# DISCLAIMER

MERCK Living Innovation

# MERCK HALF-YEAR FINANCIAL REPORT
## 2nd Quarter 2014

# Our cover photo

## Nasivin helps people to breathe easy – in India and on the moon as well

### Successful campaign helps increase sales volumes of the classic nasal decongestant in the Indian market

The cover photo of our half-year financial report depicts a major billboard for the Merck nasal decongestant Nasivin®, or as it is known in the Indian market, Nasivion®. The billboard is located in the Indian metropolis of Bangalore and shows the cricketer Rohit Sharma, captain of the Mumbai Indians cricket team and one of the country's most famous sports stars. It is part of the Metro Campaign aimed at the population of major Indian cities.

The campaign was developed within the scope of a consumer-oriented marketing strategy that the Consumer Health division of Merck has been pursuing since 2010. Billboards are not the only advertising medium used. In Delhi, for example, 50 Nasivion taxis are plying the route between Delhi Airport and downtown Delhi, and two Nasivion double-decker buses are driving around Mumbai. Clear key messages and revamped packaging are being used to address consumers and drive the key messages at various consumer touch points, for instance in the midst of rush hour in India, as the cover photo shows. This has proven successful: Over the past three years, Merck has achieved average annual growth of more than 20% with Nasivion in India.

With a population of more than 1.2 billion people and a growing middle class with rising purchasing power and health awareness, India is a tremendous market for over-the-counter pharmaceuticals, such as those offered by the Merck Consumer Health division. Yet Merck is focusing not only on India; in the second quarter Merck generated 37% of Group sales in the Emerging Markets region.

Incidentally, Nasivin has been thriving on the Indian market since its launch in 1969, the same year the successful Merck product accompanied Neil Armstrong and Buzz Aldrin as part of the medical kit for the Apollo 11 space mission.

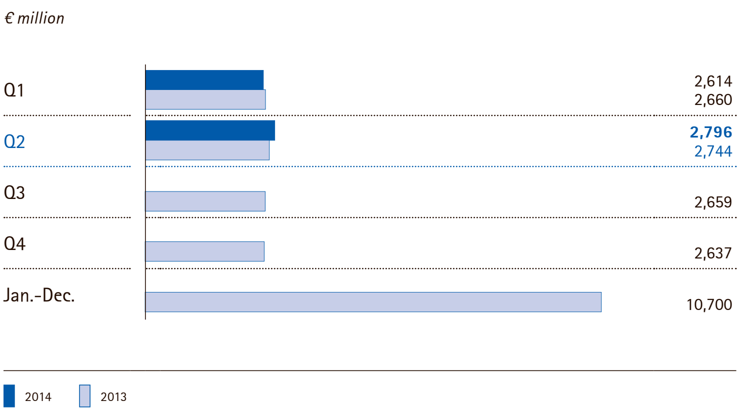
# The Merck Group – In brief

## Merck Group | Key figures

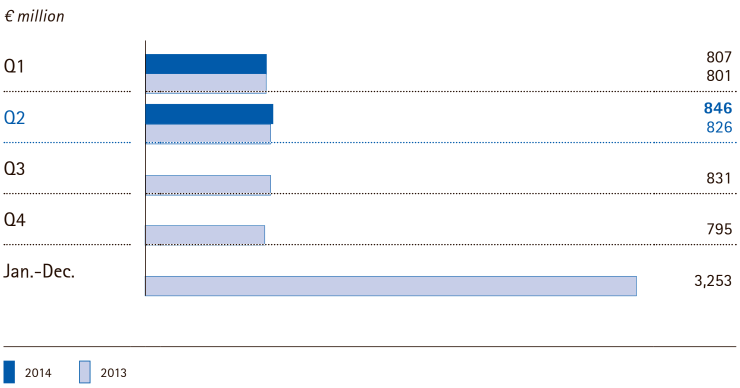
| € million | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| Total revenues | 2,863.1 | 2,841.1 | 0.8 | 5,527.9 | 5,601.6 | –1.3 |
| Sales | 2,795.5 | 2,743.9 | 1.9 | 5,409.4 | 5,404.3 | 0.1 |
| Operating result (EBIT) | 441.0 | 465.4 | –5.2 | 909.3 | 864.8 | 5.1 |
| *Margin (% of sales)* | *15.8* | *17.0* | | *16.8* | *16.0* | |
| EBITDA | 767.0 | 793.1 | –3.3 | 1,537.2 | 1,546.9 | –0.6 |
| *Margin (% of sales)* | *27.4* | *28.9* | | *28.4* | *28.6* | |
| EBITDA pre one-time items | 845.7 | 826.4 | 2.3 | 1,652.7 | 1,627.5 | 1.6 |
| *Margin (% of sales)* | *30.3* | *30.1* | | *30.6* | *30.1* | |
| Earnings per share (€)[1] | 0.70 | 0.73 | –4.1 | 1.45 | 1.34 | 8.2 |
| Earnings per share pre one-time items (€)[1] | 1.16 | 1.13 | 2.7 | 2.32 | 2.19 | 5.9 |
| Business free cash flow | 632.2 | 783.8 | –19.3 | 1,316.3 | 1,376.7 | –4.4 |

[1] Taking into account the share split; previous year's figures have been adjusted accordingly.
See explanations under "Earnings per share" in the Notes to the Consolidated Financial Statements.

## Merck Group | Sales by quarter – Q2 2014




## Merck Group | EBITDA pre one-time items by quarter – Q2 2014



# Contents

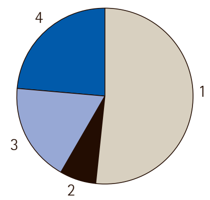
# Fundamental Information about the Group

## The Merck Group and its divisions

The Merck Group, which is headquartered in Darmstadt, Germany, is a global corporate group. With a history dating back nearly 350 years, it is the world's oldest pharmaceutical and chemical company. Merck holds the global rights to the Merck name and brand. The only exceptions are Canada and the United States, where Merck operates as EMD. Merck's product portfolio ranges from innovative pharmaceuticals and biopharmaceutical products, to specialty chemicals, high-tech materials and life science tools. Merck markets its wide range of products within its four divisions: Merck Serono, Consumer Health, Performance Materials and Merck Millipore.

### Merck Group | Sales by division – Q2 2014

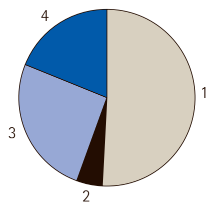
*€ million / % of sales*




| | | |
|---|---|---|
| 1 Merck Serono | 1,446.4 | 52% |
| 2 Consumer Health | 184.7 | 7% |
| 3 Performance Materials | 505.7 | 18% |
| 4 Merck Millipore | 658.7 | 23% |

### Merck Group | EBITDA pre one-time items by division – Q2 2014

*€ million / in %*

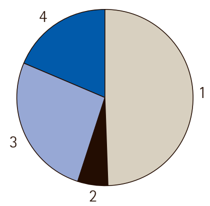



| | | |
|---|---|---|
| 1 Merck Serono | 452.0 | 51% |
| 2 Consumer Health | 41.4 | 5% |
| 3 Performance Materials | 226.3 | 25% |
| 4 Merck Millipore | 165.7 | 19% |

Not presented: Decline in Group EBITDA pre one-time items by € –39.8 million due to Corporate and Other.

### Merck Group | Business free cash flow by division – Q2 2014

*€ million / in %*



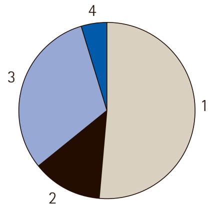

| | | |
|---|---|---|
| 1 Merck Serono | 337.3 | 50% |
| 2 Consumer Health | 36.2 | 5% |
| 3 Performance Materials | 179.4 | 26% |
| 4 Merck Millipore | 125.5 | 19% |

Not presented: Decline in Group business free cash flow by € –46.3 million due to Corporate and Other.

→ The Merck Group and its divisions

**Merck Group | Number of employees as of June 30, 2014: 39,230**

*Number / in %*




| | | |
|---|---|---|
| 1 Europe | 20,243 | 52 % |
| 2 North America | 4,945 | 13 % |
| 3 Emerging Markets | 12,240 | 31 % |
| 4 Rest of World | 1,802 | 4 % |

As of June 30, 2014, Merck had 39,230 employees worldwide compared to 38,154 on December 31, 2013.

## Merck Serono

Merck Serono discovers, develops, manufactures and markets innovative pharmaceutical and biological prescription drugs to treat cancer, multiple sclerosis (MS), infertility, and growth disorders, as well as certain cardiovascular and metabolic diseases. As the company's largest division, in the second quarter of 2014 Merck Serono generated 52% of Group sales and 51% of EBITDA pre one-time items (excluding Corporate and Other). The present Merck Serono division was formed in 2007 with the acquisition of the Swiss biopharmaceutical company Serono SA, which was integrated stepwise into Merck's prescription drugs business. The former Serono headquarters in Geneva, Switzerland was divested in 2013 and divisional headquarters moved to Darmstadt.

Merck Serono commercializes its products worldwide and has a strong presence in established markets. The regions of Europe and North America contributed 64% of divisional sales in the second quarter of 2014. In recent years, Merck Serono has steadily expanded its presence in Emerging Markets, which accounted for 29% of the division's sales in the second quarter. Rebif®, its top-selling product, is used to treat relapsing forms of multiple sclerosis (MS), which is one of the most common neurological diseases among young adults.

In Oncology, Merck Serono offers Erbitux® for the targeted and personalized treatment of metastatic colorectal cancer. Erbitux® is the second best-selling drug in Merck Serono's product portfolio. This monoclonal antibody is also a standard in the treatment of squamous cell carcinoma of the head and neck.

Merck Serono also offers products that help couples to conceive a child. We are the only company with a complete portfolio of fertility drugs spanning the whole fertility treatment cycle with recombinant versions of the three hormones needed to treat infertility, including Gonal-f®, the most frequently prescribed gonadotropin worldwide. The products in the Fertility franchise are an important growth driver for Merck Serono. This is due to the increasing demand in emerging markets and to the trend of couples postponing childbearing until later in life when natural fertility declines.

The General Medicine franchise comprises branded products to treat cardiometabolic diseases. Although no longer patent-protected, these are still the therapies of choice for numerous diseases. This applies, for example, to Glucophage® containing the active ingredient metformin, the drug of choice for first-line treatment of type 2 diabetes, or Concor®, a drug for chronic cardiovascular disease like hypertension. Particularly in emerging markets, there is a continuous rise in demand for cardiometabolic therapies. This is due to both increasing life expectancy and in part also to growing prosperity in this region, along with the resulting changes in lifestyle and dietary habits.

Merck Serono is continuously working to improve ways to administer medicines and active ingredients. For several years, Merck Serono has been developing novel injection devices, which make injections more user-friendly and at the same time more reliable for patients than conventional or prefilled syringes. In addition, these products make it easier for medical staff to support healthcare professionals and patients to reach their treatment goals. Examples are the electromechanical injection devices easypod™ for delivery of Saizen® (somatropin) and RebiSmart™ for Rebif® (interferon beta-1a).

Merck Serono is advancing its research and development (R&D) portfolio across the areas of oncology, immuno-oncology and immunology, and continues to invest in multiple sclerosis. With world-class expertise in discovery and early development, as well as approximately 30 compounds in clinical development, Merck Serono is focused on delivering differentiated new therapies to patients in need.

→ The Merck Group and its divisions

Merck has two further pharmaceutical business units: Allergopharma is specialized in developing high-dose hypoallergenic products for specific immunotherapy and diagnosis of type 1 allergies (such as hay fever or allergic asthma). The Biosimilars unit is developing biological medicines that are similar to an existing registered biological medicine (the 'reference medicine'). The division is moving ahead with the development of a portfolio of biosimilar compounds applicable to various disease areas including Oncology and Autoimmune Diseases. The focus is on developing molecules through in-house research and development as well as through partnerships.

As of January 1, 2014, two product groups were transferred from the Merck Serono division to the Consumer Health division. These are Neurobion®, a vitamin B-based analgesic, and Floratil®, a leading brand in the probiotic antidiarrheal segment in Brazil. Sales of the two products totaled € 265 million in 2013. The effects of the product group transfers on Merck Serono's figures for 2013 are presented in the following table.

**Transfer of Neurobion® and Floratil® to Consumer Health**

**Merck Serono | Adjusted**

| | 2013 reported | | | | 2013 adjustment | | | | 2013 adjusted | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *€ million* | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Total revenues | 1,547.6 | 1,623.8 | 1,568.1 | 1,586.2 | –65.5 | –63.3 | –70.2 | –66.3 | 1,482.1 | 1,560.5 | 1,497.9 | 1,519.9 |
| Sales | 1,454.3 | 1,530.8 | 1,483.0 | 1,485.4 | –65.5 | –63.3 | –70.2 | –66.2 | 1,388.8 | 1,467.6 | 1,412.8 | 1,419.2 |
| Operating result (EBIT) | 195.2 | 282.5 | 274.5 | 140.8 | –25.0 | –16.1 | –34.0 | –24.8 | 170.2 | 266.4 | 240.5 | 116.0 |
| *Margin (% of sales)* | *13.4* | *18.5* | *18.5* | *9.5* | – | – | – | – | *12.3* | *18.2* | *17.0* | *8.2* |
| EBITDA | 433.3 | 493.8 | 479.8 | 479.5 | –25.0 | –16.1 | –34.0 | –24.8 | 408.3 | 477.7 | 445.8 | 454.7 |
| *Margin (% of sales)* | *29.8* | *32.3* | *32.4* | *32.3* | – | – | – | – | *29.4* | *32.6* | *31.6* | *32.0* |
| EBITDA pre one-time items | 462.7 | 490.9 | 501.4 | 499.9 | –25.0 | –16.1 | –34.0 | –24.8 | 437.7 | 474.8 | 467.4 | 475.1 |
| *Marge (% of sales)* | *31.8* | *32.1* | *33.8* | *33.7* | – | – | – | – | *31.5* | *32.4* | *33.1* | *33.5* |
| Business free cash flow | 354.1 | 511.3 | 536.6 | 473.6 | –14.1 | –25.6 | –24.6 | –24.3 | 340.0 | 485.7 | 512.0 | 449.4 |

| | 2013 reported | | | | 2013 adjustment | | | | 2013 adjusted | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *€ million* | | Jan.–June | Jan.–Sept. | Jan.–Dec. | | Jan.–June | Jan.–Sept. | Jan.–Dec. | | Jan.–June | Jan.–Sept. | Jan.–Dec. |
| Total revenues | | 3,171.4 | 4,739.5 | 6,325.8 | | –128.8 | –199.1 | –265.4 | | 3,042.6 | 4,540.5 | 6,060.4 |
| Sales | | 2,985.1 | 4,468.2 | 5,953.6 | | –128.8 | –199.1 | –265.2 | | 2,856.3 | 4,269.1 | 5,688.4 |
| Operating result (EBIT) | | 477.8 | 752.2 | 893.0 | | –41.1 | –75.1 | –99.9 | | 436.6 | 677.1 | 793.1 |
| *Margin (% of sales)* | | *16.0* | *16.8* | *15.0* | | – | – | – | | *15.3* | *15.9* | *13.9* |
| EBITDA | | 927.1 | 1,407.0 | 1,886.5 | | –41.1 | –75.1 | –99.9 | | 886.0 | 1,331.8 | 1,786.6 |
| *Margin (% of sales)* | | *31.1* | *31.5* | *31.7* | | – | – | – | | *31.0* | *31.2* | *31.4* |
| EBITDA pre one-time items | | 953.6 | 1,455.1 | 1,955.0 | | –41.1 | –75.1 | –99.9 | | 912.5 | 1,379.9 | 1,855.1 |
| *Marge (% of sales)* | | *31.9* | *32.6* | *32.8* | | – | – | – | | *31.9* | *32.3* | *32.6* |
| Business free cash flow | | 865.4 | 1,402.0 | 1,875.7 | | –39.7 | –64.3 | –88.6 | | 825.7 | 1,337.7 | 1,787.1 |

## Consumer Health

The Consumer Health division manufactures and markets over-the-counter pharmaceuticals. Consumer Health focuses on a number of well-known strategic brands, e.g. Neurobion®, Bion®3, Nasivin®, Femibion®, Seven Seas®, Sangobion®, Floratil®, Cebion®, Sedalmerck® and Kytta®. The division contributed 7% to Group sales and 5% to EBITDA pre one-time items (excluding Corporate and Other) in the second quarter of 2014. The division has high market penetration in Europe, Latin America as well as Southeast Asia. The division is also generating strong growth in Russia and Emerging Markets, particularly in India, Indonesia and Brazil, which have firmly established themselves among the division's top-ten markets in terms of sales.

→ The Merck Group and its divisions

Global megatrends favor future growth of Consumer Health. People are becoming more health-conscious and concerned with their own physical well-being. Preventive health care is becoming increasingly important – in both established and emerging markets, characterized by a growing middle class with specific needs.

As of January 1, 2014, two product groups were transferred from the Merck Serono division to the Consumer Health division. These are Neurobion®, a leading global franchise in the vitamin B segment, and Floratil®, a leading brand in the probiotic antidiarrheal segment in Brazil. As a result, the division has become significantly larger.

With the transferred sales of € 265 million, divisional sales grew on a pro forma basis by 55% to € 742 million. The transfer of the two strong brands makes better use of the potential of the consumer-oriented business model of Consumer Health. In addition, it increases the division's exposure in Emerging Markets. This is a step in the division's journey towards having at least three leading brands and achieving a market share of at least 3% in each of its key markets. The share of Consumer Health sales accounted for by Emerging Markets increased from 26% (unadjusted year-earlier figure) to 54% in the second quarter of 2014 mainly as a result of the transfer. The effects of the product group transfers on Consumer Health's figures for 2013 are shown in the table below.

### Transfer of Neurobion® and Floratil® from Merck Serono

**Consumer Health | Adjusted**

| | 2013 reported | | | | 2013 adjustment | | | | 2013 adjusted | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *€ million* | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Total revenues | 116.3 | 116.8 | 131.4 | 115.1 | 65.5 | 63.3 | 70.2 | 66.3 | 181.8 | 180.1 | 201.7 | 181.4 |
| Sales | 116.1 | 115.6 | 131.0 | 114.2 | 65.5 | 63.3 | 70.2 | 66.2 | 181.7 | 178.9 | 201.2 | 180.4 |
| Operating result (EBIT) | 11.8 | 18.1 | 21.1 | 11.2 | 25.0 | 16.1 | 34.0 | 24.8 | 36.8 | 34.2 | 55.1 | 36.0 |
| *Margin (% of sales)* | *10.1* | *15.7* | *16.1* | *9.8* | – | – | – | – | *20.2* | *19.1* | *27.4* | *20.0* |
| EBITDA | 14.4 | 20.4 | 23.1 | 13.2 | 25.0 | 16.1 | 34.0 | 24.8 | 39.4 | 36.5 | 57.1 | 38.0 |
| *Margin (% of sales)* | *12.4* | *17.7* | *17.6* | *11.5* | – | – | – | – | *21.7* | *20.4* | *28.4* | *21.1* |
| EBITDA pre one-time items | 14.3 | 19.3 | 24.2 | 14.6 | 25.0 | 16.1 | 34.0 | 24.8 | 39.3 | 35.5 | 58.2 | 39.4 |
| *Marge (% of sales)* | *12.3* | *16.7* | *18.4* | *12.8* | – | – | – | – | *21.6* | *19.8* | *28.9* | *21.9* |
| Business free cash flow | 6.7 | 25.3 | 12.3 | 39.5 | 14.1 | 25.6 | 24.6 | 24.3 | 20.8 | 50.9 | 36.9 | 63.8 |

| | 2013 reported | | | 2013 adjustment | | | 2013 adjusted | | |
|---|---|---|---|---|---|---|---|---|---|
| *€ million* | Jan.–June | Jan.–Sept. | Jan.–Dec. | Jan.–June | Jan.–Sept. | Jan.–Dec. | Jan.–June | Jan.–Sept. | Jan.–Dec. |
| Total revenues | 233.1 | 364.5 | 479.6 | 128.8 | 199.1 | 265.4 | 361.9 | 563.6 | 745.0 |
| Sales | 231.8 | 362.7 | 476.9 | 128.8 | 199.1 | 265.2 | 360.6 | 561.8 | 742.1 |
| Operating result (EBIT) | 29.9 | 51.0 | 62.2 | 41.1 | 75.1 | 99.9 | 71.0 | 126.1 | 162.1 |
| *Margin (% of sales)* | *12.9* | *14.1* | *13.0* | – | – | – | *19.7* | *22.4* | *21.8* |
| EBITDA | 34.8 | 57.9 | 71.1 | 41.1 | 75.1 | 99.9 | 76.0 | 133.0 | 171.0 |
| *Margin (% of sales)* | *15.0* | *16.0* | *14.9* | – | – | – | *21.1* | *23.7* | *23.0* |
| EBITDA pre one-time items | 33.6 | 57.8 | 72.5 | 41.1 | 75.1 | 99.9 | 74.8 | 132.9 | 172.4 |
| *Marge (% of sales)* | *14.5* | *15.9* | *15.2* | – | – | – | *20.7* | *23.7* | *23.2* |
| Business free cash flow | 32.1 | 44.4 | 83.9 | 39.7 | 64.3 | 88.6 | 71.8 | 108.7 | 172.5 |

Effective May 15, 2014, Uta Kemmerich-Keil took over the leadership of the Consumer Health division, thus succeeding Udit Batra as President and Chief Executive Officer of Consumer Health. Kemmerich-Keil was previously CEO of Allergopharma, the Allergy business unit of the Merck Serono division.

→ The Merck Group
and its divisions

## Performance Materials

The Performance Materials division comprises Merck's entire specialty chemicals business. It offers high-tech performance chemicals for applications in fields such as consumer electronics, lighting, coatings, printing technology, plastics, and cosmetics. Through the acquisition of AZ Electronic Materials (AZ), a leading supplier of high-tech materials for the electronics industry, the division was significantly strengthened in the highly differentiated premium segment of high-tech materials and functional specialty chemicals. The acquisition officially closed on May 2, 2014. On June 27, 2014, Merck exercised its compulsory acquisition right ("squeeze-out") and all remaining outstanding shares were transferred to Merck on July 2, 2014. In December 2013, Merck had made a cash offer to AZ shareholders of 403.5 GB pence per AZ share, totaling approximately € 1.9 billion.

The Performance Materials division's share of Group sales increased in the second quarter of 2014 to 18% and its share of EBITDA pre one-time items (excluding Corporate and Other) rose to 25%. The results of AZ have been included since May 2, 2014. After the combination with AZ, the EBITDA margin pre one-time items amounted to 44.8% of sales in the second quarter.

Performance Materials comprises four business units: Liquid Crystals, Pigments & Cosmetics, Advanced Technologies, and AZ. Liquid Crystals generates more than half of divisional sales. With a high market share, Merck has established itself as the global market and technology leader in liquid crystal mixtures. The market is highly consolidated. In addition, high barriers to market entry exist due to the technological complexity of liquid crystals and the high quality requirements of customers and consumers. The seven largest LCD display manufacturers are among the customers of the Liquid Crystals business. Performance Materials has the broadest product offering in the industry and offers, among other things, liquid crystals based on PS-VA and IPS technologies. This enables the division to meet individual customer needs and offer solutions for all display sizes, from smartphones and tablet computers, to large-area television screens.

With the full acquisition of Peer+, a Dutch startup company for smart window technology as of July 1, 2014, Merck is also further advancing the future-oriented technology for liquid crystal smart windows. The division also manufactures and markets materials for organic light-emitting diodes (OLEDs), which are used in innovative lighting applications and display technologies.

The Pigments & Cosmetics business unit develops and markets a comprehensive product portfolio of effect pigments and functional materials. The pigments are primarily processed into automotive and industrial coatings, plastics, printing materials, laser marking, cosmetics, and counterfeit prevention applications. The product portfolio also includes high-quality cosmetic actives used, for example, in skin care products, sunscreens, and insect repellents.

By providing innovative research and development, the Advanced Technologies business unit bolsters the growth and sustainable competitiveness of the Performance Materials division.

