit entitlements as of the balance sheet date. Other financial liabilities due to third parties include liabilities due to insurance companies, contractually agreed payment obligations vis-à-vis other companies, and EUR 13.6 million for the acquisition of Beijing Skywing Technology Co. Ltd. (see "Scope of consolidation – Further acquisitions"). In 2010, a separate line was added for non-income-related taxes (mainly value added tax). The previous year's figures have been adjusted.

**[31]** Tax liabilities amounted to EUR 57.5 million (2009: EUR 72.8 million). Tax liabilities totaling EUR 368.4 million (2009: EUR 274.5 million) also include provisions for tax liabilities of EUR 310.9 million (2009: EUR 201.7 million).

**[32]** Provisions developed as follows:

EUR million	Restructuring	Litigation	Personnel	Environmental protection	Other	Total
<b>January 1, 2010</b>	<b>45.8</b>	<b>519.2</b>	<b>140.5</b>	<b>72.1</b>	<b>173.8</b>	<b>951.4</b>
Additions	26.4	85.0	49.6	0.2	53.4	214.6
Utilizations	-30.4	-129.3	-33.6	-9.0	-44.7	-247.0
Release	-5.2	-8.5	-12.6	0,0	-57.4	-83.7
Exchange differences	0.8	16.0	1.2	0.5	4.2	22.7
Changes in scope of consolidation/Other	2.7	-0.4	26.6	6.6	5.2	40.7
<b>December 31, 2010</b>	<b>40.1</b>	<b>482.0</b>	<b>171.7</b>	<b>70.4</b>	<b>134.5</b>	<b>898.7</b>
thereof current	26.8	174.5	42.5	7.0	123.7	374.5
thereof non-current	13.3	307.5	129.2	63.4	10.8	524.2

Provisions for restructuring mainly include provisions for severance payments for employees in connection with restructuring projects, contractually agreed severance obligations and provisions for onerous contracts. The relevant provisions are recognized when detailed restructuring plans have been prepared and communicated.

As of the balance sheet date, Merck recorded provisions for litigation amounting to EUR 482.0 million. In 2010, additional provisions for litigation were set up and charged to other operating expenses. Provisions for litigation take into account legal risks in connection with our former U.S. generics subsidiary Dey Inc., USA, concerning allegedly false reporting of price information. Although Dey Inc. was divested within the scope of the sale of the Generics business to Mylan Inc., PA (USA) in 2007, Merck continues to be liable for costs incurring from the aforementioned legal disputes since the mentioned risk was not transferred to Mylan. In this context, claims in a number of states were settled during the reporting period as well as in recent years. Moreover a settlement agreement was reached with the U.S. Department of Justice against payment of EUR 214.5 million. Taking into account the existing provisions, this settlement payment led to expenses of EUR 67.2 million in 2010. These expenses have been recorded under "Exceptional items", as was the gain on the divestment of the Generics business. Merck is entitled to claim reimbursement from Mylan to the extent and in the amount that Mylan is able to claim the payment to the U.S. Department of Justice in its tax return. The exact amount cannot be definitively determined at this point in time. As of December 31, 2010 Merck wrote down this reimbursement claim by EUR 52.6 million.

In addition, provisions exist in connection with a legal dispute with Italfarmaco S.p.A. (Italy) in which Italfarmaco S.p.a claims damages on account of an allegedly wrongful termination of a license and supply agreement relating to the product Rebif® in Italy. As of the balance sheet date, provisions exist 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 the funding and development of Rebif® and other products. A Merck subsidiary is discussing settlements of a civil claim by the U.S. Department of Justice under the False Claims Act in relation to sales of Rebif®. A provision was established for the potential settlement of this litigation.

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

Provisions for employee benefits include obligations from the Merck Long-Term Incentive Plan (LTIP) amounting to EUR 29.8 million (2009: EUR 12.3 million). Moreover, this item includes provisions for obligations for the partial early retirement program, other severance pay and anniversary bonuses. The LTIP offers eligible executives and employees of the Merck Group a long-term, profit-related compensation component. The program was resolved upon in 2008. The Executive Board is excluded. The amount paid depends on the achievement of the two financial performance indicators "Underlying Free Cash Flow on Revenues (FCR)" and "Return on Sales (ROS)" at the end of a three-year period. The plan has caps on potential future payments in the event of a high level of target achievement. By contrast, if the level of target achievement is too low, no payments are made.

With respect to provisions for defined-benefit pensions and other post-employment benefits, see Note [33].

Provisions for environmental protection exist in Germany and the United States.

Other provisions consist additionally of provisions for uncertain commitments in the context of contributions, levies and fees.

**[33]** 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 %	2010	2009
Discount rate	4.3	5.0
Future salary increases	2.7	2.9
Future pension increases	2.0	2.3
Staff turnover	3.4	2.0
Expected return on plan assets	4.9	4.9
Future increases in health care benefits	5.0	6.5

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 fixed-income securities, stocks 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:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Present value of benefit obligations funded by provisions	1,467.7	1,260.2
Present value of funded benefit obligations	888.1	617.5
<b>Present value of all benefit obligations</b>	<b>2,355.8</b>	<b>1,877.7</b>
Fair value of plan assets of all funds	-793.3	-582.6
<b>Funded status</b>	<b>1,562.5</b>	<b>1,295.1</b>
Other changes	0.3	1.2
<b>Net liability recognized in the balance sheet</b>	<b>1,562.8</b>	<b>1,296.3</b>
Refund claims on plan assets	18.8	15.2
<b>Provisions for pensions and other post-employment benefits</b>	<b>1,581.6</b>	<b>1,311.5</b>

In 2010, the following items were recognized in income:

EUR million	2010	2009
Current service cost	69.5	58.1
Past service cost	-0.1	-
Interest cost on pension obligations	99.6	93.1
Expected return on plan assets	-34.1	-25.6
Other effects	0.1	-10.8
<b>Total amount recognized in income</b>	<b>135.0</b>	<b>114.8</b>

At EUR 1,316.8 million (2009: EUR 1,136.1 million), the pension plans of the Group parent company Merck KGaA account for the bulk of the present value of pension obligations funded by provisions. The present value of commitments for future health care expenses of retirees in the United States is based on an expected future increase in health care costs of 5.0%. If the rate of increase is one percentage point higher or lower, the measurement of the present value of the commitment would be either EUR 0.9 million higher or EUR 0.8 million lower. The expenses recognized in 2010 would have been EUR 0.1 million higher or lower.

The actual gain on plan assets amounted to EUR 61.0 million (2009: EUR 63.8 million). Apart from the interest component stemming from interest expense on the pension obligations and the expected return on the plan assets, which are disclosed in the financial result, the relevant expense of defined benefit and defined contribution plans is distributed across the individual functional areas.

During the reporting period the present value of the benefit obligations changed as follows:

EUR million	benefit obligations funded by provisions	funded benefit obligations	2010	benefit obligations funded by provisions	funded benefit obligations	2009
Present value of all defined obligations on January 1	1,260.2	617.5	1,877.7	1,051.5	534.4	1,585.9
Currency translation differences	2.8	71.2	74.0	2.6	11.4	14.0
Current service cost	35.4	34.1	69.5	27.3	30.8	58.1
Interest cost on pension obligations	66.3	33.3	99.6	64.6	28.5	93.1
Other effects recognized in income	0.1	0.1	0.2	0.7	-11.5	-10.8
Actuarial gains/losses	160.5	37.2	197.7	172.2	44.2	216.4
Pension payments in the reporting period	-56.6	-37.9	-94.5	-57.1	-29.7	-86.8
Transfers/Changes in scope of consolidation/Other changes	-1.0	132.6	131.6	-1.6	9.4	7.8
<b>Present value of all defined obligations on December 31</b>	<b>1,467.7</b>	<b>888.1</b>	<b>2,355.8</b>	<b>1,260.2</b>	<b>617.5</b>	<b>1,877.7</b>

The fair value of the plan asset of all funds changed as follows in the reporting period:

EUR million	2010	2009
Fair value of the plan assets on January 1	582.6	462.6
Currency translation differences	68.1	10.4
Expected return on plan assets	34.1	25.6
Other effects recognized in income	0.1	-
Actuarial losses/gains	26.9	38.2
Employer contributions	36.4	64.1
Employee contributions	12.5	10.8
Pension payments in the reporting period	-37.1	-27.8
Transfers/Changes in scope of consolidation/Other changes	69.7	-1.3
<b>Fair value of the plan assets on December 31</b>	<b>793.3</b>	<b>582.6</b>

In 2010, actuarial gains (+) and losses (-) as well as the effects of limiting defined benefit assets in accordance with IAS 19.58 amounting to EUR -170.7 million (2009: EUR -178.1 million) were taken to equity, together with other effects totaling EUR -4.8 million (2009: EUR 14.5 million). Moreover, EUR -0.2 million (2009: EUR -0.5 million) was transferred to retained earnings. As of December 31, 2010, for the aforementioned reasons, a total of EUR -472.9 million (2009: EUR -297.2 million) was taken to equity for the benefit obligations presented here.

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, 2010	Dec. 31, 2009
Debt instruments	41.6	43.3
Equity instruments	34.1	34.1
Real estate	14.4	12.0
Other assets	9.9	10.6

On average, the expected rate of return on debt instruments is 3.4%, on equity instruments 7.0% 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:

EUR million as of Dec. 31	2010	2009	2008	2007	2006
Present value of the defined benefit obligations	2,355.8	1,877.7	1,585.9	1,665.9	1,607.2
Fair value of the plan assets	-793.3	-582.6	-462.6	-520.5	-346.2
<b>Funded status</b>	<b>1,562.5</b>	<b>1,295.1</b>	<b>1,123.3</b>	<b>1,145.4</b>	<b>1,261.0</b>

We expect that the direct payments to beneficiaries will amount to around EUR 83 million in 2011 (2010: EUR 72 million).

In 2011, employer contributions to plan assets will probably amount to around EUR 41 million (2010: EUR 24 million).

The cost of ongoing contributions in 2010 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 EUR 16.7 million in 2010 (2009: EUR 8.6 million). In addition, employer contributions of EUR 49.9 million (2009: EUR 48.3 million) were transferred to the German statutory pension insurance system and EUR 19.6 million (2009: EUR 8.2 million) to statutory pension insurance systems abroad.



**[34]** A strong equity position is important for Merck to ensure the continued existence of the company. **Net equity** 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.

As of the balance sheet date, the number of shares issued totaled 64,621,126. 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 actuarial income and losses.

The disclosure of non-controlling 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 net equity attributable to non-controlling interests mainly relates to the minority interests in Merck Ltd. India, Merck Ltd., Thailand, Merck S.A. France, and PT Merck Tbk, Indonesia.

