Interim Report

Q2_2007

Contents

Cover photo: Manufacturing of bulk biopharmaceuticals in a protein production laboratory in Corsier-sur-Vevey (Switzerland), one of the major manufacturing sites of the Merck Serono division.

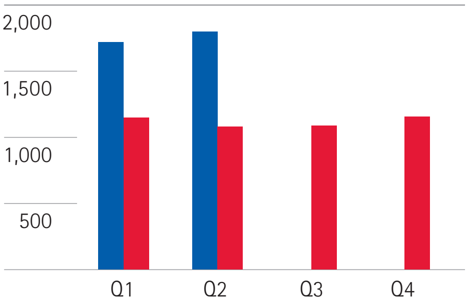
2nd Quarter 2007 at a glance

Key figures – 2nd Quarter 2007

€ million	Pharma-ceuticals	Chemicals	Corporate and Other	Merck Group	Change in %
Total revenues	1,248.8	538.4	7.3	1,794.6	+66.5 %
Gross margin	1,043.1	306.3	0.1	1,349.5	+94.1 %
Research and development	–245.4	–33.8	0.0	–279.2	+80.5 %
Operating result	128.5	167.0	–18.0	277.5	+57.6 %
Exceptional items	–183.4	0.0	0.4	–183.0	–
EBIT	–54.9	167.0	–17.6	94.6	–83.5 %
Profit after tax continuing operations	–	–	–	47.7	–90.3 %
Profit after tax	–	–	–	90.3	–83.2 %
Return on sales (ROS) in %	10.3	31.0		15.5	
Return on capital employed (ROCE) in %	4.7	33.1		8.5	

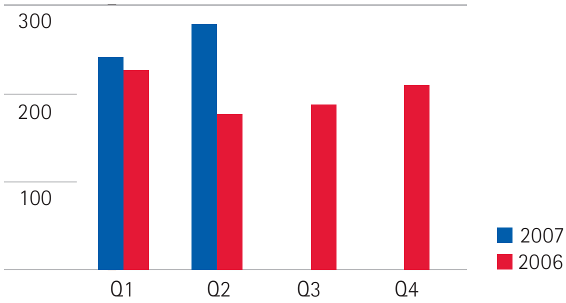
Total revenues by quarter

€ million



Operating result by quarter

€ million



Highlights – 2nd quarter 2007

- Merck agrees to sell Generics business for € 4.9 billion cash and debt free
- Total revenues from continuing operations rise 67 % to € 1.8 billion
- Operating result from continuing operations up 58 % to € 278 million
- Erbitux® sales climb 44 % to € 116 million
- Rebif® sales rise 8.2 % to € 312 million
- Liquid Crystals revenues up 12 % to € 222 million
- Full-year forecast for continuing operations – Merck sees a high single-digit growth rate for sales and an increase of more than 20 % for the operating result, including the amortization relating to the purchase price allocation

Merck Group

Merck announced on May 13 that it intends to sell its Generics business to Mylan Laboratories Inc. of Canonsburg, Pennsylvania, for € 4.9 billion, with closing of the transaction expected in the second half of this year. As previously reported, Merck completed the € 10.2 billion purchase of the biopharmaceutical company Serono S.A. of Geneva, Switzerland, in January and integrated the company with the former Merck Ethicals division to form the Merck Serono division. Generics financial results now are reported separately under discontinued operations while Merck Serono results have been consolidated within the Merck Group since the 1st quarter of 2007.

Thus, Merck Group total revenues in the 2nd quarter rose 67 % to € 1,795 million compared to € 1,078 million in the year-ago quarter. For the first half, Group revenues increased 58 % to € 3,510 million.

The Pharmaceuticals business sector – with Merck Serono but excluding Generics – now accounts for about 70 % of total Group revenues.

Second-quarter revenues grew organically by 15 %. Currency effects had a negative 2.9 % impact on quarterly revenues. Acquisitions and divestments – mainly the purchase of Serono – raised total Group revenues by 54 % in the 2nd quarter. Organically, half-year Group revenues rose by 11 %.

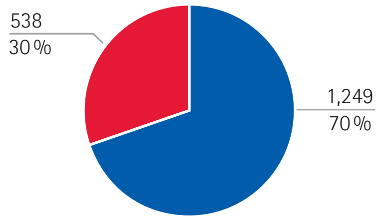
Royalty income, which is included in total revenues, increased in the 2nd quarter to € 75 million from € 4.7 million in the year-ago quarter. In the first half, royalty income rose to € 139 million from € 9.4 million in the year-ago period. The large increase in royalties stems from the acquisition of Serono.

During the 2nd quarter, Merck booked € 34 million for integration costs as well as € 141 million for amortization of intangible assets, mainly stemming from the Serono acquisition. Nevertheless, the operating result grew 58 % to € 278 million. The above

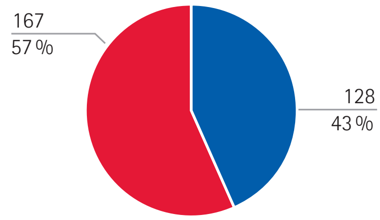
Effects of exceptional items (continuing operations)

€ million	2nd Quarter 2007	Change in %	Jan.–June 2007	Change in %
Operating result	277.5	57.6	518.4	28.9
Exceptional items	–183.0	–	–378.7	–
Profit before tax before exceptional items	197.6	16.5	358.8	–7.0
Income tax before exceptional items	–48.4	7.8	–95.2	–7.1
Profit after tax before exceptional items	149.3	19.6	263.5	–6.9
Tax rate before exceptional items	24.5		26.5	

Total revenues by business sector* – Q2
€ million



Operating result by business sector* – Q2
€ million



Chemicals
Pharmaceuticals

*without Generics division/sector Corporate and Other mentioned amortization within the scope of the Serono purchase price allocation began in the 1st quarter of 2007 and are expected to continue for several years.

Return on sales (ROS: operating result/total revenues) was 15.5% in the 2nd quarter compared to 16.3% in the year-ago quarter. Return on capital employed (ROCE) was 8.5% compared to 20.0%.

Merck also posted exceptional items totaling € –183 million in the 2nd quarter. This sum mainly represents further purchase price allocations related to Serono inventories which already began in the 1st quarter and will be completed this year. In the 2nd quarter of 2006, Merck booked an exceptional gain of € 397 million on the sale of its shares in Schering AG.

Therefore, earnings before interest and tax (EBIT) in the 2nd quarter of 2007 fell 84% to € 95 million from € 574 million in the year-ago quarter. Group EBIT in the first half fell 82% to € 140 million.

Merck's financial result changed substantially because of interest payments on debt caused by the Serono acquisition. The 2nd quarter financial result rose to € –80 million from € –6.5 million. For the first half year, it rose to € –160 million from € –16 million.

Second-quarter profit before tax fell to € 15 million from a very high € 567 million in the year-ago quarter. Merck's underlying tax rate from continuing operations and before exceptional items was 24.5% compared to 26.5% in the year-ago quarter. Tax credits (deferred tax) related to purchase price allocation occurred in Switzerland and were therefore small.

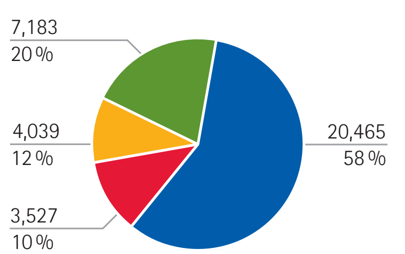
Profit after tax from continuing operations was € 48 million in the 2nd quarter. Including profit after tax from discontinued operations, namely Generics, of € 43 million, the total Group profit after tax was € 90 million. For the first half of 2007, profit after tax was € 84 million compared to € 722 million in the year-ago period.

Merck had 35,214 employees worldwide on June 30, 2007, 17% or 5,215 more than on December 31, 2006, mainly due to the Serono acquisition. The June total also includes 4,593 people employed by the Generics division.