In the integration phase, AZ will also operate as an independent business unit within the Performance Materials division until a decision has been made concerning its final structure. Merck has already begun with the integration of AZ and its global workforce of around 1,150 employees. With annual sales of around US$ 730 million in 2013, AZ is a leading supplier of high-tech materials with a production focus in Asia, where the company achieves nearly 80% of its sales. AZ generated more than three-quarters of its sales with products that are the leaders in their respective markets. Products from AZ are essential components of integrated circuits, flat-panel displays and light-emitting diodes. AZ is thus a key partner to leading global manufacturers of electronics since the chemical technologies AZ provides enable them to improve existing processes and to develop innovative new products.

→ The Merck Group and its divisions

## Merck Millipore

The Merck Millipore division has a broad product and technology portfolio and offers innovative solutions for the life science industry. Life science comprises the research branches of natural and engineering sciences concerned with the structure and behavior of living organisms. The division's products and services are used in the research, development and manufacture of biotechnological and pharmaceutical drug therapies, as well as both in research and application laboratories. The division was established in 2010 following the acquisition of the Millipore Corporation. It is a leading supplier of life science tools.

In the second quarter of 2014, Merck Millipore contributed 23% to Group sales and 19% to EBITDA pre (excluding Corporate and Other). The majority of sales are generated by consumables. This enables the division to achieve recurring sales and stable, attractive cash flows. A highly diversified and loyal customer base additionally ensures a low risk profile. At the same time, Merck Millipore benefits from its broad portfolio and its global reach. Merck Millipore comprises three business areas: Bioscience, Lab Solutions and Process Solutions, as well as multiple specialized business fields.

The main product groups of the Bioscience business area include tools and consumables for filtration and sample preparation, reagents and kits for cell biology experiments, as well as small tools and consumables for cell analysis. With these products, Merck Millipore supports its customers in understanding complex biological systems and identifying new target molecules. The Bioscience business area contributed 15% to divisional sales in the second quarter of 2014. Merck Millipore offers complete and validated applications to make research processes faster and more efficient. The Bioscience business area is highly innovative with new products such as the Amnis ISX imaging flow cytometer and the Direct Detect™ biomolecular quantification system.

The Lab Solutions business area manufactures products for research as well as analytical and clinical laboratories in a wide variety of industries. The business area accounted for 41% of divisional sales in the second quarter of 2014. It is one of the leading suppliers of laboratory water equipment, laboratory chemicals and consumables. In addition, Lab Solutions develops and markets test solutions to identify microbial contamination, for example in pharmaceutical products, food or drinking water. For inorganic chemistry, Lab Solutions supplies ultrapure reagents, including salts, acids, caustic alkalis, and buffering agents. It also manufactures reference materials for instrumental analysis and products for inorganic trace analysis.

The Process Solutions business area offers a diversity of products to pharmaceutical and biotechnology companies that enable customers to develop large- and small-molecule drugs safely, effectively and cost-efficiently. Accounting for 44% of Merck Millipore sales in the second quarter of 2014, Process Solutions offers its customers continuous innovations, highest quality standards as well as high reliability of supply.

In addition, the business area's portfolio comprises more than 400 chemicals for the synthesis of active pharmaceutical ingredients as well as drug delivery compounds. The offering in biotech production comprises products supporting cell growth and gene expression, a wide range of filtration systems, as well as salts and sugars. The single-use solutions offered by the Process Solutions business area provide increased operational flexibility to biopharmaceutical customers since they eliminate time- and cost-intensive cleaning procedures. Moreover, these single-use solutions are compatible with various products, reducing investment costs for the customer.

On May 15, 2014, Udit Batra, who formerly headed the Consumer Health division, took over the leadership of Merck Millipore, succeeding Robert Yates as President and Chief Executive Officer.

# Objectives and strategies of the Merck Group

In 2007, Merck launched a transformation process aimed at securing its business viability through profitable growth in highly specialized niche markets within the pharmaceutical and chemical sectors.

The year 2018 will mark the 350th anniversary of Merck. The general principles of the "Fit for 2018" transformation and growth program and the Group strategy are to serve as a compass beyond 2018 as well.

### General principles

In all its business endeavors, Merck orients towards general principles. They help those responsible within the company to shape strategic plans and to make decisions. The structure of Merck with members of the Executive Board and representatives of the Merck family as personally liable partners requires the Executive Board to pay special attention to the long-term development of value. Therefore, sustainability plays a special role at Merck. The objective is to align the long-term development of the company with the legitimate interests of shareholders, whose engagement in Merck is often of a shorter duration than that of personally liable partners. That is why Merck's business portfolio must always be balanced so that it reflects an optimum mix of entrepreneurial opportunities and risks. Merck achieves this through sustained diversification in pharmaceuticals, chemicals and life science tools, as well as through its geographic breadth with respect to growth sources.

For Merck, the principle of sustainability applies not only to economic aspects. Instead, it also encompasses responsibility for society and environmental preservation. With its current and future product portfolio, Merck wants to help solve global challenges and shape a sustainable future. That is also why innovation is the basis of the company's business activities; it is the prerequisite for future growth. The Merck Group is continually working on new products and service innovations for patients and customers and relies on a continual process of internal innovation throughout all areas of the company.

### Group strategy

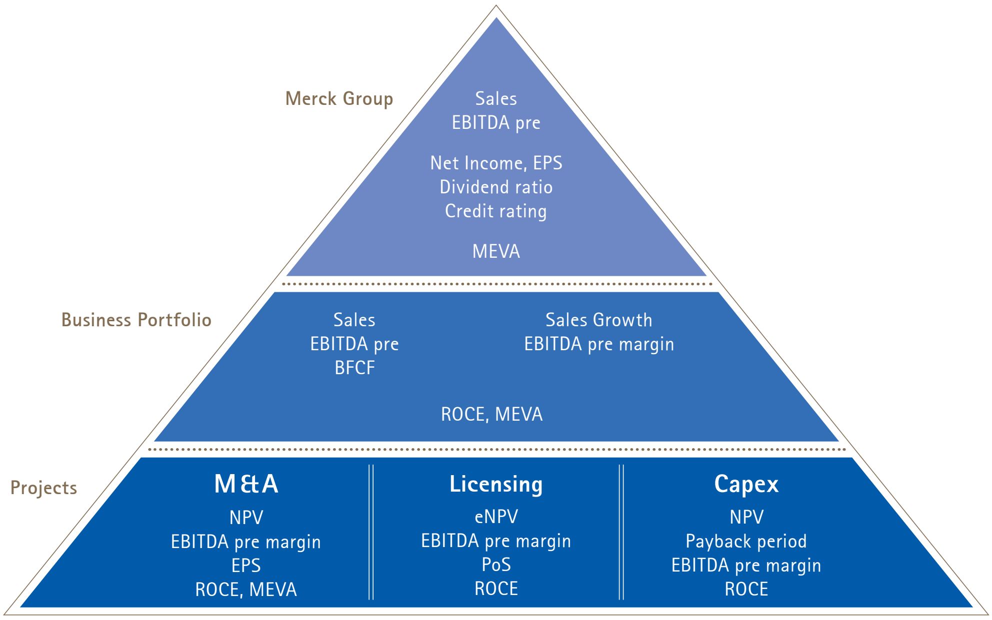
Merck focuses on innovative and top-quality high-tech products in the pharmaceutical and chemical sectors. The company's goal is sustainable and profitable growth. Merck intends to achieve this by growing primarily organically and by further developing its competencies, but also by making targeted acquisitions that complement and expand existing strengths in meaningful ways. Building on leading branded products in all four divisions, Merck aims to generate income that is largely independent of the prevailing economic cycles. Moreover, the aim is to further expand the strong market position in emerging markets in the medium to long term. In the second quarter of 2014, the Emerging Markets region contributed 37% to Group sales.

Detailed information on specific strategic initiatives of the Merck Group as well as on the business strategies of the divisions can be found in the Merck Annual Report for 2013.

# Internal management system of the Merck Group

As a global pharmaceutical and chemical company organized around four divisions with a diverse portfolio of products and services, Merck uses a comprehensive framework of indicators to manage performance. Within this framework, the most important KPI (key performance indicator) to measure the performance of the Merck Group and its divisions is EBITDA pre*. Further important financial indicators used to assess the performance of operating business are sales and business free cash flow (BFCF)*.

The Merck Value Creation and Financial KPI Pyramid, which summarizes the important financial performance measures of the Merck Group, reflects the comprehensive framework of financial KPIs to steer our businesses and prioritize the allocation of our cash resources. It consists of three managerial dimensions, which require the use of different indicators: Merck Group, Business Portfolio and Projects. Apart from its strong focus on operational performance, the Merck Value Creation and Financial KPI Pyramid also emphasizes the need for measurable mid- and long-term value creation as well as the efficient allocation of cash to the most promising investment alternatives.




For more information on Merck's internal management system, see pages 43 to 47 of the Merck Annual Report for 2013.

Explanations: EBITDA pre = Earnings before interest, income tax, depreciation and amortization pre one-time items, EPS = Earnings per share, MEVA = Merck value added, BFCF = Business free cash flow, ROCE = Return on capital employed, NPV = Net present value, eNPV = expected Net present value (probability adjusted), PoS = Probability of success.

*Financial indicators not defined by International Financial Reporting Standards.

# Research and Development at Merck

Merck conducts research and development worldwide in order to develop new products and services designed to improve the quality of life of patients and customers. Also in the second quarter of 2014, we focused on further optimizing the relevance and profitability of our research and development activities and we increased the number of new collaborations with external research and development partners.

Nearly 4,000 employees around the world work for Merck researching innovations to serve long-term health and technology trends in established and emerging markets as well as in developing countries.

Overall, the Merck Group invested around € 394 million in research and development in the second quarter of 2014. In addition, we are focusing on a newly defined mix of in-house research and cost-saving collaborations, which enables us to increase the productivity of our research while simultaneously reducing financial outlay.

The organizational set-up of our research and development activities reflects the divisional structure of the Merck Group. Within the Executive Board, Stefan Oschmann is responsible for the Merck Serono and Consumer Health divisions, and Bernd Reckmann is responsible for the Performance Materials and Merck Millipore divisions.

Apart from the details reported below with regard to the second quarter of 2014, more information on the company's research and development activities can be found on page 60 to 75 of the Merck Annual Report for 2013.

## Merck Serono

### Immunology

The FORWARD study, a Phase II trial of sprifermin in patients with primary osteoarthritis of the knee, being conducted in collaboration with Merck's strategic alliance partner Nordic Bioscience Clinical Development completed enrollment following the inclusion of 549 patients.

### Neurology

Merck and Ono Pharmaceutical reached a mutual agreement to terminate the license agreement on ceralifimod (ONO-4641) since the project does not meet Merck's threshold for continued investment. The drug candidate is currently in Phase II clinical development for relapsing- remitting multiple sclerosis (MS).

Opexa Therapeutics, the biotechnology company developing Tcelna®, a novel T-cell immunotherapy for MS, announced it reached targeted enrollment in its Phase IIb clinical trial in secondary progressive MS (Abili-T). Merck Serono has the option to in-license Tcelna.

### Oncology

In the second quarter, several developments pertaining to oncology projects occurred. At the 2014 American Society of Clinical Oncology (ASCO) Annual Meeting new biomarker findings from a retrospective analysis of the completed Phase III CRYSTAL study were presented. This study compared Erbitux® plus FOLFIRI with FOLFIRI alone. The analysis involved a subgroup of patients with KRAS wild-type (exon 2) metastatic colorectal cancer (mCRC). A significant clinical improvement was observed in patients with RAS wild-type tumors (defined as having no mutations in exons 2, 3 or 4 of KRAS and/or in exons 2, 3 or 4 of NRAS) when Erbitux® was added to FOLFIRI compared with patients receiving FOLFIRI alone in first line mCRC. This included a 27.7 % increase in response rate, a 3.0-month increase in median progression-free survival, and an 8.2-month increase in median overall survival. This analysis of the CRYSTAL study, as well as similar analyses from the OPUS study which compared Erbitux® plus FOLFOX vs. FOLFOX alone, confirm that RAS biomarker testing is essential for patient-centric care and a truly personalized approach to mCRC. These findings are in line with the updated EU label.

→ Research and Development at Merck

The Chinese Food and Drug Administration (SFDA) issued a negative opinion concerning the registration of Erbitux® in squamous cell carcinoma of the head and neck (SCCHN), since it considered that the bridging study performed in Chinese patients was inadequate to warrant approval in that country. Merck Serono is therefore considering the possibility of performing a randomized, controlled study in China in SCCHN. Erbitux® is already registered in over 90 countries in this indication.

A Phase II trial of the investigational hypoxia-activated prodrug, TH-302, in combination with pemetrexed as a potential second-line treatment for patients with non-squamous non-small cell lung cancer (NSCLC) was initiated during the quarter. The primary endpoint in this 440-patient trial is overall survival; secondary endpoints include safety and assessment of anti-tumor activity as determined by progression-free survival and objective response rate.

For abituzumab, an investigational anti-integrin monoclonal antibody designed to target certain integrins expressed on tumor and endothelial cells, two Phase II trials were recently completed. Results of a study in patients with metastatic castrate-resistant prostate cancer (PERSEUS) were presented at 2014 ASCO Meeting. No significant improvement in progression free survival was observed and development therefore will not continue in this indication. The results of the POSEIDON study, a combination of abituzumab with Erbitux® and irinotecan in KRAS wild-type mCRC, were presented at the ESMO 16th World Congress on Gastrointestinal Cancer. The primary endpoint of increased progression free survival was not met. The addition of abituzumab to Erbitux® and irinotecan resulted in a trend toward improved overall survival, and high integrin $\alpha v\beta 6$ expression was identified as a potential predictive marker of increased response rate and prolonged overall survival in the abituzumab treatment arms. Further biomarker analyses are warranted to confirm and further validate the current findings and to inform about future clinical development of abituzumab in this disease.

The development of Sym004 in SCCHN (Phase II) was discontinued due to a strategic focus on the currently ongoing development of Sym004 in later lines of mCRC (Phase II) and metastatic NSCLC (Phase I).

BGB-290 (an inhibitor of poly [ADP-ribose] polymerase, or PARP), being developed in collaboration with BeiGene, entered Phase I testing in patients with solid tumors.

The further development of pimasertib in pancreatic cancer was discontinued as the Phase II study did not reach the primary endpoint of progression-free survival. The Phase I study of pimasertib and the PI3K/mTOR inhibitor from Sanofi (SAR245409) was completed and this combination is being investigated in an already ongoing double-blind, randomized, placebo-controlled, two-arm Phase II trial in low-grade serous ovarian cancer.

Merck Serono and Mersana Therapeutics, Inc. entered into an agreement to collaboratively develop next-generation antibody-drug conjugates (ADCs). ADCs are composed of an antibody linked to a cytotoxic drug, whereby the antibody part specifically targets and delivers the cytotoxic drug to cancer cells which could lead to higher drug levels at the tumor site. The two companies intend to leverage Mersana's Fleximer® technology to generate ADCs for multiple targets. Both parties have agreed to test a variety of ADCs by utilizing Mersana's platform technologies and several cytotoxic agents as conjugates.

→ Research and Development at Merck

**Immuno-Oncology**

For MSB0010718C, an investigational anti-PD-L1 antibody currently in development, initial data from the Phase I dose escalation study in solid tumors were presented at ASCO 2014. A dose for further efficacy evaluation has been identified and patients are now being enrolled into expansion cohorts in seven cancer types.MSB 0010718C is also being tested in a recently initiated Phase II study in patients with metastatic Merkel cell carcinoma. This is an aggressive form of skin cancer which is rare but increasing in frequency, and currently has limited treatment options. The study is a multicenter, single arm, open trial in patients who have previously been treated with one line of chemotherapy.

Merck and MorphoSys entered into a strategic immuno-oncology collaboration to discover and develop therapeutic antibodies against immune checkpoints. Under the terms of the agreement, the two companies will join forces to develop therapies that modulate the immune system's natural ability to fight tumors. MorphoSys, a leader in fully human antibody technologies, will apply its proprietary Ylanthia® antibody phage library and technology platform to identify antibodies against the targets of interest. Merck Serono with its strong portfolio and capabilities in the field of immuno-oncology and clinical development will be fully responsible for execution of development from Phase I onwards.

**Other highlights**

On July 1, Merck announced its strong support for the Grant for Fertility Innovation (GFI) with grants totaling up to €2 million for the years 2014/2015. The announcement was made during the 30th annual meeting of the European Society of Human Reproduction and Embryology (ESHRE). Launched in 2009, the GFI is dedicated to transforming innovative translational fertility research projects into concrete health solutions to improve the outcomes of assisted reproductive technologies (ART). In the last five years, 640 applications to GFI were received from over 50 countries around the world. At this year's award ceremony nine projects from eight countries were awarded a grant.

In May on the occasion of the 67th World Health Assembly, Merck proposed the creation of a global alliance to help the World Health Organization (WHO) achieve its goal of eliminating the parasitic worm disease schistosomiasis worldwide. Merck will be a founding member of this new global alliance aiming to further support WHO's goal of eliminating schistosomiasis. Merck calls for different NTD (neglected tropical diseases) constituencies to join on focusing efforts to address remaining gaps and challenges to meet the elimination target. Merck has committed to raise its donation up to 250 million tablets by 2016 and is fostering a holistic, integrated approach to supporting WHO in reaching the ultimate elimination target.

→ Research and Development at Merck

## Consumer Health

Consumer Health research and development activities focus on constantly improving tried and proven formulations consistent with the needs of consumers. At the same time, the division is further developing its established brand-name products by making them simpler to use, for example through new forms of applications, and by offering accompanying services.

## Performance Materials

Merck is the undisputed market and technology leader in liquid crystals, which are primarily used in televisions and mobile communication applications. We are also one of the leading suppliers of functional and decorative effect pigments. Our high-tech materials and solutions are used by customers in the consumer electronics, lighting, coatings, printing technology, plastics applications, and cosmetics industries. Merck is also focusing on growth dynamics in emerging markets within Performance Materials. As a new part of Performance Materials, AZ brings additional fields of business to the Merck portfolio. AZ serves two main markets, the sector of IC Materials for integrated circuit manufacture, and materials for display applications (Optronics).

**Liquid crystals**
In the area of LC displays for mobile devices, Merck has developed a new LC switching mode that has the potential to increase display light transmittance by 20%. First products based on this new switching mode will be launched in 2014. The new technology offers many advantages. Firstly, it reduces energy consumption and increases the battery life of the mobile devices. Secondly, it improves mobile display quality and supports the trend towards higher resolutions.

The Merck LC2021 strategic initiative combines the company's future LC activities, with a special focus on applications beyond displays. For example, liquid crystals can regulate the light and heat transmittance of windows in building facades. In order to bolster this strategic direction, as announced by Merck on June 30, 2014, Merck acquired the remaining 30% interest in Peer+, a Dutch specialist for smart windows technology as of July 1, 2014. This acquisition enables Merck to accelerate the development of LC materials for these applications and enter into collaborations with partners in the glass and facade technology sector.

**OLEDs**
Organic light-emitting diodes (OLEDs) are used in innovative lighting applications and display technologies. They provide brilliant colors and sharp images from any viewing angle; they have a long lifespan and are highly energy efficient. In addition, OLEDs enable round or flexible displays, making them perfect for use in the latest technical applications. One such example is the smartwatch, a wristwatch that provides additional computer functionality along with Internet access.

The Merck product line for these types of applications is called livilux®. Merck has developed a strong portfolio of worldwide patents, based on more than ten years of experience. Development partnerships with customers are a way of testing new technologies and making them market-ready. For instance, with printer manufacturer Seiko Epson the Performance Materials division has co-developed a technology that can be used to print OLED displays. While Merck contributed its expertise in OLED material and ink development to the collaboration, Seiko Epson contributed its expertise in print heads featuring micro piezo inkjet technology as well as process expertise. The jointly developed technology offers the advantage of lower costs and higher material efficiency. In contrast to evaporated OLED displays, the materials are applied at room temperature and under normal pressure in the case of printed OLED displays. In addition, this technique only deposits material in the areas where diodes are actually located.

**High-quality pigments and functional materials**
Besides high-quality decorative effect pigments, Merck also offers functional materials used, for example, in laser marking of plastics, in conductive coatings, and in heat reflection for greenhouses. The Meoxal® brand is the latest development in effect pigments. These pigments captivate with their excellent color saturation and exceptional performance. This is the result of their innovative layer technology and the use of aluminum flakes as the substrate. They are highly suitable for a multitude of high-performance

applications, especially for automotive and plastic coatings. The third pigment in the new brand family – Meoxal® Atacama Red – was launched in the second quarter of 2014. With Xirallic® NXT, Merck is launching a new patented product generation of the well-known high-tech effect pigments. These offer customers an exceptional "living-sparkle effect", high styling potential and consistent quality. The first product of the new generation – Xirallic® NXT Panthera Silver – is a dark-gray, metallic effect pigment, which Merck has been offering since April.

**AZ Electronic Materials**

In its IC Materials business, which supplies products for integrated circuit manufacture, AZ has developed a range of products for Extreme UV Lithography (EUV) applications which has already been qualified by several customers for their processes. The increased complexity of patterning processes has opened up opportunities for novel materials. AZ's "shrink" technology makes it possible to reduce lithographically generated structures after patterning, thus circumventing resolution limitations of existing exposure equipment in a cost-effective manner. New products are on the verge of production implementation. AZ is a leader in Directed Self Assembly (DSA), a revolutionary technology which is being pursued intensively by all advanced semiconductor manufacturers. In DSA, the information for the smallest structures is already contained in the chemical make-up of the coating material. Additionally, AZ is intensively engaged in developing thick perhydropolysilazane (PHPS) products for 3D chip technology as well as novel insulator materials.

The continuous development of flat panel display technology towards larger formats and higher operating frequencies requires the use of transistors with feature sizes that are at the limit of the resolution capability of the exposure tools. In the Optronics business, AZ has successfully transferred from its IC sector so-called tandem resin technology with a specific molecular weight distribution, thus achieving a photoresist resolution near the theoretical resolution limit. In silicon technology, new siloxane materials are in an advanced stage of qualification as planarization materials for high-resolution displays and as a thin film barrier for OLED lighting.

## Merck Millipore

In the second quarter of 2014, Merck Millipore launched a € 12 million investment in its Molsheim, France facility. This investment will expand Merck Millipore's Ready-To-Use (RTU) media manufacturing capabilities, better provide security of supplies for customers in the region, and sustain the heipha Hycon product lines. The increased manufacturing capacity will serve global market demand, and will ensure sufficient capacity to support the market growth.

The Bioscience business area launched Simplicon™ RNA Reprogramming Technology, which uses synthetic self-replicating RNA to create large numbers of human induced pluripotent stem cells (iPSCs) using a single transfection step. This efficient reprogramming of somatic cells offers a more defined and safer system for iPSC generation.

The Process Solutions business area expanded Provantage® Upstream Bioproduction services to the North American market. The expansion provides North American customers with media and feed screening, small-scale material production, and optimization of conditions for scale-up and technology transfer. Process Solutions also announced a new Formulation Lab in India, its first outside of Europe. The Lab is strategically located at Nerul, Navi Mumbai, with easy accessibility from the major pharmaceutical manufacturing centers at Ahmedabad, Goa and Hyderabad. The facilities at the lab are built to provide services and application assistance to the pharmaceutical industry for classical pharmaceutical clients working on solid dose formulations.

In the second quarter of 2014 Merck Millipore also celebrated the $40^{th}$ anniversary of the Steritest™ system, the first closed filtration device for sterility testing. Since introducing the Steritest™ system in 1974, Merck Millipore has improved standards in sterility testing, reducing the risk of false positive and false negative results, increasing reliability and streamlining workflows for microbiologists around the world. As part of the celebration of 40 years of sterility testing, Merck Millipore will be launching three new pumps in 2014.