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

EUR million	2010		2009	
	E. Merck KG	Merck KGaA	E. Merck KG	Merck KGaA
Result of E. Merck KG	12.3	-	-2.9	-
Result of ordinary activities of Merck KGaA	-	709.4	-	309.2
Extraordinary result	-	-21.0	-	-
Adjustment for trade income tax in accordance with § 27 (1) Articles of Association of Merck KGaA	0.0	-	4.8	-
Trade income tax in accordance with § 30 (1) Articles of Association of Merck KGaA	-	-71.0	-	0.9
<b>Basis for the appropriation of profits (100%)</b>	<b>12.3</b>	<b>617.4</b>	<b>1.9</b>	<b>310.1</b>
Profit transfer to E. Merck KG Ratio general partner's capital to total capital (70.274%)	433.9	-433.9	217.9	-217.9
Profit transfer from E. Merck KG Ratio share capital to total capital (29.726%)	-3.7	3.7	-0.6	0.6
Trade tax	0.0	-	-4.8	-
Corporate income tax	-	-16.7	-	-0.1
<b>Net income</b>	<b>442.5</b>	<b>170.5</b>	<b>214.4</b>	<b>92.7</b>

In accordance with the provisions of the Articles of Association, E. Merck KG has a 70.274% interest in the profit/loss of Merck KGaA while Merck KGaA has an interest of 29.726% in the profit/loss of E. Merck KG. Merck KGaA's profit from ordinary activities adjusted for trade income tax and extraordinary result, on which the appropriation of its profit is based, amounts to EUR 617.4 million (2009: EUR 310.1 million). Merck KGaA transferred EUR 433.9 million of its profit to E. Merck KG (2009: EUR 217.9 million). The profit/loss of E. Merck KG, on which the appropriation of profit/loss is based, amounts to EUR 12.3 million (2009: EUR 1.9 million). Consequently, this results in a profit transfer to Merck KGaA of EUR 3.7 million (2009: EUR 0.6 million).

Moreover, in 2010 EUR 43.0 million (2009: EUR 26.8 million) was transferred by Merck & Cie to E. Merck KG.

For 2009, a dividend of EUR 1.00 per share was distributed. The dividend proposal for fiscal 2010 will be EUR 1.25 per share, corresponding to a total dividend payment of EUR 80.8 million to shareholders.

The following table shows the development of transactions taken cumulatively and directly to the equity of shareholders of the parent company:

EUR million	Available-for-sale current and non-current financial assets	Derivative financial instruments	Exchange differences on translating foreign operations	Total
<b>Balance as of January 1, 2009</b>	<b>-15.0</b>	<b>64.1</b>	<b>525.4</b>	<b>574.5</b>
Gains/losses recognized immediately in equity	33.8	-16.6	-15.5	1.7
Changes in scope of consolidation/Others	-	-	-	-
<b>Balance as of December 31, 2009</b>	<b>18.8</b>	<b>47.5</b>	<b>509.9</b>	<b>576.2</b>
<b>Balance as of January 1, 2010</b>	<b>18.8</b>	<b>47.5</b>	<b>509.9</b>	<b>576.2</b>
Gains/losses recognized immediately in equity	-21.8	-108.6	834.6	704.2
Changes in scope of consolidation/Others	-0.1	-	0.1	-
<b>Balance as of December 31, 2010</b>	<b>-3.1</b>	<b>-61.1</b>	<b>1,344.6</b>	<b>1,280.4</b>

The increase in the currency translation difference results mainly from the decline in the value of the euro versus the Swiss franc and the U.S. dollar.

## 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 IFRS 8 is presented in "Segment Reporting". The segments presented correspond to the internal organizational and reporting structure of the Merck Group. Within the Merck Serono division, we focus on specialist therapeutic areas and market innovative prescription drugs of chemical and biotechnological origin. The Consumer Health Care division comprises Merck's business with high-quality over-the-counter products for preventive health care and self-treatment of minor ailments. These two divisions form the Pharmaceuticals business sector.

With the acquisition of Millipore, the Chemicals business sector was reorganized. The new Merck Millipore division combines the acquired activities with large sections of the former Life Science Solutions business. The new Performance Materials division comprises the Liquid Crystals and Pigments & Cosmetics business units as well as the Advanced Technologies unit with its materials for LEDs (light-emitting diodes) and photovoltaics as well as other innovative technologies. Accordingly, the Merck Millipore and Performance Materials segments are reported within the Chemicals business sector in the Segment Reporting as of December 31, 2010. The previous year's figures have been adjusted.

The segment Corporate and Other mainly includes the income and expenses that cannot be allocated to the operating segments, e.g. expenses for central administrative functions.

The financial result and taxes on income are also allocated in full to the segment Corporate and Other. The operating segments are described in detail in the sections about the divisions in the management report.

Apart from total revenues, the success of a segment is mainly determined by the division's operating result as well as free cash flow and the key figures derived from these such as "Underlying free cash flow on revenues (FCR)" and "Return on Sales (ROS)". The accounting standards used to calculate these performance indicators are the same as those used in external reporting (IFRS). Transfer prices for intragroup sales are determined on an arm's-length basis. There were no significant intercompany relations between the business segments.

Neither in 2010 nor in 2009 did any single customer account for more than 10% of Group sales.

The following reconciliation applied to operating assets in the Segment Reporting:

EUR million	Dec. 31, 2010	Dec. 31, 2009
Assets	22,388.0	16,712.6
Monetary assets (cash and cash equivalents, loans, securities)	-1,042.4	-2,119.7
Financial assets covering pensions	-216.9	-209.6
Non-operating receivables, tax receivables, deferred taxes and deferred pension payments	-723.1	-635.6
Assets held for sale	-36.7	-
<b>Operating assets (gross)</b>	<b>20,368.9</b>	<b>13,747.7</b>
Trade accounts payable	-1,200.1	-935.7
Other operating liabilities	-698.3	-465.3
<b>Operating assets (net)</b>	<b>18,470.5</b>	<b>12,346.7</b>

The Merck Millipore division accounted for EUR 0.9 million (2009: EUR 0.1 million) and the Corporate and Other segment for EUR 3.2 million (2009: EUR 3.4 million) of the investment result disclosed in the income statement.

## NOTES TO THE CASH FLOW STATEMENT

**[35]** Tax payments in 2010 totaled EUR 336.1 million (2009: EUR 260.1 million). Tax refunds totaled EUR 18.7 million (2009: EUR 0.0 million). Interest paid totaled EUR 134.7 million (2009: EUR 76.9 million) and interest received totaled EUR 38.1 million (2009: EUR 26.6 million).

Net cash flows from operating activities

**[36]** A total of EUR 4,859.7 million was used for acquisitions and investments in other financial assets (2009: EUR 40.0 million). Of this amount, EUR 4,843.7 million (2009: EUR 23.5 million) was used for acquisitions. Investments in other financial assets totaled EUR 16.0 million (2009: EUR 16.5 million). Taking into consideration cash included in the acquisition, the payment of the Millipore purchase price involved cash outflows of EUR 4,837.1 million. A final payment of EUR 6.6 million was made for the Suzhou Taizhu China Group, which was acquired in 2009.

Net cash flows from investing activities

EUR million	Millipore	Suzhou Taizhu China Group	Total 2010
Purchase price	4,611.9	6.6	4,618.5
Equity-like purchase price components (convertible bond)	525.2	-	525.2
<b>Purchase price including convertible bond</b>	<b>5,137.1</b>	<b>6.6</b>	<b>5,143.7</b>
Cash and cash equivalents acquired	-300.0	-	-300.0
<b>Acquisitions</b>	<b>4,837.1</b>	<b>6.6</b>	<b>4,843.7</b>

The divestment of Théraxem did not result in any cash inflows in 2010 since the purchase price payment was made in January 2011. Cash outflows within the scope of this divestment amounted to EUR 9.7 million. These comprised cash and cash equivalents of Théraxem totaling EUR 9.2 million on the date of deconsolidation as well as transaction costs of EUR 0.5 million. This is disclosed in the cash flow statement under "Disposal of non-current assets". Net cash inflows from changes in other financial assets amounting to EUR 1,431.3 million were mainly the result of the sale of short-term securities and financial assets and were used to finance the acquisition of Millipore.

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

Net cash flows from financing activities

EUR million	2010	2009
Dividends to shareholders	-64.6	-96.9
Dividends to shareholders of non-controlling interest	-21.5	-7.9
<b>Dividend payments</b>	<b>-86.1</b>	<b>-104.8</b>

EUR million	2010	2009
Profit transfer in accordance with the Articles of Association from E. Merck KG to Merck KGaA	3.7	0.6
Profit transfer in accordance with the Articles of Association from Merck KGaA to E. Merck KG	-433.9	-217.9
Changes in reserves of Merck KGaA by E. Merck KG	212.1	66.3
<b>Profit transfer from Merck KGaA to E. Merck KG</b>	<b>-218.1</b>	<b>-151.0</b>
Profit transfer from Merck Et Cie to E. Merck KG	-43.0	-26.8
<b>Profit transfer to E. Merck KG</b>	<b>-261.1</b>	<b>-177.8</b>
Changes in financial liabilities to E. Merck KG	71.5	20.6
Changes in other liabilities to E. Merck KG	79.1	-53.2
<b>Changes in liabilities to E. Merck KG</b>	<b>150.6</b>	<b>-32.6</b>
<b>Total cash transfers to and from E. Merck KG</b>	<b>-110.5</b>	<b>-210.4</b>

Free cash flow after dividend payments and profit transfers totaled EUR -3,869.7 million (2009: EUR 529.8 million).

[38] The composition of cash and cash equivalents is presented under Notes to the Balance Sheet.

#### Cash and cash equivalents

[39] Free cash flow and underlying free cash flow are indicators 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. In the reconciliation of free cash flow to underlying free cash flow, cash flows for both acquisitions and for divestments are taken into account. The acquisition-related payments of EUR 4,941.9 million (2009: EUR 23.5 million) consist of acquisitions amounting to EUR 4,843.7 million (2009: EUR 23.5 million) as well as other payments amounting to EUR 98.2 million in connection with the acquisition of Millipore. This concerns acquisition-related costs and social insurance taxes in connection with the payments for options from the stock option plan. In 2010, we made payments totaling EUR 240.7 million (2009: EUR 15.7 million) in connection with the existing legal risks that we continue to be responsible for from the divestment of our former generics subsidiary, Dey Inc., of the United States. This includes the settlement payment to the U.S. Department of Justice amounting to EUR 214.5 million (see also Note [32]). Furthermore, EUR 9.7 million was recognized from the divestment of Théramex.

## OTHER DISCLOSURES

**[40]**  
**Derivative financial instruments**

Merck uses derivative financial instruments exclusively to hedge currency and interest rate positions, and thereby reduce currency and interest rate risks. Foreign currency risks from recognized transactions are largely hedged. Merck currently uses marketable forward exchange contracts, interest rate futures and interest rate swaps as hedging instruments. Depending on the nature of the hedging transaction, hedged items are disclosed either in the operating result or, in the case of financial transactions, in the financial result.

The strategy to hedge interest rate and currency fluctuations arising from future transactions is set by a Merck Group currency and interest rate committee, which meets on a regular basis. A review period of up to 36 months normally serves as the basis for entering into currency derivative contracts. Extensive guidelines regulate the use of derivatives. There is a ban on speculation. Derivative transactions are subject to continuous risk management procedures. Trading, settlement and control functions are strictly separated. Derivative financial contracts are only entered into with banks that have a good credit rating.

