NOTES TO THE GROUP ACCOUNTS
GENERAL

(1) COMPANY INFORMATION

The accompanying consolidated financial statements as at December 31, 2014 have been prepared with Merck KGaA, Frankfurter Strasse 250, 64293 Darmstadt, which manages the operations of the Merck Group, as parent company. In accordance with the provisions of the German financial reporting disclosure law (Publizitätsgesetz), consolidated financial statements are also prepared for E. Merck KG, the ultimate parent company and general partner of Merck KGaA with an equity interest of 70.27 % as of December 31, 2014. These consolidated financial statements include Merck KGaA and its subsidiaries. The authoritative German versions of these financial statements are filed with the German Federal Gazette (Bundesanzeiger) and can be accessed at www.bundesanzeiger.de.

(2) REPORTING PRINCIPLES

The consolidated financial statements of the Merck Group have been prepared in accordance with consistent accounting policies and in euros, the reporting currency. Pursuant to section 315a of the German Commercial Code (HGB), the International Financial Reporting Standards in force on the reporting date and adopted by the European Union as issued by the International Accounting Standards Board and the IFRS Interpretations Committee (IFRS and IAS, as well as IFRIC and SIC) have been applied. The figures reported in the consolidated financial statements have been rounded, which may lead to individual values not adding up to the totals presented.

The following rules 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”

Merck applied the amendment to IAS 36 “Impairment of Assets” in advance in 2013.

None of the other new standards had a material effect on the consolidated financial statements. In particular, the rules contained in IFRS 10 to IFRS 12 did not lead to any changes based on the current equity holding structures. In regard to the strategic alliance with Pfizer Inc., USA, to develop and commercialize active ingredients in immuno-oncology as well as other alliances, more information can be found in Note [5].

The following standards take effect as of fiscal 2015:
→ Annual Improvements to IFRSs 2011 – 2013 Cycle
→ IFRIC 21 “Levies”

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

As of the balance sheet date, the following standards were published by the International Accounting Standards Board and the IFRS Interpretations Committee, but not yet adopted by the European Union:
→ IFRS 9 “Financial Instruments”
→ IFRS 14 “Regulatory Deferral Accounts”
→ IFRS 15 “Revenue from Contracts with Customers”
→ Amendment to IAS 1 “Presentation of Financial Statements”
→ Amendments to IAS 16 “Property, Plant and Equipment”
→ Amendment to IAS 19 “Employee Benefits”
→ Amendment to IAS 27 “Separate Financial Statements”
→ Amendments to IAS 28 “Investments in Associates and Joint Ventures”
→ Amendment to IAS 38 “Intangible Assets”
→ Amendment to IAS 41 “Agriculture”
→ Amendments to IFRS 10 “Consolidated Financial Statements”
→ Amendment to IFRS 11 “Joint Arrangements “
→ Amendment to IFRS 12 “Disclosure of Interests in Other Entities”
→ Annual Improvements to IFRSs 2010 – 2012 Cycle
→ Annual Improvements to IFRSs 2012 – 2014 Cycle

The impact of IFRS 15, which will become effective as of 2017 at the earliest, and of IFRS 9, which will become effective as of 2018 at the earliest, on the consolidated financial statements is currently being examined. From today’s perspective, the other new rules will not have any material effects on the consolidated financial statements.

SCOPE OF CONSOLIDATION

(3) CHANGES IN THE SCOPE OF CONSOLIDATION

Including the parent company Merck KGaA, Darmstadt, 218 (2013: 191) companies were fully consolidated in the annual financial statements of the Merck Group. 189 (2013: 165) are located abroad. No companies were consolidated using the equity method as of the balance sheet date. Four newly established companies, 27 companies of the acquired AZ Electronic Materials S.A. Group, as well as four further companies, which were previously not consolidated due to immateriality, were included in the consolidated financial statements for the first time. A total of eight companies were deconsolidated as a result of liquidation, mergers or disposals.

Due to secondary importance, 28 (2013: 22) subsidiaries were not consolidated. Overall, the impact of these subsidiaries on sales, profit after tax, assets and equity was less than 1% relative to the entire Merck Group. The interests in subsidiaries not consolidated due to secondary importance were classified as available-for-sale financial assets and presented under non-current financial assets. The list of shareholdings presents all of the companies included in the consolidated financial statements as well as all of the shareholdings of Merck KGaA (see Note [70]).

(4) ACQUISITIONS AND DIVESTMENTS AS WELL AS ASSETS HELD FOR SALE AND DISPOSAL GROUPS

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 payments for the obtainment of control were as follows:

	Acquired shareholding (in %)	€ million
Purchase price for the obtainment of control	81.3	1,523.4
Acquired cash and cash equivalents		–104.1
Payments for the obtainment of control less acquired cash and cash equivalents	**81.3**	**1,419.3**

By June 27, 2014, Merck's shareholding in AZ had increased to 99.8% and was then able to initiate 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 price was 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	18.7	351.3
Total purchase price before the deduction of acquired cash and cash equivalents	**100.0**	**1,874.7**

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: US$ 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 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 was to further strengthen Merck's materials and specialty chemicals business by joining forces with one of 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 December 31, 2014 amounted to € 374.7 million and € –52.5 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 December 31, 2014 would have amounted to € 11,471.3 million (compared with reported sales of € 11,291.5 million) and net income after taxes would have been € 1,155.5 million (compared with reported net income of € 1,164.8 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.

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. The purchase price allocation was completed as of the reporting date.

€ million	Fair values on the acquisition date
Current assets	
Cash and cash equivalents	104.1
Inventories	119.5
Receivables	130.3
Other current assets	7.1
	361.0
Non-current assets	
Intangible assets (excluding goodwill)	1,051.1
Property, plant and equipment	185.7
Other non-current assets	65.4
	1,302.2
Assets	**1,663.2**
Current liabilities	
Current financial liabilities	144.1
Other current liabilities and provisions	184.5
	328.6
Non-current liabilities	
Non-current financial liabilities	122.7
Other non-current liabilities and provisions	24.0
Deferred tax liabilities	321.0
	467.7
Liabilities	**796.3**
Net assets	**866.9**
Non-controlling interests on the acquisition date (18.7 %)	–161.9
Net assets acquired	**705.0**
Purchase price for the acquisition of shares (81.3 %)	**1,523.4**
Positive difference (goodwill)	**818.4**

The positive difference of € 818.4 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 anticipated synergy effects expected from the integration of AZ into the Merck Group.

The development of goodwill during the period from first-time recognition and December 31, 2014 was as follows:

€ million	Development of goodwill
Goodwill on May 2, 2014	818.4
Exchange rate effects	111.6
Goodwill on December 31, 2014	**930.0**

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 € 7.7 million directly related to the acquisition of the company were recorded under other operating expenses in 2014.

The most significant impact of the purchase price allocation resulted from the remeasurement of intangible assets, property, plant and equipment, as well as work in progress and finished goods included in inventories at fair value. Since work in progress and finished goods were sold within 2014, this led to additional cost of sales 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 and 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 € 130.3 million. The best possible estimate of the irrecoverable receivables amounted to less than € 0.1 million.

Planned acquisition of the Sigma-Aldrich Corporation

Merck and the Sigma-Aldrich Corporation, a life science and high-tech enterprise headquartered in St. Louis, (USA) (Sigma-Aldrich), announced on September 22, 2014 that they had entered into a merger agreement under which Merck will acquire Sigma-Aldrich for a total purchase price of approximately US$ 17.0 billion or approximately € 13.1 billion (based on the exchange rate on September 22, 2014). Sigma-Aldrich shareholders approved the acquisition at an extraordinary shareholders' meeting on December 5, 2014.

Merck received antitrust clearance of the planned acquisition from the U.S. Federal Trade Commission (FTC) on December 23, 2014. U.S. antitrust clearance satisfies a condition to closing the transaction, which remains subject to certain other closing conditions, including regulatory approval in other jurisdictions. Merck expects the transaction to close by mid-2015.

The purchase price will be financed through a combination of cash on Merck's balance sheet, bank loans and bonds. The vast majority of the currency risk stemming from the payment of the purchase price in U.S. dollars has been hedged using standard derivatives (forward exchange transactions and currency options) in line with the requirements for cash flow hedge accounting.

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 was € 22.6 million. In accordance with the contractual agreement, € 20.9 million of this amount was received as of the end of the reporting period.

(5) JOINT ARRANGEMENTS OF MATERIAL SIGNIFICANCE

Strategic alliance with Pfizer Inc., USA, to co-develop and co-commercialize active ingredients in immuno-oncology

On November 17, 2014 Merck announced that it had entered into a global strategic alliance with Pfizer Inc., USA, (Pfizer) to develop and commercialize the anti-PD-L1 antibody avelumab (also known as MSB0010718C). This antibody is currently in clinical development by Merck Serono in a Phase I trial as a potential treatment for various tumor types. A Phase II study in patients with Merkel cell carcinoma was initiated in July 2014. The compound will be developed as a single agent as well as in various combinations with Pfizer's and Merck's broad portfolio of approved and investigational pipeline candidates. As part of the strategic alliance, the two companies will also combine resources and expertise to advance Pfizer's anti-PD-1 antibody into Phase I trials with the potential to co-develop and co-commercialize this asset in the future. The overriding objective of the strategic alliance is to share the risks of development and to accelerate the two companies' presence in immuno-oncology.

According to the collaboration agreement, during the development period the two partners will equally share the development expenses. In a potentially later commercialization phase, Merck will recognize the vast majority of sales from the anti-PD-L1 antibody while the net result of the sales and certain defined expense components will be shared equally among Pfizer and Merck.

The implementation of the collaboration agreement will not be structured through a separate vehicle. This means that the assets, and obligations for the liabilities attributable to the contractual arrangement are owned by the two contracting companies. Decisions about the relevant activities require unanimous consent in accordance with the collaboration agreement. Therefore, the accounting rules governing joint operations pursuant to IFRS 11 are applied and Merck records the assets, liabilities, revenues and expenses attributable to the collaboration in accordance with the respectively valid IFRS.

Under the terms of the agreement, Pfizer made an upfront cash payment of US$ 850 million (€ 678.3 million) to Merck after the closing. Pfizer also committed to make development and commercial milestone payments of up to US$ 2 billion to Merck. Based on the collaboration agreement, Merck and Pfizer will also co-promote Xalkori® (crizotinib), a drug for the treatment of non small cell lung cancer in the United States and certain other major markets, over a multi-year period. During co-promotion of the product, Merck will receive from Pfizer cost reimbursements and a share of the profits. The fair value of the right was determined by an independent external appraiser by applying the multi-period excess earnings method (MEEM) and amounts to US$ 369 million (€ 294.4 million). The entitlement to the right was capitalized on the date it was granted and will be amortized over the term of the agreement.

On the date of the closing of the collaboration agreement, both the upfront payment received and the value of the right to co-promote Xalkori® were recognized in the balance sheet as deferred income within other liabilities. Both amounts will be recognized as income over the expected period in which Merck is to meet certain obligations during the development phase and will be disclosed under royalty, license and commission income. More information on the exercise of management judgments and estimation uncertainties can be found in Note [7].

Apart from the aforementioned accounting impact, the agreement had no material effect on the net assets, financial position and results of operations in the reporting period.

Agreement with Threshold Pharmaceuticals Inc., USA, to co-develop and commercialize evofosfamide

In February 2012, Merck Serono entered into a global agreement with Threshold Pharmaceuticals, Inc., USA, (Threshold) to co-develop and commercialize evofosfamide (also known as TH-302), a chemical molecule for use in oncology. Evofosfamide is currently being investigated in two Phase III clinical trials in patients with advanced unresectable or metastatic soft issue sarcoma and advanced pancreatic cancer.

Under the terms of the agreement, Merck received co-development rights as well as exclusive global commercialization rights. Threshold has an option to co-commercialize the compound in the United States. In fiscal 2012, Merck made an upfront payment in the amount of € 18.7 million and since then has made additional milestone payments for development activities in the amount of € 64.0 million. Merck bears 70% of worldwide development costs for evofosfamide. The assets, liabilities, income and expenses in connection with the agreement are recognized by Merck in accordance with the relevant IFRSs.

Agreement with Eli Lilly and Company, USA, and Bristol-Myers Squibb Company, USA, on the co-commercialization of Erbitux® in Japan

In October 2007, Merck Serono entered into an agreement with ImClone Systems Inc., USA (which has now merged into Eli Lilly and Company, USA) and Bristol-Myers Squibb Company, USA (BMS) on the co-development and co-commercialization of Erbitux® (cetuximab), a drug indicated for the treatment of metastatic colorectal cancer, as well as for other cancers, in Japan. Pursuant to the agreement, Merck Serono distributes the product and books the sales for the collaboration. Merck receives 50% of the profit or loss from sales of Erbitux® in Japan, while Eli Lilly and BMS each receive 25%. In addition, Eli Lilly receives a royalty equal to 4.75% of total net sales of Erbitux® in Japan from Merck. Merck records the assets, liabilities, revenues and expenses related to the agreement in accordance with the respectively valid IFRS. In 2014, Merck received sales of € 113.2 million from the commercialization of Erbitux® in Japan (2013: € 115.1 million). On February 13, 2015, Merck announced that full promotional responsibiltiy for Erbitux® in Japan will be transferred to Merck as of May 1, 2015.

Agreement with Bristol-Myers Squibb Company, USA, for the co-commercialization of Glucophage® in China

In March 2013, Merck Serono entered into an agreement with Bristol-Myers Squibb, USA, on the co-commercialization of the antidiabetic agent Glucophage® (active ingredient: metformin hydrochloride) for the treatment of type 2 diabetes in China. Merck records the assets, liabilities, revenues and expenses related to the agreement in accordance with the respectively valid IFRS. In 2014, Merck received commission income of € 58.4 million for the co-commercialization of Glucophage® (2013: € 12.8 million).