Components of growth by quarter – Merck Group (continuing operations)

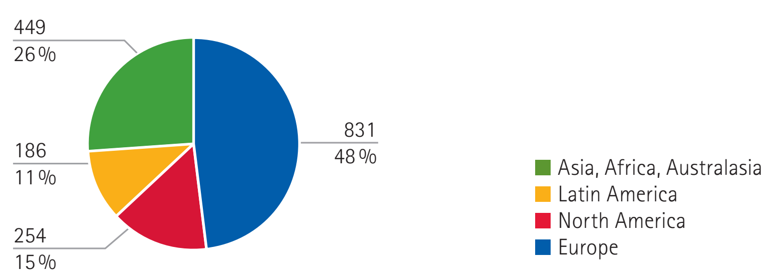
Change in total revenues compared to last year in %	1st Quarter	2nd Quarter	3rd Quarter	Jan.–June
Organic growth	6.5	15.3		10.7
Currency effects	–4.2	–2.9		–3.6
Acquisitions/divestitures	47.4	54.2		50.7
Total	**49.7**	**66.5**		**57.9**

Number of employees*
as of June 30, 2007: 35,214



*including 4,593 Merck Generics employees

Merck Group | Sales by region – Q2
€ million



Merck shares

www.investors.merck.de

The Merck share price rose 5.7 % during the 2nd quarter from € 96.52 on March 30, 2007, to € 102.05 on June 29, 2007. In the first half of 2007, the share price rose 31 %. Germany's DAX Index rose 16 % during the 2nd quarter and 21 % in the half year. The MDAX Index increased 8.1 % in the 2nd quarter and 17 % in the half year. Merck joined the DAX 30 Index, Germany's 30 largest companies in terms of trading volume and market capitalization, on June 18. Merck's share price reached an all-time high during the 2nd quarter of € 106.55 on June 15. The low for the quarter of € 95.52 occurred on April 19.

Share data[1]

	2nd quarter 2007	1st quarter 2007
Earnings per share after tax and minority interest in € from continuing operations	0.20	-0.31
Earnings per share after tax and minority interest in € from continuing and discontinued operations	0.39	–0.04
Share price high in €	(June 15) 106.55	(Feb. 21) 97.70
Share price low in €	(April 19) 95.52	(Jan. 2) 79.96
Closing share price in €	102.05	96.52
Actual number of shares in millions	64.6	64.6
Theoretical total number[2] of shares in millions	217.4	217.4
Adjusted weighted average number of theoretical shares outstanding[3] (in millions)	217.4	211.4
Market capitalization[4] in € million	22,183	20,980

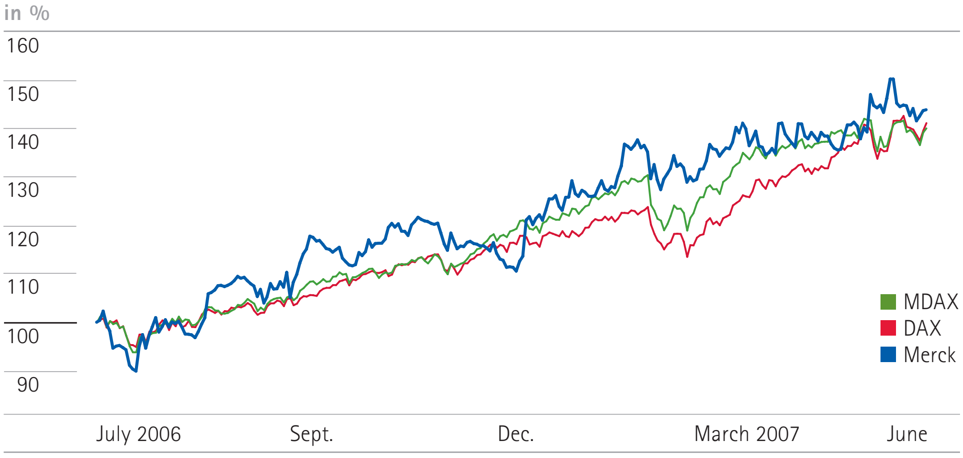
[1] Share-price relevant figures relate to the closing price in XETRA trading on the Frankfurt Stock Exchange.

[2] The calculation of the theoretical number of shares is based on the fact that the general partner's equity capital is not represented by shares. As the share capital of € 168.0 million was divided into 64.6 million shares, the corresponding calculation for the general partner's capital of € 397.2 million resulted in 152.8 million theoretical shares on the balance sheet date June 30, 2007.

[3] For details, see Consolidated Financial Statements in the Annual Report 2006, page 107.

[4] Based on the theoretical number of shares.

The performance of Merck shares vs. the DAX/MDAX



Pharmaceuticals business sector

Merck develops, manufactures and markets innovative prescription pharmaceuticals as well as over-the-counter drugs for consumer health care. Our aim is to return people to good health and to improve quality of life. During the 2nd quarter, Merck agreed to sell its Generics pharmaceuticals business to Mylan Laboratories Inc (USA). The sale is expected to be completed later in 2007.

Merck Serono

The product portfolio of this division includes leading brands such as Erbitux® and Rebif®. It addresses the needs of patients suffering from cancer, multiple sclerosis, infertility, psoriasis, cardiovasular or metabolic diseases. Following the acquisition of Serono S.A. and its integration with the Ethicals division, Merck Serono continues to specialize in innovative prescription drugs – the key focus of its research is the development of new therapeutic options in oncology, neurology, as well as autoimmune and inflammatory diseases.

Consumer Health Care

More and more consumers trust a large number of well-known over-the-counter brands that Merck develops, manufactures and markets in its Consumer Health Care division. The portfolio ranges from products for everyday health such as Bion®3 to classic cold remedies such as the well-known brand Nasivin® up to products for joint care such as Seven Seas® and Kytta®.

Chemicals business sector

Merck offers a very wide range of specialty chemicals for technologically sophisticated applications in laboratories and industry. Many of these chemicals can be found in products that we encounter in everyday life. Top quality, technology-driven research and a customer-centric approach to product development characterize the two large divisions that make up this business sector.

Liquid Crystals

Close cooperation in development and production of liquid crystals with the world's leading display manufacturers has made Merck the number one company worldwide in this market of the future. Modern life would be hard to imagine without displays based on LC technology in all formats. We are steadily investing in research on customized LC mixtures and OLEDs and expanding our synthesis capacities for the innovative display industry.

Performance & Life Science Chemicals

Specialty chemicals from Merck are used in all stages of pharmaceutical production from development in the laboratory up to industrial-scale manufacturing of finished products. They ensure reliable analysis in research and dependable production processes. Merck's expertise in chemistry, technology, quality assurance and approval processes has made the company a successful supplier not only to the pharmaceutical industry, but also to the cosmetics, food, optics, plastics, coatings and printing industries.

Business sectors

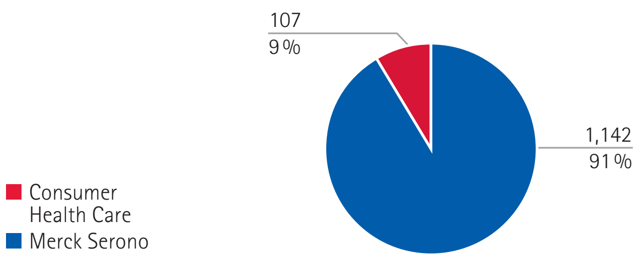
Merck remains committed to its long-established business strategy of operating in two major business sectors – Pharmaceuticals and Chemicals. Merck is in the process of selling its Generics business. Thus, the Pharmaceuticals business sector is now focusing on its two remaining divisions – Merck Serono (formerly Ethicals) and Consumer Health Care. The Chemicals business sector also has two divisions – Liquid Crystals and Performance & Life Science Chemicals.

Components of growth in the 2nd quarter (continuing operations)

Change in total revenues compared to last year in %	Pharmaceuticals	Chemicals	Corporate and Other	Merck Group
Organic growth	17.3	13.5	–12.6	15.3
Currency effects	–0.9	–5.2	0.0	–2.9
Acquisitions /divestitures	104.9	–1.7	0.0	54.2
Total	**121.3**	**6.6**	**–12.6**	**66.5**

Pharmaceuticals* | Total revenues by division – Q2

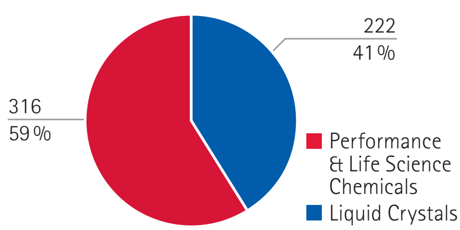
€ million



*without Generics division

Chemicals | Total revenues by division – Q2

€ million



Pharmaceuticals business sector

Pharmaceuticals total revenues increased to € 1,249 million in the 2nd quarter with the inclusion of Merck Serono. This compares with the year-ago amount of € 564 million, which did not include Merck Serono. For the half year, revenues more than doubled to € 2,427 million, again reflecting the acquisition of Serono. The Generics division, which is being divested and is therefore classified as a discontinued operation, is excluded from both 2006 and 2007 figures. Using pro forma 2006 results for Merck Serono, revenues rose 6.8 % in the first half and 11 % in the 2nd quarter, with sales of key products posting strong growth.