# Merck shares

## At a glance

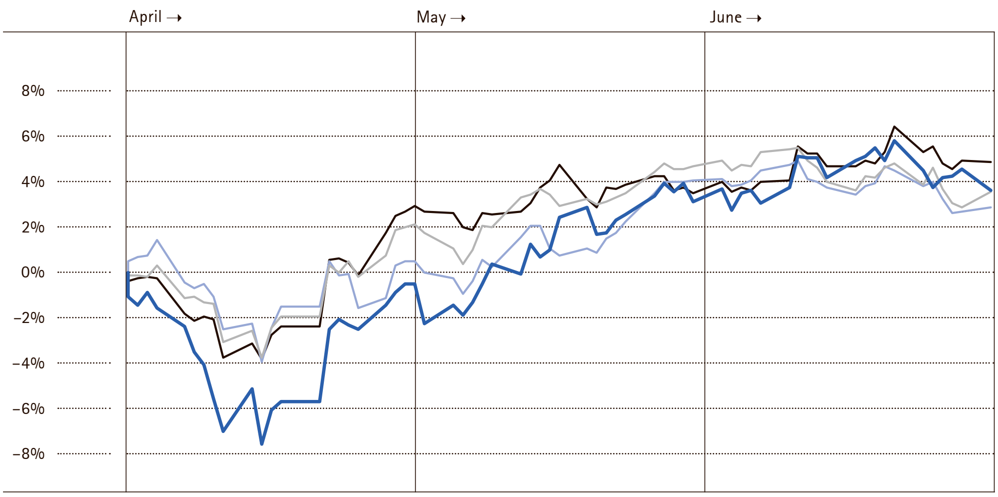
During the second quarter of 2014, the Merck share price rose by almost 4%. It slightly outperformed the DAX® by approximately 1 percentage point. The picture was mixed in comparison with the relevant industry indices: the share underperformed the relevant index for the pharmaceutical industry by slightly more than 1 percentage point but developed roughly in line with the relevant index for the chemical industry.

In absolute terms, the Merck share price reached its Q2 2014 peak on June 12, 2014 of € 64.40 – retrospectively adjusted for the 1:2 share split described below – and ended the quarter slightly lower at € 63.39. The average daily trading volume in the second quarter of 2014 was 515,000 shares, about 1% lower than in the year-earlier quarter.

On June 30, 2014, the 1:2 share split became effective. On May 9, 2014, the Annual General Meeting resolved to re-divide the share capital of Merck KGaA so that one existing no-par-value share with a pro rata amount of the share capital of € 2.60 would be divided into two no-par-value shares with a pro rata amount of the share capital of € 1.30 each (share split). This had no influence on the share price performance in Q2 2014.

In the first half of 2014, the Merck share price declined by approximately 3%. Thus, the share underperformed all relevant indices, largely due to its pronounced weakness in Q1 2014. The underperformance relative to the DAX® in the first half of 2014 was almost 6 percentage points, and approximately 5 percentage points relative to the relevant chemicals index, and almost 12 percentage points relative to the pharmaceutical index.

**Share price development from April 1, 2014 to June 30, 2014**




Source: Bloomberg (closing rates)

Merck DAX® MSCI European Pharma Index Dow Jones European Chemical Index

# Report on Economic Position

## Course of business and economic position

## Merck Group

### Overview – Q2 2014

→ First-time consolidation of AZ Electronic Materials as of May 2, 2014

→ Solid organic growth and acquisition-related increases lead to higher sales despite ongoing currency headwinds

→ Emerging Markets contribute significantly to organic growth

→ Higher EBITDA pre one-time items driven by first-time consolidation of AZ and contribution from Merck Millipore

→ Earnings per share pre one-time items up 2.7% to € 1.16

**Merck Group | Key figures**

| *€ million* | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| Total revenues | 2,863.1 | 2,841.1 | 0.8 | 5,527.9 | 5,601.6 | –1.3 |
| Sales | 2,795.5 | 2,743.9 | 1.9 | 5,409.4 | 5,404.3 | 0.1 |
| Operating result (EBIT) | 441.0 | 465.4 | –5.2 | 909.3 | 864.8 | 5.1 |
| *Margin (% of sales)* | *15.8* | *17.0* | | *16.8* | *16.0* | |
| EBITDA | 767.0 | 793.1 | –3.3 | 1,537.2 | 1,546.9 | –0.6 |
| *Margin (% of sales)* | *27.4* | *28.9* | | *28.4* | *28.6* | |
| EBITDA pre one-time items | 845.7 | 826.4 | 2.3 | 1,652.7 | 1,627.5 | 1.6 |
| *Margin (% of sales)* | *30.3* | *30.1* | | *30.6* | *30.1* | |
| Earnings per share (€)[1] | 0.70 | 0.73 | –4.1 | 1.45 | 1.34 | 8.2 |
| Earnings per share pre one-time items (€)[1] | 1.16 | 1.13 | 2.7 | 2.32 | 2.19 | 5.9 |
| Business free cash flow | 632.2 | 783.8 | –19.3 | 1,316.3 | 1,376.7 | –4.4 |

[1] Taking into account the share split; previous year's figures have been adjusted accordingly.
See explanations under "Earnings per share" in the Notes to the Consolidated Financial Statements.

→ Course of business
and economic position

### Development of sales and results of operations

In the second quarter of 2014, sales of the Merck Group grew organically by 3.4%. Acquisitions/divestments increased sales overall by 3.0% or € 83 million. The first-time consolidation of AZ Electronic Materials in the Performance Materials division as of May 2, 2014 made a positive contribution of € 89 million to Group sales (see also "Acquisition of AZ Electronic Materials S.A." in the Notes to the Consolidated Financial Statements). Owing to the divestment of the Merck Millipore division's Discovery and Development Solutions business field, which became effective on March 31, 2014, sales declined in comparison with the year-earlier quarter by € 6 million (see also "Divestment of the Discovery and Development Solutions business field" in the Notes to the Consolidated Financial Statements). The continued strength of the euro led to negative exchange rate effects of –4.5% in the second quarter of 2014, which mainly stemmed from the U.S. dollar, the Japanese yen, and Latin American currencies. Overall, sales thus increased slightly by € 52 million or 1.9% to € 2,796 million in the second quarter of 2014 (Q2 2013: € 2,744 million).

**Merck Group | Sales components by division – Q2 2014**

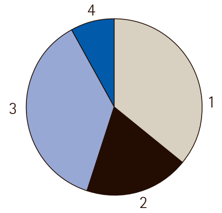
| *€ million / change in %* | Sales | Organic growth | Exchange rate effects | Acquisitions/ divestments | Total change |
|---|---|---|---|---|---|
| Merck Serono | 1,446.4 | 3.0 | –4.4 | – | –1.4 |
| Consumer Health | 184.7 | 8.5 | –5.2 | – | 3.3 |
| Performance Materials | 505.7 | 1.8 | –5.1 | 20.5 | 17.3 |
| Merck Millipore | 658.7 | 4.0 | –4.2 | –0.9 | –1.1 |
| **Merck Group** | **2,795.5** | **3.4** | **–4.5** | **3.0** | **1.9** |

All four divisions of the Merck Group posted organic sales increases as well as negative exchange rate effects in the second quarter of 2014. Delivering an absolute increase of € 44 million, which corresponded to an organic growth rate of 3.0%, Merck Serono made the strongest absolute contribution to organic sales growth, followed by Merck Millipore with organic sales growth of € 27 million equivalent to a growth rate of 4.0%, and Consumer Health with organic sales growth of € 15 million or 8.5%. The Performance Materials division achieved an organic sales growth rate of 1.8%, corresponding to an absolute organic sales increase of € 8 million.

→ Course of business and economic position

## Merck Group | Sales by region – Q2 2014

*€ million / % of sales*




| | | |
|---|---|---|
| 1 Europe | 1,006.1 | 36% |
| 2 North America | 527.9 | 19% |
| 3 Emerging Markets | 1,048.3 | 37% |
| 4 Rest of World | 213.2 | 8% |

From a regional perspective, the dynamic business performance in the Emerging Markets region, which encompasses Latin America and Asia excluding Japan, contributed first and foremost to the organic growth of the Merck Group. At 11.1%, which corresponded to an increase of € 107 million, the region delivered very strong organic growth, which was primarily driven by the Merck Serono and Merck Millipore divisions. Including currency headwinds of –8.5% and acquisition-related effects of 5.9%, Merck generated sales of € 1,048 million in the Emerging Markets region (Q2 2013: € 967 million). In the second quarter of 2014, the Emerging Market region's share of Group sales thus grew to 37% (Q2 2013: 35%).

In Europe, slight organic sales growth of 0.5% and the acquisition-related sales increase of 0.5% were partly offset by negative currency effects of –0.2%. Consequently, sales in Europe increased slightly by 0.8% to € 1,006 million (Q2 2013: € 998 million). Europe's percentage contribution to Group sales thus remained steady at 36%.

Sales in North America amounted to € 528 million (Q2 2013: € 563 million), which represents a year-on-year decrease of –6.3%. With an organic decline in sales of –3.3%, which was mainly due to lower sales of Rebif® in the Merck Serono division, as well as negative exchange rate effects of –4.5%, and acquisition-related sales increases of 1.6%, the contribution of the North America region to Group sales was 19% (Q2 2013: 21%).

The Rest of World region, i.e. Japan, Africa and Australia/Oceania, generated € 213 million (Q2 2013: € 216 million) or 8% of Group sales (Q2 2013: 8%). The decline in sales compared with the year-earlier period was largely the outcome of a negative foreign exchange impact of –7.1%, which stemmed mainly from the Japanese yen. Along with an organic sales increase of 0.5% and acquisition-related increases of 5.2%, the region registered an overall decline in sales of –1.4%.

## Merck Group | Sales components by region – Q2 2014

| *€ million / change in %* | Sales | Organic growth | Exchange rate effects | Acquisitions/ divestments | Total change |
|---|---|---|---|---|---|
| Europe | 1,006.1 | 0.5 | –0.2 | 0.5 | 0.8 |
| North America | 527.9 | –3.3 | –4.5 | 1.6 | –6.3 |
| Emerging Markets | 1,048.3 | 11.1 | –8.5 | 5.9 | 8.5 |
| Rest of World | 213.2 | 0.5 | –7.1 | 5.2 | –1.4 |
| **Merck Group** | **2,795.5** | **3.4** | **–4.5** | **3.0** | **1.9** |

In the first six months of 2014, sales of the Merck Group increased by 0.1% to € 5,409 million (January-June 2013: € 5,404 million). Organic growth and acquisitions/divestments accounted for 3.6% and 1.5%, respectively. Exchange rate changes resulting particularly from the developments of both the U.S. dollar and the Japanese yen, were responsible for a –5.0% decline in sales in the first half of 2014. All four divisions generated positive organic growth rates in the first six months of 2014. In particular, the Consumer Health division achieved a solid 7.1% organic increase in sales. Owing to the first-time consolidation of AZ, the Performance Materials division delivered the highest absolute sales increase of all divisions, generating sales of € 908 million in the first half of 2014 (January-June 2013: € 852 million). Regionally, Group sales showed the strongest organic growth in the Emerging Markets and Rest of World regions, with growth rates of 8.4% and 4.0%, respectively. Europe generated organic growth of 1.1%, whereas sales in North America slipped organically by –0.5%.

The consolidated income statement of the Merck Group is as follows:

### Merck Group | Consolidated Income Statement

| *€ million* | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| **Sales** | **2,795.5** | **2,743.9** | 1.9 | **5,409.4** | **5,404.3** | **0.1** |
| Royalty, license and commission income | 67.6 | 97.2 | –30.4 | 118.5 | 197.3 | –39.9 |
| **Total revenues** | **2,863.1** | **2,841.1** | **0.8** | **5,527.9** | **5,601.6** | **–1.3** |
| Cost of sales | –828.6 | –768.0 | 7.9 | –1,565.1 | –1,492.0 | 4.9 |
| **Gross profit** | **2,034.5** | **2,073.1** | **–1.9** | **3,962.8** | **4,109.6** | **–3.6** |
| Marketing and selling expenses | –601.5 | –616.3 | –2.4 | –1,151.0 | –1,184.6 | –2.8 |
| Royalty, license and commission expenses | –139.1 | –156.5 | –11.1 | –275.4 | –292.8 | –5.9 |
| Administration expenses | –151.0 | –137.5 | 9.8 | –283.3 | –270.2 | 4.8 |
| Other operating expenses and income | –110.4 | –114.5 | –3.6 | –177.2 | –298.5 | –40.6 |
| Research and development costs | –394.1 | –373.5 | 5.5 | –773.0 | –779.7 | –0.9 |
| Amortization of intangible assets | –197.4 | –209.4 | –5.7 | –393.6 | –419.0 | –6.1 |
| **Operating result (EBIT)** | **441.0** | **465.4** | **–5.2** | **909.3** | **864.8** | **5.1** |
| Financial result | –50.2 | –48.5 | 3.5 | –84.9 | –107.2 | –20.8 |
| **Profit before income tax** | **390.8** | **416.9** | **–6.3** | **824.4** | **757.6** | **8.8** |
| Income tax | –84.8 | –100.8 | –15.8 | –191.0 | –172.5 | 10.7 |
| **Profit after tax** | **306.0** | **316.1** | **–3.2** | **633.4** | **585.1** | **8.3** |
| Non-controlling interests | –2.7 | –0.1 | – | –4.9 | –3.1 | 60.1 |
| **Net income** | **303.3** | **316.0** | **–4.0** | **628.5** | **582.0** | **8.0** |

Royalty, license and commission income declined by –30.4% to € 68 million in the second quarter of 2014 (Q2 2013: € 97 million). This sharp drop of around € –30 million was mainly due to the decrease in royalty, license and commission income in the Merck Serono division. Total revenues (sales plus royalty, license and commission income) rose slightly by 0.8% to € 2,863 million (Q2 2013: € 2,841 million).

Taking into account cost of sales, which increased by 7.9% to € 829 million in the second quarter of 2014 (Q2 2013: € 768 million), the Merck Group recorded gross profit of € 2,035 million (Q2 2013: € 2,073 million). The strong increase in cost of sales was mainly due to the first-time consolidation of AZ. As part of the purchase price allocation, the acquired inventories of AZ were stepped up to fair values on the date of first-time consolidation. For the period from May 2, 2014 to June 30, 2014, € 30 million of this step-up was included as an expense in cost of sales. Gross margin, i.e. gross profit as a percentage of sales, declined accordingly by nearly three percentage points to 72.8% (Q2 2013: 75.6%). Apart from the first-time consolidation effect, the considerable decline in royalty, license and commission income as well as the negative foreign exchange impact on sales played a role.

In the second quarter of 2014, other operating expenses included impairment losses on intangible assetsin connection with the return of ceralifimod amounting to € 14 million (see also “License rights to ceralifimod returned” in the Notes to the Consolidated Financial Statements). The decline in other operating expenses (net) was among other things due to lower litigation expenses as well as gains from operational currency hedges.

The increase in research and development costs was mainly attributable to Merck Serono, which accounted for 79.1% (Q2 2013: 78.8%) of Group-wide research and development spending. The Group research spending ratio (research and development costs as a percentage of sales) rose accordingly to 14.1% (Q2 2013: 13.6%).

Lower amortization of intangible assets resulted mainly from the expiration of the useful life of an intangible asset in the Merck Serono division.

The operating result (EBIT) of the Merck Group declined by € 24 million to € 441 million in the second quarter of 2014. This was largely due to the higher level of one-time items, lower royalty, license and commission income in comparison with the year-earlier period, as well as negative exchange rate effects. The stable operating business and the efficiency improvement measures implemented within the scope of the “Fit for 2018” transformation and growth program had a positive effect.

The slight increase in the negative financial result to € –50 million mainly stemmed from the one-time expense in connection with the early retirement of AZ debt and to a negative measurement effect from taking into account the time value of Merck Share Units (MSUs). MSUs are virtual Merck shares that eligible executives and employees could receive at the end of a three-year performance period within the scope of the Merck Long-Term Incentive Plan.

Income tax expenses of € 85 million (Q2 2013: € 101 million) led to a tax ratio of 21.7% (Q2 2013: 24.2%).

Net income, i.e. profit after tax attributable to Merck shareholders, was € 303 million in the second quarter of 2014 (Q2 2013: € 316 million). Taking the share split into account, this resulted in earnings per share of € 0.70 (Q2 2013: € 0.73).

### Merck Group | Reconciliation of EBIT to EBITDA pre one-time items

| *€ million* | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| **Operating result (EBIT)** | **441.0** | **465.4** | **–5.2** | **909.3** | **864.8** | **5.1** |
| Depreciation / Amortization / Reversals of impairments | 326.0 | 327.7 | –0.5 | 627.9 | 682.1 | –7.9 |
| *(of which: one-time items)* | *(2.6)* | *(4.6)* | *(–43.3)* | *(3.8)* | *(31.2)* | *(–87.7)* |
| **EBITDA** | **767.0** | **793.1** | **–3.3** | **1,537.2** | **1,546.9** | **–0.6** |
| Restructuring costs | 20.5 | 4.9 | – | 35.6 | 46.7 | –23.8 |
| Integration costs / IT costs | 20.3 | 11.7 | 73.7 | 34.7 | 17.4 | 98.7 |
| Gains/losses on the divestment of businesses | –10.5 | 16.7 | – | –6.4 | 18.4 | – |
| Acquisition costs | 45.7 | – | – | 46.7 | – | – |
| Other one-time items | 2.7 | – | – | 5.0 | –2.0 | – |
| **EBITDA pre one-time items** | **845.7** | **826.4** | **2.3** | **1,652.7** | **1,627.5** | **1.6** |

After adjusting for depreciation, amortization and one-time expenses, EBITDA pre one-time items, the key financial indicator used to steer operating business, rose slightly to € 846 million (Q2 2013: € 826 million), resulting in an EBITDA margin pre one-time items relative to sales of 30.3% (Q2 2013: 30.1%). Taking into account the share split, earnings per share pre one-time items (earnings per share adjusted by net of tax effect of one-time items and amortization of purchased intangible assets) amounted to € 1.16 in the second quarter of 2014 (Q2 2013: € 1.13).
In the first half of 2014, the Merck Group reported EBITDA pre one-time items of € 1,653 million

(January-June 2013: € 1,627 million). This represented a slight improvement on the good half-year result reported in 2013. The EBITDA pre margin increased by half a percentage point to 30.6% (January-June 2013: 30.1%). Earnings per share pre one-time items for the first half of 2014 rose by 5.9% to € 2.32 (January-June 2013: € 2.19).

## Net assets and financial position

### Merck Group | Balance sheet structure

| | June 30, 2014 | | Dec. 31, 2013 | | Change | |
|---|---|---|---|---|---|---|
| | € million | in % | € million | in % | € million | in % |
| **Current assets** | **6,204.2** | **28.9** | **7,384.5** | **35.5** | **–1,180.3** | **–16.0** |
| **of which:** | | | | | | |
| Cash and cash equivalents | 846.6 | | 980.8 | | –134.2 | |
| Current financial assets | 956.4 | | 2,410.5 | | –1,454.0 | |
| Trade accounts receivable | 2,218.8 | | 2,021.4 | | 197.5 | |
| Inventories | 1,618.8 | | 1,474.2 | | 144.6 | |
| Other current assets | 563.6 | | 497.6 | | 66.0 | |
| **Non-current assets** | **15,272.1** | **71.1** | **13,434.1** | **64.5** | **1,838.0** | **13.7** |
| **of which:** | | | | | | |
| Intangible assets | 11,424.9 | | 9,867.2 | | 1,557.7 | |
| Property, plant and equipment | 2,793.4 | | 2,647.2 | | 146.3 | |
| Other non-current assets | 1,053.8 | | 919.7 | | 134.1 | |
| **Total assets** | **21,476.3** | **100.0** | **20,818.6** | **100.0** | **657.7** | **3.2** |
| **Current liabilities** | **5,149.9** | **24.0** | **3,898.8** | **18.7** | **1,251.1** | **32.1** |
| **of which:** | | | | | | |
| Current financial liabilities | 2,086.2 | | 440.4 | | 1,645.8 | |
| Trade accounts payable | 1,403.8 | | 1,364.1 | | 39.7 | |
| Current provisions | 403.0 | | 494.7 | | –91.7 | |
| Other current liabilities | 1,256.9 | | 1,599.6 | | –342.7 | |
| **Long-term liabilities** | **5,111.6** | **23.8** | **5,850.6** | **28.1** | **–739.0** | **–12.6** |
| **of which:** | | | | | | |
| Non-current financial liabilities | 1,937.0 | | 3,257.5 | | –1,320.5 | |
| Non-current provisions | 1,004.0 | | 1,011.1 | | –7.0 | |
| Provisions for pensions and other post-employment benefits | 1,196.1 | | 910.9 | | 285.2 | |
| Other non-current liabilities | 974.4 | | 671.1 | | 303.3 | |
| **Equity** | **11,214.9** | **52.2** | **11,069.2** | **53.2** | **145.7** | **1.3** |
| **Total liabilities and equity** | **21,476.3** | **100.0** | **20,818.6** | **100.0** | **657.7** | **3.2** |

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and economic position

The total assets of the Merck Group amounted to € 21,476 million as of June 30, 2014. This represents an increase of 3.2% over December 31, 2013 (€ 20,819 million). The change in the balance sheet structure mainly reflects the first-time consolidation of AZ Electronic Materials S.A. as of May 2, 2014. The payment of the purchase price totaling € 1,872 million was made fully in cash. Consequently, as of June 30, 2014, cash decreased to € 847 million (December 31, 2013: € 981 million) and current financial assets dropped to € 956 million (December 31, 2013: € 2,410 million). As part of the purchase price allocation for the AZ acquisition, the acquired assets, liabilities and contingent liabilities were measured at fair values in the balance sheet. On the date of first-time consolidation, this led to an increase in intangible assets (excluding goodwill) by € 1,059 million. The goodwill from the transaction amounted to € 841 million. More information about the purchase price allocation for the AZ acquisition can be found under "Acquisition of AZ Electronic Materials S.A." in the Notes to the Consolidated Financial Statements. Likewise, the increase in working capital of the Merck Group to € 2,434 million (December 31, 2013: € 2,132 million) was related to the first-time consolidation of AZ, among other things. The change in non-current and current financial liabilities was primarily due to the maturity in March 2015 of a bond issued by Merck Financial Services with a nominal volume of € 1,350 million. Owing to the payment of the purchase price for AZ, net financial debt increased to € 2,220 million (December 31, 2013: € 307 million). At 52.2% (December 31, 2013: 53.2%), the equity ratio remained at a consistently high level.

Business free cash flow of the Merck Group was € 632 million in the second quarter of 2014 (Q2 2013: € 784 million). This represented a decline of € –152 million or –19.3%, which was primarily the outcome of higher inventories and trade accounts receivable. The increase in these two balance sheet items in connection with the first-time consolidation of AZ was neutralized by the corresponding adjustment. Nevertheless, the development of both items led to cash outflows, which lower investments and higher EBITDA pre one-time items could not compensate for.

## Merck Group | Business free cash flow

| *€ million* | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| EBITDA pre one-time items | 845.7 | 826.4 | 2.3 | 1,652.7 | 1,627.5 | 1.6 |
| Investments in property, plant and equipment, software as well as advance payments for intangible assets | –96.0 | –127.3 | –24.6 | –158.8 | –169.8 | –6.5 |
| Changes in inventories | –107.2 | 26.4 | – | –144.6 | 0.9 | – |
| Changes in trade accounts receivable | –174.7 | 58.3 | – | –197.5 | –81.9 | 141.1 |
| Adjustments first-time consolidation of AZ Electronic Materials | 164.4 | – | – | 164.4 | – | – |
| **Business free cash flow** | **632.2** | **783.8** | **–19.3** | **1,316.3** | **1,376.7** | **–4.4** |

In the first half of 2014, the Merck Group generated business free cash flow of € 1,316 million (January-June 2013: € 1,377 million, thus reaching the very high year-earlier level.