ACCOUNTING POLICIES

(6) ACCOUNTING AND MEASUREMENT PRINCIPLES

With the exception of the two changes described in the following, the accounting and measurement principles have remained unchanged in comparison with the previous year.

Effective January 1, 2014, two product groups, Neurobion® (a vitamin B-based analgesic) and Floratil® (a probiotic anti-diarrheal), were transferred from the Merck Serono division to the Consumer Health division. A detailed presentation of the associated disclosure changes in Segment Reporting can be found in Note [52].

Amortization of intangible assets (excluding software), which was previously disclosed in a separate line in the income statement, was allocated to the corresponding functional costs in 2014. This has been done in particular to ensure improved comparability of the income statement of the Merck Group with other companies. The amortization relates mainly to intangible assets recognized within the scope of the purchase price allocations for the acquisitions of Serono SA, the Millipore Corporation as well as AZ Electronic Materials S.A. Amortization of software was already allocated to the functional costs in the past. The accounting policy change has led to an increase in marketing and selling expenses, cost of sales as well as research and development costs. The previous year's figures have been adjusted accordingly and are presented in the following table:

	2013		
€ million	reported	adjustment	adjusted
Sales	**10,700.1**	**–**	**10,700.1**
Royalty, license and commission income	395.0	–	395.0
Total revenues	**11,095.1**	**–**	**11,095.1**
Cost of sales	–2,992.5	–49.2	–3,041.7
Gross margin	**8,102.6**	**–49.2**	**8,053.4**
Marketing and selling expenses	–2,326.5	–762.0	–3,088.5
Royalty, license and commission expenses	–567.0	–	–567.0
Administration expenses	–562.4	–	–562.4
Research and development costs	–1,504.3	–2.3	–1,506.6
Other operating expenses and income	–718.1	–	–718.1
Amortization of intangible assets	–813.5	813.5	–
Operating result (EBIT)	**1,610.8**	**–**	**1,610.8**

The main assets and liabilities disclosed in the consolidated balance sheet are measured as follows:

Balance sheet items	Measurement principle
ASSETS	
Cash and cash equivalents	Nominal value
Financial assets (current / non-current)	
Held to maturity investments	Amortized cost
Available-for-sale financial assets	Fair value
Loans and receivables	Amortized cost
Assets from derivatives (financial transactions)	Fair value
Trade accounts receivable	Amortized cost
Inventories	Lower of cost and net realizable value
Other assets (current / non-current)	
Assets from derivatives (operating business)	Fair value
Receivables from non-income-related taxes	Amortized cost
Other receivables	Amortized cost
Income tax receivables	Expected tax refunds based on tax rates that have been enacted or substantively enacted by the end of the reporting period
Assets held for sale	Lower of carrying amount and fair value less costs to sell
Intangible assets	
With finite useful lives	Amortized cost
With indefinite useful lives	Amortized cost (subsequent measurement impairment-only approach)
Property, plant and equipment	Amortized cost
Deferred tax assets	Undiscounted measurement based on tax rates that are expected to apply to the period when the asset is realized or the liability is settled
EQUITY AND LIABILITIES	
Financial liabilities (current / non-current)	
Bonds	Amortized cost
Liabilities to related parties	Amortized cost
Bank loans and overdrafts	Amortized cost
Liabilities from derivatives (financial transactions)	Fair value
Finance lease liabilities	Amortized cost
Trade accounts payable	Amortized cost
Other liabilities (current / non-current)	
Liabilities from derivatives (operating business)	Fair value
Liabilities from non-income-related taxes	Settlement amount
Other liabilities	Settlement amount
Income tax liabilities	Expected tax payments based on tax rates that have been enacted or substantively enacted by the end of the reporting period
Liabilities in connection with assets held for sale	Fair value less costs to sell
Provisions (current / non-current)	Present value of the expenditures expected to be required to settle the obligation
Provisions for pensions and other post-employment benefits	Projected unit credit method
Deferred tax liabilities	Undiscounted measurement based on tax rates that are expected to apply to the period when the asset is realized or the liability is settled

(7) MANAGEMENT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements requires management to make judgments and assumptions as well as estimates to a certain extent. This affects the amount of assets and liabilities, disclosures on contingent assets and liabilities, as well as reported income and expenses. Actual values may differ from the estimates made and assumptions and judgments may subsequently prove inaccurate. This is of fundamental importance for the understanding of these consolidated financial statements and the assessment of the underlying risks. The relevant assumptions and estimates for the preparation of the consolidated financial statements are reviewed on an ongoing basis. Changes in estimates are considered in the period of the change and in subsequent periods if the change relates to both the reporting period and also future periods. Judgments, forward-looking assumptions and sources of estimation uncertainty with the greatest potential effects on these consolidated financial statements are presented below.

Recognition and measurement of assets, liabilities and contingent liabilities acquired in the context of business combinations

The measurement of assets, liabilities and contingent liabilities at fair value as part of purchase price allocations is subject to estimates which are prepared using the services of external valuation experts. The fair values of the assets and liabilities recognized as part of the purchase price allocation of AZ Electronic Materials S.A. and further information on this acquisition, which closed in the reporting period, can be found in Note [4].

Sales deductions

Merck grants its customers various kinds of rebates and discounts. In addition, expected product returns, state compulsory charges and rebates from health plans and programs are also deducted from sales.

The most significant portion of these deductions from sales is attributable to the Merck Serono division. The most complex and most substantial rebates in this division relate to government rebate programs in North America such as the U.S. Federal Medicare Program and the U.S. Medicaid Drug Rebate Program. Other significant sales deductions in the division result from compulsory government rebate programs in certain European countries.

Insofar as sales deductions were not already made on payments received, Merck determines the level of sales deductions on the basis of current experience and recognizes them as a liability. The sales deductions reduce gross sales revenues. Adjustments of liabilities can lead to increases or reductions of sales in later periods.

Impairment tests of goodwill and other intangible assets with indefinite useful lives

The goodwill (carrying amount as of December 31, 2014: € 5,693.9 million/2013: € 4,583.2 million) and other intangible assets with indefinite useful lives (carrying amount as of December 31, 2014: € 168.7 million/2013: € 214.9 million) reported in the consolidated financial statements are tested for impairment when a triggering event arises or at least once a year. Impairment losses for goodwill were not required to be recognized in the year under review. In contrast, impairment losses of other intangible assets with indefinite useful lives were recorded in the amount of € 84.8 million (2013: € 1.3 million); these were mainly attributable to the termination of development projects.

Goodwill and intangible assets with indefinite useful lives that do not generate any independent cash flows are allocated to cash-generating units within the scope of the impairment test. A cash-generating unit is a division as presented in the Segment Reporting.

When testing for potential impairments, Merck determines the recoverable amount by discounting expected cash flows and therefore uses the value-in-use method. Reference is made to the latest forecasts approved by the company management that cover a period of five years. Cash flows for periods in excess of this are included using an individualized long-term growth rate for the specific cash-generating unit.

The impairment tests include assumptions and estimates of the amount of future cash flows and the discount rate. Among other things, market observations, and – if available – market data, target-actual deviations, detailed plans as well as past experience form the basis for the estimates of future cash flows. Assumptions and estimates relate in particular to future customers, saleable quantities, achievable prices, corresponding cost developments, the long-term growth rate and the weighted average cost of capital (WACC) used for discounting. All of these assumptions are considered a source of estimation uncertainty due to their inherent uncertainty. The following long-term growth rates and discount rates were used to conduct the goodwill impairment tests of the cash-generating units:

€ million / % 2014	Goodwill as of Dec. 31, 2014	Long-term growth rate	Weighted average cost of capital after tax	Weighted average cost of capital before tax
Merck Serono	1,601.5	0.0	7.2	9.3
Consumer Health	243.1	2.0	6.9	8.4
Merck Millipore	2,911.1	2.0	6.8	7.8
Performance Materials	938.2	1.0	6.3	7.8

€ million / % 2013	Goodwill as of Dec. 31, 2013	Long-term growth rate	Weighted average cost of capital after tax	Weighted average cost of capital before tax
Merck Serono	1,680.0	0.0	6.5	8.1
Consumer Health	164.1	2.5	7.2	8.8
Merck Millipore	2,730.9	2.8	7.6	8.8
Performance Materials	8.2	1.0	6.4	8.3

The amount of the value in use is primarily affected by the terminal value, which is particularly sensitive to changes in the long-term growth rate and the discount rate. Even if the actual future cash flows were one percentage point lower than the expected cash flows, there would be no need to record impairment losses for goodwill. Likewise, there would be no need to record impairment losses if future cash flows were discounted by a weighted average cost of capital after tax that was one percentage point higher.

Determination of the level of amortization of intangible assets with finite useful lives

In addition to goodwill and other intangible assets with indefinite useful lives, Merck has a significant amount of intangible assets with finite useful lives (carrying amount as of December 31, 2014: € 5,496.1 million/2013: € 5,026.8 million). Substantial assumptions and estimates are required to determine the appropriate level of amortization of these intangible assets. This relates in particular to the determination of the underlying remaining useful life. The parameter is reviewed by Merck and adjusted if necessary at least at the end of every fiscal year. In these estimates, Merck considers factors including the typical product life cycles for each asset and publicly available information about the estimated useful lives of similar assets. Despite these analyses, the assumed useful lives can prove false at a later date because of the high degree of uncertainty.

If the amortization of intangible assets from market authorizations, patents, licenses and similar rights, capitalized brand names and trademarks had been 10% higher, for example due to shortened remaining useful lives, profit before income tax would have been € 84.2 million lower in fiscal 2014 (2013: reduction of € 81.4 million). In fiscal 2014, a reduction of the useful lives of the intangible assets reported in connection with the drug Rebif® by one year would have lowered profit before income tax by € 73.6 million (2013: € 61.4 million).

Research and development collaborations as well as in- and out-licensing of intangible assets

Merck is regularly a partner of research and development collaborations with research institutions, biotechnology companies and other contract partners. These collaborations are aimed at developing marketable products. Merck also enters into in-licensing agreements regarding intellectual property of contract partners. Such agreements typically involve making upfront payments and payments for the achievement of certain milestones related to development and marketing progress. In this context, Merck has to judge to what extent up-front or milestone payments represent remuneration for services provided (ongoing research and development expense) or whether such payments result in an in-licensing of an intangible asset that has to be capitalized. This assessment is normally subject to judgment.

Merck also receives upfront and milestone payments as part of research and development collaborations or out-licensing agreements. In this context, income may only be recognized if Merck has transferred any material risks and rewards of an intangible asset to the acquirer, has no interest in the remaining business activities and has no other continuing commitment. If these criteria are not deemed to be met, the received payments are deferred and recognized over the period in which Merck is expected to fulfill its performance obligations. Both the assessment of the revenue recognition criteria and the determination of the appropriate period during which revenue is recognized are subject to judgment. If the upfront payment, which was agreed as part of the strategic alliance with Pfizer Inc., USA, entered into during the reporting period and which was received in cash and deferred as a liability, had been deferred and recognized in the income statement over a shorter period reduced by one year, profit before income tax for fiscal year 2014 would have increased by € 2.7 million.

Identification of impairment of non-financial assets

Judgments are required in the identification of existing indications of impairment of intangible assets and property, plant and equipment. As of December 31, 2014, the carrying amounts of these assets amounted to € 14,385.9 million (2013: € 12,514.4 million). Merck uses external and internal information to identify indications of impairment. For example, the approval of a competing product in the Merck Serono division or the closure of a location can be an indicator of impairment. Nevertheless, Merck's analysis of indications of impairment can prove too optimistic, too pessimistic or incorrect in hindsight due to the high degree of uncertainty. This would result in impairment tests being carried out too late, too early or erroneously not carried out at all.

Impairment of financial assets

On every reporting date, Merck reviews whether there is any objective evidence that a financial asset is impaired and, if this is the case, carries out the impairment to the extent estimated as necessary. Particularly important in this context are impairment losses on trade receivables whose carrying amount was € 2,235.6 million in 2014 (2013: € 2,021.4).

Significant indicators for the identification of impaired receivables and the subsequent impairment tests are in particular payment default or delay in the payment of interest or principal, negative changes in economic or regional economic framework conditions as well as considerable financial difficulties of a debtor. These estimates are discretionary and can later prove to be incorrect.

Other provisions

As a global company for high-tech products in the pharmaceutical and chemical industries, Merck is exposed to a multitude of litigation risks. In particular, these include risks from product liability, competition and antitrust law, pharmaceutical law, patent law, tax law and environmental protection. Merck is engaged in legal proceedings and official investigations, the outcomes of which are uncertain. A detailed description of the most important legal matters as of the balance sheet date can be found in Note [48]. The provisions recognized for legal disputes mainly relate to the Merck Serono division and amounted to € 393.1 million as of the reporting date (2013: € 772.3 million). To assess the existence of a reporting obligation and to quantify pending outflows of resources, Merck draws on the knowledge of the legal department as well as any other outside counsel.

In spite of this, both the assessment of the existence of a present obligation and the estimate of the probability of a future outflow of resources are highly subject to uncertainty. Equally, the evaluation of a possible payment obligation is to be considered a major source of estimation uncertainty.

To a certain extent, Merck is obliged to take measures to protect the environment and reported provisions for environmental protection of € 123.7 million as of December 31, 2014 (2013: € 111.2 million). The underlying obligations were located mainly in Germany and the United States. Provisions were recognized primarily for obligations from soil remediation and groundwater protection in connection with the discontinued crop protection business.