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

EUR million	Nominal volume		Fair value	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Cash flow hedge	3,713.5	902.0	-102.0	57.6
Interest	100.0	100.0	-1.1	-0.3
Currency	3,613.5	802.0	-100.9	57.9
Fair value hedge	502.5	520.9	15.3	14.5
Interest	500.0	500.0	15.4	14.6
Currency	2.5	20.9	-0.1	-0.1
No hedge accounting	5,298.0	2,161.1	-18.1	8.8
Interest	1,500.0	-	-0.6	-
Currency	3,798.0	2,161.1	-17.5	8.8
	<b>9,514.0</b>	<b>3,584.0</b>	<b>-104.8</b>	<b>80.9</b>

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

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

EUR million	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2010	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2009
Forward exchange contracts	4,454.0	2,960.0	7,414.0	2,598.3	385.7	2,984.0
Interest rate swaps	500.0	100.0	600.0	–	600.0	600.0
Interest rate futures	1,500.0	–	1,500.0	–	–	–
	<b>6,454.0</b>	<b>3,060.0</b>	<b>9,514.0</b>	<b>2,598.3</b>	<b>985.7</b>	<b>3,584.0</b>

The forward exchange contracts that are entered into to reduce the exchange rate risk with a total nominal volume of EUR 7,414.0 million primarily serve to hedge intercompany financing in foreign currency. These mainly served to hedge fluctuations in the exchange rates of the U.S. dollar (EUR 4,046.8 million), the Swiss franc (EUR 483.5 million), the Japanese yen (EUR 845.1 million), the Taiwanese dollar (EUR 533.2 million) and the British pound (EUR 494.7 million).

Forecast transactions are only in a cash flow hedging relationship if the occurrence can be assumed to be highly probable. The nominal volume of hedged future transactions amounted to EUR 3,713.5 million (2009: EUR 902.0 million) as of the balance sheet date and related mainly to the hedging of future sales in U.S. dollars, Taiwanese dollars and Japanese yen as well as costs in Swiss francs. The occurrence of hedged items is expected within the next 36 months. Moreover, we use forward exchange contracts to hedge financial investments and borrowings in foreign currency and designate them as cash flow hedges. During the fiscal year, expenses of EUR 125.3 million (2009: income totaling EUR 47.5 million) from the fair value measurement of derivatives was recognized in equity. EUR 17.2 million (2009: EUR 64.8 million) was transferred from equity and recognized as expense (2009: income).

The interest expense of the euro benchmark bond, which was issued in 2005 with a volume of EUR 500 million and a coupon of 3.75% was variabilized to the six-month Euribor through interest rate swaps and is measured as a fair value hedge. The fair value measurement of the bond led to income of EUR 0.2 million (2009: expense of EUR 15.2 million). This was offset by an expense in the same amount from the interest rate swap. Net interest payments on the bond and interest rate swaps were fixed in 2010 by forward exchange contracts based on the 6-month Euribor forward curve. The interest expense of the private placement of EUR 100 million made in the context of the debt issuance program in 2009 was fixed by an interest rate swap of 3-month Euribor plus 0.77%, which was carried in the balance sheet as a cash flow hedge. The fair value measurement of the interest rate swap led to an expense of EUR 1.1 million (2009: 0.3 million). This amount was recognized in equity at 100% effectiveness.

**[41]** **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. More information on the management of financial risks is provided in the Risk Report, which can be found in the Management Report.

**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 2011 in the key currencies:

EUR million as of Dec. 31, 2010	CHF	GBP	JPY	TWD	USD
Foreign exchange risk from balance sheet items	-80.9	74.9	206.6	70.4	2,804.9
Foreign exchange risk from contingent business and anticipated transactions in 2011	-467.9	114.2	291.3	421.5	1,147.1
<b>Transaction-related foreign exchange position</b>	<b>-548.8</b>	<b>189.1</b>	<b>497.9</b>	<b>491.9</b>	<b>3,952.0</b>
Position hedged by derivatives	130.0	-75.0	-386.5	-346.6	-3,294.2
<b>Open-end foreign exchange risk position</b>	<b>-418.8</b>	<b>114.1</b>	<b>111.4</b>	<b>145.3</b>	<b>657.8</b>
Change in foreign exchange position due to a 10% appreciation of the euro	41.9	-11.4	-11.1	-14.5	-65.8
included in profit/loss	-4.9	-	3.5	4.5	8.4
recognized in equity	-	-	14.5	23.1	40.5

Furthermore, derivatives exist to hedge expected cash flows beyond the year 2011. These would lead to a change in equity amounting to EUR 20.0 million in Japanese yen. Due to the hedging of expected cash flows beyond the year 2010, this would have caused in 2009 a change in equity of EUR 11.5 million in the Japanese yen, EUR 4.1 million in the Taiwanese dollar, and EUR 18.5 million in U.S. dollars. The following table presents the corresponding net currency risk from expected and recognized transactions for 2010:

EUR million as of Dec. 31, 2009	CHF	GBP	JPY	TWD	USD
Foreign exchange risk from balance sheet items	-167.8	154.7	156.9	57.9	-345.9
Foreign exchange risk from contingent business and anticipated transactions in 2010	-281.3	78.2	158.0	290.1	672.9
<b>Transaction-related foreign exchange position</b>	<b>-449.1</b>	<b>232.9</b>	<b>314.9</b>	<b>348.0</b>	<b>327.0</b>
Position hedged by derivatives	176.0	-172.1	-262.4	-136.1	-7.5
<b>Open-end foreign exchange risk position</b>	<b>-273.1</b>	<b>60.8</b>	<b>52.5</b>	<b>211.9</b>	<b>319.5</b>
Change in foreign exchange position due to a 10% appreciation of the euro	27.3	-6.1	-5.2	-21.2	-31.9
included in profit/loss	-0.8	-0.3	-0.9	2.4	12.6
recognized in equity	-	2.0	11.4	5.4	22.8



Translation risks: Many Merck companies are located 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 of EUR 5,483.5 million (2009: EUR 2,307.3 million) and monetary deposits of EUR 1,346.5 million (2009: EUR 2,372.6 million). 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 EUR 6.3 million (2009: EUR 10.3 million). This corresponds to an increase in interest income of EUR 9.1 million (2009: EUR 17.3 million) on financial assets and additional interest expense of EUR 2.8 million (2009: EUR 7.0 million) on financial liabilities. The resulting change in the market value of assets recognized at fair value would lower equity by EUR 6.8 million (2009: EUR 5.1 million).
- Share price risks** The share portfolio of publicly listed companies amounting to EUR 60.0 million is generally exposed to a market value risk. A 10% change in the value of the stock market would impact equity by EUR 6.0 million. These changes in value are recognized in income at the time of disposal.
- Liquidity risks** The liquidity risk, meaning the risk that Merck cannot meet its financial obligations, is limited by effective cash management and by establishing the required financial flexibility. Apart from liquid assets of EUR 999.3 million (2009: EUR 2,044.6 million), Merck has at its disposal a multi-currency revolving credit line of EUR 2 billion to be used for business purposes with a remaining term of four years as well as bilateral credit facilities of EUR 324.8 million (2009: EUR 233.1 million). There are no indications that the availability of credit lines already extended will be restricted. Moreover, a commercial paper program with a volume of EUR 2 billion exists and a debt issuance program set up in 2009 with a volume of EUR 10 billion. Liquidity risks are regularly monitored and reported to the management. Our loan agreements do not contain any financial covenants. Trade payables amounting to EUR 1,200.1 million (2009: EUR 935.7 million) as well as operating liabilities from derivatives amounting to EUR 37.9 million (2009: EUR 1.4 million) have a remaining term of less than one year. Out of other financial liabilities amounting to EUR 486.3 million (2009: EUR 302.5 million), EUR 481.7 million (2009: EUR 300.1 million) are due within one year.

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

EUR million as of Dec. 31, 2010	Book value	Cash flows 2011		Cash flows 2012–2016		Cash flows 2017–2023	
		Interest	Repay- ment	Interest	Repay- ment	Interest	Repay- ment
Debt securities and commercial paper	4,983.6	190.4	35.3	643.3	3,509.5	213.8	1,419.3
Bank loans and overdrafts	115.7	1.7	81.2	3.1	29.9	0.1	4.6
Liabilities to related parties	190.3	–	190.3	–	–	–	–
Loans from third parties and other financial liabilities	78.1	4.5	11.0	8.0	58.7	–	8.5
Liabilities from derivatives (financial transactions)	108.7	–	28.7	–	80.0	–	–
Financial leasing liabilities	7.1	0.1	0.7	0.2	4.1	–	2.3
	<b>5,483.5</b>	<b>196.7</b>	<b>347.2</b>	<b>654.6</b>	<b>3,682.2</b>	<b>213.9</b>	<b>1,434.7</b>

EUR million as of Dec. 31, 2009	Book value	Cash flows 2010		Cash flows 2011–2015		Cash flows 2016–2022	
		Interest	Repay- ment	Interest	Repay- ment	Interest	Repay- ment
Debt securities and commercial paper	1,990.3	83.6	500.0	170.9	1,350.0	14.1	130.0
Bank loans and overdrafts	87.4	1.6	63.8	3.5	14.8	0.4	5.2
Liabilities to related parties	118.8	–	118.8	–	–	–	–
Loans from third parties and other financial liabilities	82.9	4.2	11.9	8.4	61.2	0.1	9.7
Liabilities from derivatives (financial transactions)	17.5	2.1	16.0	10.6	1.2	–	–
Financial leasing liabilities	10.4	0.7	5.9	0.3	4.5	–	–
	<b>2,307.3</b>	<b>92.2</b>	<b>716.4</b>	<b>193.7</b>	<b>1,431.7</b>	<b>14.6</b>	<b>144.9</b>

**Credit risks** Merck is only subject to a very low credit risk, meaning the unexpected loss of payment funds or income. Financial contracts are only entered into with banks with good ratings and the broad-based business structure of the Merck Group means that there is no particular concentration of credit risks. The credit risk with customers is continuously monitored by analyzing the age structure of trade accounts receivable. The theoretically maximum default risk corresponds to the book values.