→ Course of business and economic position

# Merck Serono

## Merck Serono | Key figures

| € million | Q2 – 2014 | Q2 – 2013[1] | Change in % | Jan.–June 2014 | Jan.–June 2013[1] | Change in % |
|---|---|---|---|---|---|---|
| Total revenues | 1,510.7 | 1,560.5 | –3.2 | 2,931.8 | 3,042.6 | –3.6 |
| Sales | 1,446.4 | 1,467.6 | –1.4 | 2,821.3 | 2,856.3 | –1.2 |
| Operating result (EBIT) | 239.7 | 266.4 | –10.0 | 475.5 | 436.6 | 8.9 |
| *Margin (% of sales)* | *16.6* | *18.2* | | *16.9* | *15.3* | |
| EBITDA | 444.3 | 477.7 | –7.0 | 872.3 | 886.0 | –1.6 |
| *Margin (% of sales)* | *30.7* | *32.6* | | *30.9* | *31.0* | |
| EBITDA pre one-time items | 452.0 | 474.8 | –4.8 | 890.1 | 912.5 | –2.5 |
| *Margin (% of sales)* | *31.3* | *32.4* | | *31.5* | *31.9* | |
| Business free cash flow | 337.3 | 485.7 | –30.6 | 817.3 | 825.7 | –1.0 |

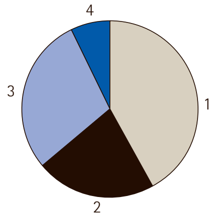
[1] The previous year's figures have been adjusted, see "The Merck Group and its divisions".

### Development of sales and results of operations

In the second quarter of 2014, the Merck Serono division generated moderate organic sales growth of 3.0%. However, owing to negative exchange rate effects of –4.4%, divisional sales declined slightly by a total of –1.4% to € 1,446 million (Q2 2013: € 1,468 million). Nearly all the franchises contributed to the organic sales growth of the division. Only sales the multiple sclerosis treatment Rebif® fell short of the year-earlier number. The portfolio for the treatment of thyroid disorders, as well as Gonal-f®, the leading recombinant hormone used in the treatment of infertility, performed particularly well in the second quarter of 2014.

## Merck Serono | Sales by region – Q2 2014

*€ million /% of divisional sales*




| | | |
|---|---|---|
| **1** Europe | 614.3 | 42% |
| **2** North America | 318.1 | 22% |
| **3** Emerging Markets | 415.4 | 29% |
| **4** Rest of World | 98.5 | 7% |

Europe, the division's top-selling region, posted a slight organic sales decline of –0.4% and a negative foreign exchange impact of –0.4%, thereby generating sales of € 614 million (Q2 2013: € 619 million). At 42%, Europe accounted for the largest proportion of the division's sales, as in the previous year.

Emerging Markets, the division's second-largest region by sales, delivered strong organic growth of 16.7% but sustained a considerable negative foreign exchange impact of –10.3%. Consequently, sales increased to € 415 million from € 391 million. This region's share of divisional sales rose from 27% in the year-earlier quarter to 29% in the second quarter of 2014. China and Brazil were the main contributors to organic growth.

In the second quarter of 2014, sales in North America totaled € 318 million, decreasing by –10.2% in comparison with the year-earlier quarter (€ 354 million). This reflects an organic sales decline of –5.7% and unfavorable exchange rate effects of –4.6%. The organic change was mainly due to lower sales of Rebif® in the United States. North America's contribution to divisional sales fell by two percentage points to 22% (Q2 2013: 24%).

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Sales in the Rest of World region grew organically by 1.1% in the second quarter of 2014. However, currency headwinds of –5.9% caused sales to decrease to € 99 million (Q2 2013: € 103 million). Sales in the region developed particularly positively with the oncology drug Erbitux®. Once again, the Rest of World region contributed 7% to divisional sales.

### Merck Serono | Sales components by region – Q2 2014

| *€ million / change in%* | Sales | Organic growth | Exchange rate effects | Acquisitions / divestments | Total change |
|---|---|---|---|---|---|
| Europe | 614.3 | –0.4 | –0.4 | – | –0.8 |
| North America | 318.1 | –5.7 | –4.6 | – | –10.2 |
| Emerging Markets | 415.4 | 16.7 | –10.3 | – | 6.4 |
| Rest of World | 98.5 | 1.1 | –5.9 | – | –4.8 |
| **Merck Serono** | **1,446.4** | **3.0** | **–4.4** | **–** | **–1.4** |

In the second quarter of 2014, sales of the two top-selling products of the Merck Serono division developed as follows:

Sales of Rebif®, which is used to treat relapsing forms of multiple sclerosis, declined organically by –2.8% in the second quarter of 2014 against the backdrop of an increasingly difficult competitive situation. Taking adverse exchange rate effects of –4.2% into account, Rebif® sales decreased by a total of –7.0% to € 464 million (Q2 2013: € 499 million). This development was mainly due to the North America region, which is the largest market for Rebif®, accounting for 52% (Q2 2013: 54%) of this product's overall sales. The price increases implemented last year could not compensate for lower sales volumes. Consequently, sales declined organically by –7.1%. Including negative exchange rate effects of –4.4%, which stemmed mainly from the U.S. dollar, Merck Serono generated Rebif® sales of € 240 million in North America (Q2 2013: € 271 million). In Europe, which accounts for 38% of sales (Q2 2013: 37%) and is the second-largest region for the product, sales of Rebif® declined to € 175 million (Q2 2013: € 186 million) due to a –5.4% organic decrease in sales and negative exchange rate effects of –0.5%. The organic sales decline was attributable to the market environment, which is becoming increasingly difficult in Europe as well. The Emerging Markets and Rest of World regions, which together accounted for a 10% share of sales (Q2 2013: 9%), posted sales growth.

In the second quarter of 2014, sales of the oncology drug Erbitux® showed strong organic growth of 11.3%. Taking negative currency effects of –4.9% into account, sales rose by a total of 6.5% to € 229 million (Q2 2013: € 215 million). Sales developed positively in all three regions in which Merck Serono holds the marketing rights. In Europe, where 57% of Erbitux® sales were generated (Q2 2013: 58%), making it the top-selling region for this product, Erbitux® sales grew organically by 3.2%. Coupled with slightly positive exchange rate effects of 0.2%, sales thus amounted to € 130 million (Q2 2013: € 125 million). At 28.2%, the Emerging Markets region generated the strongest organic growth for this oncology drug, delivering sales of € 63 million (Q2 2013: € 55 million). This region's contribution to total Erbitux® sales thus increased to 27% (Q2 2013: 26%). The largest contributions were made by China and the majority of Latin American countries. In the Latin America, one-time deliveries contributed to sales in the second quarter of 2014. In the Rest of World region, Merck Serono generated organic sales growth of 14.1%. Including negative foreign exchange effects, this led to Erbitux® sales of € 37 million (Q2 2013: € 35 million). In Japan, which was the strongest growth driver in past quarters, sales rose by 5.9%, which was not as strong as in the previous quarters.

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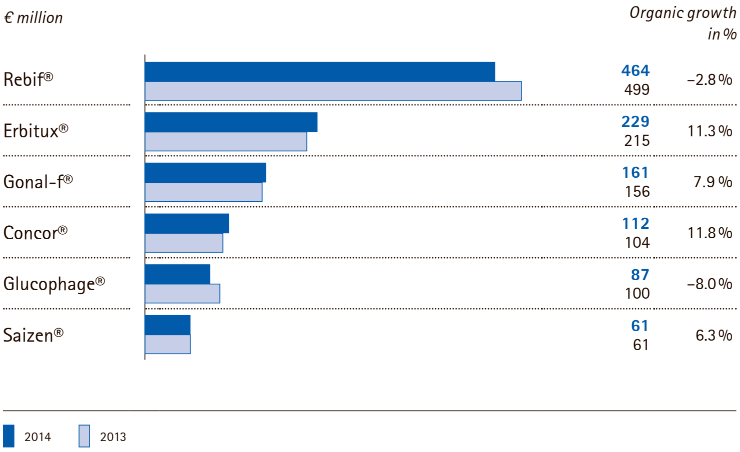
### Merck Serono | Sales and organic growth of Rebif® and Erbitux® by region – Q2 2014

| | | Total | Europe | North America | Emerging Markets | Rest of World |
|---|---|---|---|---|---|---|
| Rebif® | *€ million* | 464.3 | 174.8 | 239.6 | 39.8 | 10.2 |
| | *Organic growth in%* | –2.8 | –5.4 | –7.1 | 37.8 | 29.0 |
| | *% of sales* | 100 | 38 | 52 | 8 | 2 |
| Erbitux® | *€ million* | 228.9 | 129.5 | – | 62.9 | 36.5 |
| | *Organic growth in%* | 11.3 | 3.2 | – | 28.2 | 14.1 |
| | *% of sales* | 100 | 57 | – | 27 | 16 |

Sales and the organic growth rates of the other key products developed as follows:

### Merck Serono | Sales and organic growth of key products – Q2 2014




In the second quarter of 2014, Merck Serono generated organic sales growth of 7.9% with Gonal-f®. Including adverse foreign exchange effects, sales increased by 3.3% to € 161 million (Q2 2013: € 156 million). Sales of Gonal-f® showed the strongest growth in the Emerging Markets region, with particularly high growth rates achieved in China.

Sales by the Endocrinology franchise, which mainly consists of products to treat metabolic and growth disorders, rose organically by 3.9%. Including negative exchange rate effects of –5.0%, sales totaled € 100 million (Q2 2013: € 101 million). Sales of the growth hormone Saizen®, the top-selling product of this franchise, saw an organic increase of 6.3% as well as negative exchange rate effects of –6.1%. Consequently, sales remained at the previous year's level of € 61 million.

The General Medicine franchise (including CardioMetabolic Care), which commercializes Merck Serono's products to treat cardiovascular diseases and diabetes, among others, generated organic sales growth of 2.4%. Organic sales of products to treat thyroid disorders developed particularly well in the second quarter of 2014. The decline in sales of Glucophage®, which is used to treat diabetes, to € 87 million (Q2 2013: € 100 million), was largely due to ongoing supply chain issues in Europe. Including negative exchange rate changes of –4.5%, sales by the General Medicine franchise amounted to € 410 million (Q2 2013: € 419 million).

During the first half of 2014, the division's sales decreased slightly by –1.2% to € 2,821 million (January-June 2013: € 2,856 million). Reported sales are based on organic growth of 3.6% as well as negative exchange rate effects of –4.8%, which mainly stemmed from the U.S. dollar, Latin American currencies and the Japanese yen. The division's sales of Rebif® totaled € 924 million (January-June 2013: € 953 million). Despite organic growth of 1.0%, Rebif® sales declined by a total of –3.1% due to negative foreign exchange effects. Sales of Erbitux®, Merck Serono's second best-selling product, increased slightly by 0.3% to € 438 million (January-June 2013: € 437 million). Organic growth of 5.8% was largely offset by negative

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foreign exchange effects. In Europe, the top-selling region for Erbitux®, sales of the product slipped organically by –2.2%, leading to first-half sales of € 252 million (January-June 2013: € 258 million). In the Emerging Markets and Rest of World regions, Erbitux® generated very good organic growth rates, which however were burdened by negative exchange rate effects. Sales in the Emerging Markets region rose by a total of 3.2% to € 117 million (January-June 2013: € 114 million). In the Rest of World region, sales increased by 5.2% to € 68 million (January-June 2013: € 65 million).

The Fertility franchise, where Gonal-f® is the top-selling product, delivered sales of € 314 million (January-June 2013: € 301 million), which reflected organic growth of 9.4% and an adverse foreign exchange impact of –5.2%. During the first half of 2014, the Endocrinology franchise generated sales of € 188 million (January-June 2013: € 193 million). Divisional sales of products from the General Medicine franchise (including CardioMetabolic Care) amounted to € 791 million (January-June 2013: € 816 million).

The division's results of operations developed as follows:

### Merck Serono | Results of operations

| *€ million* | Q2 – 2014 | Q2 – 2013[1] | Change in % | Jan.–June 2014 | Jan.–June 2013[1] | Change in % |
|---|---|---|---|---|---|---|
| **Sales** | **1,446.4** | **1,467.6** | **–1.4** | **2,821.3** | **2,856.3** | –1.2 |
| Royalty, license and commission income | 64.3 | 92.9 | –30.8 | 110.5 | 186.2 | –40.7 |
| **Total revenues** | **1,510.7** | **1,560.5** | **–3.2** | **2,931.8** | **3,042.6** | **–3.6** |
| Cost of sales | –249.2 | –258.2 | –3.5 | –503.6 | –488.4 | 3.1 |
| **Gross profit** | **1,261.4** | **1,302.3** | **–3.1** | **2,428.2** | **2,554.2** | **–4.9** |
| Marketing and selling expenses | –323.9 | –332.1 | –2.5 | –603.6 | –626.9 | –3.7 |
| Royalty, license and commission expenses | –133.8 | –151.6 | –11.7 | –265.6 | –283.1 | –6.2 |
| Administration expenses | –56.0 | –49.7 | 12.7 | –108.2 | –99.9 | 8.3 |
| Other operating expenses and income | –53.5 | –53.1 | 0.7 | –79.8 | –180.8 | –55.9 |
| Research and development costs | –311.6 | –294.5 | 5.8 | –609.9 | –617.0 | –1.1 |
| Amortization of intangible assets | –142.9 | –154.8 | –7.7 | –285.5 | –309.9 | –7.8 |
| **Operating result (EBIT)** | **239.7** | **266.4** | **–10.0** | **475.5** | **436.6** | **8.9** |
| Depreciation / Amortization / Reversals of impairments | 204.6 | 211.3 | –3.2 | 396.7 | 449.4 | –11.7 |
| *(of which: one-time items)* | *(2.6)* | *(3.8)* | *(–32.7)* | *(3.8)* | *(30.5)* | *(–87.4)* |
| **EBITDA** | **444.3** | **477.7** | **–7.0** | **872.3** | **886.0** | **–1.6** |
| Restructuring costs | 7.2 | –4.0 | – | 16.7 | 24.6 | –32.1 |
| Integration costs / IT costs | 0.6 | 1.2 | –51.0 | 1.1 | 1.9 | –41.9 |
| Gains / losses on the divestment of businesses | – | – | – | – | – | – |
| Acquisition costs | – | – | – | – | – | – |
| Other one-time items | – | – | – | – | – | – |
| **EBITDA pre one-time items** | **452.0** | **474.8** | –4.8 | **890.1** | **912.5** | **–2.5** |

[1] The previous year's figures have been adjusted, see "The Merck Group and its divisions".

→ Course of business and economic position

Royalty, license and commission income, which besides sales is also reported as part of total revenues, dropped substantially by –30.8% to € 64 million in the second quarter of 2014 (2013: € 93 million). This was due primarily to lower royalty and license income from Avonex® and Enbrel®. The agreement reached with Bristol-Myers Squibb in 2013 on the co-promotion of Glucophage® in China had a positive effect on commission income in comparison with the year-earlier quarter.

Taking into account the development of sales and total revenues as well as cost of sales, the gross profit of the Merck Serono division fell by € –41 million to € 1,261 million, leading to a gross margin of 87.2% (Q2 2013: 88.7%). Lower royalty, license and commission income as well as the negative impact of exchange rates on sales were primarily responsible for this decrease. Royalty, license and commission expenses declined by –11.7% to € 134 million, which was mainly due to lower Rebif® co-promotion expenses in the United States. In the second quarter of 2014, other operating expenses included impairments of intangible assets amounting to € 14 million in connection with the return of the license rights to ceralifimod (see also "License rights to ceralifimod returned" in the Notes to the Consolidated Financial Statements). The increase in research and development costs relates mainly to quarterly fluctuations in R&D spending, as well as one-time effects. Lower amortization of intangible assets was the outcome of the expiration of the amortization periods for the intangible asset Avonex®, which was part of the Serono acquisition. After eliminating depreciation and amortization, and adjusted for one-time items, EBITDA pre one-time items declined by –4.8% to € 452 million and the EBITDA margin pre one-time items was 31.3% (Q2 2013: 32.4%).

In the first half of 2014, Merck Serono recorded EBITDA pre one-time items of € 890 million. The slight decrease of –2.5% in this key performance indicator reflects, among other things, the negative impact of exchange rate developments on earnings as well as the decline in royalty and license income. The EBITDA margin pre one-time items fell slightly to 31.5% (January-June 2013: 31.9%).

### Development of business free cash flow

In the second quarter of 2014, business free cash flow of the Merck Serono division fell significantly by € 148 million to € 337 million (Q2 2013: € 486 million). All business free cash flow components contributed to this development. The changes in trade accounts receivable had the strongest impact. Whereas in the year-earlier quarter, cash generated by the reduction in receivables amounted to € 32 million, in the second quarter of 2014, cash used owing to the increase in receivables was € –71 million.

**Merck Serono | Business free cash flow**

| *€ million* | Q2 – 2014 | Q2 – 2013[1] | Change in % | Jan.–June 2014 | Jan.–June 2013[1] | Change in % |
|---|---|---|---|---|---|---|
| EBITDA pre one-time items | 452.0 | 474.8 | –4.8 | 890.1 | 912.5 | –2.5 |
| Investments in property, plant and equipment, software as well as advance payments for intangible assets | –41.6 | –32.2 | 28.9 | –67.7 | –50.8 | 33.3 |
| Changes in inventories | –2.5 | 11.3 | –122.1 | –9.4 | –4.6 | 106.9 |
| Changes in trade accounts receivable | –70.7 | 31.9 | – | 4.3 | –31.5 | –113.7 |
| **Business free cash flow** | **337.3** | **485.7** | **–30.6** | **817.3** | **825.7** | –1.0 |

[1] The previous year's figures have been adjusted, see "The Merck Group and its divisions".

Owing to the high level of business free cash flow in the first quarter of 2014, Merck Serono's business free cash flow in the first half of 2014 almost matched the high year-earlier level. In comparison with the first half of 2013, business free cash flow declined by just € 8 million or 1.0% to € 817 million.

# Consumer Health

## Consumer Health | Key figures

| € million | Q2 – 2014 | Q2 – 2013[1] | Change in % | Jan.–June 2014 | Jan.–June 2013[1] | Change in % |
|---|---|---|---|---|---|---|
| Total revenues | 185.0 | 180.1 | 2.7 | 365.6 | 361.9 | 1.0 |
| Sales | 184.7 | 178.9 | 3.3 | 364.9 | 360.6 | 1.2 |
| Operating result (EBIT) | 36.9 | 34.2 | 7.9 | 73.7 | 71.0 | 3.8 |
| *Margin (% of sales)* | *20.0* | *19.1* | | *20.2* | *19.7* | |
| EBITDA | 39.3 | 36.5 | 7.6 | 78.4 | 76.0 | 3.3 |
| *Margin (% of sales)* | *21.3* | *20.4* | | *21.5* | *21.1* | |
| EBITDA pre one-time items | 41.4 | 35.5 | 16.7 | 82.6 | 74.8 | 10.5 |
| *Margin (% of sales)* | *22.4* | *19.8* | | *22.6* | *20.7* | |
| Business free cash flow | 36.2 | 50.9 | –28.9 | 52.4 | 71.8 | –27.0 |

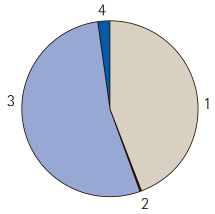
[1] The previous year's figures have been adjusted, see "The Merck Group and its divisions".

### Development of sales and results of operations

In the second quarter of 2014, the Consumer Health division delivered healthy organic sales growth of 8.5%. Including negative currency effects of –5.2%, divisional sales rose by a total of 3.3% to € 185 million (Q2 2013: € 179 million). Organic sales growth was mainly driven by the strategic brands Neurobion®, Floratil® and Femibion®, as well as by local brands in Germany.

## Consumer Health | Sales by region – Q2 2014

*€ million / % of divisional sales*




| | | |
|---|---|---|
| **1** Europe | 82.0 | 44% |
| **2** North America | 0.2 | 0% |
| **3** Emerging Markets | 98.7 | 54% |
| **4** Rest of World | 3.9 | 2% |

From a geographic perspective, the division's key regions, namely Europe and Emerging Markets, delivered good organic growth rates. The Emerging Markets region, which accounts for 54% of sales (Q2 2013: 53%) and is thus the division's largest region, generated strong organic sales growth of 14.2%. Including negative exchange rate effects of –9.9%, sales amounted to € 99 million (Q2: 2013: € 95 million). In particular, the strategic brands Neurobion® and Floratil® were the main growth drivers. Sales of these two strategic brands benefited particularly in Brazil from the focus on consumer-oriented marketing activities.

In Europe, the Consumer Health division posted an organic growth rate of 3.8% as well as slightly positive foreign exchange effects of 0.5%, which led to an increase in sales to € 82 million (Q2 2013: € 79 million). As in the first quarter of 2014, weaker demand for Bion® and Nasivin® was compensated for in the second quarter of 2014 by strong sales volumes of the vitamin supplement Femibion® and local brands in Germany as well as Apaisyl®, a local French brand of insect repellant and skin care products. The share of the divisional sales accounted for by Europe remained constant at 44%.

→ Course of business and economic position

## Consumer Health | Sales components by region – Q2 2014

| € million / change in % | Sales | Organic growth | Exchange rate effects | Acquisitions/ divestments | Total change |
|---|---|---|---|---|---|
| Europe | 82.0 | 3.8 | 0.5 | – | 4.3 |
| North America | 0.2 | –15.8 | 3.1 | – | –12.7 |
| Emerging Markets | 98.7 | 14.2 | –9.9 | – | 4.3 |
| Rest of World | 3.9 | –22.1 | –6.7 | – | –28.8 |
| **Consumer Health** | **184.7** | **8.5** | **–5.2** | **–** | **3.3** |

In the first half of 2014, the Consumer Health division increased its sales slightly by 1.2% to € 365 million (January-June 2013: € 361 million). This was attributable to organic sales growth of 7.1% along with a negative foreign exchange impact of –5.8%. The division's two most important regions, Emerging Markets and Europe, both delivered organic sales increases; the growth rates were 9.7% and 5.5%, respectively. In particular, demand for the products sold under the strategic brands Neurobion® and Floratil® as well as for local brands drove organic sales growth in both regions. In Europe, the organic increase in sales of Femibion® offset weaker demand for Bion®.

The development of results of operations is presented in the following table:

## Consumer Health | Results of operations

| € million | Q2 – 2014 | Q2 – 2013[1] | Change in % | Jan.–June 2014 | Jan.–June 2013[1] | Change in % |
|---|---|---|---|---|---|---|
| **Sales** | **184.7** | **178.9** | **3.3** | **364.9** | **360.6** | 1.2 |
| Royalty, license and commission income | 0.3 | 1.2 | –74.4 | 0.6 | 1.3 | –53.3 |
| **Total revenues** | **185.0** | **180.1** | **2.7** | **365.6** | **361.9** | **1.0** |
| Cost of sales | –59.7 | –62.4 | –4.4 | –119.3 | –119.3 | – |
| **Gross profit** | **125.4** | **117.7** | **6.6** | **246.3** | **242.6** | **1.5** |
| Marketing and selling expenses | –70.0 | –72.3 | –3.1 | –138.1 | –141.4 | –2.3 |
| Royalty, license and commission expenses | –1.0 | –0.4 | 189.5 | –0.8 | –1.1 | –28.1 |
| Administration expenses | –6.6 | –6.3 | 3.5 | –12.8 | –12.1 | 5.9 |
| Other operating expenses and income | –5.3 | 2.0 | – | –9.9 | –4.2 | 135.8 |
| Research and development costs | –4.8 | –5.9 | –17.4 | –9.7 | –11.6 | –16.7 |
| Amortization of intangible assets | –0.7 | –0.6 | 16.5 | –1.4 | –1.2 | 16.5 |
| **Operating result (EBIT)** | **36.9** | **34.2** | **7.9** | **73.7** | **71.0** | **3.8** |
| Depreciation / Amortization / Reversals of impairments | 2.4 | 2.3 | 4.0 | 4.8 | 5.0 | –4.1 |
| *(of which: one-time items)* | – | – | – | – | – | – |
| **EBITDA** | **39.3** | **36.5** | **7.6** | **78.4** | **76.0** | **3.3** |
| Restructuring costs | 2.0 | –1.1 | – | 4.2 | –1.2 | – |
| Integration costs / IT costs | – | – | – | – | – | – |
| Gains / losses on the divestment of businesses | – | – | – | – | – | – |
| Acquisition costs | – | – | – | – | – | – |
| Other one-time items | – | – | – | – | – | – |
| **EBITDA pre one-time items** | **41.4** | **35.5** | 16.7 | **82.6** | **74.8** | **10.5** |

[1] The previous year's figures have been adjusted, see "The Merck Group and its divisions".