The calculation of the present value of the future settlement amount requires, among other things, estimates of the future settlement date, the actual severity of the identified contamination, the applicable remediation methods and the associated future costs. The measurement is carried out regularly in consultation with independent experts. In spite of this, the determination of the future settlement amount of the provisions for environmental protection measures is subject to a considerable degree of uncertainty.

In the event of the discontinuation of clinical development projects, Merck is regularly required to bear unavoidable subsequent costs for a certain future period of time. The measurement of these provisions requires estimates regarding the length of time and the amount of the subsequent costs.

Provisions for pensions and other post-employment benefits

Merck maintains several defined benefit pension plans, particularly in Germany, Switzerland and the United Kingdom. The determination of the present value of the obligation from these defined benefit pension plans primarily requires estimates of the discount rate, future salary increases, future pension increases and future cost increases for medical care.

Detailed information on the existing pension obligations and a sensitivity analysis of the parameters named above are provided in Notes [22] and [49]. As of the reporting date, the amount recorded on the balance sheet for provisions for pensions and other post-employment benefits was € 1,820.1 million (2013: € 910.9 million). The present value of the defined benefit pension obligation was € 3,812.7 million as of December 31, 2014 (2013: € 2,736.8 million).

Income taxes

The calculation of the reported assets and liabilities from deferred and current income taxes requires extensive discretionary judgments, assumptions and estimates. Income tax liabilities were € 849.8 million as of December 31, 2014 (2013: € 465.1 million). The carrying amounts of deferred tax assets and liabilities amounted to € 992.9 million and € 818.4 million, respectively, as of the reporting date (2013: € 736.4 million and € 665.5 million, respectively).

The recognized income tax liabilities and provisions are partially based on estimates and interpretations of tax laws and ordinances in different jurisdictions.

With regard to deferred tax items, there is a high degree of uncertainty concerning the date on which an asset is realized or a liability settled and concerning the tax rate applicable on this date. This particularly relates to deferred tax liabilities recognized in the context of the acquisitions of Serono SA, the Millipore Corporation and AZ Electronic Materials S.A. The recognition of deferred tax assets from loss carryforwards requires an estimate of the probability of the future realizability of loss carryforwards. Factors considered in this estimate are results history, results planning and any tax planning strategy of the respective Group company.

Other judgments, assumptions and sources of estimation uncertainty

Merck makes other judgments, assumptions and estimates in the following areas:

- → Classification of financial assets and financial liabilities
- → Hedge accounting for cash flows from highly probable forecast transactions and firm purchase commitments
- → Determination of the fair value of financial instruments classified as available-for-sale and of derivative financial instruments
- → Determination of the fair value of the liability for share-based compensation
- → Determination of the fair value of plan assets

(8) CONSOLIDATION METHODS

The consolidated financial statements are based on the single-entity financial statements of the consolidated companies as of the balance sheet date, which were prepared applying consistent accounting policies in accordance with IFRS.

Acquisitions are accounted for using the purchase method in accordance with IFRS 3. Subsidiaries acquired and consolidated for the first time were measured at the carrying values at the time of acquisition on the basis of financial statements prepared for this purpose. Differences resulting in this connection are recognized as assets and liabilities to the extent that their fair values differ from the values actually carried in the financial statements. Any remaining – and usually positive – difference is recognized as goodwill within intangible assets, and is subjected to an impairment test if there are indications of impairment, or at least once a year.

In cases where a company was not acquired in full, non-controlling interests are measured using the fair value of the proportionate share of net assets. The option to measure non-controlling interests at fair value (full goodwill method) was not utilized.

When additional shares in a non-controlling interest are acquired, the purchase price amount that exceeds the carrying amount of this interest is recognized immediately in equity.

IFRS 11, which has been applicable since 2014, is applied for joint arrangements. A joint arrangement exists when, on the basis of a contractual arrangement, Merck and third parties jointly control business activities. Joint control means that decisions about the relevant activities require unanimous consent. Joint arrangements are either joint operations or joint ventures. Revenues and expenses as well as assets and liabilities from joint operations are included in the consolidated financial statements on a pro rata basis in accordance with Merck's rights and obligations. By contrast, interests in joint ventures as well as in material associates over which Merck has significant influence are included in accordance with IAS 28 using the equity method of accounting.

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

(9) CURRENCY TRANSLATION

The functional currency concept applies to the translation of financial statements of consolidated companies prepared in foreign currencies. The subsidiaries of the Merck Group generally conduct their operations independently. The functional currency of these companies is normally the respective local currency. Assets and liabilities are measured at the closing rate, and income and expenses are measured at weighted average annual rates in euros, the reporting currency. Any currency translation differences arising during consolidation of Group companies are taken directly to equity. If Group companies are deconsolidated, existing currency differences are reversed and reclassified to profit or loss. The local currency is not the functional currency at only a few subsidiaries.

When the financial statements of consolidated companies are prepared, business transactions that are conducted in currencies other than the functional currency are recorded using the current exchange rate on the date of the transaction. Foreign currency monetary items (cash and cash equivalents, receivables and payables) in the year-end financial statements of the consolidated companies prepared in the functional currency are translated at the respective closing rates. Exchange differences from the translation of monetary items are recognized in the income statement with the exception of net investments in a foreign operation. Hedged items are likewise carried at the closing rate. The resulting gains or losses are eliminated in the income statement against offsetting amounts from the fair value measurement of derivatives. Currency translation was based on the following key exchange rates:

	Average annual rate		Closing rate	
€ 1 =	2014	2013	Dec. 31, 2014	Dec. 31, 2013
British pound (GBP)	0.805	0.848	0.781	0.834
Chinese renminbi (CNY)	8.167	8.178	7.534	8.345
Japanese yen (JPY)	140.594	129.016	145.392	144.729
Swiss franc (CHF)	1.214	1.228	1.203	1.227
Taiwan dollar (TWD)	40.172	39.471	38.448	41.128
U.S. dollar (USD)	1.325	1.330	1.215	1.379

(10) RECOGNITION OF SALES AND REVENUES

Sales are recognized net of sales-related taxes as well as sales deductions. They are recognized once the goods have been delivered or the services have been rendered, the significant risks and rewards of ownership have been transferred to the purchaser, the amount of revenue can be measured reliably, and it is probable that the economic benefits will flow to the entity. When sales are recognized, estimated amounts are taken into account for expected sales deductions, for example rebates, discounts and returns.

In addition to revenue from the sale of goods, sales also include revenue from services, but the volume involved is insignificant. Long-term, customer-specific manufacturing contracts do not exist.

Depending on the substance of the relevant agreements, royalty, license and commission income is recognized either immediately or is recognized when the contractual obligation is fulfilled.

Dividend income is recognized when the shareholders' right to receive the dividend is established. This is normally the date of the dividend resolution. Interest income is recognized in the period in which it is earned.

(11) RESEARCH AND DEVELOPMENT COSTS

Research and development costs comprise the costs of research departments and process development, the expenses incurred as a result of research and development collaborations as well as the costs of clinical trials (both before and after approval is granted).

The costs of research cannot be capitalized and are expensed in full in the period in which they are incurred. As internally generated intangible assets, it is necessary to capitalize development expenses if the cost of the internally generated intangible asset can be reliably determined and the asset can be expected to lead to future economic benefits. The condition for this is that the necessary resources are available for the development of the asset, technical feasibility of the asset is given, its completion and use are intended, and marketability is given. Owing to the high risks up to the time that pharmaceutical products are approved, these criteria are not met in the pharmaceutical business. Costs incurred after regulatory approval are usually insignificant and are therefore not recognized as intangible assets. Owing to the risks existing up until market launch, development expenses in the Performance Materials and Merck Millipore divisions can likewise not be capitalized.

Reimbursements for R&D are offset against research and development costs.

(12) FINANCIAL INSTRUMENTS: PRINCIPLES

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

Derivatives can be embedded in other financial instruments or in non-financial instruments. Under IFRS, an embedded derivative must be separated from the host contract and accounted for separately at fair value if the economic characteristics of the embedded derivative are not closely related to the economic characteristics of the host contract. Issued compound financial instruments with both an equity and a liability component must be recognized separately depending on their characteristics. Merck was not a party to hybrid or compound financial instruments during the fiscal year.

As a rule, Merck accounts for regular way purchases or sales of financial instruments at the settlement date and of derivatives at the trade date.

Financial assets and financial liabilities are generally measured at fair value on initial recognition, if necessary including transaction costs.

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

(13) FINANCIAL INSTRUMENTS: CATEGORIES AND CLASSES OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are classified into the following IAS 39 measurement categories and IFRS 7 classes. The classes required to be disclosed in accordance with IFRS 7 consist of the measurement categories set out here. Additionally, cash and cash equivalents with an original maturity of up to 90 days, finance lease liabilities, and derivatives designated as hedging instruments are also classes in accordance with IFRS 7. There were no reclassifications between the aforementioned measurement categories during the fiscal year.

Financial assets and financial liabilities at fair value through profit or loss

“Financial assets and financial liabilities at fair value through profit or loss” can be both non-derivative and derivative financial instruments. Financial instruments in this category are subsequently measured at fair value. Gains and losses on financial instruments in this measurement category are recognized directly in the income statement. This measurement category includes an option to designate non-derivative financial instruments as “at fair value through profit or loss” on initial recognition (fair value option) or as “financial instruments held for trading”. The fair value option was not applied during the fiscal year. Merck only assigns derivatives to the “held for trading” measurement category. Special accounting rules apply to derivatives that are designated as hedging instruments in a hedging relationship.

Held to maturity investments

“Held to maturity investments” are non-derivative financial assets with fixed or determinable payments and a fixed maturity that are quoted in an active market. To be able to assign a financial asset to this measurement category, the entity must have the positive intention and ability to hold it to maturity. These investments are subsequently measured at amortized cost. If there is objective evidence that such an asset is impaired, an impairment loss is recognized in profit or loss. Subsequent reversals of impairment losses are also recognized in profit or loss up to the amount of the original cost of the asset. At Merck, this measurement category is used for current and non-current financial assets.

Loans and receivables

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

Available-for-sale financial assets

“Available-for-sale financial assets” are those non-derivative financial assets that are not assigned to the measurement categories “financial assets and financial liabilities at fair value through profit or loss”, “held-to-maturity investments” or “loans and receivables”. Financial assets in this category are subsequently measured at fair value. Changes in fair value are recognized immediately in equity and are only transferred to the income statement when the financial asset is derecognized. If there is objective evidence that such an asset is impaired, an impairment loss is recognized immediately in the income statement, including any amounts already recognized in equity. Reversals of impairment losses on previously impaired equity instruments are recognized immediately in equity. Reversals of impairment losses on previously impaired debt instruments are recognized in profit or loss up to the amount of the impairment loss. Any amount in excess of this is recognized directly in equity. At Merck, this measurement category is used in particular for securities and financial assets, as well as interests in subsidiaries that are not consolidated due to secondary importance (affiliates). Financial assets in this category for which no fair value is available or fair value cannot be reliably determined are measured at cost less any cumulative impairment losses. Impairment losses on financial assets carried at cost may not be reversed.

Other liabilities

Other liabilities are non-derivative financial liabilities that are subsequently measured at amortized cost. Differences between the amount received and the amount to be repaid are amortized to profit or loss over the maturity of the instrument. Merck primarily assigns financial liabilities, trade payables, and miscellaneous other non-derivative current and non-current liabilities to this category.

(14) FINANCIAL INSTRUMENTS: DERIVATIVES AND HEDGE ACCOUNTING

Merck uses derivatives solely to economically hedge recognized assets or liabilities and forecast transactions. The hedge accounting rules in accordance with IFRS are applied to some of these hedges. A distinction is made between fair value hedge accounting and cash flow hedge accounting. Designation of a hedging relationship requires a hedged item and a hedging instrument. At Merck, all hedges relate to recognized or highly probable hedged items. Merck currently only uses derivatives as hedging instruments.

The hedging relationship must be effective at all times, i.e. the change in fair value of the hedging instrument fully offsets changes in the fair value of the hedged item. Merck uses the dollar offset method as well as regression analyses to measure hedge effectiveness. Derivatives that do not or no longer meet the documentation or effectiveness requirements for hedge accounting, whose hedged item no longer exists, or for which hedge accounting rules are not applied are reported as “financial assets and liabilities at fair value through profit or loss”. Changes in fair value are then recognized in profit or loss.

As a rule, the purpose of a fair value hedge is to offset the exposure to changes in the fair value of recognized hedged items (financial assets or financial liabilities) through offsetting changes in the fair value of a hedging instrument. Gains and losses on the hedging instrument resulting from changes in fair value are recognized in profit or loss, net of deferred taxes. Offsetting gains and losses on the hedged item that are attributable to the hedged risk are also recognized in profit or loss, irrespective of the item’s allocation to a measurement category.

At Merck, cash flow hedges normally relate to highly probable forecast transactions in foreign currency and to future interest payments. In cash flow hedges, the effective portion of the gains and losses on the hedging instrument is recognized in equity until the hedged expected cash flows affect profit or loss. This is also the case if the hedging instrument expires, is sold, or is terminated before the hedged transaction occurs and the occurrence of the hedged item remains likely. The ineffective portion of a cash flow hedge is recognized directly in profit or loss.

(15) OTHER NON-FINANCIAL ASSETS AND LIABILITIES

Other non-financial assets are carried at amortized cost. Allowances are recognized for any credit risks. Long-term non-interest-bearing and low-interest receivables are carried at their present value. Other non-financial liabilities are carried at the amount to be repaid.