Global pharmaceutical sales in major markets are currently growing at a rate of around 7 %, according to IMS Health.

The Pharmaceuticals business sector generated about 70 % of the Merck Group's total revenues and 43 % of the operating result* in the 2nd quarter. The business sector is now comprised of two divisions – Merck Serono (formerly Ethicals) and Consumer Health Care. Both divisions contributed to the increase in revenues.

Research and development costs for the Pharmaceuticals business sector nearly doubled to € 245 million in the 2nd quarter with the lion's share attributable to Merck Serono. Thus, R&D costs are 20 % of Pharmaceuticals total revenues.

The business sector's 2nd quarter gross margin more than doubled to € 1,043 million, largely due to the contribution of Merck Serono. Despite booking a charge of € –139 million mostly for the amortization of intangibles in connection with the Serono purchase price allocation, the operating result for the 2nd quarter more than doubled to € 128 million. For the first half, the operating result nearly doubled to € 226 million.

With Merck Serono pro forma 2006 figures, the 2nd quarter operating result decreased 36 % and the half-year operating result declined 49 % due to the amortization of intangibles mentioned above.

Exceptional items, mostly charges for the amortization of inventories from Serono, amounted to € –183 million.

Return on sales (ROS) for the Pharmaceuticals business sector rose to 10.3 % in the 2nd quarter from 8.0 % in the year-ago quarter. Return on capital employed (ROCE) fell to 4.7 % from 12.2 % as net operating assets increased substantially more than the operating result following the acquisition of Serono.

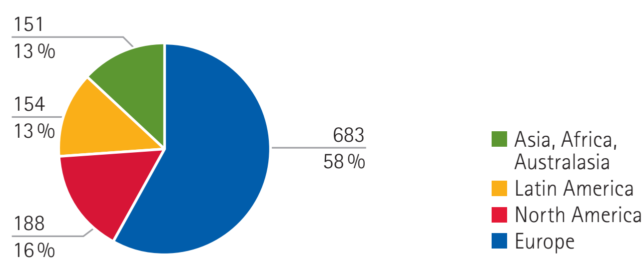
*without Generics division and segment Corporate and Other

Pharmaceuticals* | Key figures

€ million	2nd Quarter 2007	Change in %	Jan.–June 2007	Change in %
Total revenues	1,248.8	121.3	2,427.3	113.0
Gross margin	1,043.1	155.2	2,005.1	140.3
R&D	245.4	97.9	480.4	92.5
Operating result	128.5	186.1	225.7	98.4
Exceptional items	–183.4	–	–378.7	–
Free cash flow	53.2	–	–6,831.1	–
ROS in %	10.3		9.3	
ROCE in %	4.7		4.1	

Pharmaceuticals* | Sales by region – Q2

€ million



*without Generics division

Merck Serono

Merck now owns 100 % of the former Serono S.A. with the successful completion in early July of a squeeze-out for the remaining shares in the Swiss biopharmaceutical company. Integration with the former Merck Ethicals division is well underway.

Boosted by the January acquisition of Serono, total revenues for the division soared to € 1,142 million in the 2nd quarter of 2007 compared to €469 million in the year-ago quarter. Likewise, half-year revenues were € 2,220 million compared to € 946 million in the year-ago period. Calculated using pro forma 2006 Merck Serono results, the division's revenues rose 10 % in the 2nd quarter and 6.8 % in the first half. The improvement in the 2nd quarter was mainly due to substantially higher sales of major products such as the multiple sclerosis treatment Rebif® and the beta-blocker bisoprolol.

The Merck Serono division now accounts for more than 90 % of total revenues for the Pharmaceuticals business sector and 64 % of Merck Group total revenues (excluding Generics).

Worldwide sales of Rebif® for the treatment of relapsing forms of multiple sclerosis (MS) increased 8.2 % to a record € 312 million in the 2nd quarter compared to the year-ago quarter. Sales growth of 5.9 % in the first half of 2007 was driven primarily by an increase of Rebif® sales in the United States, where the drug continues to gain market share.

Sales of the cancer treatment Erbitux® continue to climb, jumping 44 % in the 2nd quarter to € 116 million. For the half year, Erbitux® sales rose 46 % to € 226 million. The strong acceptance of this targeted cancer therapy by oncologists around the world is due to the therapeutic benefit of Erbitux® as demonstrated in numerous clinical trials.

For the 2nd quarter, sales of Gonal-f®, a recombinant hormone used in the treatment of infertility, were € 114 million, an increase of 3.4 % compared to the year-ago quarter.

Total sales of bisoprolol, including the branded Concor® products such as Lodoz® and Concor®COR marketed by CardioMetabolic Care®, increased 24 % to € 104 million in the 2nd quarter and 12 % in the first half to € 198 million. Total 2nd quarter sales of the Glucophage® (metformin) family of oral anti-diabetic products increased 5 % to € 66 million.

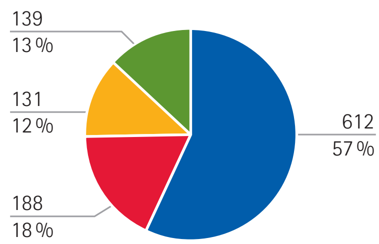
Sales of thyroid medicines such as Euthyrox® increased 11 % to € 34 million in the 2nd quarter. According to market research data, Merck remains the market leader for thyroid medicines in Europe and Latin America and is number three worldwide. More than 9 million people take Euthyrox® every day.

Merck Serono | Key figures

€ million	2nd Quarter 2007	Change in %	Jan.–June 2007	Change in %
Total revenues	1,142.2	143.5	2,219.9	134.8
Gross margin	971.5	180.5	1,865.3	164.2
R&D	242.6	100.2	474.9	94.6
Operating result	114.2	242.1	203.0	121.5
Exceptional items	–183.4	–	–378.7	–
Free cash flow	55.7	–	–6,839.8	–
ROS in %	10.0		9.1	
ROCE in %	4.3		3.7	

Merck Serono | Sales by region – Q2

€ million



Sales of Raptiva®, for the treatment of moderate-to-severe psoriasis, grew 47 % during the 2nd quarter to € 20 million. Dermatologists appreciate its good safety profile and long-term efficacy.

Second-quarter sales generated by the recombinant growth hormone family, including Saizen® and Serostim®, were unchanged at € 57 million. easypod®, a device for the once-daily administration of Saizen®, was launched in the 1st quarter and now is available in the five largest European markets. The ease of use, reliability and convenience associated with the device is driving additional new patient starts and switches to Saizen®.

The division's investment in research and development doubled to € 243 million in the 2nd quarter from € 121 million in the year-ago quarter with the acquisition of Serono.

Positive results of recent clinical trials for Merck's cancer treatments were among the highlights at the American Society of Clinical Oncology (ASCO) Annual Meeting in Chicago during June. About 30,000 cancer researchers and oncologists from around the world attended this important event. Clear highlights of this year's conference were the study data presented by Merck Serono on the efficacy of the cancer drugs Erbitux® and UFT® as well as the development compound cilengitide.

Also during June, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMEA) issued a positive opinion recommending marketing authorization of a new formulation of Rebif® for the treatment of relapsing MS. This new formulation represents a further improvement of Rebif®'s well-established safety and efficacy profile.

Results from a six-month phase III trial of safinamide, being developed for the treatment of Parkinson's disease, were presented at two international congresses in the 2nd quarter. The data demonstrated the cognitive effect of safinamide as an add-on treatment to dopamine agonist therapy, resulting in a statistically significant improvement in motor symptoms and daily activities, compared to dopamine agonist monotherapy.

In other development news, during June the European Commission granted marketing authorization for Pergoveris™, a new niche product intended for the stimulation of follicular development in women with severe luteinizing hormone (LH) and follicle-stimulating hormone (FSH) deficiency.

The division booked a charge in the 2nd quarter of € –139 million for amortization of intangible assets mainly in connection with the Serono purchase price allocation. However, the division's 2nd quarter gross margin almost tripled to € 972 million. Thus, the 2nd quarter operating result for Merck Serono rose to € 114 million from € 33 million in the year-ago quarter. Including Merck Serono pro forma 2006 figures, the 2nd quarter operating result declined 40 %. For the half year, the division's operating result more than doubled to € 203 million. The half-year pro forma operating result fell 51 %.