→ Course of business
and economic position

In the second quarter of 2014, the division's gross profit rose by 6.6% to € 125 million since cost of sales fell despite higher sales. Consequently, the gross margin grew to 67.9% (Q2 2013: 65.8%). The change in other operating expenses and income from € 2 million in the year-earlier quarter to €-5 million in the second quarter of 2014 was largely due to one-time items in connection with restructuring measures. Moreover, impairments on receivables increased by around € 2 million second quarter of 2014. This amount was also reported under other operating expenses. Adjusted for one-time effects from restructuring measures, EBITDA pre one-time items surged by 16.7% to € 41 million. The resulting improvement in the EBITDA margin pre one-time items by 2.6 percentage points to 22.4% (Q2 2013: 19.8%) reflects the positive development of the business, which was made possible especially by the focus on profitable strategic brands.

In the first half of 2014, the division generated EBITDA pre one-time items of € 83 million, representing an increase of 10.5% compared with the year-earlier period. The resulting EBITDA pre margin increased to 22.6% (January-June 2013: 20.7%).

### Development of business free cash flow

In the second quarter of 2014, business free cash flow of the Consumer Health division declined by approximately € –15 million to € 36 million. This decrease was mainly the result of higher receivables in the second quarter of 2014 in comparison with the reduction in trade accounts receivable achieved in the year-earlier quarter. The increase in EBITDA pre one-time items and the slight decline in inventories in the second quarter of 2014 compensated for this development to some extent.

### Consumer Health | Business free cash flow

| *€ million* | Q2 – 2014 | Q2 – 2013[1] | Change in % | Jan.–June 2014 | Jan.–June 2013[1] | Change in % |
|---|---|---|---|---|---|---|
| EBITDA pre one-time items | 41.4 | 35.5 | 16.7 | 82.6 | 74.8 | 10.5 |
| Investments in property, plant and equipment, software as well as advance payments for intangible assets | –1.4 | –0.8 | 65.0 | –3.1 | –1.4 | 116.0 |
| Changes in inventories | 3.3 | 1.1 | 188.1 | –6.8 | – | – |
| Changes in trade accounts receivable | –7.0 | 15.2 | –146.4 | –20.4 | –1.6 | – |
| **Business free cash flow** | **36.2** | **50.9** | –28.9 | **52.4** | **71.8** | –27.0 |

[1] The previous year's figures have been adjusted, see "The Merck Group and its divisions".

In the first half of 2014, business free cash flow declined by –27.0% or € –19 million to € 52 million (January-June 2013: € 72 million).

→ Course of business and economic position

# Performance Materials

## Performance Materials | Key figures

| € million | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| Total revenues | 505.9 | 431.8 | 17.2 | 908.6 | 853.9 | 6.4 |
| Sales | 505.7 | 431.1 | 17.3 | 907.9 | 852.4 | 6.5 |
| Operating result (EBIT) | 137.5 | 170.1 | –19.2 | 289.2 | 342.7 | –15.6 |
| *Margin (% of sales)* | *27.2* | *39.5* | | *31.8* | *40.2* | |
| EBITDA | 178.1 | 205.1 | –13.2 | 356.9 | 408.4 | –12.6 |
| *Margin (% of sales)* | *35.2* | *47.6* | | *39.3* | *47.9* | |
| EBITDA pre one-time items | 226.3 | 208.9 | 8.3 | 412.8 | 416.3 | –0.9 |
| *Margin (% of sales)* | *44.8* | *48.5* | | *45.5* | *48.8* | |
| Business free cash flow | 179.4 | 201.9 | –11.1 | 344.9 | 400.9 | –14.0 |

### Development of sales and results of operations

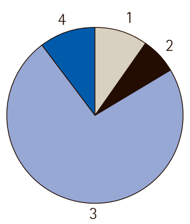
In the second quarter of 2014, sales of the Performance Materials division grew by 17.3% to € 506 million (Q2 2013: € 431 million). Both organic growth of 1.8% as well as acquisition-related sales increases of 20.5% or € 89 million contributed to this rise. Negative foreign exchange effects of –5.1% stemming mainly from the Taiwan dollar and the U.S. dollar again lowered divisional sales in the second quarter of 2014. Organic growth was delivered by the already existing Liquid Crystals, Pigments & Cosmetics and Advanced Technologies business units. The acquisition-related sales growth was due to the first-time consolidation of AZ Electronic Materials as of May 2, 2014. During the integration phase, the acquired business will be managed as an independent business unit in addition to those units already in place.

The Liquid Crystals business unit again maintained its market leadership position in liquid crystal materials in the second quarter of 2014. Overall, the two leading technologies, i.e. PS-VA and IPS, saw good organic growth thanks to continued demand for displays, however this was outweighed by negative exchange rate effects. As a result, the high year-earlier sales, which were driven by strong demand in China, among other things, could not be fully reached on a nominal basis.

The Pigments & Cosmetics business unit posted slight organic sales growth in the second quarter of 2014. Xirallic® pigments, which are primarily used in automotive coatings, as well as functional materials were the main drivers. Since negative foreign exchange effects could not be fully compensated for by organic growth, the business unit's sales declined slightly. Thanks to higher demand for OLED displays, the Advanced Technologies business unit made a visible contribution to organic growth.

## Performance Materials | Sales by region – Q2 2014

*€ million /% of divisional sales*




| | | |
|---|---|---|
| **1** Europe | 49.2 | 10% |
| **2** North America | 34.2 | 7% |
| **3** Emerging Markets | 370.4 | 73% |
| **4** Rest of World | 51.9 | 10% |

→ Course of business and economic position

Accounting for 73% of sales (Q2 2013: 75%), the Emerging Markets region generated the vast majority of the division's sales. This is due to the concentration of customers for liquid crystals as well as high-tech materials from the new AZ business unit in Asia. Despite a high year-earlier basis, the already existing business units achieved soft organic sales growth of 2.3%. Sales in the Emerging Markets region rose by 17.8% due to acquisitions, in other words the takeover of AZ. Taking negative foreign exchange effects of –5.3% into account, sales in this region rose to € 370 million (Q2: 2013: € 323 million).

In the second quarter of 2014, the division posted sales of € 49 million (Q2 2013: € 42 million) in Europe. As a result, Europe's share of sales remained unchanged at 10%. The Pigments & Cosmetics business unit generated organic growth of 1.1%, which was due, among other things, to the demand for Xirallic® pigments. Sales in Europe rose 15.2% owing to the first-time consolidation of AZ.

The Rest of World region, which is dominated by Japan, recorded organic sales growth of 1.8%. The acquisition-related increase from the purchase of AZ was 26.9%. Amid currency headwinds of –8.9%, this resulted in sales of € 52 million (Q2 2013: € 43 million). The share of sales attributable to the Rest of World region thus remained unchanged at 10%.

In North America, sales grew by 48.6% to € 34 million (Q2 2013: € 23 million). This was driven by the acquisition-related sales increase of 56.5%, which was partly offset by an organic sales decline of –3.6% as well as negative exchange rate effects of –4.3%. Consequently, the region contributed 7% to divisional sales in the second quarter of 2014 (Q2 2013: 5%).

### Performance Materials | Sales components by region – Q2 2014

| *€ million / change in%* | Sales | Organic growth | Exchange rate effects | Acquisitions/ divestments | Total change |
|---|---|---|---|---|---|
| Europe | 49.2 | 1.1 | 0.1 | 15.2 | 16.4 |
| North America | 34.2 | –3.6 | –4.3 | 56.5 | 48.6 |
| Emerging Markets | 370.4 | 2.3 | –5.3 | 17.8 | 14.8 |
| Rest of World | 51.9 | 1.8 | –8.9 | 26.9 | 19.8 |
| **Performance Materials** | **505.7** | **1.8** | **–5.1** | **20.5** | **17.3** |

In the first half of 2014, sales of the Performance Materials division increased 6.5% to € 908 million (January-June 2013: € 852 million. This was attributable to organic growth of 1.5% as well as to an acquisition-related increase of 10.4%. By contrast, a negative foreign exchange impact of –5.4% lowered divisional sales. Sales volumes of liquid crystals developed well in the first half of 2014 thanks to continued strong demand from display manufacturers, making it possible to achieve soft organic growth. However, taking into account negative exchange rate effects, the Liquid Crystals business unit could not maintain its high year-earlier sales. The development of sales in the Pigments & Cosmetics business unit was also impacted by negative exchange rate effects in the first half of 2014. Both decorative pigments and functional materials saw slight organic sales growth, yet this could not compensate for the adverse foreign exchange impact. Including the sales of AZ, which totaled € 89 million for the period from May to June 2014, divisional sales rose by a total of 6.5% in the first half of 2014.

→ Course of business and economic position

The results of operations developed as follows:

### Performance Materials | Results of operations

| *€ million* | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| **Sales** | **505.7** | **431.1** | **17.3** | **907.9** | **852.4** | 6.5 |
| Royalty, license and commission income | 0.2 | 0.6 | –65.0 | 0.7 | 1.4 | –49.8 |
| **Total revenues** | **505.9** | **431.8** | **17.2** | **908.6** | **853.9** | **6.4** |
| | | | | | | |
| Cost of sales | –245.0 | –160.3 | 52.9 | –401.8 | –316.5 | 26.9 |
| **Gross profit** | **260.9** | **271.5** | **–3.9** | **506.9** | **537.3** | **–5.7** |
| | | | | | | |
| Marketing and selling expenses | –45.0 | –37.0 | 21.8 | –77.6 | –72.4 | 7.2 |
| Royalty, license and commission expenses | –0.9 | –0.4 | 149.2 | –1.7 | –0.8 | 105.6 |
| Administration expenses | –14.7 | –7.8 | 88.8 | –22.5 | –14.8 | 52.0 |
| Other operating expenses and income | –20.2 | –19.2 | 5.3 | –32.9 | –29.7 | 10.5 |
| Research and development costs | –37.9 | –33.4 | 13.3 | –74.9 | –69.8 | 7.3 |
| Amortization of intangible assets | –4.6 | –3.6 | 28.9 | –8.2 | –7.1 | 15.7 |
| **Operating result (EBIT)** | **137.5** | **170.1** | **–19.2** | **289.2** | **342.7** | **–15.6** |
| Depreciation / Amortization / Reversals of impairments | 40.6 | 35.0 | 16.0 | 67.7 | 65.8 | 3.0 |
| *(of which: one-time items)* | – | *(0.7)* | – | – | *(0.7)* | – |
| **EBITDA** | **178.1** | **205.1** | **–13.2** | **356.9** | **408.4** | **–12.6** |
| Restructuring costs | 1.5 | 3.2 | –52.5 | 3.3 | 6.8 | –50.8 |
| Integration costs / IT costs | 1.1 | 0.6 | 73.8 | 1.5 | 1.1 | 32.2 |
| Gains / losses on the divestment of businesses | – | – | – | 4.4 | – | – |
| Acquisition costs | 45.7 | – | – | 46.7 | – | – |
| Other one-time items | – | – | – | – | – | – |
| **EBITDA pre one-time items** | **226.3** | **208.9** | 8.3 | **412.8** | **416.3** | **–0.9** |

→ Course of business and economic position

The development of the results of operations was significantly influenced by the consolidation of AZ since May 2, 2014. In particular, the sharp increase in cost of sales in the second quarter of 2014 related mainly to the first-time consolidation of AZ. The AZ inventories from the acquisition were stepped up to fair values on the date of first-time consolidation. For the period from May 2, 2014 to June 30, 2014, € 30 million of this step-up was included as an expense in cost of sales. As a consequence of this one-time expense, the consolidated contribution of AZ to gross profit in the second quarter was negligible. The gross margin of Performance Materials fell accordingly to 51.6% (Q2 2013: 63.0%). The decline in the operating result (EBIT) as well as EBITDA to € 137 million and € 178 million, respectively, was due among other things to the described consequences of the AZ inventory revaluation, which were recognized as an expense. During the determination of EBITDA pre one-time items, this one-time effect from the inventory revaluation was eliminated. Therefore this key performance indicator rose by 8.3% to € 226 million and includes the adjusted amount from AZ. The EBITDA margin pre one-time items fell to 44.8% (Q2 2013: 48.5%).

In the first half of 2014, EBITDA pre one-time items declined slightly by –0.9% to € 413 million. Expressed as a percentage of sales, this resulted in an EBITDA margin pre one-time items of 45.5% (January-June 2013: 48.8%).

### Development of business free cash flow

In the second quarter of 2014, the Performance Materials division generated business free cash flow of € 179 million (Q2 2013: € 202 million). The sharp increase in inventories and trade accounts receivable was related to the acquisition of AZ. This effect was offset by the adjustment amounting to € 164 million. Overall, AZ has made a positive contribution to business free cash flow since the first-time consolidation. The decrease in this key performance indicator to € 179 million was attributable to the development of the balance sheet items of the other business units.

### Performance Materials | Business free cash flow

| *€ million* | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| EBITDA pre one-time items | 226.3 | 208.9 | 8.3 | 412.8 | 416.3 | –0.9 |
| Investments in property, plant and equipment, software as well as advance payments for intangible assets | –18.9 | –12.9 | 46.4 | –30.8 | –22.7 | 36.0 |
| Changes in inventories | –96.6 | 10.9 | – | –89.6 | 18.2 | – |
| Changes in trade accounts receivable | –95.8 | –4.9 | – | –111.8 | –10.9 | – |
| Adjustments first-time consolidation of AZ Electronic Materials | 164.4 | – | – | 164.4 | – | – |
| **Business free cash flow** | **179.4** | **201.9** | **–11.1** | **344.9** | **400.9** | **–14.0** |

In the first half of 2014, business free cash flow was € 345 million (January-June 2013: € 401 million), equivalent to a decline of € –56 million.

→ Course of business and economic position

# Merck Millipore

## Merck Millipore | Key figures

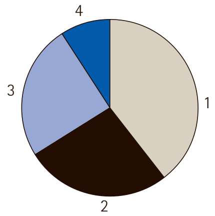
| *€ million* | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| Total revenues | 661.5 | 668.7 | –1.1 | 1,321.9 | 1,343.3 | –1.6 |
| Sales | 658.7 | 666.3 | –1.1 | 1,315.2 | 1,335.0 | –1.5 |
| Operating result (EBIT) | 75.2 | 72.4 | 3.8 | 162.2 | 144.8 | 12.1 |
| *Margin (% of sales)* | *11.4* | *10.9* | | *12.3* | *10.8* | |
| EBITDA | 150.3 | 148.2 | 1.4 | 314.0 | 299.7 | 4.8 |
| *Margin (% of sales)* | *22.8* | *22.2* | | *23.9* | *22.5* | |
| EBITDA pre one-time items | 165.7 | 155.9 | 6.3 | 335.4 | 317.8 | 5.5 |
| *Margin (% of sales)* | *25.2* | *23.4* | | *25.5* | *23.8* | |
| Business free cash flow | 125.5 | 156.6 | –19.9 | 179.9 | 237.7 | –24.3 |

### Development of sales and results of operations

Despite a challenging market environment characterized by increasing competitive pressure, the Merck Millipore division generated solid organic sales growth of 4.0% in the second quarter of 2014. This achievement was mainly driven by the excellent business performance of the Process Solutions business area. The organic increase was countered by a negative foreign exchange impact of –4.2%, which largely stemmed from the U.S. dollar and the Japanese yen. Additionally, Merck Millipore's sales declined by –0.9% in comparison with the year-earlier quarter owing to the divestment of the Discovery and Development Solutions business field as of March 31, 2014. Including these effects, divisional sales decreased overall by –1.1% to € 659 million (Q2 2013: € 666 million).

## Merck Millipore | Sales by region – Q2 2014

*€ million / % of divisional sales*




| | | | |
|---|---|---|---|
| **1** | Europe | 260.7 | 39% |
| **2** | North America | 175.4 | 27% |
| **3** | Emerging Markets | 163.8 | 25% |
| **4** | Rest of World | 58.9 | 9% |

In the second quarter of 2014, Merck Millipore achieved organic sales growth in all regions. Accounting for an unchanged 39% of divisional sales, Europe remained the division's largest geographic market, delivering organic growth of 1.4% and sales of € 261 million (Q2 2013: € 258 million). Process Solutions posted strong organic growth in Europe, which enabled it to compensate for the weaker performance of the other business areas in the region.

In North America, the division generated slight organic sales growth of 1.1%. Currency effects lowered sales by –4.4%, mainly as a result of the weaker U.S. dollar. Overall, the division's sales in North America decreased to € 175 million (Q2 2013: € 185 million), which represented a share of 27% (Q2 2013: 28%) of Merck Millipore's sales in the second quarter of 2014. The slight organic sales increase in North America was attributable to the Bioscience and Process Solutions business areas, which posted growth rates of 2.5% and 1.4%, respectively.

Sales developed very positively in the Emerging Markets region, which delivered organic sales growth of 13.0%. Despite currency headwinds of –9.7% and divestment-related declines of –0.2%, sales rose to € 164 million (Q2 2013: € 159 million). The strong organic sales performance was fueled by good demand for products from all the division's business areas. The Process Solutions business area, in particular, achieved high organic growth. The share of divisional sales generated by the Emerging Markets region therefore increased by one percentage point to 25%.

As a result of significant currency headwinds of –7.9%, especially relative to the Japanese yen, sales in the Rest of World region declined to € 59 million (Q2 2013: € 64 million). Consequently, this region's share of overall divisional sales decreased to 9% (Q2 2013: 10%).

### Merck Millipore | Sales components by region – Q2 2014

| *€ million / change in%* | Sales | Organic growth | Exchange rate effects | Acquisitions/ divestments | Total change |
|---|---|---|---|---|---|
| Europe | 260.7 | 1.4 | 0.1 | –0.5 | 1.0 |
| North America | 175.4 | 1.1 | –4.4 | –2.1 | –5.4 |
| Emerging Markets | 163.8 | 13.0 | –9.7 | –0.2 | 3.1 |
| Rest of World | 58.9 | 0.4 | –7.9 | –0.6 | –8.0 |
| **Merck Millipore** | **658.7** | **4.0** | **–4.2** | **–0.9** | **–1.1** |

All business areas contributed to organic growth in the second quarter of 2014. The Process Solutions business area, which markets products and services for the pharmaceutical production value chain, among other things, generated organic sales growth of 8.3%, which was the highest rate within the Merck Millipore division. Taking negative foreign exchange effects of –3.7% and divestment-related declines into account, sales amounted to € 290 million (Q2 2013: € 283 million). The share of divisional sales generated by Process Solutions thus rose to 44% (Q2 2013: 42%). This increase was driven by higher demand from the pharmaceutical industry for products used in biopharmaceutical manufacturing, especially filtration systems and single-use solutions.

Lab Solutions, which accounted for a share of 41% (Q2 2013: 42%) of divisional sales, generated organic sales growth of 0.4% with its broad range of products for researchers and scientific laboratories. Taking currency headwinds of –5.0% into account, sales amounted to € 267 million (Q2: 2013: € 279 million).

The Bioscience business area, which primarily markets products and services for academic and pharmaceutical research laboratories, recorded an organic sales increase of 2.0%. Including adverse foreign exchange effects of –3.6%, sales were € 102 million (Q2 2013: € 104 million). Here, across-the-board health care spending cuts in the United States continued to soften demand. However, this was compensated for also by higher demand from diagnostic laboratories for cell analysis products. In the second quarter of 2014, Bioscience accounted for a 15% share of divisional sales (Q2 2013: 16%).

### Merck Millipore | Sales components by business area – Q2 2014

| *€ million / change in%* | Sales | Organic growth | Exchange rate effects | Acquisitions/ divestments | Total change |
|---|---|---|---|---|---|
| Bioscience | 101.8 | 2.0 | –3.6 | – | –1.7 |
| Lab Solutions | 266.6 | 0.4 | –5.0 | – | –4.6 |
| Process Solutions | 290.3 | 8.3 | –3.7 | –2.1 | 2.5 |

→ Course of business and economic position

In the first half of 2014, the division's sales declined by −1.5% to € 1,315 million (January-June 2013: € 1,335 million). Negative foreign exchange effects of −4.9% were mainly responsible for this decrease. The division delivered organic sales growth of 3.8%. The Process Solutions and Lab Solutions business areas both contributed, generating organic growth of 7.4% and 1.6%, respectively. The divestment of the Discovery and Development Solutions business field impacted sales by −0.4% in the first half of 2014.

The results of operations of the Merck Millipore division developed as follows:

## Merck Millipore | Results of operations

| *€ million* | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| **Sales** | **658.7** | **666.3** | **−1.1** | **1,315.2** | **1,335.0** | −1.5 |
| Royalty, license and commission income | 2.8 | 2.4 | 14.7 | 6.7 | 8.3 | −19.0 |
| **Total revenues** | **661.5** | **668.7** | **−1.1** | **1,321.9** | **1,343.3** | **−1.6** |
| Cost of sales | −274.1 | −285.9 | −4.1 | −538.8 | −565.6 | −4.7 |
| **Gross profit** | **387.4** | **382.8** | **1.2** | **783.1** | **777.7** | **0.7** |
| Marketing and selling expenses | −164.2 | −173.6 | −5.4 | −332.8 | 343.1 | −3.0 |
| Royalty, license and commission expenses | −3.4 | −4.2 | −19.1 | −7.5 | −7.9 | −4.5 |
| Administration expenses | −25.8 | −22.9 | 12.6 | −54.4 | −49.7 | 9.4 |
| Other operating expenses and income | −30.3 | −19.6 | 54.4 | −50.1 | −50.4 | −0.7 |
| Research and development costs | −39.3 | −39.6 | −0.8 | −77.7 | −81.0 | −4.1 |
| Amortization of intangible assets | −49.3 | −50.5 | −2.4 | −98.5 | −100.9 | −2.4 |
| **Operating result (EBIT)** | **75.2** | **72.4** | **3.8** | **162.2** | **144.8** | **12.1** |
| Depreciation / Amortization / Reversals of impairments | 75.1 | 75.8 | −0.9 | 151.8 | 155.0 | −2.0 |
| *(of which: one-time items)* | – | – | – | – | – | – |
| **EBITDA** | **150.3** | **148.2** | **1.4** | **314.0** | **299.7** | **4.8** |
| Restructuring costs | 6.7 | 2.6 | 151.8 | 5.4 | 8.6 | −37.3 |
| Integration costs / IT costs | 8.7 | 5.0 | 73.2 | 16.2 | 8.5 | 90.0 |
| Gains / losses on the divestment of businesses | – | – | – | −0.2 | – | – |
| Acquisition costs | – | – | – | – | – | – |
| Other one-time items | – | – | – | – | 1.0 | – |
| **EBITDA pre one-time items** | **165.7** | **155.9** | 6.3 | **335.4** | **317.8** | **5.5** |

Despite the negative impact of the strong euro on sales, gross profit rose slightly by 1.2% to € 387 million in the second quarter of 2014. This resulted in an increase in the gross margin by slightly more than one percentage point from 58.8% (Q2 2013: 57.5%). In comparison with the year-earlier quarter, the operating result (EBIT) of Merck Millipore rose by 3.8% to € 75 million despite the increase in one-time items to € −15 million (Q2 2013: € −8 million). After eliminating depreciation and amortization, and adjusted for one-time items, EBITDA pre, the most important performance indicator, climbed 6.3% to € 166 million amid unfavorable exchange rate developments. Consequently, the EBITDA pre margin rose in the second quarter of 2014 by 1.8 percentage points to 25.2% (Q2 2014: 23.4%). This increase was especially due to the good price and volume development as well as ongoing cost control.

→ Course of business and economic position

In the first half of 2014, EBITDA pre one-time items of the Merck Millipore division rose by € 18 million, or 5.5%, to € 335 million, reflecting the stable development of the operating business. In comparison with the year-earlier period, the EBITDA pre margin increased to 25.5% (January-June 2013: 23.8%).

### Development of business free cash flow

In the second quarter of 2014, the Merck Millipore division generated business free cash flow of € 125 million (Q2 2013: € 157 million). The decline of around € –31 million was mainly attributable to the increase in trade accounts receivable and in inventories in the second quarter of 2014. Higher capital spending also led to a higher cash outflow than in the year-earlier quarter. The rise in EBITDA pre one-time items could not compensate for these effects.