(16) INVENTORIES

Inventories are carried at the lower of cost or net realizable value. When determining cost, the "first-in, first-out" (FIFO) and weighted average cost formulas are used. In addition to directly attributable unit costs, manufacturing costs also include overheads attributable to the production process, which are determined on the basis of normal capacity utilization of the production facilities.

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

Since the products are not manufactured within the scope of long-term production processes, the manufacturing cost does not include any borrowing cost.

Inventory prepayments are recorded under other current assets.

(17) INTANGIBLE ASSETS

Acquired intangible assets are recognized at cost and are classified as assets with finite and indefinite useful lives. Self-developed intangible assets are only capitalized if the requirements specified by IAS 38 have been met. Intangible assets acquired in the course of business combinations are recognized at fair value on the acquisition date.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are not amortized; however they are tested for impairment when a triggering event arises or at least once a year. Here, the respective carrying amounts are compared with the recoverable amount of the cash-generating unit and impairments are recognized as required. Impairment losses recognized on indefinite-life intangible assets other than goodwill are reversed if the original reasons for impairment no longer apply.

Goodwill is allocated to cash-generating units and tested for impairment either annually or if there are indications of impairment. A cash-generating unit is a division as presented in the Segment Reporting. The carrying amounts of the cash-generating units are compared with their recoverable amounts and impairment losses are recognized where the recoverable amount is lower than the carrying amount. The recoverable amount of a cash-generating unit is determined as the higher of fair value less costs to sell and value in use estimated using the discounted cash flow method. When testing for potential goodwill impairments, Merck determines the recoverable amount by discounting expected cash flows and therefore uses the value-in-use method.

Intangible assets with finite useful lives

Intangible assets with a finite useful life are amortized using the straight-line method. The useful lives of marketing authorizations, acquired patents, licenses and similar rights, brand names, trademarks and software are between 3 and 19 years. Amortization of intangible assets and software is allocated to the functional costs in the income statement. An impairment test is performed if there are indications of impairment. Impairment losses are determined using the same methodology as for indefinite-life intangible assets. Impairment losses are reversed if the original reasons for impairment no longer apply.

(18) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost less depreciation and impairments plus reversals of impairments. The component approach is applied here in accordance with IAS 16. Subsequent costs are only capitalized if it is probable that future economic benefits will arise for the Group and the cost of the asset can be measured reliably. The cost of self-constructed property, plant and equipment is calculated on the basis of the directly attributable unit costs and an appropriate share of overheads. If the construction of property, plant and equipment takes a substantial period of time, the directly attributable borrowing costs incurred up until completion are capitalized as part of the costs. In accordance with IAS 20, costs are reduced by the amount of government grants in those cases where government grants or subsidies have been paid for the acquisition or manufacture of assets (grants related to assets). Grants related to expenses which no longer offset future expenses are recognized in profit or loss. Property, plant and equipment is depreciated by the straight-line method over the useful life of the asset concerned. Depreciation of property, plant and equipment is based on the following useful lives:

USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT

	Useful life
Production buildings	maximum of 33 years
Administration buildings	maximum of 40 years
Plant and machinery	6 to 25 years
Operating and office equipment; other facilities	3 to 10 years

The useful lives of the assets are reviewed regularly and adjusted if necessary. If indications of a decline in value exist, an impairment test is performed. The determination of the possible need to recognize impairments proceeds in the same way as for intangible assets. If the reasons for an impairment loss no longer exist, a reversal of the impairment loss recognized in prior periods is recorded.

(19) LEASING

Where non-current assets are leased and economic ownership lies with Merck (finance lease), the asset is recognized at the present value of the minimum lease payments or the lower fair value in accordance with IAS 17 and depreciated over their useful life. The corresponding payment obligations from future lease payments are recorded as liabilities. If an operating lease is concerned, the associated expenses are recognized in the period in which they are incurred.

(20) DEFERRED TAXES

Deferred tax assets and liabilities result from temporary differences between the carrying amount of an asset or liability in the IFRS and tax balance sheets of consolidated companies as well as from consolidation activities, insofar as the reversal of these differences will occur in the future. In addition, deferred tax assets are recorded in particular for tax loss carryforwards if and insofar as their utilization is probable in the foreseeable future. In accordance with the liability method, the tax rates enacted and published as of the balance sheet date are used.

Deferred tax assets and liabilities are only offset on the balance sheet date if they meet the requirements of IAS 12.

(21) PROVISIONS

Provisions are recognized in the balance sheet if it is more likely than not that a cash outflow will be required to settle the obligation and the amount of the obligation can be measured reliably. The carrying amount of provisions takes into account the amounts required to cover future payment obligations, recognizable risks and uncertain obligations of the Merck Group to third parties.

Measurement is based on the settlement amount with the highest probability or,if the probabilities are equivalent and a high number of similar cases exist, it is based on the expected value of the settlement amounts. Long-term provisions are discounted and carried at their present value as of the balance sheet date. To the extent that reimbursement claims exist as defined in IAS 37, they are recognized separately as an asset if their realization is virtually certain and the asset recognition criteria has been met.

(22) PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

Provisions for pensions and other post-employment benefits are recorded in the balance sheet in accordance with IAS 19. The obligations under defined benefit plans are measured using the projected unit credit method. Under the projected unit credit method, dynamic parameters are taken into account in calculating the expected benefit payments after an insured event occurs; these payments are spread over the entire period of service of the participating employees. Annual actuarial opinions are prepared for this purpose. The actuarial assumptions for discount rates, salary and pension trends, staff turnover as well as health care cost increases, which were used to calculate the benefit obligation, were determined on a country-by-country basis in line with the economic conditions prevailing in each country; the latest country-specific actuarial mortality table was used in each case. The respective discount rates are generally determined on the basis of the returns on high-quality corporate bonds issued with adequate maturities and currencies. For euro-denominated obligations, bonds with ratings of at least “AA” from one of the three major rating agencies (Standard & Poor’s, Moody’s or Fitch), and a euro swap rate of adequate duration served as the basis for the data. Actuarial gains and losses resulting from changes in actuarial assumptions and / or experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) are recognized immediately in equity as soon as they are incurred, taking deferred taxes into account. Consequently, the balance sheet discloses – after deduction of the plan assets – the full scope of the obligations while avoiding the fluctuations in expenses that can result especially when the calculation parameters change. The actuarial gains and losses recorded in the respective reporting period are presented separately in the Statement of Comprehensive Income.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(23) SALES

Sales were generated primarily from the sale of goods and to a limited degree also included revenues from services rendered. Merck Group sales totaled € 11,291.5 million in 2014 (2013: € 10,700.1 million), which represented an increase of 5.5% compared to 2013 (decrease of –0.4% in 2013). Sales are presented by division and region in the Segment Reporting (see Note [51]).

(24) ROYALTY, LICENSE AND COMMISSION INCOME

In 2014, royalty and license income totaled € 138.0 million (2013: € 359.8 million) and mainly included royalty and license income from the products Humira® (AbbVie Inc.), Viibryd® (Actavis, formerly Forest Laboratories Inc.) and Puregon® (Merck & Co. Inc.) as well as income from the active pharmaceutical ingredients bisoprolol and metformin. The change compared to 2013 resulted primarily from the expiration of the patents for Avonex® (Biogen Idec Inc.) and Enbrel® (Amgen Inc.). An out-of-court settlement was reached with AbbVie Inc. for patent disputes regarding Humira®. Based on this settlement, Merck recorded no further license income for this product as of the second half of 2014.

Revenue from the strategic alliance with Pfizer Inc., USA, in immuno-oncology was recognized for the first time in 2014. More details on the agreement can be found in Note [5].

In 2014, commission income totaled € 71.3 million (2013: € 35.2 million). This primarily consisted of proceeds from cooperation and distribution agreements.

The breakdown of royalty, license and commission income by division is presented in the Segment Reporting (see Note [51]).

(25) COST OF SALES

Cost of sales primarily included the cost of manufactured products sold as well as merchandise sold. Cost comprises overheads and, if necessary, inventory write-downs, in addition to directly attributable costs, such as the cost of materials, personnel and energy, as well as depreciation / amortization.

The breakdown of cost of sales by division is presented in the Segment Reporting (Note [51]).

(26) MARKETING AND SELLING EXPENSES

Marketing and selling expenses comprised the following:

€ million	2014	2013
Sales force	–809.3	–789.8
Internal sales services	–613.6	–598.7
Sales promotion	–469.4	–458.4
Logistics	–412.6	–390.7
Amortization of intangible assets[1]	–719.0	–762.0
Other marketing and selling expenses	–81.0	–88.9
Marketing and selling expenses[1]	**–3,104.9**	**–3,088.5**

[1] The disclosure of amortization of intangible assets (excluding software) has been changed. See Note "Accounting and measurement principles".

Amortization of intangible assets was attributable to marketing approvals, patents, licenses and similar rights, brands, trademarks and other, which could be functionally allocated to Marketing and Selling.

The breakdown of marketing and selling expenses by division is presented in the Segment Reporting (see Note [51]).

(27) ROYALTY, LICENSE AND COMMISSION EXPENSES

In 2014, royalty and license expenses amounted to € 160.5 million (2013: € 212.8 million) and commission expenses totaled € 377.0 million (2013: € 354.2 million).

The sales-dependent royalty payments represented selling expenses and were expensed in the period in which they were incurred. Of significance here are the marketing rights to Erbitux® outside the United States and Canada, for which expenses totaling € 84.7 million (2013: € 80.9 million) were incurred in 2014.

Co-marketing agreements lead to sales-dependent commission payments that are expensed in the period in which they are incurred. The commission expenses incurred related mainly to the marketing of Rebif® in the United States, for which expenses of € 314.6 million were incurred in 2014 (2013: € 302.4 million). These also represented exclusively selling expenses.

The breakdown of royalty, license and commission expenses by division is presented in the Segment Reporting (see Note [51]).

(28) ADMINISTRATION EXPENSES

Personnel costs and material expenses of management and administrative functions were recorded under this item unless charged to other functional costs as internal services.

The breakdown of administration expenses by division is presented in the Segment Reporting (see Note [51]).

(29) RESEARCH AND DEVELOPMENT COSTS

Research and development costs increased in 2014 to € 1,703.7 million (2013: € 1,506.6 million). Amortization of intangible assets (excluding software) that had been attributable to research and development costs was allocated to this functional area for the first time in 2014.

Reimbursements for research and development amounting to € 18.4 million (2013: € 15.0 million) were offset against research and development costs. This figure also included government subsidies of € 5.9 million (2013: € 8.9 million).

The breakdown of research and development costs by division and region is presented in the Segment Reporting (see Note [51]).

(30) OTHER OPERATING EXPENSES AND INCOME

Other operating expenses and income were as follows:

€ million	2014	2013
Impairment losses[1]	–100.2	–225.6
Litigation[1]	– 95.5	– 205.2
Integration costs / IT costs	– 87.2	– 49.0
Restructuring costs	– 83.9	– 130.5
Premiums, fees and contributions	– 55.2	– 54.3
Allowances for receivables	– 41.9	– 47.1
Non-income related taxes	– 35.5	– 37.4
Acquisition costs	– 24.5	–
Expenses for miscellaneous services	– 21.8	– 23.9
Losses on the divestment of businesses	– 8.8	– 2.3
Project costs	– 4.4	– 6.5
Other operating expenses[1]	–125.2	–131.0
Total other operating expenses[1]	**– 684.1**	**– 912.8**
Gains from the release of provisions for litigation	260.3	50.4
Exchange rate differences from operating activities	53.3	26.0
Release of allowances for receivables	41.8	42.1
Income from miscellaneous services	26.4	25.1
Gains on disposal of assets	3.7	7.5
Income from investments	1.5	1.5
Other operating income[1]	39.4	42.1
Total other operating income[1]	**426.4**	**194.7**
Total other operating expenses and income	**– 257.7**	**– 718.1**

[1] Previous year's figures have been adjusted, see explanations below.

In fiscal 2014, income from the release of provisions for litigation was disclosed separately and not offset against litigation expenses. The previous year's figure has been correspondingly adjusted.

The net expenses previously disclosed under one-time items were reclassified to other operating income and expenses based on their nature.

The impairments totaled € 100.2 million (2013: € 225.6 million) and related in the amount of € 84.9 million (2013: € 10.5 million) to assets which were assigned to research and development, in the amount of € 5.1 million (2013: € 12.6 million) to production plants, in the amount of € 0.1 million (2013: € 156.2 million) to sales-related assets, and in the amount of € 5.7 million (2013: € 23.5 million) to administration. In addition, impairments were recognized in the amount of € 4.4 million (2013: € 5.5 million) for non-consolidated investments and other financial instruments which were classified to the category "available-for-sale". In 2013, impairments were recorded in the amount of € 17.3 million for capitalized goodwill in connection with the sale of the Discovery and Development Solutions business field of the Merck Millipore division. Further information on impairments can be found under Intangible Assets (see Note [41]).

Integration and IT costs of € 87.2 million (2013: € 49.0 million) were incurred primarily for the global harmonization of the IT landscape and in connection with the integration of acquired and existing businesses.

The restructuring charges incurred in fiscal 2014 amounting to € 83.9 million (2013: € 130.5 million) arose in connection with the "Fit for 2018" transformation and growth program in the amount of € 79.5 million (2013: € 130.5 million). As in the previous year, these charges largely related to personnel measures, for instance

the elimination of positions in order to create a leaner and more efficient organization. Of the recognized asset impairments, an amount of € 4.5 million (2013: € 35.7 million) was attributable to the program, which resulted in total expenses of € 84.0 million (2013: € 166.2 million) for the "Fit for 2018" program.