**[42] Other disclosures on financial instruments**

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

EUR million	Book value Dec. 31, 2010	Subsequent measurement according to IAS 39				Non-financial items
		Amortized cost	At cost	Fair value	Carrying value accord- ing to IAS 17	
<b>Assets</b>						
Cash and cash equivalents	943.7	943.7	-	-	-	-
Marketable securities and financial assets	55.6	23.0	-	32.6	-	-
Held for trading (non-derivatives)	0.0	-	-	0.0	-	-
Non-hedging derivatives	0.0	-	-	0.0	-	-
Held to maturity	22.7	22.7	-	-	-	-
Loans and receivables	0.3	0.3	-	-	-	-
Available-for-sale	11.3	-	-	11.3	-	-
Hedging derivatives	21.3	-	-	21.3	-	-
Trade receivables	2,296.3	2,296.3	-	-	-	-
Loans and receivables	2,296.3	2,296.3	-	-	-	-
Current and non-current other assets	617.6	407.1	-	2.6	-	207.9
Non-hedging derivatives	1.3	-	-	1.3	-	-
Loans and receivables	407.1	407.1	-	-	-	-
Hedging derivatives	1.3	-	-	1.3	-	-
Non-financial items	207.9	-	-	-	-	207.9
Non-current financial assets	130.3	16.6	57.2	56.5	-	-
Non-hedging derivatives	0.0	-	-	0.0	-	-
Held to maturity	0.0	0.0	-	-	-	-
Loans and receivables	16.6	16.6	-	-	-	-
Available-for-sale	95.8	-	57.2	38.6	-	-
Hedging derivatives	17.9	-	-	17.9	-	-
Financial assets covering pensions	216.9	64.6	-	152.3	-	-
Held to maturity	64.6	64.6	-	-	-	-
Available-for-sale	152.3	-	-	152.3	-	-
<b>Liabilities</b>						
Current and non-current financial liabilities	5,483.5	5,367.7	-	108.7	7.1	-
Non-hedging derivatives	15.8	-	-	15.8	-	-
Other liabilities	5,367.7	5,367.7	-	-	-	-
Hedging derivatives	92.9	-	-	92.9	-	-
Finance lease	7.1	-	-	-	7.1	-
Trade accounts payable	1,200.1	1,200.1	-	-	-	-
Other liabilities	1,200.1	1,200.1	-	-	-	-
Current and non-current other liabilities	1,097.5	486.3	-	37.9	-	573.3
Non-hedging derivatives	3.5	-	-	3.5	-	-
Other liabilities	486.3	486.3	-	-	-	-
Hedging derivatives	34.4	-	-	34.4	-	-
Non-financial items	573.3	-	-	-	-	573.3

Fair value Dec. 31, 2010	Book value Dec. 31, 2009	Subsequent measurement according to IAS 39			Carrying value according to IAS 17	Non-financial items	Fair value Dec. 31, 2009
		Amortized cost	At cost	Fair value			
943.7	541.4	541.4	-	-	-	-	541.4
	1,503.2	1,199.1	-	304.1	-	-	
0.0	0.0	-	-	-	-	-	0.0
0.0	27.0	-	-	27.0	-	-	27.0
22.7	48.4	48.4	-	-	-	-	48.4
0.3	1,150.7	1,150.7	-	-	-	-	1,150.7
11.3	262.5	-	-	262.5	-	-	262.5
21.3	14.6	-	-	14.6	-	-	14.6
	1,788.7	1,788.7	-	-	-	-	
2,296.3	1,788.7	1,788.7	-	-	-	-	1,788.7
	375.1	93.5	-	58.1	-	223.5	
1.3	0.0	-	-	-	-	-	0.0
407.1	93.5	93.5	-	-	-	-	93.5
1.3	58.1	-	-	58.1	-	-	58.1
	223.5	-	-	-	-	223.5	
	118.4	15.9	48.2	54.3	-	-	
0.0	0.1	-	-	0.1	-	-	0.1
0.0	0.0	-	-	-	-	-	0.0
16.6	15.9	15.9	-	-	-	-	15.9
95.8	102.4	-	48.2	54.2	-	-	102.4
17.9	0.0	-	-	-	-	-	0.0
	209.6	61.1	-	148.5	-	-	
64.6	61.1	61.1	-	-	-	-	61.1
152.3	148.5	-	-	148.5	-	-	148.5
	2,307.3	2,279.4	-	17.5	10.4	-	
15.8	17.2	-	-	17.2	-	-	17.2
5,532.1	2,279.4	2,279.4	-	-	-	-	2,350.7
92.9	0.3	-	-	0.3	-	-	0.3
7.1	10.4	-	-	-	10.4	-	10.4
	935.7	935.7	-	-	-	-	
1,200.1	935.7	935.7	-	-	-	-	935.7
	655.1	302.5	-	1.4	-	351.2	-
3.5	1.1	-	-	1.1	-	-	1.1
486.3	302.5	302.5	-	-	-	-	302.5
34.4	0.3	-	-	0.3	-	-	0.3
	351.2	-	-	-	-	351.2	-

The net result of financial instruments comprises the impact of financial instruments on income. This includes mainly measurement results from currency translation, the adjustment to fair value, write-downs and write-ups as well as the recognition of premiums and discounts. Dividends and interest are not recognized in the net result of financial instruments, except for in the category "held for trading". Interest paid and earned is only included in the category "Financial assets and liabilities at fair value through profit/loss".

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

2010 EUR million	Net results				
	Interest	Write-downs	Write-ups	Fair value changes	Disposal gains/losses
Financial instrument of the category					
Held for trading	-	-	-	18.3	-
Held to maturity	15.2	-0.2	0.0	-	1.5
Loans and receivables	5.2	-72.4	9.3	-	0.0
Available for sale	10.8	-2.1	0.0	-	0.0
Other liabilities	-195.7	-	-	-	-

2009 EUR million	Net results				
	Interest	Write-downs	Write-ups	Fair value changes	Disposal gains/losses
Financial instrument of the category					
Held for trading	-	-	-	18.6	-
Held to maturity	1.1	0.0	0.0	-	0.0
Loans and receivables	30.6	-30.8	2.9	-	0.0
Available for sale	1.9	-2.6	0.0	-	1.3
Other liabilities	-92.9	-	-	-	-

In 2010, exchange rate gains of EUR 22.9 million resulting from receivables and payables in operating business were recognized (2009: losses of EUR -9.7 million). Income totaling EUR 1.8 million was recorded for hedging transactions in operating business (2009: EUR 3.1 million). Exchange rate gains of EUR 1.1 million (2009: losses of EUR 3.7 million) were booked for financial receivables/payables and measures to secure them. A gain of EUR 11.8 million (2009: loss of EUR -3.3 million) was booked for hedging of financing transactions.

The fair value of stocks and bonds used to cover pension obligations and to manage liquidity are mainly based on the official market prices and market values quoted on the balance sheet date. The fair value of interest-bearing securities is determined by discounting future cash flows using market interest rates. Forward exchange contracts are carried at fair value. They are measured using market mid spot rates and maturity-related interest premiums or discounts in relation to traded market prices. The fair value of interest rate swaps held for interest rate hedging purposes is determined with standard market valuation models using interest rate curves available in the market. Compared with the previous year, there were no changes in the method used to determine fair value.

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

EUR million as of Dec. 31, 2010	Assets	Liabilities
<b>Prices quoted in an active market</b>	<b>202.2</b>	<b>0.0</b>
thereof available-for-sale	202.2	–
<b>Valuation technique including data from observable markets</b>	<b>41.8</b>	<b>–146.6</b>
thereof available-for-sale	0.0	–
thereof hedging derivatives	40.5	–127.2
thereof non-hedging derivatives	1.3	–19.4
<b>Valuation technique based on assumptions not supported by observable market data</b>	<b>0.0</b>	<b>0.0</b>

EUR million as of Dec. 31, 2009	Assets	Liabilities
<b>Prices quoted in an active market</b>	<b>213.4</b>	<b>0.0</b>
thereof available-for-sale	213.4	0.0
<b>Valuation technique including data from observable markets</b>	<b>351.7</b>	<b>18.9</b>
thereof available-for-sale	251.8	0.0
thereof hedging derivatives	72.8	0.6
thereof non-hedging derivatives	27.1	18.3
<b>Valuation technique based on assumptions not supported by observable market data</b>	<b>0.0</b>	<b>0.0</b>

[43]  
Contingent liabilities

EUR million	Dec. 31, 2010	thereof subsidiaries	Dec. 31, 2009	thereof subsidiaries
Guarantees	105.0	-	69.0	-
Warranties	0.5	-	1.3	-
Other contingent liabilities	40.7	-	26.2	-

Most of the guarantees issued exist in connection with our pharmaceutical business in Italy, where pursuant to tax legislation, guarantees must be given for reimbursements of tax receivables from the Italian fiscal authorities as well as to secure the supply of products to public hospitals. As of December 31, 2010, these amounted to EUR 54.0 million (2009: EUR 43.0 million). Other contingent liabilities include, among other things, collateral security given on property, plant and equipment, for example buildings and potential obligations from legal disputes, for which the probability of an outflow of resources did not suffice to recognize a provision as of the balance sheet date.

[44] Other financial obligations

Other financial obligations comprise the following:

EUR million	Dec. 31, 2010	thereof subsidiaries	Dec. 31, 2009	thereof subsidiaries
Obligations to acquire intangible assets	1,003.6	-	1,207.5	-
Orders for capital expenditure on property, plant and equipment	179.2	-	211.0	-
Future operating lease payments	208.8	-	133.3	-
Long-term purchase commitments	315.2	-	326.6	-
Other financial obligations	18.2	-	18.6	-
	<b>1,725.0</b>	<b>-</b>	<b>1,897.0</b>	<b>-</b>

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 EUR 1,003.6 million (2009: EUR 1,207.5 million) for the acquisition of intangible assets.

The possible maturities of these obligations are as follows:

EUR million as of Dec. 31, 2010	potential due date in 1 year	potential due date in 1–5 years	potential due date over 5 years	Total
Obligations to acquire intangible assets	32.9	219.3	751.4	<b>1,003.6</b>

EUR million as of Dec. 31, 2009	potential due date in 1 year	potential due date in 1–5 years	potential due date over 5 years	Total
Obligations to acquire intangible assets	60.4	309.1	838.0	1,207.5

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

EUR million as of Dec. 31, 2010	Remaining maturity less than 1 year	Remaining maturity 1 to 5 years	Remaining maturity more than 5 years	Total
Present value of future payments from finance leases	1.8	3.0	2.3	7.1
Interest component of finance leases	0.3	0.3	–	0.6
<b>Future finance lease payments</b>	2.1	3.3	2.3	<b>7.7</b>
<b>Future operating lease payments</b>	50.3	130.3	28.2	<b>208.8</b>

EUR million as of Dec. 31, 2009	Remaining maturity less than 1 year	Remaining maturity 1 to 5 years	Remaining maturity more than 5 years	Total
Present value of future payments from finance leases	1.8	8.6	–	10.4
Interest component of finance leases	0.1	0.4	–	0.5
<b>Future finance lease payments</b>	1.9	9.0	–	<b>10.9</b>
<b>Future operating lease payments</b>	25.1	70.8	37.4	<b>133.3</b>

Operating lease agreements relate mainly to market-typical leasing arrangements to lease operating and office equipment.

[45] Personnel expenses comprise the following:  
Personnel expenses/  
Headcount

EUR million	2010	2009
Wages and salaries	2,145.5	1,764.1
Compulsory social security contributions and special financial assistance	319.3	266.7
Pension expenses	132.1	98.1
	<b>2,596.9</b>	<b>2,128.9</b>

As of December 31, 2010, the Merck Group had 40,562 employees (2009: 33,062). The average number of employees during the year was 36,347 (2009: 32,850).