**Merck Millipore | Business free cash flow**

| *€ million* | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| EBITDA pre one-time items | 165.7 | 155.9 | 6.3 | 335.4 | 317.8 | 5.5 |
| Investments in property, plant and equipment, software as well as advance payments for intangible assets | –27.7 | –18.3 | 51.4 | –47.5 | –28.9 | 64.5 |
| Changes in inventories | –11.3 | 3.1 | – | –38.9 | –12.7 | – |
| Changes in trade accounts receivable | –1.2 | 15.9 | –107.5 | –69.1 | –38.5 | 79.4 |
| **Business free cash flow** | **125.5** | **156.6** | –19.9 | **179.9** | **237.7** | –24.3 |

In the first half of 2014, the division's business free cash flow declined by –24.3%, or € –58 million, to € 180 million (January-June 2013: € 238 million).

→ Course of business and economic position

# Corporate and Other

Corporate and Other comprises Group administration expenses for Group functions that cannot be directly allocated to the divisions, such as Finance, Procurement, Legal, Communications, and Human Resources. Corporate costs additionally encompass expenses for central, non-allocated IT functions, including expenses related to the expansion and harmonization of IT systems within the Merck Group. Accordingly, Corporate and Other has no sales to report. Gains or losses on currency hedging are also disclosed in Corporate and Other.

**Corporate and Other | Key figures**

| *€ million* | Q2 – 2014 | Q2 – 2013 | Change in % | Jan.–June 2014 | Jan.–June 2013 | Change in % |
|---|---|---|---|---|---|---|
| Operating result (EBIT) | –48.3 | –77.9 | –37.9 | –91.3 | –130.3 | –29.9 |
| EBITDA | –44.9 | –74.5 | –39.7 | –84.4 | –123.2 | –31.5 |
| EBITDA pre one-time items | –39.8 | –48.7 | –18.3 | –68.1 | –94.0 | –27.6 |
| Business free cash flow | –46.3 | –111.3 | –58.4 | –78.2 | –159.4 | –50.9 |

In the second quarter of 2014, administration expenses reported under Corporate and Other decreased to € 48 million (Q2 2013: € 51 million). Other operating expenses (net) dropped to € –1 million (Q2 2013: € –25 million). The decline resulted mainly from lower one-time expenses, which decreased from € –26 million to € –5 million, as well as from a significantly higher foreign currency result, which totaled € 14 million in the second quarter of 2014 (Q2 2013: € 5 million). Overall, the aforementioned effects improved EBIT to € –48 million € (Q2 2013: € –78 million) and EBITDA to € –45 million (Q2 2013: € –74 million). Adjusted for one-time effects, EBITDA pre totaled € –40 million in the second quarter of 2014 (Q2 2013: € –49 million). The improvement in business free cash flow from € –111 million to € –46 million was primarily due to lower investments in property, plant and equipment as well as to the positive development of EBITDA pre one-time items.

In the first half of 2014, EBITDA pre one-time items of Corporate and Other totaled € –68 million (January-June 2013: € –94 million). Business free cash flow also improved considerably and amounted to € –78 million (January-June 2013: € –159 million).

# Report on Risks and Opportunities

As a global company with a variety of highly innovative businesses, the Merck Group is exposed to potential risks and opportunities. The risk categories presented as well as the opportunities described in the Report on Risks and Opportunities found on pages 120 to 137 of the Annual Report for 2013 remain valid for the Merck Group in the current reporting period. The only change related to the elimination of the risk of an import ban on products to the United States due to a warning letter from the United States Food and Drug Administration (FDA) in connection with inspections of production facilities in Tiburtina (Italy) as well as Aubonne and Vevey (Switzerland). The corrective actions taken by Merck are considered to be adequate by the FDA. The FDA has formally closed out the procedure.

At present, the company is not aware of any risks that could jeopardize the continued existence of the Merck Group. The company has a group-wide risk management system in place to identify and mitigate potential risks. Merck continuously monitors business risks such as issues regarding liquidity, defaults on payables and receivables, currency and interest rates, market pricing, pension obligations, assessment of independent rating agencies, human resources and information technology. Regarding legal risks, Merck monitors a host of potential issues such as litigation regarding product liability, antitrust law, pharmaceutical law, patent law and environmental protection.

# Report on Expected Developments

With the publication of the results of 2013, Merck provided a forecast of expected sales, EBITDA pre one-time items and business free cash flow for the Merck Group and its divisions for 2014. Owing to business performance in the first half of 2014, Merck confirms its forecast for the full year 2014 despite anticipated negative foreign exchange effects. The latter will stem mainly from a significant drop in the value of the U.S. dollar and the Japanese yen, yet also from the Latin American currencies. Relative to the sales of the Merck Group, we therefore continue to assume negative exchange rate effects of approximately 3–4% compared to the previous year.

Merck expects for 2014 slight organic sales growth, which will be cancelled out by the aforementioned negative foreign exchange effects. Due to the successful acquisition of AZ Electronic Materials (AZ) and the related portfolio effect, Merck assumes that sales will increase to around € 10.9 – € 11.1 billion. With respect to EBITDA pre one-time items, the planned efficiency increases should be able to offset the effects of the decline in royalty, license and commission income as well as the negative impact of foreign currency. Merck therefore expects EBITDA pre one-time items to grow moderately in comparison with the previous year as a result of the acquisition of AZ Electronic Materials. Business free cash flow is forecast to decrease slightly in 2014 due to investments in growth projects, as well as against the background of the high level of repayments of overdue trade accounts receivable of southern European hospitals in the previous year.

For the Merck Serono division, slight organic sales growth over the previous year is assumed. It can be expected that the well-balanced product portfolio as well as organic growth in the Emerging Markets region will offset the declines in sales of Rebif® resulting from the competitive situation in the United States and Europe. EBITDA pre one-time items of Merck Serono should decrease slightly in 2014 as forecast, particularly as a result of the expected decline in royalty, license and commission income, which will have a net effect of approximately € –100 million versus 2013. In addition, the Biosimilars initiative will be driven forward and pipeline activities will be focused on the most promising projects.

For the Consumer Health division, we forecast moderate organic sales growth in 2014. We expect all regions and especially the core strategic brands to contribute to sales growth. EBITDA pre one-time items should likewise increase moderately in 2014 as a result of positive sales developments.

We assume that the Performance Materials division will achieve slight organic sales growth in 2014. We continue to assume the expected volume increase in the Liquid Crystals business unit amid the price decline for established products. The Pigments & Cosmetics business unit should benefit from the positive development of the global automotive market and generate a slight organic increase in sales. As a result of the acquisition of AZ Electronic Materials, overall Merck expects sales of the Performance Materials division to increase substantially despite negative foreign exchange effects. EBITDA pre one-time items of the Performance Materials division should therefore also increase considerably in 2014. We estimate that the integration costs resulting from the acquisition of AZ Electronic Materials will amount to around € 50 million, approximately € 10 million of which will be incurred in 2014.

For Merck Millipore, we expect moderate organic sales growth in 2014, which will however be partly cancelled out by foreign exchange effects. Supported by the continued recovery of the pharmaceutical market, the Process Solutions business area should remain the main growth driver. Based on sales growth, we expect EBITDA pre one-time items of the Merck Millipore division to increase slightly in 2014.

→ Report on Expected Developments

The assumptions of market and exchange rate developments lead to the following forecast of business performance for the full year 2014:

### Forecast for FY 2014

| | Sales<br>€ million | EBITDA pre one-time items<br>€ million | Business free cash flow<br>€ million |
|---|---|---|---|
| **Merck Group** | **~10,900 – 11,100** | **~ 3,300 – 3,400** | **~ 2,700 – 2,800** |
| Merck Serono | slight organic growth | ~ 1,750 – 1,830 | ~ 1,500 – 1,600 |
| Consumer Health | moderate organic growth | ~ 170 – 180 | ~ 150 – 170 |
| Performance Materials | slight organic growth | ~ 850 – 880 | ~ 720 – 770 |
| Merck Millipore | moderate organic growth | ~ 640 – 670 | ~ 460 – 490 |
| Corporate and Other | | ~ –160 – –190 | ~ –200 – –230 |

Earnings per share pre one-time items ~ € 4.50 – € 4.75
(based on the number of shares following the share split,
which was approved by the Annual General Meeting on May 9, 2014).

Full-year FX assumptions for 2014:
€ 1 = US$ 1.36
€ 1 = JPY 140

# Interim Consolidated Financial Statements as of June 30, 2014

## Consolidated Income Statement

| *€ million* | Q2 – 2014 | Q2 – 2013 | Jan.–June 2014 | Jan.–June 2013 |
|---|---|---|---|---|
| **Sales** | **2,795.5** | **2,743.9** | **5,409.4** | **5,404.3** |
| Royalty, license and commission income | 67.6 | 97.2 | 118.5 | 197.3 |
| **Total revenues** | **2,863.1** | **2,841.1** | **5,527.9** | **5,601.6** |
| Cost of sales | –828.6 | –768.0 | –1,565.1 | –1,492.0 |
| **Gross profit** | **2,034.5** | **2,073.1** | **3,962.8** | **4,109.6** |
| Marketing and selling expenses | –601.5 | –616.3 | –1,151.0 | –1,184.6 |
| Royalty, license and commission expenses | –139.1 | –156.5 | –275.4 | –292.8 |
| Administration expenses | –151.0 | –137.5 | –283.3 | –270.2 |
| Other operating expenses and income | –110.4 | –114.5 | –177.2 | –298.5 |
| Research and development costs | –394.1 | –373.5 | –773.0 | –779.7 |
| Amortization of intangible assets | –197.4 | –209.4 | –393.6 | –419.0 |
| **Operating result (EBIT)** | **441.0** | **465.4** | **909.3** | **864.8** |
| Financial result | –50.2 | –48.5 | –84.9 | –107.2 |
| **Profit before income tax** | **390.8** | **416.9** | **824.4** | **757.6** |
| Income tax | –84.8 | –100.8 | –191.0 | –172.5 |
| **Profit after tax** | **306.0** | **316.1** | **633.4** | **585.1** |
| of which attributable to Merck KGaA shareholders (net income) | 303.3 | 316.0 | 628.5 | 582.0 |
| of which attributable to non-controlling interests | 2.7 | 0.1 | 4.9 | 3.1 |
| **Earnings per share (in €)** | | | | |
| basic[1] | 0.70 | 0.73 | 1.45 | 1.34 |
| diluted[1] | 0.70 | 0.73 | 1.45 | 1.34 |

[1] Taking into account the share split; previous year's figures have been adjusted accordingly. See explanations under "Earnings per share".

# Consolidated Statement of Comprehensive Income

| € million | Q2 – 2014 | Q2 – 2013 | Jan.–June 2014 | Jan.–June 2013 |
|---|---|---|---|---|
| **Profit after tax** | **306.0** | **316.1** | **633.4** | **585.1** |
| **Items of other comprehensive income that will not be reclassified to profit or loss in subsequent periods:** | | | | |
| **Remeasurement of the net defined benefit liability** | | | | |
| Changes in remeasurement | –80.6 | 44.2 | –245.3 | –43.6 |
| Deferred taxes | 15.0 | –7.9 | 45.2 | 6.8 |
| Changes recognized in equity | **–65.6** | **36.3** | **–200.1** | **–36.8** |
| | **–65.6** | **36.3** | **–200.1** | **–36.8** |
| **Items of other comprehensive income that may be reclassified to profit or loss in subsequent periods:** | | | | |
| **Available-for-sale financial assets** | | | | |
| Fair value adjustments | –0.5 | 0.1 | –1.1 | 0.8 |
| Reclassification to profit or loss | – | – | 1.7 | – |
| Deferred taxes | 0.1 | –0.1 | –0.1 | –0.5 |
| Changes recognized in equity | **–0.4** | **–** | **0.5** | **0.3** |
| **Derivative financial instruments** | | | | |
| Fair value adjustments | –29.5 | 65.1 | –52.5 | 43.7 |
| Reclassification to profit or loss | –12.2 | –1.8 | –26.2 | –4.9 |
| Reclassification to assets | – | – | – | – |
| Deferred taxes | 10.2 | –14.7 | 19.0 | –7.2 |
| Changes recognized in equity | **–31.5** | **48.6** | **–59.7** | **31.6** |
| **Exchange differences on translating foreign operations** | | | | |
| Changes taken directly to equity | 78.4 | –98.3 | 89.0 | –77.3 |
| Reclassification to profit or loss | – | –7.6 | – | –7.6 |
| Changes recognized in equity | **78.4** | **–105.9** | **89.0** | **–84.9** |
| | **46.5** | **–57.3** | **29.8** | **–53.1** |
| **Other comprehensive income** | **–19.1** | **–21.0** | **–170.3** | **–89.9** |
| **Comprehensive income** | **286.9** | **295.1** | **463.1** | **495.2** |
| of which attributable to Merck KGaA shareholders | 285.1 | 299.7 | 456.2 | 495.0 |
| of which attributable to non-controlling interests | 1.8 | –4.6 | 6.9 | 0.2 |

# Consolidated Balance Sheet

| *€ million* | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 846.6 | 980.8 |
| Current financial assets | 956.4 | 2,410.5 |
| Trade accounts receivable | 2,218.8 | 2,021.4 |
| Inventories | 1,618.8 | 1,474.2 |
| Other current assets | 425.8 | 360.7 |
| Income tax receivables | 137.8 | 109.8 |
| Assets held for sale | – | 27.1 |
| | **6,204.2** | **7,384.5** |
| **Non-current assets** | | |
| Intangible assets | 11,424.9 | 9,867.2 |
| Property, plant and equipment | 2,793.4 | 2,647.2 |
| Non-current financial assets | 90.7 | 77.8 |
| Other non-current assets | 77.6 | 105.5 |
| Deferred tax assets | 885.5 | 736.4 |
| | **15,272.1** | **13,434.1** |
| **Total assets** | **21,476.3** | **20,818.6** |
| **Current liabilities** | | |
| Current financial liabilities | 2,086.2 | 440.4 |
| Trade accounts payable | 1,403.8 | 1,364.1 |
| Other current liabilities | 723.2 | 1,134.5 |
| Income tax liabilities | 533.7 | 465.1 |
| Current provisions | 403.0 | 494.7 |
| Liabilities directly related to assets held for sale | – | – |
| | **5,149.9** | **3,898.8** |
| **Non-current liabilities** | | |
| Non-current financial liabilities | 1,937.0 | 3,257.5 |
| Other non-current liabilities | 7.2 | 5.6 |
| Non-current provisions | 1,004.0 | 1,011.1 |
| Provisions for pensions and other post-employment benefits | 1,196.1 | 910.9 |
| Deferred tax liabilities | 967.2 | 665.5 |
| | **5,111.6** | **5,850.6** |
| **Equity** | | |
| Equity capital | 565.2 | 565.2 |
| Reserves | 9,453.8 | 9,341.1 |
| Gains/losses recognized immediately in equity | 1,141.5 | 1,113.7 |
| **Equity attributable to Merck KGaA shareholders** | **11,160.5** | **11,020.0** |
| Non-controlling interests | 54.4 | 49.2 |
| | **11,214.9** | **11,069.2** |
| **Total liabilities and equity** | **21,476.3** | **20,818.6** |

# Consolidated Cash Flow Statement

| *€ million* | Jan.–June 2014 | Jan.–June 2013 |
|---|---|---|
| **Profit after tax** | **633.4** | **585.1** |
| Depreciation/amortization/impairment losses/reversals of impairments | 627.9 | 682.1 |
| Changes in inventories | –7.2 | –43.4 |
| Changes in trade accounts receivable | –88.0 | –135.4 |
| Changes in trade accounts payable | –19.6 | 37.8 |
| Changes in provisions | –89.0 | 2.8 |
| Changes in other assets and liabilities | –215.2 | –131.0 |
| Neutralization of gain/loss on disposals of assets | –11.8 | –37.4 |
| Other non-cash income and expenses | 7.5 | –2.3 |
| **Net cash flows from operating activities** | **838.1** | **958.2** |
| Payments for investments in intangible assets | –39.0 | –50.2 |
| Payments for investments in property, plant and equipment | –142.1 | –157.2 |
| Payments from the sale of property, plant and equipment[1] | 4.0 | 256.7 |
| Payments for investments in financial assets[1] | –506.2 | –725.5 |
| Payments for the obtainment of control over AZ Electronic Materials S.A. less acquired cash and cash equivalents | –1,419.4 | – |
| Payments for other acquisitions | – | –15.1 |
| Payments from the disposal of investments[1] | 1,948.5 | 99.3 |
| Payments from the divestment of the Discovery and Development Solutions business field | 20.7 | – |
| **Net cash flows from investing activities** | **–133.6** | **–592.0** |
| Dividend payments to Merck KGaA shareholders[1] | –122.8 | –109.9 |
| Dividend payments to non-controlling interests[1] | –2.7 | –3.0 |
| Withdrawals from retained earnings by E. Merck KG[1] | –383.0 | –304.5 |
| Payments from new borrowings of financial liabilities from E. Merck[1] | 275.8 | 213.6 |
| Payments for the acquisition of shares in AZ Electronic Materials S.A. after obtainment of control | –348.3 | – |
| Changes in other current and non-current financial liabilities | –267.2 | –17.9 |
| **Net cash flows from financing activities** | **–848.4** | **–221.7** |
| **Changes in cash and cash equivalents** | **–143.9** | **144.5** |
| Changes in cash and cash equivalents due to currency translation | 9.7 | –9.8 |
| Cash and cash equivalents as of January 1 | 980.8 | 729.7 |
| Cash and cash equivalents as of June 30 | 846.6 | 864.4 |
| Plus cash and cash equivalents included in assets held for sale | – | – |
| **Cash and cash equivalents as of June 30 (consolidated balance sheet)** | **846.6** | **864.4** |

[1] The presentation of the cash flow statement has changed in comparison with the previous year's report.

# Consolidated Statement of Changes in Net Equity

| | Equity capital | | | Retained earnings | | Gains/losses recognized in equity | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *€ million* | General partner's equity Merck KGaA | Subscribed capital Merck KGaA | Capital reserves (share premium) Merck KGaA | Retained earnings/ Net retained profit | Remeasurement of defined benefit plans | Available-for-sale financial assets | Derivative financial instruments | Currency translation difference | Equity attributable to Merck KGaA shareholders | Non-controlling interests | Total equity |
| **Balance as of January 1, 2013** | **397.2** | **168.0** | **3,813.7** | **5,383.9** | **–645.3** | **1.2** | **–29.5** | **1,272.2** | **10,361.4** | **53.4** | **10,414.8** |
| Profit after tax | – | – | – | 582.0 | – | – | – | – | 582.0 | 3.1 | 585.1 |
| Other comprehensive income | – | – | – | – | –36.8 | 0.3 | 31.6 | –82.1 | –87.0 | –2.9 | –89.9 |
| **Comprehensive income** | **–** | **–** | **–** | **582.0** | **–36.8** | **0.3** | **31.6** | **–82.1** | **495.0** | **0.2** | **495.2** |
| Dividend payments | – | – | – | –109.9 | – | – | – | – | –109.9 | –3.0 | –112.9 |
| Transactions with no change of control | – | – | – | 2.1 | – | – | – | – | 2.1 | –2.1 | – |
| Changes in scope of consolidation/Other | – | – | – | –1.0 | – | – | – | – | –1.0 | 0.9 | –0.1 |
| **Balance as of June 30, 2013[1]** | **397.2** | **168.0** | **3,813.7** | **5,857.0** | **–682.1** | **1.5** | **2.1** | **1,190.1** | **10,747.5** | **49.5** | **10,797.0** |
| **Balance as of January 1, 2014** | **397.2** | **168.0** | **3,813.7** | **6,090.1** | **–562.7** | **1.0** | **44.2** | **1,068.5** | **11,020.0** | **49.2** | **11,069.2** |
| Profit after tax | – | – | – | 628.5 | – | – | – | – | 628.5 | 4.9 | 633.4 |
| Other comprehensive income | – | – | – | – | –200.1 | 0.5 | –59.7 | 87.0 | –172.3 | 2.0 | –170.3 |
| **Comprehensive income** | **–** | **–** | **–** | **628.5** | **–200.1** | **0.5** | **–59.7** | **87.0** | **456.2** | **6.9** | **463.1** |
| Dividend payments | – | – | – | –122.8 | – | – | – | – | –122.8 | –2.7 | –125.5 |
| Transactions with no change of control | – | – | – | –192.9 | – | – | – | – | –192.9 | –155.4 | –348.3 |
| Changes in scope of consolidation/Other | – | – | – | – | – | – | – | – | – | 156.4 | 156.4 |
| **Balance as of June 30, 2014** | **397.2** | **168.0** | **3,813.7** | **6,402.9** | **–762.8** | **1.5** | **–15.5** | **1,155.5** | **11,160.5** | **54.4** | **11,214.9** |

[1] Previous year's figures have been adjusted.

# Notes to the Interim Consolidated Financial Statements as of June 30, 2014

These consolidated financial statements have been prepared with Merck KGaA, Frankfurter Strasse 250, 64293 Darmstadt, Germany, which manages the operations of the Merck Group, as parent company.

**Accounting policies**

The interim financial statements of the Merck Group dated June 30, 2014 comply with IAS 34. They have been prepared in accordance with the International Reporting Standards (IFRS) in force on the reporting date and adopted by the European Union as well as in accordance with section 37w of the German Securities Trading Act (WpHG). In accordance with IAS 34, a condensed scope of reporting as compared with the consolidated financial statements as of December 31, 2013 was selected.

With the exception of the disclosure changes described in the following, there were no material changes to accounting policies in comparison with the previous year.

Effective January 1, 2014, two product groups, Neurobion® (a vitamin B-based analgesic) and Floratil® (a probiotic antidiarrheal), were transferred from the Merck Serono division to the Consumer Health division. A detailed presentation of the resulting disclosure changes in segment reporting can be found in the information on segment reporting.

The notes to the consolidated financial statements of the Merck Group for 2013, particularly the accounting policies, apply accordingly.

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

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

The following standards take effect as of fiscal 2014:

→ IFRS 10 “Consolidated Financial Statements”
→ IFRS 11 “Joint Arrangements”
→ IFRS 12 “Disclosure of Interests in Other Entities”
→ Amendments to IAS 27 “Separate Financial Statements”
→ Amendment to IAS 28 “Investments in Associates and Joint Ventures”
→ Amendment to IAS 32 “Financial Instruments: Presentation”
→ Amendment to IAS 36 “Impairment of Assets”
→ Amendment to IAS 39 “Financial Instruments: Recognition and Measurement”
→ Amendments to IFRS 10 “Consolidated Financial Statements”
→ Amendment to IFRS 11 “Joint Arrangements”
→ Amendments to IFRS 12 “Disclosure of Interests in Other Entities”

The new rules do not have any material effects on the interim consolidated financial statements.

Merck applied the amendment to IAS 36 “Impairment of Assets” in advance in the consolidated financial statements as of December 31, 2013.

## Scope of consolidation

As of June 30, 2014, 222 (December 31, 2013: 191) companies were fully consolidated. No companies were consolidated using either the proportionate consolidation method or the equity method as of the balance sheet date. Since the beginning of 2014, one merger took place. Three newly established companies, 28 entities of the AZ Electronic Materials S.A. Group as well as one further and to date immaterial company were included in the consolidated financial statements for the first time.