Acquisition costs amounting to € 24.5 million (2013: € 0.0 million) were incurred for the acquisition of AZ Electronic Materials S.A., Luxembourg, as well as for the proposed acquisition of the Sigma-Aldrich Corporation, USA.

Other operating expenses also include special environmental protection costs as well as personnel expenses not allocable to the functional areas, for example costs of the works council.

Income from the release of provisions for litigation in fiscal 2014 amounted to € 260.3 million (2013: € 50.4 million) and was mainly attributable to the settlement of the legal dispute with Israel Bio-Engineering Project Limited Partnership (IBEP).

The breakdown of other operating expenses and income by division is presented in the Segment Reporting (see Note [51]).

(31) FINANCIAL RESULT

€ million	2014	2013
Interest income and similar income	30.6	30.1
Interest expenses and similar expenses	–162.4	–176.6
Interest component from currency hedging transactions	– 5.1	–17.2
Interest result	**–136.9**	**–163.7**
Interest component of the additions to pension provisions and other non-current provisions	– 55.2	– 54.2
Currency differences from financing activities	–13.0	– 4.3
Result from financial investments	0.1	–
	– 205.0	**– 222.2**

The financial result improved year-on-year mainly as a result of lower interest expenses and a reduced interest component from currency hedging transactions. The higher interest expenses in 2013 included expenses for a bond that was repaid in September 2013.

These lower interest expenses were partially offset by financing costs in connection with the proposed acquisition of the Sigma-Aldrich Corporation, USA. The interest component from currency hedging transactions compared to the previous year was mainly due to savings resulting from the establishment of a U.S. dollar in-house bank as this led to a significant decline in the nominal value of existing currency hedging transactions.

Currency differences from financial investments were mainly the result of expenses for premiums on options entered into to hedge intragroup transactions in foreign currency.

(32) INCOME TAX

€ million	2014	2013
Current taxes in the period	–592.4	–496.9
Taxes for previous periods	–21.9	–41.6
Deferred taxes in the period	222.1	359.0
	–392.2	**–179.5**

The following table presents the tax reconciliation from theoretical tax expense to tax expense according to the income statement. The theoretical tax expense is determined by applying the statutory tax rate of 30.7 % of a corporation headquartered in Darmstadt.

€ million	2014	2013
Profit before income tax	1,557.0	1,388.6
Tax rate	30.7 %	30.7 %
Theoretical tax expense	–478.0	–426.3
Tax rate differences	100.8	109.7
Tax effect of companies with a negative contribution to consolidated profit	–15.8	–14.6
Tax for other periods	–21.9	–41.6
Tax credits	23.2	225.8
Tax effect on tax loss carryforwards	18.5	0.4
Tax effect of non-deductible expenses / tax-free income / Other tax effects	–19.0	–32.9
Tax expense according to income statement	**–392.2**	**–179.5**
Tax ratio according to income statement	25.2 %	12.9 %

The tax expense consisted of corporation and trade taxes for the companies domiciled in Germany as well as comparable income taxes for foreign companies.

In 2013 the higher tax credits in 2013 arose primarily in the United States due to the consideration of dividend income from high-tax countries.

The reconciliation between deferred taxes in the balance sheet and deferred taxes in the income statement is presented in the following table:

€ million	2014	2013
Change in deferred tax assets (balance sheet)	256.5	–210.2
Change in deferred tax liabilities (balance sheet)	–152.9	526.5
Deferred taxes credited / debited to equity	–177.4	42.0
Changes in scope of consolidation / currency translation / other changes	295.9	0.7
Deferred taxes (income statement)	**222.1**	**359.0**

Tax loss carryforwards were structured as follows:

	Dec. 31, 2014			Dec. 31, 2013		
€ million	Germany	Abroad	Total	Germany	Abroad	Total
Tax loss carryforwards	8.0	948.4	956.4	3.4	437.4	440.8
thereof: Including deferred tax asset	3.1	292.5	295.6	0.8	102.5	103.3
Deferred tax asset	0.5	71.5	72.0	0.2	20.6	20.8
thereof: Excluding deferred tax asset	4.9	655.9	660.8	2.6	334.9	337.5
Theoretical deferred tax asset	0.8	106.5	107.3	0.4	77.5	77.9

The increase in non-German tax loss carryforwards and the higher deferred tax assets compared to 2013 was mainly the result of the acquisition of AZ Electronic Materials S.A., Luxembourg.

Deferred tax assets are recognized for tax loss and interest carryforwards only if for tax loss carryforwards of less than € 5.0 million realization of the related tax benefits is probable within one year, and for tax loss carryforwards of more than € 5.0 million realization of the related tax benefits is probable within the next three years.

The vast majority of the tax loss carryforwards either has no expiry date or can be carried forward for up to 20 years.

The tax loss carryforwards accumulated in Germany for corporation and trade tax amounted to € 8.0 million (2013: € 3.4 million).

The additional theoretically possible deferred tax assets amounted to € 107.3 million (2013: € 77.9 million).

In 2014, the income tax expense was reduced by € 18.5 million (2013: € 0.4 million) due to the utilization of tax loss carryforwards from prior years for which no deferred tax asset had been recognized in prior periods.

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

€ million	Dec. 31, 2014 Assets	Dec. 31, 2014 Liabilities	Dec. 31, 2013 Assets	Dec. 31, 2013 Liabilities
Intangible assets	72.2	1,047.5	39.5	801.2
Property, plant and equipment	16.1	69.8	14.8	58.3
Current and non-current financial assets	0.1	3.6	0.1	3.9
Inventories	507.6	10.2	442.1	4.6
Current and non-current receivables / Other assets	57.5	7.4	39.1	23.4
Provisions for pensions and other post-employment benefits	338.0	47.2	149.6	47.2
Current and non-current other provisions	308.1	72.5	311.8	69.0
Current and non-current liabilities	120.0	36.0	41.6	4.9
Tax loss carryforwards	72.0	–	20.8	–
Tax refund claims / Other	18.7	41.6	42.2	18.2
Offset deferred tax assets and liabilities	– 517.4	– 517.4	– 365.2	– 365.2
Deferred taxes (balance sheet)	**992.9**	**818.4**	**736.4**	**665.5**

In addition to deferred tax assets on tax loss carryforwards amounting to € 72.0 million (2013: € 20.8 million), deferred tax assets of € 920.9 million were recognized for temporary differences (2013: € 715.6 million).

As of the balance sheet date, deferred tax liabilities for temporary differences for interests in subsidiaries as regards planned dividend payments amounted to € 31.0 million (2013: € 12.9 million). No deferred tax liabilities were recognized for other temporary differences relating to interests in subsidiaries since the reversal of these differences was not foreseeable. Temporary differences relating to the retained earnings of subsidiaries amounted to € 5,194.3 million (2013: € 4,894.6 million).

(33) NON-CONTROLLING INTERESTS

Non-controlling interests in net profit were primarily composed of the minority interests in the listed companies Merck Ltd., India, and P.T. Merck Tbk., Indonesia, as well as in the companies Merck (Pvt.) Ltd., Pakistan, and Merck Ltd., Thailand.

(34) 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 use of a theoretical number of shares takes into account the fact that the general partner's capital is not represented by shares.

Following the resolution by the Annual General Meeting of Merck KGaA on May 9, 2014 to conduct a 1:2 share split, the no-par value shares with a pro rata amount of the share capital of € 2.60 a piece were each divided into two shares with a pro rata amount of the share capital of € 1.30 a piece. The share capital of € 168.0 million was newly divided into 129,242,252 shares. Accordingly, 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 into account the share split, the weighted average number of shares in 2014 was likewise 434,777,878 in 2014.

As of December 31, 2014 there were no potentially dilutive shares. Diluted earnings per share were equivalent to basic earnings per share.

The calculation of basic and diluted earnings per share was adjusted for all the reporting periods presented owing to the share split that took effect on June 30, 2014.

NOTES TO THE CONSOLIDATED BALANCE SHEET

(35) CASH AND CASH EQUIVALENTS

This item comprised:

€ million	Dec. 31, 2014	Dec. 31, 2013
Cash, bank balances and cheques	546.7	332.0
Short-term cash investments (up to 3 months)	2,331.8	648.8
	2,878.5	**980.8**

Changes in cash and cash equivalents as defined by IAS 7 are presented in the cash flow statement.

The maximum default risk is equivalent to the carrying value of the cash and cash equivalents.

(36) CURRENT FINANCIAL ASSETS

€ million	Dec. 31, 2014	Dec. 31, 2013
Held to maturity investments	21.7	53.4
Available-for-sale financial assets	2,135.0	2,312.1
Loans and receivables	2.9	27.3
Derivative assets (financial transactions)	39.8	17.7
	2,199.4	**2,410.5**

The development of current financial assets resulted mainly from the decrease in available-for-sale financial assets to € 2,135.0 million (2013: € 2,312.1 million). As of December 31, 2014, this item mainly included bonds amounting to € 1,178.6 million (2013: € 1,251.7 million) as well as commercial paper amounting to € 956.4 million (2013: € 915.7 million).

Moreover, fair value adjustments of € – 2.0 million, which were recognized in equity, were made on available-for-sale financial assets (2013: € 0.6 million). The loans and receivables contained in current financial assets are neither past due nor impaired.

(37) TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable amounting to € 2,235.6 million (2013: 2,021.4 million) exclusively existed vis-à-vis third parties.
Trade accounts receivable past due were as follows:

€ million	Dec. 31, 2014	Dec. 31, 2013
Neither past due nor impaired	1,808.8	1,542.1
Past due, but not impaired		
up to 3 months	143.3	127.5
up to 6 months	13.5	6.5
up to 12 months	5.8	2.8
up to 24 months	5.1	3.4
over 2 years	0.5	0.4
Impaired	258.6	338.7
Carrying amount	**2,235.6**	**2,021.4**

The corresponding allowances developed as follows:

€ million	2014	2013
January 1	**–136.8**	**–154.8**
Additions	–41.5	–46.5
Reversals	41.8	42.1
Utilizations	9.7	20.1
Currency translation and other changes	0.6	2.3
December 31	**–126.2**	**–136.8**

Due to the broad range of products of the Merck Group, trade accounts receivable exist vis-à-vis a large number of customers. This diversification helps to reduce risk with respect to potential defaults on receivables. In addition, established credit management processes that take individual customer risks into account are used to assess the recoverability of receivables. If there are indications that individual trade accounts receivable are partly or fully impaired, corresponding allowances are recognized.

In the period from January 1 to December 31, 2014 trade receivables in Italy with a nominal value of € 104.9 million were sold for € 102.0 million. Previous impairments in this context amounting to € 5.2 million were reversed and disclosed under other operating income. The sold receivables do not involve any further rights of recovery against Merck.

(38) INVENTORIES

This item comprised:

€ million	Dec. 31, 2014	Dec. 31, 2013
Raw materials and supplies	377.3	294.9
Work in progress	496.6	523.0
Finished goods	726.9	580.2
Goods for resale	58.9	76.1
	1,659.7	**1,474.2**

Write-downs of inventories in 2014 amounted to € 99.5 million (2013: € 94.1 million). In 2014, reversals of inventory write-downs of € 45.3 million were recorded (2013: € 24.4 million). As of the balance sheet date, no inventories were pledged as security for liabilities.

(39) OTHER ASSETS

Other assets comprised:

€ million	current	non-current	Dec. 31, 2014	current	non-current	Dec. 31, 2013
Other receivables	147.0	5.4	152.4	113.8	1.6	115.4
Derivative assets (operative)	468.5	2.9	471.4	72.7	53.9	126.6
Financial items	**615.5**	**8.3**	**623.8**	**186.5**	**55.5**	**242.0**
Receivables from non-income related taxes	199.8	24.5	224.3	99.0	30.4	129.4
Prepaid expenses	53.8	17.1	70.9	34.9	12.2	47.1
Assets from defined benefit plans	1.8	–	1.8	3.8	–	3.8
Other assets	339.3	6.6	345.9	36.5	7.4	43.9
Non-financial items	**594.7**	**48.2**	**642.9**	**174.2**	**50.0**	**224.2**
	1,210.2	**56.5**	**1,266.7**	**360.7**	**105.5**	**466.2**

Other receivables included current receivables from related parties amounting to € 76.5 million (2013: € 32.5 million) as well as current receivables from affiliates amounting to € 0.9 million (2013: € 0.6 million). Interest receivables amounted to € 12.5 million (2013: € 30.6 million). In addition, other prepayments were reported under this item. Other assets comprise the entitlement to the joint marketing right for Xalkori® (crizotinib) with Pfizer Inc., USA, in the amount of € 294.4 million (see Note [5]).

Other receivables from third parties past due were as follows:

€ million	Dec. 31, 2014	Dec. 31, 2013
Neither past due nor impaired	149.1	109.8
Past due, but not impaired		
up to 3 months	2.2	3.3
up to 6 months	–	0.3
up to 12 months	–	0.7
up to 24 months	0.9	0.7
over 2 years	0.2	0.2
Impaired	–	0.4
Carrying amount	**152.4**	**115.4**

In 2014, allowances for other receivables from third parties amounting to € 0.4 million (2013: € 0.6 million) were necessary. There were no reversals of allowances in this connection in 2014 or in 2013.

(40) TAX RECEIVABLES

Tax receivables amounted to € 297.0 million (2013: € 109.8 million) and resulted from tax prepayments that exceeded the actual amount of tax payable for 2014 and prior fiscal years, and from refund claims for prior years as well as withholding tax credits.