The breakdown of personnel by function is as follows:

Average number of employees	2010	2009
Production	8,327	6,956
Logistics	1,927	1,773
Marketing and sales	11,541	10,582
Administration	4,378	3,750
Research & Development	4,116	3,627
Infrastructure and Other	6,058	6,162
<b>Total</b>	<b>36,347</b>	<b>32,850</b>

**[46]** Material costs in 2010 amounted to EUR 1,246 million (2009: EUR 1,052 million), and are reported under cost of sales.

**Material costs**

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

**Auditors' fees**

Cost in EUR million for	2010		2009	
	Merck Group	thereof KPMG AG and re-lated parties	Merck Group	thereof KPMG AG and re-lated parties
Audits of financial statements	8.1	3.4	5.2	2.2
Other audit-related services	0.2	-	0.4	0.3
Tax consultancy services	0.4	0.2	0.3	0.1
Other services	0.6	0.5	1.0	0.9
	<b>9.3</b>	<b>4.1</b>	<b>6.9</b>	<b>3.5</b>

The increase in the costs of the auditors is mainly due to the first-time and subsequent audits of the Millipore companies. Related parties to KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft are those companies affiliated with KPMG Europe LLP as of December 31, 2010.

**[48]** The Statement of Compliance in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz) was published in the corporate governance section of our website [www.merck.de/investors](http://www.merck.de/investors) → Corporate Governance in February 2010 and thus made permanently available.

**Corporate governance**

**[49]** The following companies, which have been consolidated in these financial statements, have opted for exemption under section 264 (3) of the German Commercial Code (HGB):

**Companies opting for exemption under section 264 (3) HGB**

- Chemische Fabrik Lehrte Dr. Andreas Kossel GmbH, Lehrte
- Merck Export GmbH, Darmstadt
- Merck Selbstmedikation GmbH, Darmstadt
- Merck Shared Services Europe GmbH, Darmstadt
- Merck Serono GmbH, Darmstadt

[50]  
Related-party disclosures

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

As of December 31, 2010, there were liabilities by Merck KGaA, Merck Financial Services GmbH and Merck & Cie, Altdorf, to E. Merck KG in the amount of EUR 450.9 million (2009: EUR 292.6 million). In addition, as of December 31, 2010, Merck KGaA had receivables in the amount of EUR 12.3 million (2009: EUR 10.7 million) from E. Merck KG and from E. Merck Beteiligungen KG in the amount of EUR 4.7 million (2009: EUR 4.2 million). The balances result mainly from the profit transfers by Merck & Cie to E. Merck KG, the reciprocal profit transfers between Merck KGaA and E. Merck KG as well as the extension of loans by E. Merck KG to Merck Financial Services GmbH. These financial payables of EUR 190.3 million (2009: EUR 118.8 million) are subject to standard market interest rates. From January to December 2010, Merck KGaA and Merck Shared Services Europe GmbH performed services for E. Merck KG with a value of EUR 1.1 million (2009: EUR 1.2 million), for E. Merck Beteiligungen KG with a value of EUR 0.4 million (2009: EUR 0.4 million), and for Emanuel Merck Vermögens KG with a value of EUR 0.2 million (2009: EUR 0.1 million). During the same period, E. Merck KG performed services for Merck KGaA with a value of EUR 0.5 million (2009: EUR 0.5 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 under Provisions for pensions and other post-employment benefits. There were no further material transactions with these pension funds.

From January to December 2010, companies of the Merck Group supplied goods with a value of EUR 1.1 million (2009: EUR 0.3 million) to associates. As of December 31, 2010, companies of the Merck Group had receivables from associates amounting to EUR 0.8 million (2009: EUR 0.0 million). There were no further material transactions with associates.

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

**[51]** **Executive Board and Supervisory Board compensation** The compensation of the Executive Board of Merck KGaA is largely paid by the general partner, E. Merck KG, and recorded as an expense in its income statement. For January to December 2010, fixed salaries of EUR 3.5 million (2009: EUR 3.5 million) and variable compensation of EUR 6.2 million (2009: EUR 3.7 million) were recorded for members of the Executive Board of Merck KGaA. Furthermore, additions to pension provisions of E. Merck KG include current service costs of EUR 2.1 million (2009: EUR 1.6 million) for members of the Executive Board of Merck KGaA.

Subject to the approval of the Annual General Meeting on the proposed distribution of a dividend of EUR 1.25 per share, the compensation of the Supervisory Board amounting to EUR 528 thousand (2009: EUR 435 thousand) consists of a fixed portion of EUR 123 thousand (2009: EUR 123 thousand) and a variable portion of EUR 405 thousand (2009: EUR 312 thousand).

Further details can be found in the Compensation Report on pages 111 to 117.

**[52]** **Information on preparation and approval** The Executive Board of Merck KGaA prepared the consolidated financial statements on February 8, 2011 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the responsibility to examine the consolidated financial statements and to declare whether it approves them.

**[53]** **Subsequent events** In January 2011, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) confirmed its previous position and adopted a final negative opinion regarding our marketing authorization application for cladribine tablets in Europe.

On February 7, 2011, all the conditions for the closing of the divestment of the Crop BioScience activities were fulfilled. At a selling price of EUR 208 million, the pre-tax gain on the sale is expected to be around EUR 160 million. As of December 31, 2010, the activities were recorded in the Group financial statements as assets and liabilities held for sale.

[54] List of shareholdings

The following table presents the list of shareholdings of the Merck Group as of December 31, 2010.