## Acquisition of AZ Electronic Materials S.A.

*Obtainment of control following the public offer*

Within the scope of a public takeover offer, on May 2, 2014 Merck had received valid acceptances of the offer in respect of 81.3% of the share capital and thus obtained control of the publicly listed company AZ Electronic Materials S.A., Luxembourg (AZ). The purchase price as well as the payments made to obtain control were as follows:

| | Acquired shareholding (in %) | *€ million* |
|---|---|---|
| Purchase price to obtain control | 81.3 | 1,523.4 |
| Acquired cash and cash equivalents | | –104.0 |
| **Payments to obtain control less acquired cash and cash equivalents** | | **1,419.4** |

By June 27, 2014, Merck's shareholding in AZ had increased to 99.8%. On this date, Merck initiated a squeeze-out, which was completed on July 2, 2014 with the acquisition of the remaining shareholding of 0.2%. The acquisition of non-controlling interests after May 2, 2014 was recognized in equity as a transaction without a change of control. Above and beyond the purchase price to obtain control, the following purchase prices were paid in order to increase the shareholding:

| | Acquired shareholding (in %) | *€ million* |
|---|---|---|
| Purchase price for the obtainment of control | 81.3 | 1,523.4 |
| Purchase price/payments for the acquisition of further shares after obtainment of control | 18.5 | 348.3 |
| **Purchase price for the acquisition of shares up until June 30, 2014** | **99.8** | **1,871.7** |
| Purchase price/Payments for the acquisition of the remaining shares after June 30, 2014 | 0.2 | 3.1 |
| **Total purchase price before the deduction of acquired cash and cash equivalents** | **100.0** | **1,874.8** |

*Business activities as well as sales and earnings contribution of AZ*

AZ is a leading global producer of specialty chemical materials that generated sales of US$ 730.3 million (2012: $ 793.9 million) and profit after tax of US$ 57.3 million (2012: US$ 83.3 million) in 2013. Around 67.5% of sales were attributable to the IC Materials division, which supplies specialty process chemicals used to manufacture integrated circuits in the highly differentiated premium segment. The Optronics division accounted for approximately 32.5% of sales in 2013. This division's portfolio includes light-sensitive processing materials, or photoresists, for the manufacture of flat panel displays, as well as silicon-chemistry-based products for optoelectronics. As of the end of 2013, AZ had a total of 1,131 employees.

After May 2, 2014, Merck began to integrate AZ into the Performance Materials division. The aim of the acquisition is to further strengthen Merck's materials and specialty chemicals business by joining forces with one the leading suppliers of high-tech materials for the electronics industry.

The impact of the consolidation of AZ on sales as well as net income after taxes between May 2, 2014 and June 30, 2014 amounted to € 88.5 million and € -19.9 million, respectively. This result takes into account higher cost of sales owing to the step-up of the acquired inventories to fair values.

Assuming the first-time consolidation of AZ had already taken place as of January 1, 2014, sales of the Merck Group for the period from January 1 to June 30, 2014 would have amounted to € 5,580.7 million (compared with reported sales of € 5,409.4 million) and net income after taxes would have been € 635.8 million (compared with reported net income after taxes of € 633.4 million). The determination of these figures assumed that the adjustments of the book values as a result of the purchase price allocation would have been identical.

→ Notes to the Interim Consolidated Financial Statements

*Purchase price allocation*

The acquired assets and liabilities were recognized at the following fair values on the date of the first-time consolidation. The possibility of measuring non-controlling interests at fair values on the acquisition date (full goodwill method) was not applied. Owing to takeover law restrictions, Merck could only gain access to the information needed to perform the purchase price allocation on the date on which it obtained control of AZ. For this reason, the purchase price allocation could not be entirely completed as of the report date. Therefore, the fair values presented in the following are to be considered preliminary.

| *€ million* | Fair values on the acquisition date |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 104.0 |
| Inventories | 119.5 |
| Receivables | 130.5 |
| Other current assets | 10.4 |
| | **364.4** |
| **Non-current assets** | |
| Intangible assets (excluding goodwill) | 1,058.6 |
| Property, plant and equipment | 181.3 |
| Other non-current assets | 47.5 |
| | **1,287.4** |
| **Assets** | **1,651.8** |
| | |
| **Current liabilities** | |
| Current financial liabilities | 144.1 |
| Other current liabilities | 161.0 |
| | **305.1** |
| **Non-current liabilities** | |
| Non-current financial liabilities | 122.7 |
| Other non-current liabilities | 21.7 |
| Deferred tax liabilities | 363.0 |
| | **507.4** |
| **Liabilities** | **812.5** |
| | |
| **Net assets** | **839.3** |
| | |
| Non-controlling interests on the acquisition date (18.7%) | –156.7 |
| **Net assets acquired** | **682.6** |
| | |
| **Purchase price for the acquisition of shares (81.3%)** | **1,523.4** |
| **Positive difference (goodwill)** | **840.8** |

The positive difference of € 840.8 million was recognized as goodwill. This results in particular from intangible assets that are not recognizable, for example the ability of AZ to develop new solutions and products in its technologically innovative industry as well as from synergy effects expected from the integration of AZ into the Performance Materials division.

The development of goodwill during the period from first-time recognition and June 30, 2014 was as follows:

| *€ million* | Development of goodwill |
|---|---|
| Goodwill on May 2, 2014 | 840.8 |
| Exchange rate effects | 10.4 |
| **Goodwill on June 30, 2014** | **851.2** |

Within the scope of the acquisition, no contingent consideration was agreed upon which Merck would possibly have to pay in the future. The selling shareholders did not contractually indemnify Merck for the outcome of a contingency or uncertainty related to the acquired assets or liabilities. Costs of € 6.7 million directly related to the acquisition of the company were recorded under other operating expenses in the first half of 2014.

The most significant impact of the purchase price allocation resulted from the remeasurement of intangible assets, property plant and equipment, as well as inventories at fair value. Since some of the acquired inventories were sold by June 30, 2014, this led to additional cost of sales that were offset by the sales achieved. As a result, the sale of these inventories did not generate any additional income. The intangible assets identified during the purchase price allocation and recognized on the date of first-time consolidation were to the largest extent attributable to technology-related intangible assets as well as to brand rights. The multi-period excess earnings method was used for the valuation of technology-related intangible assets. The relief from royalty method was used for the valuation of the brand rights.

No contingent liabilities were identified in the course of the purchase price allocation. The gross amounts of the acquired receivables on the acquisition date were € 130.5 million. The best possible estimate of the irrecoverable receivables amounted to less than € 0.1 million.

### Divestment of the Discovery and Development Solutions business field

Effective March 31, 2014, the Discovery and Development Solutions business field of the Merck Millipore division was sold to Eurofins Scientific S.A., Luxembourg. The assets sold were reported as a disposal group in the consolidated financial statements as of December 31, 2013 and included property, plant and equipment, inventories, and goodwill allocated to the business field. The selling price amounted to € 22.6 million, payment of which had largely been received by the end of the second quarter of 2014.

### License rights to ceralifimod returned

In October 2011, Merck had acquired exclusive global development and marketing rights to ceralifimod (ONO-4641) in multiple sclerosis (MS) outside Japan, South Korea and Taiwan from Ono Pharmaceutical Co., Ltd., Osaka, Japan (Ono). The drug candidate is currently in Phase II of clinical development. On June 17, 2014, Merck announced that it had reached a mutual agreement with Ono to terminate the license agreement and to return the license rights to Ono since the compound does not meet Merck's criteria for further investment. The return of the license rights led in the second quarter to an impairment loss amounting to the full value of the relevant intangible asset of € 14.0 million. In addition, adequate provisions were set up for unavoidable subsequent costs that are likely to be incurred since under the terms of the agreement no further economic benefits are expected to flow to Merck.

→ Notes to the Interim Consolidated Financial Statements

## Segment Reporting

### Information by division

| € million | Merck Serono[3] Q2 – 2014 | Q2 – 2013 | Jan.–June 2014 | Jan.–June 2013 |
|---|---|---|---|---|
| Sales | 1,446.4 | 1,467.6 | 2,821.3 | 2,856.3 |
| Royalty, license and commission income | 64.3 | 92.9 | 110.5 | 186.2 |
| **Total revenues** | **1,510.7** | **1,560.5** | **2,931.8** | **3,042.6** |
| | | | | |
| Gross profit | 1,261.4 | 1,302.3 | 2,428.2 | 2,554.2 |
| Marketing and selling expenses | –323.9 | –332.1 | –603.6 | –626.9 |
| Royalty, license and commission expenses | –133.8 | –151.6 | –265.6 | –283.1 |
| Administration expenses | –56.0 | –49.7 | –108.2 | –99.9 |
| Other operating expenses and income | –53.5 | –53.1 | –79.8 | –180.8 |
| Research and development costs | –311.6 | –294.5 | –609.9 | –617.0 |
| | | | | |
| **Operating result (EBIT)** | **239.7** | **266.4** | **475.5** | **436.6** |
| Depreciation and amortization | 187.8 | 206.1 | 378.6 | 415.9 |
| Impairment losses | 16.9 | 5.5 | 18.1 | 33.8 |
| Reversals of impairment losses | – | –0.3 | – | –0.3 |
| **EBITDA** | **444.3** | **477.7** | **872.3** | **886.0** |
| One-time items | 7.7 | –2.9 | 17.8 | 26.5 |
| **EBITDA pre one-time items (Segment result)** | **452.0** | **474.8** | **890.1** | **912.5** |
| | | | | |
| EBITDA margin pre one-time items (% of sales) | 31.3 | 32.4 | 31.5 | 31.9 |
| | | | | |
| Net operating assets[1] | | | 6,701.0 | 6,890.7 |
| Segment liabilities[1] | | | –1,289.4 | –1,358.0 |
| Investments in property, plant and equipment[2] | 37.0 | 29.8 | 61.8 | 46.8 |
| Investments in intangible assets[2] | 23.2 | 15.4 | 25.5 | 40.5 |
| | | | | |
| Net cash flows from operating activities[2] | 279.2 | 407.4 | 725.4 | 740.2 |
| Business free cash flow | 337.3 | 485.7 | 817.3 | 825.7 |

[1] Reporting period ending on June 30, 2014. Previous year's figures as of December 31, 2013.
[2] According to the consolidated cash flow statement.
[3] Previous year's figures have been adjusted, see following explanations.

→ Notes to the Interim Consolidated Financial Statements

## Segment Reporting

### Information by division

| | Consumer Health[3] | | | |
|---|---|---|---|---|
| *€ million* | Q2 – 2014 | Q2 – 2013 | Jan.–June 2014 | Jan.–June 2013 |
| Sales | 184.7 | 178.9 | 364.9 | 360.6 |
| Royalty, license and commission income | 0.3 | 1.2 | 0.6 | 1.3 |
| **Total revenues** | **185.0** | **180.1** | **365.6** | **361.9** |
| | | | | |
| Gross profit | 125.4 | 117.7 | 246.3 | 242.6 |
| Marketing and selling expenses | –70.0 | –72.3 | –138.1 | –141.4 |
| Royalty, license and commission expenses | –1.0 | –0.4 | –0.8 | –1.1 |
| Administration expenses | –6.6 | –6.3 | –12.8 | –12.1 |
| Other operating expenses and income | –5.3 | 2.0 | –9.9 | –4.2 |
| Research and development costs | –4.8 | –5.9 | –9.7 | –11.6 |
| | | | | |
| **Operating result (EBIT)** | **36.9** | **34.2** | **73.7** | **71.0** |
| Depreciation and amortization | 2.4 | 2.0 | 4.8 | 4.7 |
| Impairment losses | – | 0.3 | – | 0.2 |
| Reversals of impairment losses | – | – | – | – |
| **EBITDA** | **39.3** | **36.5** | **78.4** | **76.0** |
| One-time items | 2.1 | –1.1 | 4.2 | –1.2 |
| **EBITDA pre one-time items (Segment result)** | **41.4** | **35.5** | **82.6** | **74.8** |
| | | | | |
| EBITDA margin pre one-time items (% of sales) | 22.4 | 19.8 | 22.6 | 20.7 |
| | | | | |
| Net operating assets[1] | | | 357.4 | 335.6 |
| Segment liabilities[1] | | | –89.5 | –74.5 |
| Investments in property, plant and equipment[2] | 1.3 | 0.6 | 3.0 | 1.2 |
| Investments in intangible assets[2] | 0.2 | 0.2 | 1.7 | 0.2 |
| | | | | |
| Net cash flows from operating activities[2] | 29.9 | 25.6 | 60.8 | 48.0 |
| Business free cash flow | 36.2 | 50.9 | 52.4 | 71.8 |

[1] Reporting period ending on June 30, 2014. Previous year's figures as of December 31, 2013.
[2] According to the consolidated cash flow statement.
[3] Previous year's figures have been adjusted, see following explanations.

→ Notes to the Interim Consolidated Financial Statements

## Segment Reporting

### Information by division

| | Performance Materials | | | |
|---|---|---|---|---|
| *€ million* | Q2 – 2014 | Q2 – 2013 | Jan.–June 2014 | Jan.–June 2013 |
| Sales | 505.7 | 431.1 | 907.9 | 852.4 |
| Royalty, license and commission income | 0.2 | 0.6 | 0.7 | 1.4 |
| **Total revenues** | **505.9** | **431.8** | **908.6** | **853.9** |
| | | | | |
| Gross profit | 260.9 | 271.5 | 506.9 | 537.3 |
| Marketing and selling expenses | –45.0 | –37.0 | –77.6 | –72.4 |
| Royalty, license and commission expenses | –0.9 | –0.4 | –1.7 | –0.8 |
| Administration expenses | –14.7 | –7.8 | –22.5 | –14.8 |
| Other operating expenses and income | –20.2 | –19.2 | –32.9 | –29.7 |
| Research and development costs | –37.9 | –33.4 | –74.9 | –69.8 |
| | | | | |
| **Operating result (EBIT)** | **137.5** | **170.1** | **289.2** | **342.7** |
| Depreciation and amortization | 39.5 | 25.9 | 66.7 | 56.6 |
| Impairment losses | 1.2 | 9.1 | 1.3 | 9.3 |
| Reversals of impairment losses | –0.1 | – | –0.3 | –0.1 |
| **EBITDA** | **178.1** | **205.1** | **356.9** | **408.4** |
| One-time items | 48.2 | 3.8 | 55.9 | 7.9 |
| **EBITDA pre one-time items (Segment result)** | **226.3** | **208.9** | **412.8** | **416.3** |
| | | | | |
| EBITDA margin pre one-time items (% of sales) | 44.8 | 48.5 | 45.5 | 48.8 |
| | | | | |
| Net operating assets[1] | | | 3,271.8 | 1,044.7 |
| Segment liabilities[1] | | | –283.2 | –155.9 |
| Investments in property, plant and equipment[2] | 17.4 | 11.9 | 28.7 | 21.1 |
| Investments in intangible assets[2] | 2.4 | 1.0 | 3.0 | 1.7 |
| | | | | |
| Net cash flows from operating activities[2] | 200.5 | 171.7 | 368.4 | 375.4 |
| Business free cash flow | 179.4 | 201.9 | 344.9 | 400.9 |

[1] Reporting period ending on June 30, 2014. Previous year's figures as of December 31, 2013.
[2] According to the consolidated cash flow statement.

## Segment Reporting

### Information by division

| | Merck Millipore | | | |
|---|---|---|---|---|
| *€ million* | Q2 – 2014 | Q2 – 2013 | Jan.–June 2014 | Jan.–June 2013 |
| Sales | 658.7 | 666.3 | 1,315.2 | 1,335.0 |
| Royalty, license and commission income | 2.8 | 2.4 | 6.7 | 8.3 |
| **Total revenues** | **661.5** | **668.7** | **1,321.9** | **1,343.3** |
| | | | | |
| Gross profit | 387.4 | 382.8 | 783.1 | 777.7 |
| Marketing and selling expenses | –164.2 | –173.6 | –332.8 | –343.1 |
| Royalty, license and commission expenses | –3.4 | –4.2 | –7.5 | –7.9 |
| Administration expenses | –25.8 | –22.9 | –54.4 | –49.7 |
| Other operating expenses and income | –30.3 | –19.6 | –50.1 | –50.4 |
| Research and development costs | –39.3 | –39.6 | –77.7 | –81.0 |
| | | | | |
| **Operating result (EBIT)** | **75.2** | **72.4** | **162.2** | **144.8** |
| Depreciation and amortization | 74.9 | 75.8 | 151.5 | 154.9 |
| Impairment losses | 0.2 | – | 0.3 | 0.1 |
| Reversals of impairment losses | – | – | – | – |
| **EBITDA** | **150.3** | **148.2** | **314.0** | **299.7** |
| One-time items | 15.4 | 7.7 | 21.4 | 18.1 |
| **EBITDA pre one-time items (Segment result)** | **165.7** | **155.9** | **335.4** | **317.8** |
| | | | | |
| EBITDA margin pre one-time items (% of sales) | 25.2 | 23.4 | 25.5 | 23.8 |
| | | | | |
| Net operating assets[1] | | | 6,004.0 | 5,987.1 |
| Segment liabilities[1] | | | –389.1 | –391.9 |
| Investments in property, plant and equipment[2] | 26.2 | 16.7 | 44.7 | 26.0 |
| Investments in intangible assets[2] | 1.6 | 2.3 | 2.8 | 3.6 |
| | | | | |
| Net cash flows from operating activities[2] | 105.5 | 92.9 | 205.2 | 199.8 |
| Business free cash flow | 125.5 | 156.6 | 179.9 | 237.7 |

[1] Reporting period ending on June 30, 2014. Previous year's figures as of December 31, 2013.
[2] According to the consolidated cash flow statement.

→ Notes to the Interim Consolidated Financial Statements

## Segment Reporting

### Information by division

| | Corporate and Other | | | |
|---|---|---|---|---|
| *€ million* | Q2 – 2014 | Q2 – 2013 | Jan.–June 2014 | Jan.–June 2013 |
| Sales | – | – | – | – |
| Royalty, license and commission income | – | – | – | – |
| **Total revenues** | **–** | **–** | **–** | **–** |
| | | | | |
| Gross profit | –0.6 | –1.2 | –1.7 | –2.2 |
| Marketing and selling expenses | 1.6 | –1.2 | 1.1 | –0.7 |
| Royalty, license and commission expenses | 0.1 | – | 0.1 | – |
| Administration expenses | –47.9 | –50.8 | –85.4 | –93.6 |
| Other operating expenses and income[3] | –1.1 | –24.6 | –4.6 | –33.4 |
| Research and development costs | –0.4 | –0.1 | –0.8 | –0.4 |
| | | | | |
| **Operating result (EBIT)** | **–48.3** | **–77.9** | **–91.3** | **–130.3** |
| Depreciation and amortization | 3.4 | 3.3 | 6.9 | 6.9 |
| Impairment losses | – | 0.2 | – | 0.3 |
| Reversals of impairment losses | – | –0.1 | – | –0.1 |
| **EBITDA** | **–44.9** | **–74.5** | **–84.4** | **–123.2** |
| One-time items | 5.1 | 25.8 | 16.3 | 29.2 |
| **EBITDA pre one-time items (Segment result)** | **–39.8** | **–48.7** | **–68.1** | **–94.0** |
| | | | | |
| EBITDA margin pre one-time items (% of sales) | – | – | – | – |
| | | | | |
| Net operating assets[1] | | | 98.2 | 36.0 |
| Segment liabilities[1] | | | –47.6 | –64.8 |
| Investments in property, plant and equipment[2] | 2.8 | 60.7 | 3.9 | 62.0 |
| Investments in intangible assets[2] | 3.6 | 2.3 | 6.0 | 4.1 |
| | | | | |
| Net cash flows from operating activities[2] | –185.8 | –255.1 | –521.8 | –405.1 |
| Business free cash flow | –46.3 | –111.3 | –78.2 | –159.4 |

[1] Reporting period ending on June 30, 2014. Previous year's figures as of December 31, 2013.
[2] According to the consolidated cash flow statement.
[3] Previous year's figures have been adjusted, see following explanations.

→ Notes to the Interim Consolidated Financial Statements

## Segment Reporting

### Information by division

| | Merck Group | | | |
|---|---|---|---|---|
| *€ million* | Q2 – 2014 | Q2 – 2013 | Jan.–June 2014 | Jan.–June 2013 |
| Sales | 2,795.5 | 2,743.9 | 5,409.4 | 5,404.3 |
| Royalty, license and commission income | 67.6 | 97.2 | 118.5 | 197.3 |
| **Total revenues** | **2,863.1** | **2,841.1** | **5,527.9** | **5,601.6** |
| | | | | |
| Gross profit | 2,034.5 | 2,073.1 | 3,962.8 | 4,109.6 |
| Marketing and selling expenses | –601.5 | –616.3 | –1,151.0 | –1,184.6 |
| Royalty, license and commission expenses | –139.1 | –156.5 | –275.4 | –292.8 |
| Administration expenses | –151.0 | –137.5 | –283.3 | –270.2 |
| Other operating expenses and income[3] | –110.4 | –114.5 | –177.2 | –298.5 |
| Research and development costs | –394.1 | –373.5 | –773.0 | –779.7 |
| | | | | |
| **Operating result (EBIT)** | **441.0** | **465.4** | **909.3** | **864.8** |
| Depreciation and amortization | 307.9 | 313.0 | 608.6 | 638.9 |
| Impairment losses | 18.3 | 15.2 | 19.7 | 43.7 |
| Reversals of impairment losses | –0.1 | –0.5 | –0.3 | –0.5 |
| **EBITDA** | **767.0** | **793.1** | **1,537.2** | **1,546.9** |
| One-time items | 78.7 | 33.3 | 115.5 | 80.5 |
| **EBITDA pre one-time items (Segment result)** | **845.7** | **826.4** | **1,652.7** | **1,627.5** |
| | | | | |
| EBITDA margin pre one-time items (% of sales) | 30.3 | 30.1 | 30.6 | 30.1 |
| | | | | |
| Net operating assets[1] | | | 16,432.4 | 14,294.0 |
| Segment liabilities[1] | | | –2,098.8 | –2,045.1 |
| Investments in property, plant and equipment[2] | 84.7 | 119.7 | 142.1 | 157.2 |
| Investments in intangible assets[2] | 31.0 | 21.2 | 39.0 | 50.2 |
| | | | | |
| Net cash flows from operating activities[2] | 429.3 | 442.5 | 838.1 | 958.2 |
| Business free cash flow | 632.2 | 783.8 | 1,316.3 | 1,376.7 |

[1] Reporting period ending on June 30, 2014. Previous year's figures as of December 31, 2013.
[2] According to the consolidated cash flow statement.
[3] Previous year's figures have been adjusted, see following explanations.

Segmentation was performed in accordance with the internal organization and reporting structure of the Merck Group. The fields of activity of the individual divisions are described in detail in the sections about the divisions in the interim management report.

The column "Corporate and Other" includes assets and liabilities as well as income and expenses that cannot be directly allocated to the reportable segments. These mainly relate to Group functions. Moreover, the column serves the reconciliation to the Group numbers. The cash flows from the financial result and income taxes are also disclosed under "Corporate and Other".

Apart from sales, the success of a segment is mainly determined by EBITDA pre one-time items (segment result) and business free cash flow. EBITDA pre one-time items and business free cash flow are performance indicators not defined by International Financial Reporting Standards. However, they represent important variables used to steer the Merck Group. To permit a better understanding of operational performance, EBITDA pre one-time items excludes depreciation and amortization in addition to specific income and expenses of a one-time nature presented in the following. Among other things, business free cash flow is used for internal target agreements and individual incentive plans.