(41) INTANGIBLE ASSETS

€ million	Marketing authorizations, patents, licenses and similar rights, brands, trademarks and other		Goodwill	Software	Advance payments	Total
	Finite useful life	Indefinite useful life				
Cost at January 1, 2013	**11,070.9**	**594.1**	**4,695.7**	**288.1**	**35.4**	**16,684.2**
Changes in scope of consolidation	–	–	–	–	–	–
Additions	7.0	64.5	–	1.8	36.3	109.6
Disposals	–13.5	–1.5	–30.1	–11.2	–0.1	–56.4
Transfers	1.0	–0.8	–	36.3	–29.2	7.3
Classification as held for sale or transfer to a disposal group	–46.6	–	–16.5	–	–	–63.1
Currency translation	–86.1	–0.3	–65.9	–10.7	–0.1	–163.1
December 31, 2013	**10,932.7**	**656.0**	**4,583.2**	**304.3**	**42.3**	**16,518.5**
Accumulated amortization and impairment losses January 1, 2013	**–5,113.1**	**–437.5**	**–**	**–189.1**	**–**	**–5,739.7**
Changes in scope of consolidation	–	–	–	–	–	–
Amortization	–813.5	–	–	–42.5	–	–856.0
Impairment losses	–155.5	–1.3	–17.3	–4.3	–	–178.4
Disposals	13.4	1.5	17.3	11.2	–	43.4
Transfers	4.2	–4.1	–	–1.7	–	–1.6
Reversals of impairment losses	–	–	–	–	–	–
Classification as held for sale or transfer to a disposal group	41.0	–	–	–	–	41.0
Currency translation	30.9	0.3	–	8.8	–	40.0
December 31, 2013	**–5,992.6**	**–441.1**	**–**	**–217.6**	**–**	**–6,651.3**
Net carrying amount as of December 31, 2013	**4,940.1**	**214.9**	**4,583.2**	**86.7**	**42.3**	**9,867.2**
Cost at January 1, 2014	**10,932.7**	**656.0**	**4,583.2**	**304.3**	**42.3**	**16,518.5**
Changes in scope of consolidation	1,049.5	–	818.4	1.6	–	1,869.5
Additions	62.1	38.6	–	2.2	40.4	143.3
Disposals	–4.8	–61.5	–	–11.9	–0.2	–78.4
Transfers	0.2	–	–	47.0	–45.5	1.7
Classification as held for sale or transfer to a disposal group	–	–	–	–	–	–
Currency translation	285.3	0.6	292.3	10.8	–	589.0
December 31, 2014	**12,325.0**	**633.7**	**5,693.9**	**354.0**	**37.0**	**19,043.6**
Accumulated amortization and impairment losses January 1, 2014	**–5,992.6**	**–441.1**	**–**	**–217.6**	**–**	**–6,651.3**
Changes in scope of consolidation	–	–	–	–	–	–
Amortization	–841.6	–	–	–35.6	–	–877.2
Impairment losses	–	–84.8	–	–5.1	–0.2	–90.1
Disposals	4.7	61.5	–	10.1	–	76.3
Transfers	–	–	–	–	–	–
Reversals of impairment losses	–	–	–	–	–	–
Classification as held for sale or transfer to a disposal group	–	–	–	–	–	–
Currency translation	–96.6	–0.6	–	–8.6	–	–105.8
December 31, 2014	**–6,926.1**	**–465.0**	**–**	**–256.8**	**–0.2**	**–7,648.1**
Net carrying amount as of December 31, 2014	**5,398.9**	**168.7**	**5,693.9**	**97.2**	**36.8**	**11,395.5**

Marketing authorizations, patents, licenses and similar rights, brands, trademarks and other

The changes in the scope of consolidation comprise additions to intangible assets resulting from the acquisition of AZ Electronic Materials S.A., Luxembourg. A detailed presentation of this acquisition can be found in Note [4].

The net carrying amount of "Marketing authorizations, patents, licenses and similar rights, brands, trademarks and other" with finite useful lives amounting to € 5,398.9 million (2013: € 4,940.1 million) mainly included the identified and capitalized assets from the purchase price allocations for the acquisition of AZ Electronic Materials S.A., the Millipore Corporation and Serono SA. The vast majority was attributable to marketing authorizations of active pharmaceutical ingredients and technologies. The remaining useful lives of these assets ranged between 0.5 and 19.3 years.

The additions to intangible assets with finite useful lives amounted to € 62.1 million in 2014 (2013: € 7.0 million). The Merck Serono division accounted for € 59.0 million of this figure. Most of this amount was attributable to the license agreement with Auxogyn regarding the Eeva test, to a cooperation agreement with Sutro Biopharma, USA, to develop antibody active ingredient conjugates in oncology, and to marketing rights for Glucophage® and Euthyrox® in Russia, for Rovatitan® in Korea and for Cetrotide® in Japan.

The item "Marketing authorizations, patents, licenses and similar rights, brand names, trademarks and other" with indefinite useful lives primarily related to rights that Merck had acquired for active ingredients, products or technologies that were still in the research and development stage. Owing to the uncertainty as to the extent to which these projects will ultimately lead to marketable products, the period for which the resulting capitalized assets would generate an economic benefit for the company could not yet be determined. Amortization will only begin once the products receive marketing approval and is carried out on a straight-line basis over the shorter period of the patent or contract term or the expected useful life.

In 2014, additions to intangible assets with indefinite useful lives amounted to € 38.6 million (2013: € 64.5 million) and were exclusively attributable to the Merck Serono division. The amounts related to further milestone payments to Symphogen A/S, Denmark, for the acquisition of a license to an oncological compound. Additionally, Merck entered into two new licensing agreements with Mersana Therapeutics Inc., USA, and Sutro Biopharma, USA, in oncology.

Goodwill

Goodwill was incurred mainly in connection with the acquisition of AZ Electronic Materials S.A., the Millipore Corporation and Serono SA. The changes in goodwill caused by foreign exchange rates resulted almost exclusively from translating the goodwill of AZ Electronic Materials S.A. and the Millipore Corporation, part of which is carried in U.S. dollars, into the reporting currency.

In connection with the sale of the Discovery and Development Solutions business field of the Merck Millipore division to Eurofins Scientific S.A., Luxembourg, in 2013 goodwill allocated to the business field in the amount of € 16.5 million was reclassified to "assets held for sale" and disposed of after the closing in the first quarter of 2014.

The carrying amounts of “Marketing authorizations, patents, licenses and similar rights, brands, trademarks and other” as well as goodwill were attributable to the divisions as follows:

€ million	Remaining useful life in years	Merck Serono	Consumer Health	Performance Materials	Merck Millipore	Total Dec. 31, 2014	Total Dec. 31, 2013
Marketing authorizations, patents, licenses and similar rights, brands, trademarks and other							
Finite useful life	**–**	**2,565.4**	**9.9**	**1,071.1**	**1,752.5**	**5,398.9**	**4,940.1**
Rebif®	5.0	1,841.0	–	–	–	1,841.0	2,209.0
Gonal-f®	4.0	379.8	–	–	–	379.8	474.7
Saizen®	5.0	153.7	–	–	–	153.7	184.4
Humira®	–	–	–	–	–	–	19.1
Puregon®	–	–	–	–	–	–	11.5
Technologies	0.5 – 18.3	152.8	0.1	1,054.3	408.4	1,615.6	619.4
Brands	0.5 – 9.5	–	8.8	12.0	248.9	269.7	255.5
Customer relationships	0.5 – 12.5	0.6	1.0	0.2	1,095.2	1,097.0	1,166.5
Other	3.0 – 19.3	37.5	–	4.6	–	42.1	–
Indefinite useful life	**–**	**166.8**	**–**	**1.9**	**–**	**168.7**	**214.9**
Goodwill	**–**	**1,601.5**	**243.1**	**938.2**	**2,911.1**	**5,693.9**	**4,583.2**

Information on impairment tests of intangible assets with indefinite useful lives

Since goodwill and other intangible assets with indefinite useful lives are not amortized, these are subjected to an impairment test if there are indications of impairment, or at least once a year.

In 2014, goodwill was not impaired. The assumptions used in the goodwill impairment test are presented in Note [7].

For intangible assets with indefinite useful lives there was an impairment loss in 2014 in the amount of € 84.8 million (2013: € 1.3 million). An impairment of € 37.5 million related to the asset from the licensing agreement with Symphogen A/S, Denmark. The discontinuation of the Phase III development program for tecemotide, an investigational antigen-specific cancer immunotherapy, led to an impairment loss of the relevant intangible asset amounting to € 18.5 million. A further amount of € 14.0 million was due to the discontinuation of the development activities for ceralifimod (ONO-4641) for the treatment of multiple sclerosis. All items were disclosed in the income statement of Serono as impairment losses under other operating expenses.

In fiscal 2014, software impairments of € 5.1 million (2013: € 4.3 million) were recognized in the income statement under other operating expenses.

In 2014, no intangible assets were pledged as security for liabilities.

(42) PROPERTY, PLANT AND EQUIPMENT

€ million	Land, land rights and buildings, including buildings on third-party land	Plant and machinery	Other facilities, operating and office equipment	Construction in progress and advance payments to vendors and contractors	Total
Cost at January 1, 2013	**2,651.5**	**3,044.4**	**906.7**	**429.1**	**7,031.7**
Changes in the scope of consolidation	–	–	–	–	–
Additions	8.0	15.1	25.0	360.4	408.5
Disposals	– 376.2	– 63.5	– 46.6	– 10.3	– 496.6
Transfers	186.9	253.0	63.0	– 512.1	– 9.2
Classification as held for sale or transfer to a disposal group	– 0.8	– 4.4	– 2.7	–	– 7.9
Currency translation	– 56.9	– 43.8	– 20.4	– 3.6	– 124.7
December 31, 2013	**2,412.5**	**3,200.8**	**925.0**	**263.5**	**6,801.8**
Accumulated depreciation and impairment losses January 1, 2013	**– 1,051.6**	**– 2,164.6**	**– 685.1**	**–176.8**	**– 4,078.1**
Changes in the scope of consolidation	–	–	–	–	–
Depreciation	– 108.9	– 187.8	– 85.2	–	– 381.9
Impairment losses	– 29.5	– 11.0	– 0.8	– 0.4	– 41.7
Disposals	148.6	62.1	44.7	9.7	265.1
Transfers	– 54.2	– 108.4	– 0.4	166.6	3.6
Reversals of impairment losses	4.7	0.4	–	–	5.1
Classification as held for sale or transfer to a disposal group	0.4	1.8	1.9	–	4.1
Currency translation	20.7	33.0	15.5	–	69.2
December 31, 2013	**– 1,069.8**	**– 2,374.5**	**– 709.4**	**– 0.9**	**– 4,154.6**
Net carrying amount as of December 31, 2013	**1,342.7**	**826.3**	**215.6**	**262.6**	**2,647.2**
Cost at January 1, 2014	**2,412.5**	**3,200.8**	**925.0**	**263.5**	**6,801.8**
Changes in the scope of consolidation	89.8	58.9	33.5	3.6	185.8
Additions	20.5	23.9	30.9	410.9	486.2
Disposals	–14.3	– 49.2	– 46.8	– 2.9	–113.2
Transfers	69.6	132.9	58.4	– 253.2	7.7
Classification as held for sale or transfer to a disposal group	–	–	–	–	–
Currency translation	57.3	42.4	16.5	8.6	124.8
December 31, 2014	**2,635.4**	**3,409.7**	**1,017.5**	**430.5**	**7,493.1**
Accumulated depreciation and impairment losses January 1, 2014	**–1,069.8**	**– 2,374.5**	**– 709.4**	**– 0.9**	**– 4,154.6**
Changes in the scope of consolidation	–	–	–	–	–
Depreciation	–104.3	–189.8	– 90.4	–	– 384.5
Impairment losses	– 0.4	– 4.7	– 0.6	–	– 5.7
Disposals	10.7	46.1	44.9	0.1	101.8
Transfers	– 4.1	– 0.1	0.1	–	– 4.1
Reversals of impairment losses	0.1	0.4	0.2	–	0.7
Classification as held for sale or transfer to a disposal group	–	–	–	–	–
Currency translation	–19.0	– 25.6	–11.6	– 0.1	– 56.3
December 31, 2014	**–1,186.8**	**– 2,548.2**	**– 766.8**	**– 0.9**	**– 4,502.7**
Net carrying amount as of December 31, 2014	**1,448.6**	**861.5**	**250.7**	**429.6**	**2,990.4**

Changes in the scope of consolidation included the additions to property, plant and equipment from the acquisition of AZ Electronic Materials S.A., Luxembourg. A detailed presentation of the AZ acquisition can be found in Note [4].

Material additions to construction in progress are attributable to the expansion of global headquarters and the construction of two new energy stations at the Darmstadt site. Transfers relating to construction in progress mainly include a new liquid crystal mixing plant in Shanghai, China, which was completed and commissioned in the first quarter of 2014.

In fiscal 2014, impairment losses in the amount of € 5.7 million (2013: € 41.7 million) were recognized, of which a major part related to the Performance Materials division.

The total amount of property, plant and equipment used to secure financial liabilities was immaterial. Total government grants and subsidies in connection with investments in property, plant and equipment during the fiscal year amounted to €3.7 million (2013: €2.9 million).

Directly allocable borrowing costs on qualified assets in the amount of € 3.2 million (2013: € 0.4 million) were capitalized.

Property, plant and equipment also included assets that were leased. The total value of capitalized leased assets amounted to € 9.4 million (2013: € 9.3 million) and the corresponding obligations amounted to € 6.5 million (2013: € 7.7 million), (see Note [60]).