Again in the 2nd quarter, the division booked an exceptional charge for the write-down of inventories related to the Serono purchase. With the 2nd quarter amount of € –183 million, the half year total equaled € –367 million.

The Merck Serono ROS was 10.0 % in the 2nd quarter compared to 7.1 % in the year-ago quarter. ROCE fell to 4.3 % from 11.3 % as the division's net operating assets increased far more than the operating result due to the acquisition of Serono.

Consumer Health Care

Total revenues for the Consumer Health Care division rose 12% to € 107 million in the 2nd quarter compared to € 95 million in the year-ago quarter. During the first half of 2007, revenues rose 6.9% to € 207 million, continuing to grow faster than the global consumer health market.

The increase in revenues was driven by double-digit increase in sales of strategic brands that began early this year. The push to promote strategic brands was funded by proceeds from the divestment of two non-strategic brands – Moustifluid® in the 3rd quarter of 2006 and St. Gervais in the 2nd quarter of this year.

For example, sales of Femibion® for women jumped 68% in the 2nd quarter, mainly due to strong demand in Germany for a new combination formulation. Sales of Kytta® plant-based natural medicines rose 45%. Sales of Bion®3 probiotic vitamins increased 42% as the brand powered ahead in France and registered a strong performance in Belgium. Sales of Diabion®, the multivitamin supplement especially formulated for patients with diabetes, rose 23%, driven by continued success in Mexico.

As part of the division's goal to develop its premiere Bion®3 brand into a global product, Merck entered into an exclusive licensing and marketing agreement in Japan for the product with SATO Pharmaceutical Co. Ltd. of Tokyo.

The Consumer Health Care division's 2nd quarter operating result rose 24% to € 14 million, reflecting a higher gross margin on strong sales and also € 1.5 million in proceeds from the divestment of the St. Gervais brand in France. The division's first-half operating result was up 2.5% to € 23 million due to higher investments in marketing of strategic brands and without last year's profit from a one-off contract for Moustifluid®.

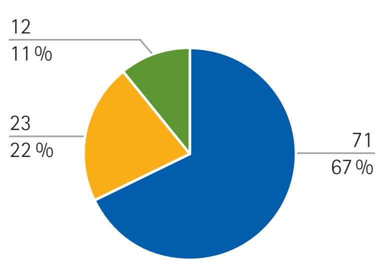
Second-quarter ROS rose to 13.4% from 12.1% and ROCE increased substantially to 20.4% from 16.2%.

Consumer Health Care | Key figures

€ million	2nd Quarter 2007	Change in %	Jan.–June 2007	Change in %
Total revenues	106.6	12.1	207.5	6.9
Gross margin	71.5	14.8	139.8	8.7
R&D	2.8	−2.0	5.5	−2.4
Operating result	14.3	24.1	22.7	2.5
Exceptional items	–	–	–	–
Free cash flow	−2.5	–	8.7	−10.6
ROS in %	13.4		10.9	
ROCE in %	20.4		16.0	

Consumer Health Care | Sales by region – Q2

€ million



Chemicals business sector

The Chemicals business sector contributed 30 % of total Group revenues* and 57 % of the Group's operating result* in the 2nd quarter.

Total revenues for the Chemicals business sector rose 6.6 % to € 538 million in the 2nd quarter with increases reported by both the Liquid Crystals and Performance & Life Science Chemicals divisions. For the first half, revenues were stable at € 1,068 million due to the improvement in the 2nd quarter.

The European Chemical Industry Council said in a June 14 publication that it expects output by the chemical industry in Europe, excluding pharmaceuticals, to increase by 2.7 % during 2007. The German Chemical Industry Association (VCI) reported on July 5 that first-half production by its members rose 4.0 % while sales rose 8.0 %, compared to the year-ago period.

Currency effects of –5.2 % in the 2nd quarter and –5.5 % in the first half had a strong negative impact on the business sector's reported revenues because a high proportion of Chemicals revenues are generated in U.S. dollars and Asian currencies. The divestment of the indium tin oxide (ITO) glass-coating business in Taiwan and other smaller effects last year led to a further decline of revenues.

The Chemicals business sector's strategic plan is to focus on innovative, high-value products that will give its customers a competitive advantage. Therefore, research and development costs continue to increase – in the 2nd quarter by 10 % to € 34 million. Organic conductive polymers are among the most interesting R&D projects being pursued by Merck scientists. As a result of this research, Merck is an integral member of a new German government-industry initiative in the field of organic photovoltaics. Merck's contribution will be the development of organic conductive polymers that can be used in flexible plastic solar cells to collect solar energy.

The operating result for the Chemicals business sector increased 15 % to € 167 million in the 2nd quarter from € 146 million in the year-ago quarter. In the first half of 2007, the operating result rose 4.1 % to € 328 million. The Chemicals ROS in the 2nd quarter rose to 31.0 % and ROCE increased to 33.1 %.

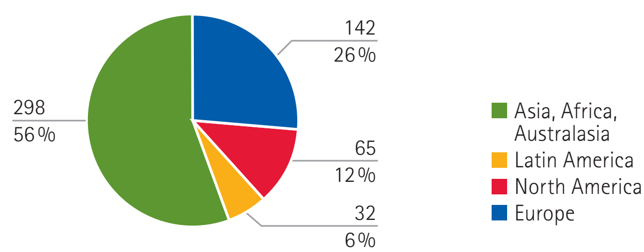
*without Generics division and segment Corporate and Other

Chemicals | Key figures

€ million	2nd Quarter 2007	Change in %	Jan.–June 2007	Change in %
Total revenues	538.4	6.6	1,067.8	0.1
Gross margin	306.3	7.0	622.6	2.5
R&D	33.8	10.5	69.3	6.8
Operating result	167.0	14.5	327.9	4.1
Exceptional items	0.0	–	0.0	–
Free cash flow	134.2	0.6	216.3	8.3
ROS in	31.0		30.7	
ROCE in	33.1		32.7	

Chemicals | Sales by region – Q2

€ million



Liquid Crystals

Total revenues for the Liquid Crystals division rose 12% to € 222 million in the 2nd quarter of 2007, confirming the predicted market development for the Liquid Crystal Display (LCD) industry. During the first half of 2007, revenues were down slightly at € 429 million reflecting the decline in the 1st quarter due to overstocking.

Liquid Crystals reported revenues were reduced by 9.2% in the 2nd quarter and 8.4% in the half year due to significant negative currency effects and by a further 4.5% and 3.8%, respectively, as a result of the divestment of the indium tin oxide (ITO) glass-coating and color-filter activities in Taiwan last year.

Merck's innovative liquid crystals are found in computer monitors, notebooks, and LC displays for cameras, games and mobile phones, but the growth driver for the division's sales is by far LCD televisions. LCD TV manufacturers report that their inventories are now back to normal levels and that they expect a continuation of the current positive sales development in the coming quarters.

In the flat-panel television competition, LCD TVs have been winning the race against plasma screens and now have also taken the lead in the large-format sizes for screens bigger than 37 inches. This is a result of improved quality and more competitive pricing for LCD TVs.

Merck is committed to maintaining its leading position in the dynamic flat-panel display industry and continues to make considerable investments to ensure that lead. The division's research and development spending rose 32% to € 19 million in the 2nd quarter. In addition, Merck plans to invest € 52 million to expand liquid crystals production in Darmstadt.

The division's operating result rose 16% to € 122 million in the 2nd quarter, with ROS rising to 55.0% from 52.8%. ROCE rose to 53.2% from 48.2%. For the half year, the operating result rose 3.6% to € 236 million.

Liquid Crystals | Key figures

€ million	2nd Quarter 2007	Change in %	Jan.–June 2007	Change in %
Total revenues	222.4	11.7	428.9	–0.9
Gross margin	148.1	12.9	297.0	3.0
R&D	19.4	32.4	40.8	24.4
Operating result	122.4	16.4	235.6	3.6
Exceptional items	0.0	–	0.0	–
Free cash flow	92.5	6.2	181.2	14.9
ROS in %	55.0		54.9	
ROCE in %	53.2		51.6	

Performance & Life Science Chemicals

Revenues for the Performance & Life Science Chemicals division rose 3.3 % in the 2nd quarter to € 316 million compared to € 306 million in the year-ago quarter. Half-year total revenues increased by 0.8% to € 639 million.

The revised strategy developed last year for the Pigments subdivision – focusing on high-value, high-margin products – already started showing success early this year. Improvements were seen in all market segments, supported by innovative new substrate-based products, especially in the business fields Coatings and Cosmetics.