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

The following table presents the reconciliation of EBITDA pre one-time items of all operating businesses to the profit before income tax of the Merck Group.

| *€ million* | Q2 – 2014 | Q2 – 2013 | Jan.–June 2014 | Jan.–June 2013 |
|---|---|---|---|---|
| **Total EBITDA pre one-time items of the operating businesses** | **885.4** | **875.1** | **1,720.9** | **1,721.5** |
| Corporate and Other | –39.8 | –48.7 | –68.1 | –94.0 |
| **EBITDA pre one-time items of the Merck Group** | **845.7** | **826.4** | **1,652.7** | **1,627.5** |
| Depreciation and amortization/impairment losses/ reversals of impairments | –326.0 | –327.7 | –627.9 | –682.1 |
| One-time items | –78.7 | –33.3 | –115.5 | –80.5 |
| **Operating result (EBIT)** | **441.0** | **465.4** | **909.3** | **864.8** |
| Financial result | –50.2 | –48.5 | –84.9 | –107.2 |
| **Profit before income tax** | **390.8** | **416.9** | **824.4** | **757.6** |

Business free cash flow comprised the following:

| *€ million* | Q2 – 2014 | Q2 – 2013 | Jan.–June 2014 | Jan.–June 2013 |
|---|---|---|---|---|
| **EBITDA pre one-time items** | **845.7** | **826.4** | **1,652.7** | **1,627.5** |
| Less investments in property, plant and equipment, software as well as advance payments for intangible assets | –96.0 | –127.3 | –158.8 | –169.8 |
| Changes in inventories as reported in the balance sheet | –107.2 | 26.4 | –144.6 | 0.9 |
| Changes in trade accounts receivable as reported in the balance sheet | –174.7 | 58.3 | –197.5 | –81.9 |
| Adjustment first-time consolidation of AZ Electronic Materials | 164.4 | – | 164.4 | – |
| **Business free cash flow** | **632.2** | **783.8** | **1,316.3** | **1,376.7** |

One-time items were as follows:

| € million | Q2 – 2014 | Q2 – 2013 | Jan.–June 2014 | Jan.–June 2013 |
|---|---|---|---|---|
| Restructuring costs | –20.5 | –4.9 | –35.6 | –46.7 |
| Integration/IT costs | –20.3 | –11.7 | –34.7 | –17.4 |
| Gains/Losses on the divestment of businesses | 10.5 | –16.7 | 6.4 | –18.4 |
| Acquisition costs | –45.7 | – | –46.7 | – |
| Other one-time items | –2.7 | – | –5.0 | 2.0 |
| **One-time items before impairment losses/ reversals of impairments** | **–78.7** | **–33.3** | **–115.5** | **–80.5** |
| Impairment losses | –2.6 | –4.6 | –3.8 | –31.2 |
| Reversals of impairments | – | – | – | – |
| **One-time items (total)** | **–81.2** | **–37.9** | **–119.3** | **–111.7** |

The restructuring costs amounting to € 35.6 million in the first six months of 2014 (year-earlier period: € 46.7 million) mainly related to the "Fit for 2018" transformation and growth program. Asset impairments amounting to € 3.8 million (year-earlier period: € 30.5 million) were also attributable to the program, which together with the restructuring costs resulted in total expenses of € 36.7 million (year-earlier period: € 77.1 million) in connection with "Fit for 2018".

The reconciliation of operating assets presented in the Segment Reporting to the total assets of the Merck Group was as follows:

| € million | June 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Assets | 21,476.3 | 20,818.6 |
| Monetary assets (cash and cash equivalents, current financial assets, loans, securities) | –1,897.4 | –3,539.2 |
| Non-operating receivables, income tax receivables, deferred taxes and net defined benefit assets | –1,047.7 | –913.1 |
| Assets held for sale | – | –27.1 |
| **Operating assets (gross)** | **18,531.2** | **16,339.1** |
| Trade accounts payable | –1,403.8 | –1,364.1 |
| Other operating liabilities | –695.0 | –681.0 |
| **Segment liabilities** | **–2,098.8** | **–2,045.1** |
| **Operating assets (net)** | **16,432.4** | **14,294.0** |

Other operating expenses and income include the investment result of € 1.2 million for the first half (year-earlier period: € 1.4 million), which was attributable to Corporate and Other, as in 2013.

The adjustments of the previous year's figures for the Merck Serono and Consumer Health divisions owing to the transfer as of January 1, 2014 of the two product groups Neurobion® (a vitamin B-based analgesic) and Floratil® (a probiotic antidiarrheal) from the Merck Serono division to the Consumer Health division are presented in the following table.

| | Merck Serono | | | | | |
|---|---|---|---|---|---|---|
| *€ million* | Q2 – 2013 reported | Adjustment | Q2 – 2013 adjusted | Jan.–June 2013 reported | Adjustment | Jan.–June 2013 adjusted |
| Sales | 1,530.8 | –63.3 | 1,467.6 | 2,985.1 | –128.8 | 2,856.3 |
| Royalty, license and commission income | 92.9 | – | 92.9 | 186.3 | – | 186.2 |
| **Total revenues** | **1,623.8** | **–63.3** | **1,560.5** | **3,171.4** | **–128.8** | **3,042.6** |
| | | | | | | |
| Gross profit | 1,340.7 | –38.3 | 1,302.3 | 2,639.4 | –85.2 | 2,554.2 |
| Marketing and selling expenses | –351.6 | 19.4 | –332.1 | –664.0 | 37.1 | –626.9 |
| Royalty, license and commission expenses | –151.7 | 0.1 | –151.6 | –283.4 | 0.3 | –283.1 |
| Administration expenses | –51.4 | 1.7 | –49.7 | –103.3 | 3.4 | –99.9 |
| Other operating expenses and income | –52.5 | –0.6 | –53.1 | –180.8 | – | –180.8 |
| Research and development costs | –296.1 | 1.6 | –294.5 | –620.3 | 3.3 | –617.0 |
| | | | | | | |
| **Operating result (EBIT)** | **282.5** | **–16.1** | **266.4** | **477.8** | **–41.1** | **436.6** |
| Depreciation and amortization | 206.1 | – | 206.1 | 415.9 | – | 415.9 |
| Impairment losses | 5.5 | – | 5.5 | 33.8 | – | 33.8 |
| Reversals of impairment losses | –0.3 | – | –0.3 | –0.3 | – | –0.3 |
| **EBITDA** | **493.8** | **–16.1** | **477.7** | **927.1** | **–41.1** | **886.0** |
| One-time items | –2.9 | – | –2.9 | 26.5 | – | 26.5 |
| **EBITDA pre one-time items (Segment result)** | **490.9** | **–16.1** | **474.8** | **953.6** | **–41.1** | **912.5** |
| | | | | | | |
| EBITDA margin pre one-time items (% of sales) | 32.1 | | 32.4 | 31.9 | | 31.9 |
| | | | | | | |
| Net operating assets[1] | | | | 6,968.0 | –77.3 | 6,890.7 |
| Segment liabilities[1] | | | | –1,358.0 | – | –1,358.0 |
| Investments in property, plant and equipment[2] | 29.8 | – | 29.8 | 46.8 | – | 46.8 |
| Investments in intangible assets[2] | 15.4 | – | 15.4 | 40.5 | – | 40.5 |
| | | | | | | |
| Net cash flows from operating activities[2] | 427.8 | –20.5 | 407.4 | 776.9 | –36.7 | 740.2 |
| Business free cash flow | 511.3 | –25.6 | 485.7 | 865.4 | –39.7 | 825.7 |

[1] Previous year's figures as of December 31, 2013.
[2] According to the consolidated cash flow statement.

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| € million | Consumer Health Q2 – 2013 reported | Adjustment | Q2 – 2013 adjusted | Jan.–June 2013 reported | Adjustment | Jan.–June 2013 adjusted |
|---|---|---|---|---|---|---|
| Sales | 115.6 | 63.3 | 178.9 | 231.8 | 128.8 | 360.6 |
| Royalty, license and commission income | 1.2 | – | 1.2 | 1.3 | – | 1.3 |
| **Total revenues** | **116.8** | **63.3** | **180.1** | **233.1** | **128.8** | **361.9** |
| | | | | | | |
| Gross profit | 79.3 | 38.3 | 117.7 | 157.4 | 85.2 | 242.6 |
| Marketing and selling expenses | –52.9 | –19.4 | –72.3 | –104.3 | –37.1 | –141.4 |
| Royalty, license and commission expenses | –0.3 | –0.1 | –0.4 | –0.8 | –0.3 | –1.1 |
| Administration expenses | –4.6 | –1.7 | –6.3 | –8.7 | –3.4 | –12.1 |
| Other operating expenses and income | 1.5 | 0.6 | 2.0 | –4.2 | – | –4.2 |
| Research and development costs | –4.3 | –1.6 | –5.9 | –8.3 | –3.3 | –11.6 |
| | | | | | | |
| **Operating result (EBIT)** | **18.1** | **16.1** | **34.2** | **29.9** | **41.1** | **71.0** |
| Depreciation and amortization | 2.0 | – | 2.0 | 4.7 | – | 4.7 |
| Impairment losses | 0.3 | – | 0.3 | 0.2 | – | 0.2 |
| Reversals of impairment losses | – | – | – | – | – | – |
| **EBITDA** | **20.4** | **16.1** | **36.5** | **34.8** | **41.1** | **76.0** |
| One-time items | –1.1 | – | –1.1 | –1.2 | – | –1.2 |
| **EBITDA pre one-time items (Segment result)** | **19.3** | **16.1** | **35.5** | **33.6** | **41.1** | **74.8** |
| | | | | | | |
| EBITDA margin pre one-time items (% of sales) | 16.7 | | 19.8 | 14.5 | | 20.7 |
| | | | | | | |
| Net operating assets[1] | | | | 258.2 | 77.3 | 335.6 |
| Segment liabilities[1] | | | | –74.5 | – | –74.5 |
| Investments in property, plant and equipment[2] | 0.6 | – | 0.6 | 1.2 | – | 1.2 |
| Investments in intangible assets[2] | 0.2 | – | 0.2 | 0.2 | – | 0.2 |
| | | | | | | |
| Net cash flows from operating activities[2] | 5.2 | 20.5 | 25.6 | 11.3 | 36.7 | 48.0 |
| Business free cash flow | 25.3 | 25.6 | 50.9 | 32.1 | 39.7 | 71.8 |

[1] Previous year's figures as of December 31, 2013.
[2] According to the consolidated cash flow statement.

### Earnings per share

Basic earnings per share are calculated by dividing the profit after tax attributable to the shareholders of Merck KGaA by the weighted average number of theoretical shares outstanding. The calculation of the theoretical number of shares is based on the fact that the general partner's equity capital is not represented by shares. Subsequent to the resolution passed by the Annual General Meeting of Merck KGaA on May 9, 2014 approving a share split in a ratio of 1:2, the no-par-value shares with a pro rata amount of the share capital of € 2.60 each were divided into two shares with a pro rata amount of the share capital of € 1.30 each. In accordance with the redivision of the share capital of € 168.0 million into 129,242,252 shares, the general partner's capital of € 397.2 million was divided into 305,535,626 theoretical shares. Overall, the total capital thus amounted to € 565.2 million or 434,777,878 theoretical shares outstanding. Taking the share split into account, the weighted average number of shares in the second quarter and in the first half of 2014 was likewise 434,777,878.

As of June 30, 2014, there were no potentially dilutive shares. Diluted earnings per share corresponded to basic earnings per share.

The calculation of basic and diluted earnings per shares was retroactively adjusted for all the reporting periods presented owing to the share split as of June 30, 2014.

### Information on the measurement of fair value

On the reporting date, assets classified as available-for-sale financial assets and derivative financial instruments were measured at fair value.

Derivative financial instruments are used exclusively to hedge and reduce the risks of interest rate and foreign exchange positions.

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

| | Nominal volume | | Fair value | |
|---|---|---|---|---|
| *€ million* | June 30, 2014 | Dec. 31, 2013 | June 30, 2014 | Dec. 31, 2013 |
| Cash flow hedge | 2,846.4 | 4,073.5 | –23.2 | 82.2 |
| Interest | 650.0 | 650.0 | –77.6 | –39.9 |
| Currency | 2,196.4 | 3,423.5 | 54.4 | 122.1 |
| Fair value hedge | – | – | – | – |
| Interest | – | – | – | – |
| Currency | – | – | – | – |
| No hedge accounting | 2,179.2 | 2,042.5 | –3.2 | 5.3 |
| Interest | – | – | – | – |
| Currency | 2,179.2 | 2,042.5 | –3.2 | 5.3 |
| | **5,025.6** | **6,116.0** | **–26.4** | **87.5** |

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

| *€ million* | Remaining maturity less than 1 year | Remaining maturity more than 1 year | Total June 30, 2014 | Remaining maturity less than 1 year | Remaining maturity more than 1 year | Total Dec. 31, 2013 |
|---|---|---|---|---|---|---|
| Foreign exchange contracts | 3,559.9 | 447.4 | 4,007.3 | 3,763.2 | 1,244.9 | 5,008.1 |
| Currency options | 270.5 | 97.8 | 368.3 | 297.2 | 160.7 | 457.9 |
| Interest rate swaps | – | 650.0 | 650.0 | – | 650.0 | 650.0 |
| | **3,830.4** | **1,195.2** | **5,025.6** | **4,060.4** | **2,055.6** | **6,116.0** |

The forward exchange contracts and currency options entered into to reduce the exchange rate risk primarily served to hedge intercompany financing in foreign currency as well as to hedge future cash flows.

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The following table presents the reconciliation of the balance sheets items to the classes of financial instruments in accordance with IFRS 7 and provides information on fair value measurement.

| | | Subsequent measurement according to IAS 39 | | | | | |
|---|---|---|---|---|---|---|---|
| *€ million* | Book value June 30, 2014 | Amortized cost | At cost | Fair value | Carrying value according to IAS 17 | Non-financial items | Fair value June 30, 2014 |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 846.6 | 846.6 | – | – | – | – | 846.6 |
| Current financial assets | 956.4 | 20.5 | – | 935.9 | – | – | |
| Held for trading (non-derivatives) | – | – | – | – | – | – | – |
| Derivatives not in a hedging relationship | 4.5 | – | – | 4.5 | – | – | 4.5 |
| Held to maturity | 20.5 | 20.5 | – | – | – | – | 20.5 |
| Loans and receivables | – | – | – | – | – | – | – |
| Available-for-sale | 927.7 | – | – | 927.7 | – | – | 927.7 |
| Derivatives in a hedging relationship | 3.7 | – | – | 3.7 | – | – | 3.7 |
| Trade receivables | 2,218.8 | 2,218.8 | – | – | – | – | |
| Loans and receivables | 2,218.8 | 2,218.8 | – | – | – | – | 2,218.8 |
| Current and non-current other assets | 503.4 | 152.5 | – | 74.9 | – | 276.0 | |
| Derivatives not in a hedging relationship | 0.4 | – | – | 0.4 | – | – | 0.4 |
| Loans and receivables | 152.5 | 152.5 | – | – | – | – | 152.5 |
| Derivatives in a hedging relationship | 74.5 | – | – | 74.5 | – | – | 74.5 |
| Non-financial items | 276.0 | – | – | – | – | 276.0 | |
| Non-current financial assets | 90.7 | 15.6 | 69.3 | 5.8 | – | – | |
| Derivatives not in a hedging relationship | – | – | – | – | – | – | – |
| Held to maturity | – | – | – | – | – | – | – |
| Loans and receivables | 15.6 | 15.6 | – | – | – | – | 15.6 |
| Available-for-sale | 72.0 | – | 69.3 | 2.7 | – | – | 72.0 |
| Derivatives in a hedging relationship | 3.1 | – | – | 3.1 | – | – | 3.1 |
| **Liabilities** | | | | | | | |
| Current and non-current financial liabilities | 4,023.2 | 3,908.2 | – | 108.8 | 6.3 | – | |
| Derivatives not in a hedging relationship | 7.0 | – | – | 7.0 | – | – | 7.0 |
| Other liabilities | 3,908.2 | 3,908.2 | – | – | – | – | 4,230.6 |
| Derivatives in a hedging relationship | 101.8 | – | – | 101.8 | – | – | 101.8 |
| Finance lease | 6.3 | – | – | – | 6.3 | – | 6.3 |
| Trade accounts payable | 1,403.8 | 1,403.8 | – | – | – | – | |
| Other liabilities | 1,403.8 | 1,403.8 | – | – | – | – | 1,403.8 |
| Current and non-current other liabilities | 730.4 | 182.0 | – | 3.8 | – | 544.6 | |
| Derivatives not in a hedging relationship | 1.2 | – | – | 1.2 | – | – | 1.2 |
| Other liabilities | 182.0 | 182.0 | – | – | – | – | 182.0 |
| Derivatives in a hedging relationship | 2.6 | – | – | 2.6 | – | – | 2.6 |
| Non-financial items | 544.6 | – | – | – | – | 544.6 | |

→ Notes to the Interim Consolidated Financial Statements

| € million | Book value Dec. 31, 2013 | Subsequent measurement according to IAS 39 | | | Carrying value according to IAS 17 | Non-financial items | Fair value Dec. 31, 2013 |
|---|---|---|---|---|---|---|---|
| | | Amortized cost | At cost | Fair value | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 980.8 | 980.8 | – | – | – | – | 980.8 |
| Current financial assets | 2,410.5 | 80.7 | – | 2,329.8 | – | – | |
| Held for trading (non-derivatives) | – | – | – | – | – | – | – |
| Derivatives not in a hedging relationship | 6.8 | – | – | 6.8 | – | – | 6.8 |
| Held to maturity | 53.4 | 53.4 | – | – | – | – | 53.4 |
| Loans and receivables | 27.3 | 27.3 | – | – | – | – | 27.3 |
| Available-for-sale | 2,312.1 | – | – | 2,312.1 | – | – | 2,312.1 |
| Derivatives in a hedging relationship | 10.9 | – | – | 10.9 | – | – | 10.9 |
| Trade receivables | 2,021.4 | 2,021.4 | – | – | – | – | |
| Loans and receivables | 2,021.4 | 2,021.4 | – | – | – | – | 2,021.4 |
| Current and non-current other assets | 466.2 | 115.4 | – | 126.6 | – | 224.2 | |
| Derivatives not in a hedging relationship | 2.9 | – | – | 2.9 | – | – | 2.9 |
| Loans and receivables | 115.4 | 115.4 | – | – | – | – | 115.4 |
| Derivatives in a hedging relationship | 123.7 | – | – | 123.7 | – | – | 123.7 |
| Non-financial items | 224.2 | – | – | – | – | 224.2 | |
| Non-current financial assets | 77.8 | 15.8 | 52.3 | 9.7 | – | – | |
| Derivatives not in a hedging relationship | – | – | – | – | – | – | – |
| Held to maturity | – | – | – | – | – | – | – |
| Loans and receivables | 15.8 | 15.8 | – | – | – | – | 15.8 |
| Available-for-sale | 57.3 | – | 52.3 | 5.0 | – | – | 57.3 |
| Derivatives in a hedging relationship | 4.7 | – | – | 4.7 | – | – | 4.7 |
| **Liabilities** | | | | | | | |
| Current and non-current financial liabilities | 3,697.9 | 3,630.8 | – | 59.4 | 7.7 | – | |
| Derivatives not in a hedging relationship | 4.0 | – | – | 4.0 | – | – | 4.0 |
| Other liabilities | 3,630.8 | 3,630.8 | – | – | – | – | 3,916.6 |
| Derivatives in a hedging relationship | 55.4 | – | – | 55.4 | – | – | 55.4 |
| Finance lease | 7.7 | – | – | – | 7.7 | – | 7.7 |
| Trade accounts payable | 1,364.1 | 1,364.1 | – | – | – | – | |
| Other liabilities | 1,364.1 | 1,364.1 | – | – | – | – | 1,364.1 |
| Current and non-current other liabilities | 1,140.1 | 581.1 | – | 2.1 | – | 556.9 | |
| Derivatives not in a hedging relationship | 0.4 | – | – | 0.4 | – | – | 0.4 |
| Other liabilities | 581.1 | 581.1 | – | – | – | – | 581.1 |
| Derivatives in a hedging relationship | 1.7 | – | – | 1.7 | – | – | 1.7 |
| Non-financial items | 556.9 | – | – | – | – | 556.9 | |

The fair value of financial assets and liabilities is based on the official market prices and market values quoted on the balance sheet date (Level 1 assets and liabilities) as well as mathematical calculation models with inputs observable in the market on the balance sheet date (Level 2 assets and liabilities). Level 1 assets comprise stocks and bonds and are classified as "available-for-sale", Level 1 liabilities comprise issued bonds and are classified as "other liabilities". Level 2 assets and liabilities are primarily liabilities to banks classified as "other liabilities", interest-bearing securities classified as "available-for-sale" as well as derivatives with and without hedging relationships. The fair value of interest-bearing securities is determined by discounting future cash flows using market interest rates. The fair value measurement of forward exchange contracts and currency options uses spot and forward rates as well as foreign exchange volatilities applying recognized mathematical principles. The fair value of interest rate swaps is determined with standard market valuation models using interest rate curves available in the market.

The fair values of the financial instruments disclosed in the balance sheet and the fair values deviating substantially from the carrying amount were determined as follows:

| *€ million*<br>*as of June 30, 2014* | Assets | Liabilities |
|---|---|---|
| **Fair value determined by official prices and quoted market values (Level 1)** | **713.0** | **3,455.0** |
| thereof available-for-sale | 713.0 | – |
| thereof other liabilities | – | 3,455.0 |
| **Fair value determined using inputs observable in the market (Level 2)** | **303.6** | **888.2** |
| thereof available-for-sale | 217.4 | – |
| thereof derivatives in a hedging relationship | 81.3 | 104.4 |
| thereof derivatives not in a hedging relationship | 4.9 | 8.2 |
| thereof other liabilities | – | 775.6 |
| **Fair value determined using inputs unobservable in the market (Level 3)** | **–** | **–** |

| *€ million*<br>*as of Dec. 31, 2013* | Assets | Liabilities |
|---|---|---|
| **Fair value determined by official prices and quoted market values (Level 1)** | **1,396.5** | **3,414.3** |
| thereof available-for-sale | 1,396.5 | – |
| thereof other liabilities | – | 3,414.3 |
| **Fair value determined using inputs observable in the market (Level 2)** | **1,069.6** | **563.8** |
| thereof available-for-sale | 920.6 | – |
| thereof derivatives in a hedging relationship | 139.3 | 57.1 |
| thereof derivatives not in a hedging relationship | 9.7 | 4.4 |
| thereof other liabilities | – | 502.3 |
| **Fair value determined using inputs unobservable in the market (Level 3)** | **–** | **–** |

### Related-party disclosures

As of June 30, 2014 there were liabilities by Merck Financial Services GmbH to E. Merck KG in the amount of € 637.4 million as well as to Merck Capital Asset Management, Malta, and Merck Capital Asset Management Holding, Malta, amounting to € 0.2 million and € 0.1 million, respectively. In addition, as of June 30, 2014, there were receivables by Merck KGaA to E. Merck Beteiligungen KG in the amount of € 7.7 million as well as by Merck & Cie, Switzerland, to E. Merck KG in the amount of € 4.8 million. The balances resulted mainly from the profit transfers by Merck & Cie to E. Merck KG as well as the reciprocal profit transfers between Merck KGaA and E. Merck KG. They included financial liabilities of € 637.7 million, which were subject to standard market interest rates.

From January to June 2014, Merck KGaA performed services for E. Merck KG and Emanuel-Merck-Vermögens-KG with a value of € 0.7 million and € 0.2 million, respectively. During the same period, E. Merck KG performed services for Merck KGaA with a value of € 0.5 million.

### Subsequent events

Effective July 2, 2014, Merck acquired the remaining outstanding shares of AZ Electronic Materials S.A. within the scope of a squeeze-out. Subsequent to the balance sheet date, no further events of special importance occurred that could have a material impact on the net assets, financial position and results of operations of the Merck Group.

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim 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 in accordance with German accepted accounting principles, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the material opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Darmstadt, July 31, 2014

Karl-Ludwig Kley

Kai Beckmann

Stefan Oschmann

Bernd Reckmann

# Review Report

To Merck KGaA, Darmstadt:

We have reviewed the condensed interim consolidated financial statements – comprising the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Net Equity and Notes to the Interim Financial Statements – together with the interim group management report of Merck KGaA, Darmstadt, for the period from January 1, 2014 to June 30, 2014 that are part of the half-year financial report according to § 37w WpHG (Wertpapierhandelsgesetz: – German Securities Trading Act). The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Frankfurt am Main, August 1, 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Original German version signed by

**Karl Braun**
Wirtschaftsprüfer

**Manfred Jenal**
Wirtschaftsprüfer

# Executive Board of Merck KGaA

Karl-Ludwig Kley, Chairman
Kai Beckmann | Marcus Kuhnert | Stefan Oschmann | Bernd Reckmann

# Supervisory Board of Merck KGaA

Wolfgang Büchele, Chairman
Crocifissa Attardo* | Mechthild Auge* | Gabriele Eismann* | Michael Fletterich* | Edeltraud Glänzer*
Michaela Freifrau von Glenck | Siegfried Karjetta | Albrecht Merck | Dietmar Oeter* | Alexander Putz*
Helga Rübsamen-Schaeff | Karl-Heinz Scheider* | Gregor Schulz | Theo Siegert | Tobias Thelen

* Employee representative

# Financial calendar 2014 | 2015

## Interim Report Q3 2014
Thursday, November 13, 2014

## Annual Report 2014
Tuesday, March 3, 2015

## Annual General Meeting 2015
Friday, April 17, 2015

## Interim Report Q1 2015
Tuesday, May 19, 2015

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