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
<b>I. Fully consolidated companies</b>				
<b>Germany</b>				
Germany	Merck KGaA	Darmstadt	Parent company	
Germany	Allergopharma J. Ganzer KG	Reinbek	95.00	
Germany	Cape June Ltd. & Co. KG	Frankfurt	100.00	
Germany	Chemische Fabrik Lehrte Dr. Andreas Kossel GmbH	Lehrte	100.00	100.00
Germany	Chemitra GmbH	Darmstadt	100.00	100.00
Germany	Emedia Export Company mbH	Gernsheim	100.00	
Germany	Litec-LLL GmbH	Greifswald	100.00	100.00
Germany	Merck Biosciences GmbH	Schwalbach/Ts.	100.00	
Germany	Merck China Chemicals Holding GmbH	Darmstadt	100.00	
Germany	Merck Consumer Health Care Holding GmbH	Darmstadt	100.00	100.00
Germany	Merck Export GmbH	Darmstadt	100.00	100.00
Germany	Merck Financial Services GmbH	Darmstadt	100.00	100.00
Germany	Merck Holding GmbH	Gernsheim	100.00	100.00
Germany	Merck Internationale Beteiligungen GmbH	Darmstadt	100.00	
Germany	Merck Schuchardt OHG	Hohenbrunn	100.00	100.00
Germany	Merck Selbstmedikation GmbH	Darmstadt	100.00	
Germany	Merck Serono GmbH	Darmstadt	100.00	100.00
Germany	Merck Shared Services Europe GmbH	Darmstadt	100.00	100.00
Germany	Merck Versicherungsvermittlung GmbH	Darmstadt	100.00	100.00
Germany	Merck Verwaltungsgesellschaft mbH	Darmstadt	100.00	100.00
Germany	Merck Vierte Allgemeine Beteiligungsgesellschaft mbH	Gernsheim	100.00	
Germany	Millipore GmbH	Schwalbach/Ts.	100.00	
Germany	Solvent Innovation GmbH	Darmstadt	100.00	100.00
<b>Other European countries</b>				
Switzerland	Allergopharma AG	Therwil	100.00	
Switzerland	Ares Trading SA	Aubonne	100.00	
Switzerland	Horizon North SA	Geneva	100.00	
Switzerland	Horizon South SA	Geneva	100.00	
Switzerland	Merck & Cie	Altdorf	98.87	98.87
Switzerland	Merck (Schweiz) AG	Zug	100.00	
Switzerland	Merck AG	Zug	100.00	20.87
Switzerland	Merck Biosciences AG	Läufelfingen	100.00	
Switzerland	Merck Eprova AG in liquidation	Schaffhausen	100.00	
Switzerland	Merck Serono SA	Coinsins	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Switzerland	Millipore AG	Zug	100.00	
Switzerland	SeroMer Holding SA	Chésereux	100.00	
Switzerland	Serono Technologies SA	Geneva	100.00	
France	Delahardt S.A.S.	Molsheim	100.00	
France	Laboratoire Médiflor S.A.S.	Lyon	100.00	
France	Merck Chimie S.A.S.	Fontenay s/Bois	100.00	
France	Merck Médication Familiale S.A.S.	Lyon	100.00	
France	Merck S.A.	Lyon	99.76	88.94
France	Merck Santé S.A.S.	Lyon	100.00	
France	Merck Serono Biodevelopment S.A.S.	Lyon	100.00	
France	Merck Serono S.A.S.	Lyon	100.00	
France	Millipore S.A.S.	Molsheim	100.00	
United Kingdom	Baird & Tatlock Ltd.	Hull	100.00	
United Kingdom	BioAnaLab Ltd.	London	100.00	
United Kingdom	Bioprocessing Ltd.	London	100.00	
United Kingdom	Bioprocessing Corp. Ltd.	London	100.00	
United Kingdom	British Cod Liver Oils Ltd.	Hull	100.00	
United Kingdom	Celliance Ltd.	Edinburgh	100.00	
United Kingdom	Chemicon Europe Ltd.	London	100.00	
United Kingdom	E. Merck Ltd.	Hull	100.00	
United Kingdom	Hofels Pure Foods Ltd.	Hull	100.00	
United Kingdom	Lamberts Healthcare Ltd.	Tunbridge Wells	100.00	
United Kingdom	Lipha Pharmaceuticals Ltd.	Hull	100.00	
United Kingdom	Marfleet Refining Company Ltd.	Hull	100.00	
United Kingdom	Merck Biosciences Ltd.	Nottingham	100.00	
United Kingdom	Merck Chemicals Ltd.	Nottingham	100.00	
United Kingdom	Merck Consumer Health Care Ltd.	Hull	100.00	
United Kingdom	Merck Cross Border Trustees Ltd.	Hull	100.00	
United Kingdom	Merck Investments Ltd.	Hull	100.00	
United Kingdom	Merck Ltd.	Hull	100.00	
United Kingdom	Merck Pension Trustees Ltd.	Hull	100.00	
United Kingdom	Merck Serono Europe Ltd.	London	100.00	
United Kingdom	Merck Serono Ltd.	Feltham	100.00	
United Kingdom	Merck Services U.K. Ltd.	Hull	100.00	
United Kingdom	Millipore (U.K.) Ltd.	London	100.00	
United Kingdom	Millipore UK Holdings LLP	London	100.00	
United Kingdom	New Era Laboratories Ltd.	Hull	100.00	
United Kingdom	Phillips Yeast Products Ltd.	Hull	100.00	
United Kingdom	Rona Laboratories Ltd.	Hull	100.00	
United Kingdom	Serologicals European Holding Ltd.	London	100.00	
United Kingdom	Serologicals Global Holding Company Ltd.	London	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
United Kingdom	Serologicals UK Holding Company Ltd.	London	100.00	
United Kingdom	Serono Contracting Ltd.	Hull	100.00	
United Kingdom	Serono Ltd.	Feltham	100.00	
United Kingdom	Seven Seas Healthcare Ltd.	Hull	100.00	
United Kingdom	Seven Seas Ltd.	Hull	100.00	
United Kingdom	Seven Seas Pension Trustees Ltd.	Hull	100.00	
United Kingdom	Upstate Ion Channel Discovery Group Ltd.	London	100.00	
United Kingdom	Upstate Ltd.	London	100.00	
Italy	Allergopharma S.p.A.	Milan	100.00	
Italy	Baker Italia S.p.A.	Rome	100.00	
Italy	Istituto di Ricerche Biomediche Antoine Marxer RBM S.p.A.	Colleretto Giacosa	100.00	
Italy	Merck S.p.A.	Milan	100.00	
Italy	Merck Serono S.p.A.	Rome	99.74	
Italy	Millipore S.p.A.	Milan	100.00	
Spain	Merck, S.L.	Madrid	100.00	
Spain	Millipore Iberica S.A.	Madrid	100.00	
Belgium	Merck Consumer Healthcare N.V.-S.A.	Overijse	100.00	
Belgium	Merck N.V.-S.A.	Overijse	100.00	
Belgium	Millipore S.A./N.V.	Brussels	100.00	
Bulgaria	Merck Bulgaria EAD	Sofia	100.00	
Denmark	Millipore A/S	Copenhagen	100.00	
Denmark	Survac ApS	Frederiksberg	100.00	100.0
Estonia	Merck Serono OÜ	Tallin	100.00	
Finland	Merck OY	Espoo	100.00	
Finland	Millipore OY	Espoo	100.00	
Greece	Merck A.E.	Marousi	100.00	
Ireland	Millipore Cork	Carrigtwohill	100.00	
Ireland	Millipore Dublin International Finance Company	Dublin	100.00	
Ireland	Millipore Ireland Ltd.	Carrigtwohill	100.00	
Ireland	Seven Seas (Ireland) Ltd.	Dublin	100.00	
Ireland	Tullagreen Holdings Ltd.	Dublin	100.00	
Croatia	Merck d.o.o.	Zagreb	100.00	
Latvia	Merck Serono SIA	Riga	100.00	
Lithuania	Merck Serono, UAB	Kaunas	100.00	
Luxembourg	Merck Re S.A.	Luxembourg	100.00	
Luxembourg	Merck-Finanz AG	Luxembourg	100.00	100.00
Luxembourg	Millilux S.a.r.L.	Luxembourg	100.00	
Luxembourg	Millinvest S.a.r.L.	Luxembourg	100.00	
Luxembourg	Millipart S.a.r.L.	Luxembourg	100.00	
Luxembourg	Millipore International Holdings, S.a.r.L.	Luxembourg	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Malta	Merck Capital Asset Management Ltd.	St. Julians	100.00	
Malta	Merck Capital Holding Ltd.	St. Julians	100.00	
Malta	Merck Capital Ltd.	St. Julians	100.00	
Netherlands	Merck B.V.	Schiphol-Rijk	100.00	
Netherlands	Millipore B.V.	Amsterdam Zuidoost	100.00	
Netherlands	Millipore International Holding Company B.V.	Amsterdam Zuidoost	100.00	
Netherlands	Millipore Ireland B.V.	Amsterdam Zuidoost	100.00	
Netherlands	Serono Tri Holdings B.V.	Schiphol-Rijk	100.00	
Norway	Millipore AS	Oslo	100.00	
Austria	Allergopharma Vertriebsgesellschaft m.b.H.	Vienna	100.00	
Austria	Arcana Life-Science-Produkte GmbH	Vienna	100,00	
Austria	Merck Gesellschaft mbH	Vienna	100.00	
Austria	Merck KGaA & Co. Werk Spittal	Spittal	100.00	99.00
Austria	Millipore GesmbH	Vienna	100.00	
Poland	Merck Sp.z o.o.	Warsaw	100.00	
Poland	Millipore Sp.z.o.o.	Warsaw	100.00	
Portugal	Merck, S.A.	Lisbon	100.00	
Romania	Merck Romania S.R.L.	Bucarest	100.00	
Russia	Merck LLC	Moscow	100.00	
Sweden	Merck AB	Stockholm	100.00	
Sweden	Merck SeQuant AB	Umea	100.00	
Sweden	Millipore AB	Solna	100.00	
Serbia	Merck d.o.o. Beograd	Belgrade	100.00	
Slovakia	Merck Pharma s.r.o.	Bratislava	100.00	
Slovakia	Merck spol.s.r.o.	Bratislava	100.00	
Slovenia	Merck d.o.o.	Ljubljana	100.00	
Czech Republic	Merck spol.s.r.o.	Prague	100.00	
Czech Republic	Millipore s.r.o.	Prague	100.00	
Czech Republic	Merck Pharma k.s.	Prague	100.00	80.00
Turkey	Merck Ilac Ecza ve Kimya Ticaret AS	Istanbul	100.00	
Hungary	Merck Kft.	Budapest	100.00	
Hungary	Millipore Kft.	Budapest	100.00	
<b>North America</b>				
United States	Celliance Lawrence, Inc.	Wilmington	100.00	
United States	Concord Investments Corp.	Rockland	100.00	
United States	EMD Chemicals Inc.	Gibbstown	100.00	
United States	EMD Crop BioScience Inc.	Brookfield	100.00	
United States	EMD Serono Biotech Center, Inc.	Billerica	100.00	
United States	EMD Serono Holding Inc.	Rockland	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
United States	EMD Serono Research Center, Inc.	Billerica	100.00	
United States	EMD Serono Research Institute, Inc.	Rockland	100.00	
United States	EMD Serono, Inc.	Rockland	100.00	
United States	EMD Shared Services America Corp.	Quincy	100.00	
United States	Millipore Asia Ltd.	Wilmington	100.00	
United States	Millipore Corp.	Billerica	100.00	
United States	Millipore Pacific Ltd.	Wilmington	100.00	
United States	Millipore UK Holdings I, LLC	Wilmington	100.00	
United States	Millipore UK Holdings II, LLC	Wilmington	100.00	
United States	Randolph Diagnostics Development, Inc.	Rockland	100.00	
United States	Serono Laboratories Inc.	Rockland	100.00	
United States	Upstate USA, Inc.	New York	100.00	
Puerto Rico	Millipore Corp., Puerto Rico Branch	Cidra	100.00	
Canada	EMD Chemicals Canada Inc.	Oakville	100.00	
Canada	EMD Crop BioScience Canada Inc.	Oakville	100.00	
Canada	EMD Inc.	Mississauga	100.00	
Canada	Millipore (Canada) Ltd.	Toronto	100.00	
Bermuda	Millipore Bioscience Caribe Ltd.	Hamilton	100.00	
Bermuda	Minerva Insurance Co. Ltd.	Hamilton	100.00	

#### Latin America

Argentina	Merck Crop BioScience Argentina S.A.	Buenos Aires	99.95	99.95
Argentina	Merck Quimica Argentina S.A.I.C.	Buenos Aires	100.00	
Brazil	Merck S.A.	Rio de Janeiro	100.00	
Brazil	Millipore Industria e Comercio Ltda.	Sao Paulo	100.00	
Chile	Merck S.A.	Santiago de Chile	100.00	
Ecuador	Merck C.A.	Quito	100.00	
Guatemala	Merck, S.A.	Guatemala City	100.00	
Colombia	Merck S.A.	Bogota	100.00	
Mexico	Merck, S.A. de C.V.	Mexico City	100.00	
Mexico	Millipore S.A. de C.V.	Mexico City	100.00	
Mexico	Serono de Mexico S.A. de C.V.	Mexico City	100.00	
Panama	Mesofarma Corporation	Panama City	100.00	
Peru	Merck Peruana S.A.	Lima	100.00	
Uruguay	ARES Trading Uruguay S.A.	Montevideo	100.00	
Venezuela	Merck S.A.	Caracas	100.00	
Venezuela	Representaciones MEPRO S.A.	Caracas	100.00	

#### Asia, Africa, Australasia

China	Merck Chemicals (Shanghai) Co., Ltd.	Shanghai	100.00	
China	Merck Consumer Health Care Shanghai Trading Co., Ltd.	Shanghai	100.00	
China	Merck Ltd.	Hong Kong	100.00	



Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
China	Merck Pharmaceutical (HK) Ltd.	Hong Kong	100.00	
China	Merck Serono (Beijing) Pharmaceutical R&D Co., Ltd.	Beijing	100.00	
China	Merck Serono Co., Ltd.	Beijing	100.00	
China	Merck Song-Jiang Ltd.	Shanghai	100.00	
China	Millipore (Shanghai) Trading Co., Ltd.	Shanghai	100.00	
China	Millipore China Ltd.	Hong Kong	100.00	
China	Shanghai Yayang International Co., Ltd.	Shanghai	100.00	
China	Suzhou Taizhu Technology Development Co., Ltd.	Taicang	100.00	
India	Merck Ltd.	Mumbai	51.80	
India	Merck Specialities Pvt. Ltd.	Mumbai	100.00	
India	Millipore India Pvt. Ltd.	Bangalore	100.00	
Indonesia	P.T. Merck Tbk.	Jakarta	86.65	
Israel	Inter-Lab Ltd.	Yavne	100.00	
Israel	InterPharm Industries Ltd.	Yavne	100.00	
Israel	InterPharm Laboratories Ltd.	Yavne	100.00	
Israel	Merck Serono Ltd.	Herzlia Pituach	100.00	
Japan	Merck Ltd.	Tokyo	100.00	18.00
Japan	Merck Serono Co., Ltd.	Tokyo	100.00	
Japan	Nihon Millipore K.K.	Tokyo	100.00	
Malaysia	Merck Sdn Bhd	Petaling Jaya	100.00	
Malaysia	Millipore Asia Ltd., Malaysia Branch	Kuala Lumpur	100.00	
Pakistan	Merck (Pvt.) Ltd.	Karachi	75.00	26.00
Pakistan	Merck Pharmaceuticals (Pvt.) Ltd.	Karachi	75.00	
Pakistan	Merck Specialities (Pvt.) Ltd.	Karachi	100.00	
Philippines	Merck Inc.	Makati City	100.00	
Singapore	Merck Pte. Ltd.	Singapore	100.00	
Singapore	Millipore Singapore Pte. Ltd.	Singapore	100.00	
South Korea	Merck Advanced Technologies Ltd.	Pyungtaek-shi	100.00	
South Korea	Merck Ltd.	Seoul	100.00	
South Korea	Millipore Korea Ltd.	Seoul	100.00	
Taiwan	Merck Display Technologies Ltd.	Taipei	100.00	
Taiwan	Merck Ltd.	Taipei	100.00	
Taiwan	Millipore Asia Ltd., Taiwan Branch	Taipei	100.00	
Thailand	Merck Ltd.	Bangkok	45.11	
United Arab Emirates	Merck Serono Middle East FZ-LLC	Dubai	100.00	
Vietnam	Merck Vietnam Ltd.	Ho Chi Minh City	100.00	
Egypt	Merck Ltd.	Cairo	100.00	
Mauritius	Millipore Mauritius Ltd.	Cyber City	100.00	
South Africa	Merck (Pty) Ltd.	Modderfontein	100.00	
South Africa	Merck Pharmaceutical Manufacturing (Pty) Ltd.	Wadeville	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Tunisia	Merck Promotion SARL	Tunis	100.00	
Tunisia	Merck SARL	Tunis	100.00	
Australia	Chemicon Australia Pty. Ltd.	Sydney	100.00	
Australia	Merck Pty. Ltd.	Kilsyth	100.00	
Australia	Merck Serono Australia Pty. Ltd.	Sydney	100.00	
Australia	Millipore Australia Pty. Ltd.	Sydney	100.00	
New Zealand	Merck Ltd.	Manukau City	100.00	