In the Laboratory Business subdivision, 2nd quarter sales for Food & Environmental Analytics developed well. The Life Science Solutions subdivision was positively influenced by strong sales of pharmaceutical salts and process separation products, trends that have been underway during the first half of 2007.

The regional business development was especially good in Asia and Latin America, predominantly driven by Pigments and Laboratory Business.

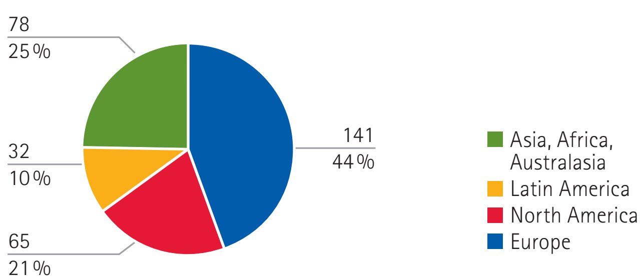
The division's operating result rose 9.6 % to € 45 million compared to the year-ago quarter. For the first half of 2007, the operating result increased by 5.1 % to € 92 million. ROS in the 2nd quarter improved to 14.1 % and ROCE rose to 16.2 %, similar to the half-year rates.

Performance & Life Science Chemicals | Key figures

€ million	2nd Quarter 2007	Change in %	Jan.–June 2007	Change in %
Total revenues	316.0	3.3	638.9	0.8
Gross margin	158.2	2.0	325.6	2.0
R&D	14.3	–9.8	28.4	–11.2
Operating result	44.6	9.6	92.4	5.1
Exceptional items	–	–	–	–
Free cash flow	41.6	–10.1	35.0	–16.4
ROS in %	14.1		14.5	
ROCE in %	16.2		16.9	

Performance & Life Science Chemicals

Sales by region – Q2 € million



Corporate and Other

The segment Corporate and Other includes corporate overhead costs incurred by Group holding companies, financial result, taxes and other items that are not allocated to specific divisions.

Generics (Discontinued Operations)

Merck announced on May 13 that it would sell its Generics business to Mylan Laboratories Inc. of Canonsburg, Pennsylvania. The sale is expected to close later this year. Consequently, results for this division now are being reported under Discontinued Operations.

Total revenues for Generics increased 6.7 % in the 2nd quarter to € 479 million from € 448 million in the year-ago quarter. For the first half of 2007, revenues rose 5.2 % to € 931 million.

The operating result declined 3.0 % to € 73 million. Exceptional items of € – 9 million related to the divestment of the business were booked during the 2nd quarter. For the half year, Generics posted an 11 % increase in its operating result to € 154 million.

ROS declined slightly to 15.3 % and ROCE was 27.5 %.

Corporate and Other | Key figures

€ million	2nd Quarter 2007	Change in %	Jan.–June 2007	Change in %
Total revenues	7.3	–12.6	14.9	–11.9
Gross margin	0.1	–73.8	0.7	–56.9
R&D	0.0	–	0.0	–63.3
Operating result	–18.0	22.4	–35.2	31.0
Exceptional items	0.4	–99.9	0.0	–
Free cash flow	–77.1	2.5	–181.5	17.1
ROS in %	–		–	
ROCE in %	–		–	

Generics (Discontinued operations) | Key figures

€ million	2nd Quarter 2007	Change in %	Jan.–June 2007	Change in %
Total revenues	478.5	6.7	931.3	5.2
Gross margin	235.9	4.6	463.3	6.8
R&D	34.8	5.6	60.7	–9.9
Operating result	73.2	–3.0	153.6	11.5
Exceptional items	–9.0	–	–9.0	–
Free cash flow	74.1	36.7	127.6	25.2
ROS in %	15.3		16.5	
ROCE in %	27.5		29.2	

Risk Report

All issues concerning business-related risks, financial risks, legal risks, information technology risks and environmental and safety risks – as previously stated in the 2006 Annual Report – remain completely valid in the current reporting period. For the integrated Merck Serono business, please refer to the 2006 Annual Report of Serono S.A.

Therefore, no issues have been identified that pose a risk to the continued existence of the Merck Group.

Report on expected developments

Excluding the Generics business which is now reported under Discontinued Operations, Merck expects a high single-digit growth rate for sales and an increase of more than 20% for the operating result including the amortization relating to the purchase price allocation. Sales may continue to be subdued by adverse currency effects and these effects may even worsen.

Interim Consolidated Financial Statements as of June 30, 2007

Income Statement

€ million	2nd Quarter 2007	2nd Quarter 2006	Change in %	Jan.–June 2007	Jan.–June 2006	Change in %
Sales	**1,720.1**	**1,072.8**	**60.3**	**3,370.6**	**2,213.9**	**52.2**
Royalty income	74.6	4.7	–	139.5	9.4	–
Total revenues	**1,794.6**	**1,077.5**	**66.5**	**3,510.0**	**2,223.3**	**57.9**
Cost of sales	–445.1	–382.2	16.5	–881.6	–779.5	13.1
Gross margin	**1,349.5**	**695.4**	**94.1**	**2,628.4**	**1,443.8**	**82.0**
Marketing and selling expenses	–480.9	–276.1	74.2	–929.5	–545.3	70.5
Administration expenses	–115.0	–73.4	56.7	–225.3	–145.8	54.6
Other operating income and expenses	–56.9	–12.1	369.6	–125.5	–30.9	306.8
Research and development	–279.2	–154.7	80.5	–549.7	–314.6	74.7
Amortization of intangible assets	–140.6	–3.0	–	–280.7	–5.3	–
Investment result	0.7	0.0	–	0.8	0.0	–
Operating result	**277.5**	**176.1**	**57.6**	**518.4**	**402.1**	**28.9**
Exceptional items	–183.0	397.5	–	–378.7	378.1	–
Earnings before interest and tax (EBIT)	**94.6**	**573.5**	**–83.5**	**139.7**	**780.1**	**–82.1**
Financial result	–79.9	–6.5	–	–159.7	–16.4	–
Profit before tax	**14.7**	**567.1**	**–97.4**	**–19.9**	**763.7**	**–**
Income tax	33.1	–76.2	–	5.5	–129.9	–
Profit after tax – continuing operations	**47.7**	**490.9**	**–90.3**	**–14.5**	**633.9**	**–**
Profit after tax – discontinued operations	42.6	47.1	–9.6	98.8	88.5	11.6
Profit after tax	**90.3**	**538.0**	**–83.2**	**84.3**	**722.4**	**–88.3**
Minority interest	–4.8	–9.5	–49.5	–7.1	–13.1	–45.5
Net profit after minority interest	**85.5**	**528.5**	**–83.8**	**77.2**	**709.3**	**–89.1**
Earnings per share from continuing operations (in €)						
basic	0.20	2.48*	–91.9	–0.10	3.20*	–
diluted	0.20	2.48*	–91.9	–0.10	3.20*	–
Earnings per share from continuing and discontinued operations (in €)						
basic	0.39	2.72*	–85.7	0.36	3.66*	–90.2
diluted	0.39	2.72*	–85.7	0.36	3.66*	–90.2

* Calculation according to Annual Report 2006, page 107

Balance Sheet

€ million	June 30, 2007	Dec. 31, 2006	Change in %
Current assets			
Cash and cash equivalents	760.2	460.1	65.2
Marketable securities and financial assets	94.1	133.1	–29.3
Trade accounts receivable	1,376.9	1,252.9	9.9
Inventories	1,524.4	1,218.3	25.1
Other current assets	375.5	172.1	118.2
Tax receivables	64.1	77.5	–17.3
Assets held for sale	1,589.0	0.0	–
	5,784.2	**3,314.0**	**74.5**
Non-current assets			
Intangible assets	8,495.5	1,063.5	–
Property, plant and equipment	2,253.4	1,779.8	26.6
Investments at equity	1.9	1.3	41.8
Non-current financial assets	106.0	1,640.4	–93.5
Other non-current assets	77.6	34.3	125.9
Deferred tax assets	360.7	269.1	34.1
	11,295.1	**4,788.5**	**135.9**
Total assets	**17,079.3**	**8,102.5**	**110.8**
Current liabilities			
Current financial liabilities	308.6	498.4	–38.1
Trade accounts payable	652.1	608.0	7.2
Other current liabilities	552.2	552.3	0.0
Tax liabilities	325.0	205.5	58.1
Current provisions	189.5	201.0	–5.7
Liabilities held for sale	495.4	0.0	–
	2,522.8	**2,065.2**	**22.2**
Non-current liabilities			
Non-current financial liabilities	6,107.1	613.6	–
Other non-current liabilities	126.5	7.4	–
Non-current provisions	422.0	284.6	48.3
Provisions for pensions and other post-employment benefits	1,228.3	1,282.3	–4.2
Deferred tax liabilities	893.4	42.2	–
	8,777.3	**2,230.0**	**293.6**
Net equity			
Equity capital	565.2	496.6	13.8
Reserves	5,092.2	3,256.7	56.4
Minority interests	121.8	54.1	125.3
	5,779.2	**3,807.4**	**51.8**
Total liabilities and stockholders' equity	**17,079.3**	**8,102.5**	**110.8**