The carrying amounts of assets classified as finance leases were as follows:

€ million	Dec. 31, 2014	Dec. 31, 2013
Land and buildings	6.8	7.1
Vehicles	1.1	1.4
Other property, plant and equipment	1.5	0.8
	9.4	**9.3**

(43) NON-CURRENT FINANCIAL ASSETS

€ million	Dec. 31, 2014	Dec. 31, 2013
Investments	21.5	19.2
Investments in associates and other companies	57.9	34.3
Securities – Available-for-sale financial assets	1.3	3.8
Assets from derivatives (financial transactions)	–	4.7
Loans and other non-current financial assets	13.7	15.8
	94.4	**77.8**

Unconsolidated investments and the investments in associates and other companies were classified as “available-for-sale”. Thereof investments with a carrying amount of € 66.9 million (2013: € 52.3 million) were subsequently measured at cost since their market value could not be determined. The increase in investments in associates and other companies resulted mainly from the investment in InfraServ GmbH & Co. Wiesbaden KG, amounting to € 10.8 million, which were acquired in the course of the acquisition of AZ Electronic Materials S.A.

In 2014, impairment losses were recognized for unconsolidated investments and for other available-for-sale non-current financial assets in a total amount of € 4.4 million (2013: € 5.5 million). These were recorded in the income statement under other operating expenses.

Moreover, fair value adjustments of € 0.6 million (2013: € 1.2 million) were made on available-for-sale non-current financial assets and recognized in equity.

(44) FINANCIAL LIABILITIES

€ million *December 31, 2014*	< 1 year	1 – 5 years	> 5 years	Total
Loans and commercial paper	1,449.7	347.5	2,827.0	4,624.2
Liabilities to banks	67.4	200.0	–	267.4
Liabilities to related parties	501.4	–	–	501.4
Loans from third parties and other financial liabilities	18.6	61.6	4.3	84.5
Liabilities from derivatives (financial transactions)	36.0	19.9	97.1	153.0
Finance lease liabilities	2.8	3.7	–	6.5
	2,075.9	**632.7**	**2,928.4**	**5,637.0**

€ million *December 31, 2013*	< 1 year	1 – 5 years	> 5 years	Total
Loans and commercial paper	–	1,730.6	1,412.1	3,142.7
Liabilities to banks	42.2	–	–	42.2
Liabilities to related parties	361.9	–	–	361.9
Loans from third parties and other financial liabilities	24.0	56.0	4.0	84.0
Liabilities from derivatives (financial transactions)	10.0	14.1	35.3	59.4
Finance lease liabilities	2.3	5.0	0.4	7.7
	440.4	**1,805.7**	**1,451.8**	**3,697.9**

The liabilities of the Merck Group to banks were denominated in the following currencies:

in %	Dec. 31, 2014	Dec. 31, 2013
Euro	88.1	14.4
Turkish lira	4.5	6.9
Chinese renminbi	3.9	20.5
Argentine peso	2.4	39.2
Other currencies	1.1	19.0
	100.0	**100.0**

On the balance sheet date, the bank financing commitments vis-à-vis the Merck Group were as follows:

€ million	Financing commitments from banks	Utilization as of December 31, 2014	Interest	Maturity
Syndicated loan 2013	2,000.0	0.0	variable	2019
Bilateral credit agreement with banks	3.2	3.2	fixed / variable	2015
Bilateral credit agreement with banks	200.0	200.0	variable	2019
Various bank credit lines	11,544.8	64.2	fixed / variable	> 2 years
	13,748.0	**267.4**		

Merck has a € 2 billion multi-currency revolving credit facility, which was renewed in fiscal 2014 ("Syndicated Loan 2013"). The credit line was underwritten by an international group of banks and has a remaining term until March 2019, with an extension option of one year that Merck can exercise at its own discretion. This credit line had not been utilized as of the reporting date.

On September 22, 2014 Merck arranged credit lines amounting to US$ 15.6 billion with a banking consortium to secure the expected purchase price payment for the planned acquisition of the Sigma-Aldrich Corporation, USA (Sigma-Aldrich). As of the balance sheet date, the nominal volume of these credit lines was US$ 13.1 billion since a portion of the original nominal amount had already been replaced by other financial resources. A significant portion of the credit line is to be replaced by other capital market instruments by the time the acquisition closes. As of December 31, 2014, the described credit lines for financing the planned acquisition represent the vast majority of the existing bank lines amounting to € 11,544.8 million (2013: € 245.0 million).

Furthermore, Merck KGaA had access to a commercial paper program with a volume of € 2 billion to meet short-term capital requirements, which had not been utilized as of the reporting date.

In October 2014, Merck renewed its debt issuance program with a volume of € 15 billion. The debt issuance program forms a flexible contractual basis for issuing bonds.

In December 2014, Merck issued a subordinate hybrid bond with a two-tranche structure. This issuance is part of the financing of the proposed acquisition of Sigma-Aldrich. Both tranches have a maturity of 60 years. The first tranche with a nominal volume of € 1.0 billion pays a coupon of 2.625% and contains an early bond redemption option for Merck after 6.5 years. The second tranche, with a nominal volume of € 500 million and carrying coupon of 3.375%, includes an early redemption right for Merck after ten years. The two rating agencies Standard & Poor's and Moody's have given equity credit treatment to half of the issuance, thus making the issuance more favorable to Merck's credit rating than a classic bond issue. The bond is recognized in full as a financial liability in the balance sheet.

The following bonds issued by the Merck Group are currently outstanding:

Issuer	Nominal value	Maturity	Nominal interest rate	Issue price
Merck Financial Services GmbH, Germany	€ 1,350 million	March 2010 – March 2015	3.375 %	99.769
Merck Financial Services GmbH, Germany	€ 100 million	December 2009 – December 2015	3.615 %[1]	100.000
EMD Millipore Corporation, USA	€ 250 million	June 2006 – June 2016	5.875 %	99.611
Merck Financial Services GmbH, Germany	€ 60 million	November 2009 – November 2016	4.000 %	100.000
Merck Financial Services GmbH, Germany	€ 70 million	December 2009 – December 2019	4.250 %	97.788
Merck Financial Services GmbH, Germany	€ 1,350 million	March 2010 – March 2020	4.500 %	99.582
Merck KGaA, Germany	€ 1,000 million	December 2014 – December 2074[2]	2.625 %[2]	99.274
Merck KGaA, Germany	€ 500 million	December 2014 – December 2074[3]	3.375 %[3]	100.000

[1] Fixed by interest rate swaps.
[2] Merck has the right to prematurely repay this tranche of the hybrid bond issued in December 2014 for the first time in June 2021. The nominal interest rate is fixed until that date.
[3] Merck has the right to prematurely repay this tranche of the hybrid bond issued in December 2014 for the first time in December 2024. The nominal interest rate is fixed until that date.

The financial liabilities of the Merck Group are not secured by liens or similar forms of collateral. The loan agreements do not contain any financial covenants. The Merck Group's average borrowing cost as of the balance sheet date was 3.3 % (2013: 3.9 %).

Finance lease liabilities represented the present value of future payments arising from finance leases. This item primarily related to liabilities from finance leases for land and buildings.

Information on liabilities to related parties can be found in Note [66].

(45) TRADE ACCOUNTS PAYABLE

Trade accounts payable consisted of the following:

€ million	Dec. 31, 2014	Dec. 31, 2013
Liabilities to third parties	1,539.3	1,363.9
Liabilities to investments	0.1	0.2
	1,539.4	**1,364.1**

Trade accounts payable included accrued amounts of € 831.0 million (2013: € 778.0 million) for outstanding invoices and reductions in sales revenues.

(46) OTHER LIABILITIES

This item comprised:

€ million	current	non-current	Dec. 31, 2014	current	non-current	Dec. 31, 2013
Other financial liabilities	692.9	3.2	696.1	578.9	2.2	581.1
Liabilities from derivatives (operational)	29.0	6.4	35.4	1.5	0.6	2.1
Financial items	**721.9**	**9.6**	**731.5**	**580.4**	**2.8**	**583.2**
Accruals for personnel expenses	474.3	–	474.3	439.9	–	439.9
Deferred income	220.9	768.6	989.5	31.6	2.3	33.9
Advance payments received from customers	15.0	–	15.0	16.0	–	16.0
Liabilities from non-income related taxes	142.5	3.8	146.3	66.6	0.5	67.1
Non-financial items	**852.7**	**772.4**	**1,625.1**	**554.1**	**2.8**	**556.9**
	1,574.6	**782.0**	**2,356.6**	**1,134.5**	**5.6**	**1,140.1**

As of December 31, 2014, other financial liabilities included liabilities to related companies amounting to € 425.6 million (2013: € 373.1 million). These are mainly profit entitlements of E. Merck KG. Moreover, this item contained liabilities to investments amounting to € 3.1 million (2013: € 1.6 million), interest accruals of € 85.9 million (2013: € 83.3 million) as well as payroll liabilities of € 65.9 million (2013: € 63.6 million). The remaining amount of € 115.6 million (2013: € 59.5 million) recorded under other financial liabilities included among other things liabilities to insurers as well as contractually agreed payment obligations vis-à-vis other companies.

The increase in deferred income results from the collaboration agreement with Pfizer Inc., USA (see Note [5]).

(47) TAX LIABILITIES

Tax liabilities and provisions for tax liabilities resulted in total income tax liabilities of € 849.8 million as of December 31, 2014 (2013: € 465.1 million). The increase in tax liabilities is primarily due to higher income tax expenses in fiscal 2014 (see Note [32]) as well as provisions for potential tax obligations.

(48) PROVISIONS

Provisions developed as follows:

€ million	Litigation	Restructuring	Personnel	Environmental protection	Other	Total
January 1, 2014	**772.3**	**202.8**	**201.6**	**111.2**	**217.9**	**1,505.8**
Additions	125.1	44.1	130.8	9.9	167.3	477.2
Utilizations	–332.3	–104.2	–58.2	–12.1	–36.4	–543.2
Release	–260.3	–8.3	–24.4	–3.4	–25.1	–321.5
Interest portion	5.0	–	1.5	17.3	–	23.8
Currency translation	22.5	2.1	14.2	0.8	4.5	44.1
Changes in scope of consolidation/Other	60.8	–	1.3	–	–60.5	1.6
December 31, 2014	**393.1**	**136.5**	**266.8**	**123.7**	**267.7**	**1,187.8**
thereof current	140.5	65.5	120.0	11.3	224.4	561.7
thereof non-current	252.6	71.0	146.8	112.4	43.3	626.1

Litigation

As of December 31, 2014, the provisions for legal disputes amounted to € 393.1 million (2013: € 772.3 million). Many of the legal disputes and official proceedings currently pending relate to the Merck Serono division. The legal matters described below represent the most significant legal risks.

Product-related and patent disputes

The litigation risk with Israel Bio-Engineering Project Limited Partnership (IBEP) was eliminated as of the end of 2014. IBEP asserted claims for property rights and the payment of license fees for the past and the future. These legal disputes were connected to the financing of medical research projects in the early 1980s. Merck had taken appropriate accounting measures for these legal disputes in the past. As of year-end, Merck achieved a written settlement with IBEP according to which the legal disputes were settled in exchange for a sum of money. The provision recognized in previous years was partly used and the remainder was released.

Rebif®: Merck is involved in a patent dispute with Biogen Idec Inc., USA, (Biogen) in the United States. Biogen claims that the sale of Rebif® in the United States infringes on a Biogen patent. The disputed patent was granted to Biogen in 2009 in the United States. Subsequently, Biogen sued Merck and other pharmaceutical companies for infringement of this patent. Merck defended itself against all allegations and brought a countersuit claiming that the patent was invalid and not infringed on by Merck's actions. A Markman hearing was held in January 2012; a decision has not yet been announced. The parties are currently engaged in court-ordered mediation proceedings that have not yet officially ended. It is currently not clear when a first-instance decision will be made. Merck has taken appropriate accounting measures.

In the Performance Materials division, Merck is in negotiations with a competitor regarding potential patent infringements. Merck maintains that the competitor's patent infringement assertion is invalid owing to relevant prior art. The competitor has threatened to file patent infringement lawsuits. Merck has taken appropriate accounting measures for this issue.

Antitrust proceedings

Raptiva®: In December 2011, the Brazilian federal state of São Paulo sued Merck for damages because of alleged collusion between various pharmaceutical companies and an association of patients suffering from psoriasis and vitiligo. The collusion is alleged to have aimed at an increase in the sales of the involved companies' drugs to the detriment of patients and state coffers. Moreover, in connection with the product Raptiva®, patients have filed suit to receive compensatory damages. Merck has taken appropriate accounting measures for these legal disputes in the financial statements.

Drug pricing by the divested Generics Group

Paroxetine: In connection with the divested generics business, the Group is subject to antitrust investigations by the British Competition and Market Authority ("CMA") in the United Kingdom. In March 2013, the CMA informed Merck of the assumption that a settlement agreement entered into in 2002 between Generics (UK) Ltd. and several GlaxoSmithKline companies in connection with the antidepressant drug paroxetine violates British and European competition law. As the owner of Generics (UK) Ltd. at the time, Merck was allegedly involved in the settlement negotiations and is therefore liable. The investigations into Generics (UK) Ltd. started in 2011, without Merck being aware of this. It is considered probable that the CMA will impose a fine on Merck. Merck has recognized appropriate provisions in this connection.

Foreign exchange transfer restrictions

In one jurisdiction, Merck and other companies are subject to a government investigation regarding compliance with foreign exchange transfer restrictions. In this connection, the responsible authorities are investigating whether import prices led to impermissibly high foreign exchange transfers. Appropriate accounting measures have been taken for repayments and fines that are estimated to be probable due to the uncertain legal situation in the affected country. The provision recognized in 2013 under other provisions was reclassified to provisions for litigation.

In addition to provisions for the mentioned litigation, provisions existed as of the balance sheet date for various smaller pending legal disputes.