## II. Associates included at equity

### Latin America

Chile	Tecnigen S.A.	Santiago de Chile	36.00	
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### Asia, Africa, Australasia

South Africa	Microsep (Pty) Ltd.	Sandton	24.50	
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## III. Companies not consolidated due to secondary importance

### Germany

Germany	Merck 11. Allgemeine Beteiligungs GmbH	Darmstadt	100.00	100.00
Germany	Merck Patent GmbH	Darmstadt	100.00	
Germany	Merck Sechste Allgemeine Beteiligungs-gesellschaft mbH	Darmstadt	100.00	
Germany	Merck Wohnungs- und Grundstücksver-waltungsgesellschaft mbH	Darmstadt	100.00	100.00

### Other European countries

France	Financière du 8ème S.A.S.	Lyon	100.00	
France	Gonnon S.A.S.	Lyon	100.00	
United Kingdom	Biovation Ltd.	Aberdeen	100.00	
United Kingdom	Merck UK Limited Partnership	Poole	100.00	
United Kingdom	Nature's Best Health Products Ltd.	Tunbridge Wells	100.00	
Denmark	Merck A/S	Hellerup	100.00	
Ireland	Merck Serono (Ireland) Ltd.	Dublin	100.00	
Netherlands	Merck Holding Netherlands B.V.	Schiphol-Rijk	100.00	
Norway	Merck AS	Lorenskog	100.00	
Austria	Eurodrug Chemisch-pharmazeutische Produkte GmbH	Vienna	100.00	
Austria	Merck Vermögensverwaltungs-GmbH	Vienna	100.00	
Portugal	Laboratorio dos Produtos Sigma S.A.	Lisbon	100.00	
Portugal	Laquifa Laboratorios S.A.	Lisbon	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
<b>Latin America</b>				
British Virgin Islands	Axebury Ltd.	Tortola	100.00	
Dominican Republic	Merck Dominicana S.A.	Santo Domingo	100.00	
Curacao	Applied Research Systems ARS Holding N.V.	Curacao	100.00	
Curacao	CMIP (Curacao) B.V.	Curacao	100.00	
<b>Asia, Africa, Australasia</b>				
China	Beijing Skywing Technology Co. Ltd.	Beijing	100.00	
Indonesia	P.T. Merck Specialities	Jakarta	100.00	
Morocco	Merck Maroc S.A.R.L.	Casablanca	100.00	
South Africa	Merck Chemicals (Pty) Ltd. (in liquidation)	Modderfontein	100.00	
South Africa	Serono South Africa Ltd.	Johannesburg	100.00	
Australia	E. Merck Pty. Ltd.	Kilsyth	100.00	
<b>IV. Associates not included at equity due to secondary importance</b>				
<b>Germany</b>				
Germany	pharma mall Gesellschaft für Electronic Commerce mbH	Böhen	16.67	
<b>Other European countries</b>				
Switzerland	Vaximm Holding AG	Basel	25.00	
Italy	BioIndustry Park del Canavese S.p.A.	Colleretto Giacosa	13.30	
<b>North America</b>				
United States	Tioga Pharmaceuticals, Inc.	San Diego	17.22	17.22

## RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements of the Merck Group give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Darmstadt, February 8, 2011



Karl-Ludwig Kley



Michael Becker



Bernd Reckmann



Stefan Oschmann



Elmar Schnee

## AUDITOR'S REPORT

"We have audited the consolidated financial statements prepared by Merck Kommanditgesellschaft auf Aktien, Darmstadt, comprising the balance sheet, income statement, the statement of comprehensive income, the cash flow statement, statement of changes in net equity, and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) HGB [Handelsgesetzbuch "German Commercial Code"] and supplementary provisions of the articles of association are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt/Main, February 9, 2011

KPMG AG  
Wirtschaftsprüfungsgesellschaft



Prof. Dr. Nonnenmacher  
Wirtschaftsprüfer



Jenal  
Wirtschaftsprüfer

## GLOSSARY

### A

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- Affiliate** A company that, due to its minor significance, is not included in the scope of consolidation.
- Associate** A company in which another entity holds a significant portion of the voting shares, but does not exert control over or jointly manage.

### B

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- Beta-blockers** A collective term for similarly acting drugs that act as inverse agonists on the body's beta receptors and thus inhibit the effect of stress hormones (notably, norepinephrine and epinephrine). They lower the heart rate and blood pressure, decrease the strength of heart beat, and reduce the heart's excitability.
- BH4** Abbreviation for tetrahydrobiopterin, a key co-enzyme in amino acid metabolism. BH4 lowers the blood phenylalanine levels in patients with BH4-responsive phenylketonuria.
- Biomarkers** The term refers both to substances in the body and cell properties. Biomarkers can help doctors to identify a patient's disease. Certain genes tend to play a role in the treatment of cancers, in terms of whether they are "normal" (wild type) or have undergone transformation (mutant).

### C

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- Cash flow** Equals cash receipts minus cash payments over a given period of time.
- CHMP** Committee for Medicinal Products for Human Use: a scientific committee of the European Medicines Agency. It prepares the Agency's opinions and handles the authorization and risk assessment of medicinal products.
- Commercial Paper Program** A commercial paper program provides the contractual framework for the issuance of commercial paper, which is a short-term debt instrument issued by a corporation.
- Compliance** This term refers to compliance with laws and regulations as well as with voluntary codices that are internal to the Merck Group. Compliance is an element of diligent corporate governance.
- Corporate governance** This term covers compliance with laws and regulations; the application of recognized standards and recommendations; the development of and adherence to internal guidelines; as well as the creation and implementation of guideline and control structures.
- Credit facility** The financial scope up to which a bank has agreed to grant a loan to a borrower is referred to as a credit line or credit facility. A credit line is a revolving credit: the borrower can continuously draw funds and make payments until the term expires or the credit line is terminated.

### D

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- DAX®** Deutscher Aktienindex (German stock index): Its value is based on the stock prices of the 30 largest German companies by trading volume and free float market capitalization.
- Debt issuance program** A debt issuance program provides the contractual framework for the issuance of bonds. Thanks to the current terms and conditions, the program allows the company flexibility when issuing bonds.
- Dividend yield** The ratio of the dividend per share. to the share price.

**E**

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<b>Earnings per share</b>	Earnings per share are calculated as specified in IAS 33 by dividing the Group profit by the weighted average number of shares.
<b>EBIT</b>	Earnings before interest and taxes. Equals the operating result plus exceptional items.
<b>EBITDA</b>	Earnings before interest, taxes, depreciation and amortization: depreciation and amortization are added back to EBIT.
<b>EGFR</b>	Epidermal Growth Factor Receptor: It is upregulated in various tumor types and/or present in mutated form, resulting in uncontrolled growth and replication of tumor cells. Novel cancer therapies are aimed at blocking EGFR's oncogenic signal and hence stopping tumor growth.
<b>EMA (previously EMEA)</b>	European Medicines Agency: an official body of the European Union, headquartered in London. It is responsible for evaluating and monitoring medicines and plays a key role in the marketing authorization of medicinal products.
<b>Equity method</b>	The basic idea of the equity method is that the investor company reports the income earned on the investment on its income statement and the reported value is based on the investor's share of the company assets.
<b>Equity ratio</b>	Indicator that shows equity capital in proportion to total capital, serving to evaluate the financial stability and independence of a company.
<b>Euribor</b>	The Euro Interbank Offered Rate (EUR BOR) is the rate at which euro interbank term deposits are offered by one prime bank to another within the euro zone. Euribor rates are applicable for periods of one week to three weeks and one month to 12 months.

**F**

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<b>FCR</b>	Underlying free cash flow on revenues: FCR is calculated from the underlying free cash flow as a percentage of total revenues. This is a key performance indicator for steering the business.
<b>FDA</b>	Food and Drug Administration: U.S. government agency responsible for protecting and advancing public health, especially as concerns food and drugs.
<b>Financial covenants</b>	Financial figures stipulated in loan contracts to which the company must adhere during the duration of the loan.
<b>First, second and third line therapy</b>	First and second line therapies are curative in nature and therefore take precedence. Some patients derive little or no benefit from first and second line treatment. Patients who have not responded to the first two lines move on to a third line of treatment, which is palliative (i.e. it aims to relieve suffering).
<b>Free cash flow</b>	Sum of the net cash flow from operating activities minus investments in intangible assets, property, plant and equipment, acquisitions as well as investments in other financial assets, plus proceeds from the disposal of assets and changes in securities.

**G**

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<b>GDP</b>	Gross domestic product – total value of all goods (products and services) intended for final consumption that are produced within a country's borders in a given year.
<b>Gearing</b>	Ratio of net debt including pension provisions to net equity.
<b>GHS</b>	Globally Harmonized System of Classification and Labelling of Chemicals. An international standard system to classify chemicals, including labels and safety data sheets.
<b>Goodwill</b>	Goodwill arises when a company acquires another company and primarily represents the difference between the fair value of the acquired net assets and the purchase price paid.



**GPHF** Global Pharma Health Fund e.V. is a non-profit initiative created by Merck. The organization's goal is to promote health care within the scope of development assistance, especially with respect to the fight against counterfeit drugs through the use of the GPHF-Minilab®.

**GPHF-Minilab®** With the GPHF-Minilab®, the GPHF offers a unique mobile compact laboratory that is capable of testing the quality of drugs very quickly.

**Greenhouse Gas Protocol** Most widely used accounting and reporting system for greenhouse gas emissions.

## H

**Hedging** Hedging means protection against or limitation of certain clearly identified risks that might result from occurrences such as changes in foreign exchange rates or share prices. Fair value hedge: This primarily involves protecting against potential market value fluctuations of those assets and liabilities already recognized in the balance sheet. Cash flow hedge: The primary purpose of a cash flow hedge is to protect against uncertain cash flows that especially result from future transactions.