Segment Reporting

€ million	Merck Serono						Consumer Health Care					
	2nd Quarter 2007	2nd Quarter 2006	Change in %	Jan.–June 2007	Jan.–June 2006	Change in %	2nd Quarter 2007	2nd Quarter 2006	Change in %	Jan.–June 2007	Jan.–June 2006	Change in %
Sales	1,069.9	466.6	129.3	2,085.6	940.6	121.7	106.2	94.8	12.0	206.6	193.3	6.9
Royalty income	72.4	2.6	–	134.3	5.0	–	0.5	0.3	34.9	0.9	0.8	2.0
Total revenues	1,142.2	469.1	143.5	2,219.9	945.6	134.8	106.6	95.1	12.1	207.5	194.1	6.9
Gross margin	971.5	346.3	180.5	1,865.3	705.9	164.2	71.5	62.3	14.8	139.8	128.6	8.7
Selling, general and administration	–476.5	–190.8	149.7	–911.1	–368.4	147.3	–54.0	–47.5	13.5	–110.7	–100.1	10.6
Research and development	–242.6	–121.2	100.2	–474.9	–244.0	94.6	–2.8	–2.8	–2.0	–5.5	–5.6	–2.4
Operating result	114.2	33.4	242.1	203.0	91.7	121.5	14.3	11.5	24.1	22.7	22.1	2.5
Exceptional items	–183.4	0.0	–	–378.7	0.0	–	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before interest and tax (EBIT)	–69.2	33.4	–	–175.7	91.7	–	14.3	11.5	24.1	22.7	22.1	2.5
Net operating assets*	–	–	–	10,535.4	1,187.3	–	–	–	–	289.0	287.9	0.4
Capital expenditure	31.2	12.3	153.4	55.3	22.2	149.4	1.2	0.7	67.2	2.0	1.4	45.2
Free cash flow	55.7	–9.8	–	–6,839.8	7.1	–	–2.5	0.1	–	8.7	9.7	–10.6

€ million	Liquid Crystals						Performance & Life Science Chemicals					
	2nd Quarter 2007	2nd Quarter 2006	Change in %	Jan.–June 2007	Jan.–June 2006	Change in %	2nd Quarter 2007	2nd Quarter 2006	Change in %	Jan.–June 2007	Jan.–June 2006	Change in %
Sales	221.3	198.4	11.6	426.0	431.5	–1.3	315.4	304.7	3.5	637.4	631.5	0.9
Royalty income	1.1	0.7	62.1	2.8	1.4	103.7	0.6	1.1	–45.2	1.5	2.2	–32.7
Total revenues	222.4	199.1	11.7	428.9	432.9	–0.9	316.0	305.8	3.3	638.9	633.7	0.8
Gross margin	148.1	131.2	12.9	297.0	288.4	3.0	158.2	155.0	2.0	325.6	319.2	2.0
Selling, general and administration	–5.4	–10.5	–48.5	–18.8	–26.5	–28.8	–98.8	–97.7	1.1	–203.8	–198.7	2.6
Research and development	–19.4	–14.7	32.4	–40.8	–32.8	24.4	–14.3	–15.9	–9.8	–28.4	–32.0	–11.2
Operating result	122.4	105.1	16.4	235.6	227.3	3.6	44.6	40.7	9.6	92.4	87.9	5.1
Exceptional items	0.0	0.0	–	0.0	0.0	–	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before interest and tax (EBIT)	122.4	105.1	16.4	235.5	227.3	3.6	44.6	40.7	9.6	92.4	87.9	5.1
Net operating assets*	–	–	–	928.5	878.8	5.7	–	–	–	1,108.4	1,138.6	–2.7
Capital expenditure	9.4	19.6	–52.2	21.0	37.1	–43.5	10.5	14.8	–29.2	20.7	30.4	–32.0
Free cash flow	92.5	87.1	6.2	181.2	157.8	14.9	41.6	46.3	–10.1	35.0	41.9	–16.4

€ million	Corporate, Consolidation and Other						Generics (Discontinued operations)					
	2nd Quarter 2007	2nd Quarter 2006	Change in %	Jan.–June 2007	Jan.–June 2006	Change in %	2nd Quarter 2007	2nd Quarter 2006	Change in %	Jan.–June 2007	Jan.–June 2006	Change in %
Sales	7.3	8.4	–12.6	14.9	16.9	–11.8	477.4	447.9	6.6	929.9	883.3	5.3
Royalty income	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.5	109.3	1.4	1.7	–18.3
Total revenues	7.3	8.4	–12.6	14.9	17.0	–11.9	478.5	448.5	6.7	931.3	885.0	5.2
Gross margin	0.1	0.5	–73.8	0.7	1.7	–56.9	235.9	225.5	4.6	463.3	433.9	6.8
Selling, general and administration	–18.1	–15.0	20.4	–35.9	–28.3	26.9	–125.0	–114.4	9.3	–244.1	–223.8	9.1
Research and development	0.0	–0.1	–77.4	0.0	–0.1	–63.3	–34.8	–32.9	5.6	–60.7	–67.4	–9.9
Operating result	–18.0	–14.7	22.4	–35.2	–26.9	31.0	73.2	75.4	–3.0	153.6	137.8	11.5
Exceptional items	0.4	397.5	–99.9	0.0	378.1	–100.0	–9.0	0.0	–	–9.0	0.0	–
Earnings before interest and tax (EBIT)	–17.6	382.8	–	–35.2	351.2	–	64.2	75.4	–14.9	144.6	137.8	4.9
Net operating assets*	–	–	–	59.8	33.0	81.5	–	–	–	1,064.0	1,013.9	4.9
Capital expenditure	0.7	0.6	7.1	1.3	1.2	6.8	6.9	5.6	23.4	11.1	10.6	4.5
Free cash flow	–77.1	–75.3	2.5	–181.5	–155.0	17.1	74.1	54.2	36.7	127.6	101.9	25.2

* as of June 30, 2007

€ million	Pharmaceuticals 2nd Quarter 2007	2nd Quarter 2006	Change in %	Jan.–June 2007	Jan.–June 2006	Change in %
Sales	1,176.0	561.4	109.5	2,292.2	1,133.9	102.2
Royalty income	72.8	2.9	–	135.2	5.8	–
Total revenues	1,248.8	564.3	121.3	2,427.3	1,139.7	113.0
Gross margin	1,043.1	408.7	155.2	2,005.1	834.5	140.3
Selling, general and administration	–530.5	–238.4	122.6	–1,021.8	–468.5	118.1
Research and development	–245.4	–124.0	97.9	–480.4	–249.6	92.5
Operating result	128.5	44.9	186.1	225.7	113.8	98.4
Exceptional items	–183.4	0.0	–	–378.7	0.0	–
Earnings before interest and tax (EBIT)	–54.9	44.9	–	–153.0	113.8	–
Net operating assets*	–	–	–	10,824.4	1,475.2	–
Capital expenditure	32.4	13.0	148.7	57.3	23.6	143.2
Free cash flow	53.2	–9.7	–	–6,831.1	16.9	–

€ million	Chemicals 2nd Quarter 2007	2nd Quarter 2006	Change in %	Jan.–June 2007	Jan.–June 2006	Change in %
Sales	536.7	503.0	6.7	1,063.4	1,063.1	0.0
Royalty income	1.7	1.8	–4.8	4.3	3.6	20.5
Total revenues	538.4	504.9	6.6	1,067.8	1,066.6	0.1
Gross margin	306.3	286.2	7.0	622.6	607.6	2.5
Selling, general and administration	–104.2	–108.2	–3.7	–222.7	–225.1	–1.1
Research and development	–33.8	–30.6	10.5	–69.3	–64.9	6.8
Operating result	167.0	145.9	14.5	327.9	315.1	4.1
Exceptional items	0.0	0.0	–	0.0	0.0	–
Earnings before interest and tax (EBIT)	167.0	145.9	14.5	327.9	315.1	4.1
Net operating assets*	–	–	–	2,037.0	2,017.4	1.0
Capital expenditure	19.8	34.4	–42.3	41.7	67.6	–38.3
Free cash flow	134.2	133.4	0.6	216.3	199.7	8.3

€ million	Reversal 2nd Quarter 2007	2nd Quarter 2006	Change in %	Jan.–June 2007	Jan.–June 2006	Change in %	Merck Group / Continuing Operations 2nd Quarter 2007	2nd Quarter 2006	Change in %	Jan.–June 2007	Jan.–June 2006	Change in %
Sales	–477.4	–447.9	6.6	–929.9	–883.3	5.3	1,720.1	1,072.8	60.3	3,370.6	2,213.9	52.2
Royalty income	–1.1	–0.5	109.3	–1.4	–1.7	–18.3	74.6	4.7	–	139.5	9.4	–
Total revenues	–478.5	–448.5	6.7	–931.3	–885.0	5.2	1,794.6	1,077.5	66.5	3,510.0	2,223.3	57.9
Gross margin	–235.9	–225.5	4.6	–463.3	–433.9	6.8	1,349.5	695.4	94.1	2,628.4	1,443.8	82.0
Selling, general and administration	125.0	114.4	9.3	244.1	223.8	9.1	–652.8	–361.6	80.5	–1,280.4	–721.9	77.4
Research and development	34.8	32.9	5.6	60.7	67.4	–9.9	–279.2	–154.7	80.5	–549.7	–314.6	74.7
Operating result	–73.2	–75.4	–3.0	–153.6	–137.8	11.5	277.5	176.1	57.6	518.4	402.1	28.9
Exceptional items	9.0	0.0	–	9.0	0.0	–	–183.0	397.5	–	–378.7	378.1	–
Earnings before interest and tax (EBIT)	–64.2	–75.4	–14.9	–144.6	–137.8	4.9	94.6	573.5	–83.5	139.7	780.1	–82.1
Net operating assets*	–	–	–	–1,064.0	–1,013.9	4.9	–	–	–	12,921.2	3,525.6	266.5
Capital expenditure	–6.9	–5.6	23.4	–11.1	–10.6	4.5	53.0	48.1	10.2	100.3	92.4	8.6
Free cash flow	–74.1	–54.2	36.7	–127.6	–101.9	25.2	110.2	48.5	127.3	–6,796.3	61.6	–

* as of June 30, 2007

Cash Flow Statement

€ million	Jan.–June 2007	Jan.–June 2006
Profit after tax	**84.3**	**722.4**
Depreciation / amortization and impairment losses (non-current assets)	444.1	126.7
Changes in inventories	–128.3	–116.3
Changes in trade receivables	–99.5	–50.5
Changes in trade payables	106.5	19.1
Changes in provisions	–43.4	–11.3
Changes in other assets and liabilities from operating activities	–239.5	–18.5
Gains/Losses on disposal of assets	4.9	–398.4
Other non-cash income and expenses	366.2	0.9
Net cash flows from operating activities	**495.4**	**273.9**
thereof: discontinued operations	*93.7*	*101.8*
Purchase of intangible assets	–38.0	–9.6
Purchase of property, plant and equipment	–111.4	–103.0
Acquisitions and investments in other financial assets	–7,220.5	–66.6
Disposal of assets	135.4	29.0
Changes in securities	13.2	0.7
Changes in other financial assets	476.4	429.9
Net cash flows from investing activities	**–6,744.9**	**280.5**
thereof: discontinued operations	*–23.3*	*–38.9*
Dividends payments	–80.9	–5.6
Capital increase	2,034.5	1.9
Profit transferred to and reserve appropriation by E. Merck OHG	18.5	–383.8
Changes in liabilities to E. Merck OHG	–55.1	268.1
Changes in current and non-current financial liabilities	4,634.3	1,359.1
Net cash flows from financing activities	**6,551.2**	**1,239.7**
thereof: discontinued operations	*1.5*	*–5.7*
Changes in cash and cash equivalents	**301.8**	**1,794.1**
Changes in cash and cash equivalents due to currency translation	–1.6	–7.8
Cash and cash equivalents as of January 1	460.1	1,321.7
Cash and cash equivalents as of June 30	**760.2**	**3,107.9**

Free Cash Flow

€ million	Jan.–June 2007	Jan.–June 2006
Net cash flows from operating activities	**495.4**	**273.9**
Purchase of intangible assets	–38.0	–9.6
Purchase of property, plant and equipment	–111.4	–103.0
Acquisitions and investments in other financial assets	–7,220.5	–66.6
Disposal of assets	135.4	29.0
Changes in securities	13.2	0.7
Free cash flow	**–6,725.9**	**124.5**
thereof: discontinued operations	*70.4*	*62.9*
Free cash flow before acquisitions and divestments	**490.5**	**180.3**

Presentation of Comprehensive Income

€ million	Jan.–June 2007		Jan.–June 2006	
Profit after tax		**84.3**		**722.4**
Gains/Losses recognized in equity (other comprehensive income)				
Fair value measurement of financial instruments	73.9		10.4	
Actuarial gains/losses from defined benefit obligations	59.1		–	
Deferred taxes recognized in equity	–13.7		–4.3	
Currency translation difference	–270.3	–151.0	–93.3	–87.2
Comprehensive income		**–66.7**		**635.2**

Statement of Changes in Net Equity including Minority Interest

€ million	2007	2006
Balance as of January 1	**3,807.4**	**3,329.1**
Profit after tax	84.3	722.4
Dividend payments	–80.9	–5.6
Profit transfers to/from E. Merck OHG including transfers to reserves	18.5	–383.8
Capital increase	2,034.5	1.9
Other comprehensive income	–151.0	–87.2
Changes in companies consolidated/Other	66.4	–2.8
Balance as of June 30	**5,779.2**	**3,574.0**

Notes to the Interim Consolidated Financial Statements

Accounting policies

The unaudited interim consolidated financial statements of the Merck Group dated June 30, 2007 comply with IAS 34. Pursuant to Section 315a HGB (German Commercial Code), 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 issued by the International Accounting Standards Board (IASB) of London. The notes to the annual consolidated financial statements of the Merck Group for 2006, particularly the accounting policies, thus apply accordingly.

Discontinued operations

On May 13, Merck announced it had entered into an agreement with Mylan Laboratories, Inc. USA, according to which Merck will sell its Generics business to Mylan for € 4.9 billion. The transaction has not yet been completed. The Generics division is presented as a discontinued operation within the meaning of IFRS 5 in these interim consolidated financial statements. This involves extensive disclosure and valuation adjustments. In the income statement, revenue and expenses do not include the Generics business. The total earnings contribution made by Generics is reported in a separate line below the profit after tax of continuing operations. The previous year's figures are reported on a comparable basis. The assets and liabilities of Generics are presented separately in the balance sheet for 2007 ("Assets and liabilities held for sale"). As of the date on which the business was classified as a discontinued operation (May 2007), the depreciation of property, plant and equipment and amortization of intangible assets no longer took place.

Disclosure changes

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

Additional amortization of intangibles within the scope of the purchase price allocation will strongly impact the future results of Merck as a result of the consolidation of Serono. In order to increase the transparency of the income statement, as of 2007 the amortization of intangible assets is disclosed on a separate line above the operating result. This item primarily comprises amortization in connection with the allocation of the Serono purchase price, but also to a lesser extent amortization of other intangibles. This item does not take into consideration amortization of software, which is still included under operating expenses and is of secondary importance overall.

Since 2007, we report inventory adjustments, which were previously included under other operating expenses, as a component of cost of sales.

Previously, the financial result was allocated to the divisions. As of this year, we disclose the financial result in full in the segment "Corporate and Other". In accordance with these structural changes, the previous year's presentation has been made comparable and key figures as well as cash flow have been adjusted.

Companies consolidated

The consolidated financial statements of the Merck Group have been prepared with Merck KGaA as the parent company. As of the balance sheet date, 242 companies are fully consolidated. The increase by 66 companies compared with December 31, 2006 is due primarily to the first-time consolidation of the companies of the Serono Group.