## I

**ICCA** International Council of Chemical Associations.

**IFRS** International Financial Reporting Standards (until 2001 known as International Financial Accounting Standards, IAS) are the standards that publicly traded companies must apply if their headquarters are domiciled in the European Union.

**IMF** The International Monetary Fund, with headquarters in Washington, D.C., is a United Nations organization.

**Interest rate swaps** An interest rate swap is an agreement between two contractual parties to exchange various interest payments. Thus, a company can transform a variable interest item into a fixed interest item and vice-versa.

## K

**KRAS** A recently identified biomarker that can show whether a patient with metastatic colorectal carcinoma is likely to respond to EGFR antibody therapy. This is done by testing the status of the KRAS gene in the tumor to see if it is normal (wild type) or abnormal (mutant). The KRAS acronym stands for Kirsten Rat Sarcoma.

## L

**LED** A light-emitting diode (LED) is an electronic semiconductor device. When an electric current passes through it in the flow direction, it emits visible light, infrared radiation (IR diode) or ultraviolet radiation (UV diode). The wavelength of this depends on the semiconductor material used and the doping level.

**Liquid Crystals (LC)** These specialty chemicals are used in LC displays (LCD), for example, in flat-panel televisions, notebooks, mobile telephones, etc.

**LTIR** Lost time injury rate: indicator for workplace safety. The number of workplace accidents with one or more days of lost time per million hours worked.

**Lupus erythematosus (LE)** An autoimmune disease linked to inflammatory rheumatic disease and classified as a collagen disease. There are two main types: lupus of the skin, and systemic lupus erythematosus (SLE). It may affect other organ systems apart from the skin and joints, e.g. the kidneys in lupus nephritis (LN).

## M

**Metafolin®** Biologically active form of folate that occurs naturally in the human body and is utilized better by the body than folic acid. Folic acid and Metafolin® are important for cell division and blood formation and therefore the development and growth of new life.

**Monoclonal antibodies** Highly specialized targeted antibodies synthesized using biotechnological methods. What makes them special is their ability to activate the body's natural mechanisms to fight disease. Monoclonal antibodies have mainly been used for cancer treatment and to suppress adverse immune responses.

**MUC1** Also known as PEM (polymorphic epithelial mucin), MUC1 is a glycoprotein group mucin embedded in cell membranes and occurring in all human organs. The MUC1 mucin is an established tumor marker. In oncology, this tumor marker is the starting point for several new cancer therapies.

**Multi-currency credit facility** A contract between a company and a bank (or several banks) under which the bank gives the company the possibility to access a predefined amount of money at certain conditions. Depending on the agreement, payment can be made in different currencies.

## O

**OECD** Organization for Economic Co-operation and Development, with headquarters in Paris, is a forum of 34 countries committed to the principles of democracy and market economy.

**OLED** Organic light-emitting diodes. New technology for displays and lighting used, for example, in mobile telephones, MP3 players, and since recently also in televisions and lamps.

**Organic growth** Organic growth is the part of a company's growth that is not derived from acquisitions or currency effects.

**OTC** Over-the-counter drugs is the term used for drugs that are available at stores and pharmacies without a prescription.

## P

**Praziquantel** A vermifuge used to fight flatworms, tapeworms and distoma including the schistosoma, the pathogen that causes the tropical disease schistosomiasis.

**Progression-free survival** In oncology, the amount of time between a patient's enrollment in a clinical trial and disease progression or the patient's death – depending on what occurs first.

**Provisions/reserves** Provisions are set aside for liabilities whose amount or maturity are uncertain. Reserves, on the other hand, are part of a company's equity.

**PS-VA** Polymer-stabilized vertical alignment: A polymer layer pre-aligns the molecules inside the display in a certain direction. In the black state, the liquid crystals are not exactly vertical, but slightly tilted: This allows the liquid crystals to switch more quickly. The light transmittance is significantly higher, thus reducing the backlighting, one of the most costly components to produce.

**Purchase price allocation** The purchase price allocation allows a company's acquisition costs (purchase price) to be assigned to the tangible and intangible assets and liabilities that were acquired with it.

## R

**Randomized study** In medical research, randomization refers to the random assignment of subjects to treatment groups. The goal is to prevent the investigator from influencing the trial and to ensure that known and unknown influencing factors are distributed evenly across all groups.

**Rating** Rating is an assessment of a borrower's ability to pay. Borrowers are classified according to a bank's own criteria (internal rating) or the criteria of international rating agencies such as Moody's or Standard & Poor's (external rating).

**REACH** REACH stands for the Registration, Evaluation, Authorization and Restriction of Chemicals. This is an EU regulation that entered into force in mid-2007.

**Reactive mesogens** Polymerizable liquid crystals that can be used, for example, as material for optical films. They help to enhance the display image quality.

**Recurrent/recurring** In oncology, recurrent cancer means that the disease returns after it seems to have completely disappeared. This is often caused by the incomplete removal of the tumor.

**Research spending ratio** Research spending as a proportion of the total revenues of the company or division.

**ROS** Return on sales: Ratio of operating result to total revenues. This is a key performance indicator for steering the business.

## S

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**Schistosomiasis** Schistosomiasis, also known as bilharziosis, is a parasitic disease that is spread in warm lakes and ponds by snails that serve as intermediate hosts.

**Somatotropin** A proteohormone occurring as a growth hormone in the human and animal organism. Somatotropin is essential to the achievement of normal height.

**Syndicated loan** Also known as a "syndicated bank facility". This is a loan offered by a group of lenders (called a syndicate). The lenders, such as banks or institutional investors, form a syndicate.

## T

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**Tax rate** The tax rate indicates the percentage rate by which Group profit before tax and exceptional items is to be multiplied in order to calculate the theoretical tax expense before exceptional items.

**Tax ratio** The tax ratio indicates the ratio of total taxes to profit before tax.

**Tax ratio before exceptional items** The tax rate before exceptional items indicates the ratio of total taxes (adjusted for the tax effects of exceptional items) to profit before tax (adjusted for exceptional items).

**Total revenues** Sum of sales as well as royalty, license and commission income. Royalties are earned primarily through patents held by the Pharmaceuticals business sector.

## U

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**Underlying free cash flow** Free cash flow adjusted for acquisitions and divestments.

## V

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**VCI** Verband der Chemischen Industrie (German Chemical Industry Association) represents the economic-political interests of 1,600 German chemical companies.

## BUSINESS DEVELOPMENT 2001 – 2010

This overview may include historically adjusted values in order to ensure comparability with 2010

EUR million	2001	2002	2003	2004
Total revenues by division	7,721	7,521	7,364	6,017
Pharmaceuticals	3,484	3,265	3,458	3,601
Merck Serono	2,228	1,850	1,546	1,619
Generics <sup>2</sup>	936	1,096	1,585	1,625
Consumer Health Care	320	319	327	357
Chemicals	1,729	1,791	1,707	1,696
Merck Millipore	-	-	-	-
Performance Materials	-	-	-	-
Liquid Crystals	297	383	443	589
Performance & Life Science Chemicals	1,216	1,216	1,083	1,107
Electronic Chemicals <sup>2</sup>	216	192	181	-
Laboratory Distribution <sup>2</sup>	2,754	2,711	2,427	582
Intragroup sales, Laboratory	-246	-246	-228	-62
Corporate and Other	-	-	-	200
Operating result by business sector	877	616	736	776
Pharmaceuticals	581	272	389	391
Chemicals	204	260	316	420
Laboratory Distribution <sup>2</sup>	92	84	79	21
Corporate and Other	-	-	-48	-56
Earnings before income and taxes (EBIT)	1,286	559	538	1,044
EBIT before depreciation and amortization (EBITDA)	1,694	985	1,008	1,419
Profit before tax	1,078	412	423	961
Profit after tax	655	215	218	672
Free cash flow	664	441	442	1,889
Capital expenditure on property, plant and equipment	470	377	281	234
Research and development	577	608	605	599
Total assets	8,255	7,511	6,982	5,754
Net equity	2,336	2,054	2,363	2,800
Employees (number as of December 31)	34,294	34,504	34,206	28,877
Return on sales in % (ROS: Operating result/total revenues)	11.4	8.2	10.0	12.9
Earnings per share in EUR	3.66	1.18	1.15	3.47
Dividend per share in EUR	0.95	1.00	0.80	0.80
One-time bonus per share in EUR	-	-	-	0.20

<sup>1</sup> As a result of the acquisition of Millipore, the Chemicals business sector was reorganized. The previous year's figures have been adjusted.

<sup>2</sup> Business was divested.

<sup>3</sup> Including the divested Generics division (along with the gain on divestment)

2005	2006	2007	2008	2009	2010	Change vs. 2009 in %
5,887	6,310	7,081	7,590	7,747	9,291	19.9
3,905	4,163	4,900	5,456	5,812	6,226	7.1
1,817	1,938	4,480	5,014	5,345	5,754	7.6
1,712	1,825	-	-	-	-	-
376	400	420	442	467	472	1.1
1,906	2,113	2,152	2,127	1,935	3,065	58.4
-	-	-	-	929 <sup>1</sup>	1,681	80.9
-	-	-	-	1,006 <sup>1</sup>	1,384	37.7
741	895	916	878	-	-	-
1,165	1,218	1,236	1,249	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
76	34	29	7	-	-	-
883	1,105	976	1,131	649	1,113	71.6
454	524	417	655	403	579	43.7
492	641	631	558	324	624	92.4
-	-	-	-	-	-	-
-63	-60	-72	-81	-78	-90	14.1
956	1,325	200	731	621	1,113	79.2
1,245	1,628	1,858	1,947	1,625	2,457	51.2
893	1,273	-111	575	486	861	77.0
673	1,001	3,520 <sup>3</sup>	379	377	642	70.3
657	-1,073	-1,473 <sup>3</sup>	438	812	-3,522	-
268	253	283 <sup>3</sup>	395	467	396	-15.2
713	752	1,028	1,234	1,345	1,397	3.9
7,281	8,102	14,922	15,645	16,713	22,388	34.0
3,329	3,807	8,688	9,563	9,514	10,372	9.0
29,133	29,999	30,968	32,800	33,062	40,562	22.7
15.0	17.5	13.8	14.9	8.4	12.0	
3.40	5.07	16.21 <sup>3</sup>	1.69	1.68	2.91	73.2
0.85	0.90	1.20	1.50	1.00	1.25	25.0
-	0.15	2.00	-	-	-	-

# FINANCIAL CALENDAR FOR 2011

**Annual Press Conference:** Monday, February 21

**Annual General Meeting:** Friday, April 8

**Report on the first quarter:** Thursday, April 28

**Report on the first half:** Wednesday, July 27

**Autumn press conference and report on the third quarter:** Wednesday, October 26

## MORE INFORMATION

The Merck Annual Report for 2010 has been published in German and English as a full-length and an abridged version. The full report is also available as a navigable online version at [www.merck.de/annualreport2010](http://www.merck.de/annualreport2010).

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

Responsibility: Corporate Responsibility Report 2009

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

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

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### Mixed Sources

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