Consolidation of Serono

With the closing of the share purchase agreement on January 5, 2007, Merck acquired from the Bertarelli family the majority of the shares and voting rights of Serono S.A., Coinsins, Switzerland (now: Serono Laboratoires S.A.). Additional shares were acquired through a public tender offer under Swiss law that ran until February 22, 2007, as well as on the stock market. A squeeze-out to acquire the remaining shares was successfully completed on July 6, 2007 with the ruling issued by the Civil Court of the City of Basel. The delisting from the SWX Swiss Exchange of Merck Serono shares took place on July 18, 2007.

As of June 30, 2007, i.e. one week prior to the conclusion of the squeeze-out, Merck held around 99.4% of Serono's capital and around 99.6% of the voting rights. This involved cash payments of € 10,208 million. In addition, the net assets of the holding company Bertarelli Biotech S.A. (now: "SeroMer Biotech S.A.") were acquired from the Bertarelli family for € 571 million. The holding company had liquid assets amounting to roughly the same amount, moreover it holds the majority of the acquired interest in Serono Laboratoires S.A. The acquired assets, liabilities and contingent liabilities have been recognized at fair values in the balance sheet and are as follows:

€ million	Pre-acquisition book values	Adjustment	Fair values	Impact in H1 2007	Expected impact 2007
Cash and cash equivalents, marketable securities, financial assets	2,255	0	2,255		
Inventories	194	734	928	–367	–734
Other current assets	501	0	501		
Goodwill	59	1,217	1,276		
Other intangible assets	182	6,888	7,070	–267	–546
Property, plant and equipment	663	116	779	–6	–11
Other non-current assets	639	–38	601		
Current financial obligations	–590	0	–590		
Other current liabilities	–547	0	–547		
Non-current financial liabilities	–21	0	–21		
Provisions for pensions and other post-employment benefits	–39	34	–5		
Other non-current liabilities	–261	–1,164	–1,425	129	258
Net assets	**3,035**	**7,787**	**10,822**		
SeroMer purchase price			–571		
Minority interests, currency effects and other			–43		
Serono purchase price as of June 30, 2007			**10,208**		

The most significant impact of the purchase price allocation on the balance sheet and the income statement results from the fair value measurement of intangible assets and the revaluation of inventories: Intangible assets mainly comprise technologies and know-how, license, in-process research as well as trademarks and brands. Amortization is disclosed separately in the income statement above the operating result. In addition, the fair value measurement of Serono's inventories resulted in an increase of around € 734 million. This amount will be fully expensed in the income statement in 2007. Due to the non-recurring nature and size of the expense, we will disclose it under exceptional items. The allocation of the purchase price has not yet been completed. Changes may therefore still result.

Financing and capital increase

To finance the acquisition of Serono, on September 23, 2006 an € 11.5 billion syndicated multi-currency term loan and revolving credit facilities agreement was concluded. Various tranches of the loan agreement were drawn upon for the first time in January 2007.

Furthermore, a capital increase was conducted in the first quarter to refinance the acquisition of Serono. The share capital was increased nominally by € 34.5 million to nominally € 167.9 million (including a premium totaling approximately € 1,036 million). E. Merck OHG increased its equity interest by a nominal amount of approximately € 34 million (including a premium totaling approximately € 1,019 million). Merck KGaA thus generated proceeds totaling approximately € 2,055 million from the capital increase by issuing 13,278,927 new shares and from the increase of the equity interest of the general partner E. Merck OHG. Costs of the capital increase in the amount of € 22 million were deducted from the equity capital. Subsequent to the capital increase, the interests held by the limited liability shareholders and E. Merck OHG amount to 29.7% and 70.3%, respectively. The proceeds from the capital increase were used to repay the loans drawn upon.

Notes to the financial position and results of operations

The total assets of the Merck Group amount to € 17,079 million as of the balance sheet date. This is € 8,977 million more than on December 31, 2006. This strong increase is due to the acquisition and first-time consolidation of Serono: On the one hand, the assets and liabilities of the Serono companies are included in the consolidated financial statements of the Merck Group. On the other hand, in accordance with IFRS, these assets and liabilities must be recognized at their higher fair values within the scope of the first-time consolidation and the related purchase price allocation. In connection with the purchase price allocation, the Serono purchase price was allocated to the acquired assets and liabilities and the remaining difference has been recognized as goodwill. Details are presented above under "Consolidation of Serono". As a consequence of the Serono acquisition, Merck's net debt (current and non-current financial liabilities minus liquid assets) increased by € 5,043 million at the end of 2006 to € 5,561 million as of June 30, 2007. The increase in equity relates primarily to the Merck KGaA capital increase conducted at the beginning of the year. Details are presented above under "Financing and capital increase". The equity ratio was 33.8% on June 30, 2007 compared to 47.0% on December 31, 2006. Gearing (ratio of net debt and pension provisions to net equity) rose from 0.47 at the end of 2006 to 1.17 as of June 30, 2007.

Total revenues of the Merck Group for continuing operations rose in the first six months of fiscal 2007 by 57.9% to € 3,510 million. In the second quarter, the increase was 66.5% to € 1,795 million. This increase is due mainly to the acquisition of Serono.

Organic growth of the Merck Group was 10.7% and 15.3% in the first half and the second quarter, respectively. The operating result was adversely affected by the additional amortization of intangibles in connection with the Serono purchase price allocation. Together with amortization of other intangibles, this is disclosed on a separate line above the operating result. Altogether, amortization of intangibles totaled € 281 million in the first half and € 141 million in the second quarter, with the vast majority attributable to addition amortization resulting from the Serono purchase price allocation. The operating result of continuing operations totaled € 518 million in the first half and € 278 million in the second quarter, corresponding to increases of 29% in the half-year period and 58% for the quarter.

Within the scope of the Serono purchase price allocation, the valuation of the acquired inventories was € 734 million higher. This amount will be amortized in full in 2007. Due to the non-recurring nature and size of these amounts, they are reported under exceptional items. In addition, exceptional items include expenses of € 12 million from the sale of financial assets recorded in the first quarter. Altogether, exceptional items include expenses of € 379 million in the first half and € 183 million in the second quarter.

As a consequence of the financing of the Serono acquisition, the financial result shows a sharp rise in interest expense over the previous year. The tax rate for continuing operations, adjusted for exceptional items, is 26.5% for the first half and 24.5% for the second quarter.

Due to the acquisition of Serono, free cash flow of the Merck Group is significantly negative, amounting to € -6,726 million in the first half. Excluding the impact of the payments for the acquisition of Serono, free cash flow adjusted for acquisitions and disposals amounts to € 491 million in the first half as compared with € 400 million in the year-ago period, and € 177 million (previous year: € 204 million) in the second quarter.

General information on subscription rights of executive body members and employees

Within the scope of the stock option program resolved by the Merck KGaA Annual General Meeting in 2000, senior executives hold 29,000 Merck KGaA stock options as of the balance sheet date (December 31, 2006: 40,310 stock options). Additional information on this stock option program can be found in our Annual Report.

Related party disclosures

As of June 30, 2007, there were liabilities by Merck KGaA and Merck & Cie, Altdorf, to E. Merck OHG in the amount of € 192.6 million. In addition, as of June 30, 2007, Merck KGaA was owed receivables of € 38.3 million by E. Merck OHG. The balances result mainly from the profit transfers by Merck & Cie to E. Merck OHG, the reciprocal profit transfers between Merck KGaA and E. Merck OHG, as well as the extension of loans. These financial obligations of € 176.0 million are subject to standard market interest rates. From January to June 2007, Merck KGaA performed services for E. Merck OHG and E. Merck Beteiligungen OHG with a value of € 0.5 million and € 0.1 million, respectively. E. Merck OHG performed services for Merck KGaA with a value of € 0.5 million. From January to June 2007, the companies of the Merck Group supplied goods with a value of € 3.0 million to associates. During the same period, associates provided services to the companies of the Merck Group with a value of € 2.9 million.

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, 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 principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Darmstadt, July 25, 2007

Karl-Ludwig Kley	Michael Becker	Bernd Reckmann
Michael Römer	Elmar Schnee	Walter W. Zywottek

Executive Board of Merck KGaA

Dr. Karl-Ludwig Kley, Chairman
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Elmar Schnee | Walter W. Zywottek
Dr. Michael Römer (until April 27, 2007)

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Dr. Arend Oetker | Prof. Dr. Theo Siegert | Osman Ulusoy*

* Employee representative

Financial calendar 2007/2008

Autumn press conference
Interim Report 3rd quarter
Wednesday, October 24, 2007

Annual Report 2007
Monday, February 18, 2008

Annual General Meeting 2008
Friday, March 28, 2008

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