Restructuring

Provisions for restructuring mainly include commitments to employees in connection with restructuring projects and provisions for onerous contracts. These were recognized once detailed restructuring plans had been prepared and communicated.

In 2012, the "Fit for 2018" transformation and growth program was established. The aim of this program is to secure the competitiveness and the growth of the Merck Group over the long term. The non-current provisions of € 71.0 million (2013: € 74.7 million) recorded in this connection mainly consist of commitments to employees from partial and early retirement arrangements. In addition, current provisions of € 65.5 million (2013: € 128.1 million) reflect future commitments for severance payments and commitments arising from site closures. The payments made in 2014 in the amount of € 104.3 million are primarily due to severance payments to employees. Cash flows owing to provisions for restructuring are for the most part expected within a period of up to 2019.

Provisions for employee benefits / Share-based payment

Provisions for employee benefits include obligations from long-term variable compensation programs. Payments from the long-term variable compensation plan in place until 2011 were made for the last time in 2014. The long-term variable compensation plan valid since 2012 is aligned not only with target achievement based on key performance indicators, but above all with the long-term performance of Merck shares. Certain executives and employees could be eligible to receive a certain number of virtual shares – Merck Share Units (MSUs) – at the end of a three-year performance cycle. The number of MSUs that could be received depends on the total value defined for the respective person and the average closing price of Merck shares in Xetra® trading during the last 60 trading days prior to January 1 of the respective fiscal year (reference price). In order for members of top management to receive payment, they must personally own an investment in Merck shares dependent on their respective fixed annual compensation. When the three-year performance cycle ends, the number of MSUs to then be granted is determined based on the development of two key performance indicators (KPIs). These are on the one hand the performance of the Merck share price compared to the performance of the DAX® with a weighting of 70% and on the other hand the development of the EBITDA pre margin during the performance cycle as a proportion of a defined target value with a weighting of 30%. Depending on the development of the KPIs, at the end of the respective performance cycle the eligible participants are granted between 0% and 150% of the MSUs they could be eligible to receive.

Based on the MSUs granted, the eligible participants receive a cash payment at a specified point in time in the year after the three-year performance cycle has ended. The value of a granted MSU, which is relevant for payment, corresponds to the average closing price of Merck shares in Xetra trading during the last 60 trading days prior to January 1 after the performance cycle. The payment amount is limited to three times the reference price.

	2012 tranche	2013 tranche	2014 tranche
Performance cycle	Jan. 1, 2012 to Dec. 31, 2014	Jan. 1, 2013 to Dec. 31, 2015	Jan. 1, 2014 to Dec. 31, 2016
Term	3 years	3 years	3 years
Reference price of Merck shares in € (60-day average Merck share price prior to the start of the performance cycle)	69.57	100.11	122.84
DAX® value (60-day average of the DAX® prior to the start of the performance cycle)	5,883.35	7,350.64	9,065.08
Potential number of MSUs			
Potential number offered for the first time in 2012	538,235	–	–
Expired	30,685	–	–
Status on Dec. 31, 2012	507,550	–	–
Potential number offered for the first time in 2013	–	389,658	–
Expired	28,101	11,938	–
Status on Dec. 31, 2013	479,449	377,720	–
Potential number offered for the first time in 2014	–	–	355,164
Expired	42,215	38,179	21,247
MSUs granted to employees of the AZ Electronic Materials Group on May 2, 2014	–	–	22,865
Status on Dec. 31, 2014	437,234	339,541	356,782

The fair value of the obligations is recalculated on each balance sheet date using a Monte Carlo simulation based on the previously described KPIs. The expected volatilities are based on the implicit volatility of Merck shares and the DAX® in accordance with the remaining term of the LTIP tranche. The dividend payments incorporated into the valuation model orient towards medium-term dividend expectations. The value of the provision for the vesting period already completed was € 144.8 million as of December 31, 2014 (2013: € 63.5 million). The net expense for fiscal 2014 was € 81.3 million (2013: € 45.7 million).

The Executive Board members have their own Long-Term Incentive Plan, the conditions of which largely correspond to the Long-Term Incentive Plan described here. A description of the plan for the Executive Board can be found in the compensation report, which is part of the Statement on Corporate Governance.

Provisions for employee benefits also include obligations for the partial retirement program and other severance pay that were not set up in connection with the “Fit for 2018” transformation and growth program as well as obligations in connection with long-term working hour accounts and anniversary bonuses.

With respect to provisions for defined-benefit pensions and other post-employment benefits, see Note [49].

Environmental protection

Provisions for environmental protection mainly existed in Germany and the United States and were set up particularly for obligations from soil remediation and groundwater protection in connection with the discontinued crop protection business.

Other provisions

Other provisions mainly include provisions for purchase commitments, subsequent contract costs stemming from discontinued research projects, other guarantees, and provisions for uncertain commitments from contributions, duties and fees.

In 2014, the clinical development program for tecemotide, an investigational antigen-specific cancer immunotherapy for the treatment of non-small cell lung cancer, and the development of plovamer acetate, an active ingredient for the treatment of multiple sclerosis, terminated. In addition, the license rights to the active ingredient ceraliflimod were returned to Ono Pharmaceutical Co., Ltd., Japan, since the compound does not meet the criteria for further investment. Furthermore, Merck Serono decided to return the rights to the compound Sym004 to Symphogen A/S Denmark.

Provisions for subsequent costs that are likely to be incurred for the aforementioned and other discontinued research projects were recognized during the reporting period.

(49) PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

Depending on the legal, economic and fiscal circumstances prevailing in each country, different retirement benefit systems are provided for the employees of the Merck Group. Generally these systems are based on the years of service and salaries of the employees. Pension obligations of the Merck Group include both defined benefit and defined contribution plans and comprise both obligations from current pensions and accrued benefits for pensions payable in the future. In the Merck Group, defined benefit plans are funded and unfunded. Provisions also contain other post-employment benefits, such as accrued future health care costs for retirees in the United States.

In order to limit the risks of changing capital market conditions and demographic developments, for many years now Merck has been offering only defined contribution plans to newly hired employees.

The value recognized in the balance sheet for pensions and other post-employment benefits was derived as follows:

€ million	Dec. 31, 2014	Dec. 31, 2013
Present value of all defined benefit obligations	**3,812.7**	**2,736.8**
Fair value of the plan assets	–1,994.4	–1,840.2
Funded status	**1,818.3**	**896.6**
Effects of asset ceilings	–	10.5
Net defined benefit liability recognized in the balance sheet	**1,818.3**	**907.1**
Assets from defined benefit plans	1.8	3.8
Provisions for pensions and other post-employment benefits	**1,820.1**	**910.9**

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

	Germany		Switzerland		United Kingdom		Other countries	
in %	2014	2013	2014	2013	2014	2013	2014	2013
Discount rate	2.00	3.75	1.00	2.30	3.66	4.57	4.16	4.76
Future salary increases	2.52	2.51	1.96	1.73	2.10	3.89	4.53	4.03
Future pension increases	1.75	1.75	–	0.01	3.06	3.38	1.58	2.34
Future cost increases for health care benefits	–	–	–	–	–	–	5.10	5.10

These are average values weighted by the present value of the respective benefit obligation.

The defined benefit obligations of the Merck Group were based on the following types of benefits provided by the respective plan:

Present value of defined benefit obligations in € million	Germany Dec. 31, 2014	Other countries Dec. 31, 2014	Merck Group Dec. 31, 2014
Benefit based on final salary			
Annuity	2,542.3	462.5	3,004.8
Lump sum	–	98.0	98.0
Installments	1.2	–	1.2
Benefit not based on final salary			
Annuity	141.9	506.9	648.8
Lump sum	7.1	40.1	47.2
Medical plan	–	12.7	12.7
	2,692.5	**1,120.2**	**3,812.7**

The main benefit rules are as follows:

Merck KGaA and AB Allgemeine Pensions GmbH & Co. KG accounted for € 2,434.0 million (2013: € 1,670.6 million) of the defined benefit obligations and € 1,098.1 million (2013: € 1,052.6 and surviving dependent pensions. On the one hand, these obligations are based on benefit rules comprising benefit commitments dependent upon years of service and final salary from which newly hired employees have been excluded. On the other hand, the benefit rules applicable to employees newly hired since January 1, 2005 comprise a direct commitment in the form of a defined contribution pension plan. The benefit entitlement results from the cumulative total of annually determined pension components that are calculated on the basis of a defined benefit expense and an age-dependent annuity table. Statutory minimum funding obligations do not exist.

The Merck Serono pension fund in Switzerland accounted for € 402.6 million (2013: € 314.8 million) of the defined benefit obligations and € 363.5 million (2013: € 324.9 million) of the plan assets. Of this amount, € 10.5 million could not be recognized in 2013 due to effects of the asset ceiling according to IAS 19.64. These obligations are based on the granting of old-age, disability and surviving dependents benefits, which include the legally required benefits. Both employer and employee contributions are paid into the pension fund. Statutory minimum funding obligations exist.

The Merck Pension Scheme in the United Kingdom accounted for € 376.5 million (2013: € 320.1 million) of the defined benefit obligations and € 343.6 million (2013: € 293.1 million) of the plan assets. These obligations result from a benefit plan which is based on years of service and final salary and was closed to newly hired employees in 2006. The agreed benefits comprise old-age, disability and surviving dependent benefits. The employer and the employees make contributions to the plan. Statutory minimum funding obligations also exist in the United Kingdom.

In the reporting period, the following items were recognized in income:

€ million	2014	2013
Current service cost	83.5	82.7
Past service cost	– 2.5	2.6
Gains (–) or losses (+) on settlement	– 4.3	– 2.8
Other effects recognized in income	1.8	1.0
Interest expense	101.9	92.9
Interest income	– 67.2	– 52.1
Total amount recognized in income	**113.2**	**124.3**

With the exception of the net balance of interest expense on the defined benefit obligations and interest income from the plan assets, which is recorded under the financial result, the relevant expenses for defined benefit and defined contribution pension systems are allocated to the individual functional areas.

During the reporting period, the present value of the defined pension obligations changed as follows:

€ million	Funded benefit obligations	Benefit obligations funded by provisions	2014	Funded benefit obligations	Benefit obligations funded by provisions	2013
Present value of the defined benefit obligations on January 1	2,533.0	203.8	2,736.8	2,615.7	214.4	2,830.1
Currency translation differences	39.2	3.1	42.3	– 27.2	– 3.5	– 30.7
Current service cost	73.0	10.5	83.5	72.5	10.2	82.7
Past service cost	– 2.0	– 0.5	– 2.5	2.6	–	2.6
Gains (–) or losses (+) on settlement	– 3.2	–1.1	– 4.3	– 2.2	– 0.6	– 2.8
Interest expense	92.6	9.0	101.6	85.4	7.5	92.9
Actuarial gains (–) / losses (+)	849.2	73.8	923.0	– 49.5	–10.8	– 60.3
Contributions by plan participants	7.2	–	7.2	7.0	–	7.0
Pension payments	– 94.0	– 5.9	– 99.9	–178.5	– 7.3	–185.8
Changes in the scope of consolidation	8.3	17.4	25.7	–	–	–
Other effects recognized in income	–	0.1	0.1	– 0.3	– 0.5	– 0.8
Other changes	0.3	–1.1	– 0.8	7.5	– 5.6	1.9
Fair value of the plan assets on December 31	**3,503.6**	**309.1**	**3,812.7**	**2,533.0**	**203.8**	**2,736.8**

The following overview shows how the present value of all defined benefit obligations would have been influenced by changes to definitive actuarial assumptions. To determine the sensitivities, in principle each of the observed parameters was varied while keeping the measurement assumptions otherwise constant. Insofar as its development of social security is comparable to salary trends, the amounts for social security vary together with the salary trend.

€ million	Dec. 31, 2014
Present value of all defined benefit obligations if	
the discount rate is 50 basis points higher	3,463.7
the discount rate is 50 basis points lower	4,218.1
the expected rate of future salary increases is 50 basis points higher	3,947.7
the expected rate of future salary increases is 50 basis points lower	3,690.7
the expected rate of future pension increases is 50 basis points higher	4,028.0
the expected rate of future pension increases is 50 basis points lower	3,633.7
the medical cost trend rate is 50 basis points higher	3,813.7
the medical cost trend rate is 50 basis points lower	3,811.8

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

€ million	2014	2013
Fair value of the plan assets on January 1	1,840.2	1,633.6
Currency translation differences	33.7	– 22.1
Interest income from plan assets	67.2	52.1
Actuarial gains (+) / losses (–) arising from experience adjustments	50.7	49.0
Funding CTA Merck KGaA	–	200.0
Employer contributions	27.2	39.9
Employee contributions	7.2	7.0
Pension payments from plan assets	– 32.8	–119.1
Changes in the scope of consolidation	3.0	–
Plan administration costs paid from the plan assets recognized in income	–1.9	–1.7
Other effects recognized in income	0.2	– 0.1
Other changes	– 0.3	1.6
Fair value of the plan assets on December 31	**1,994.4**	**1,840.2**

The actual return on plan assets amounted to € 117.9 million in 2014 (2013: income of € 101.1 million). Changes in the effects of the asset ceilings in accordance with IAS 19.64 were recognized in the amount of € 10.8 million as actuarial gains (2013: € 10.5 million in actuarial losses) and € 0.3 million as interest expenses (2013: € 0.0 million). The effects of the asset ceilings as of the balance sheet date amounted to € 0.0 million (2013: € 10.5 million).

The development of cumulative actuarial gains (+) and losses (–) was as follows:

€ million	2014	2013
Cumulative actuarial gains (+) / losses (–) recognized in equity on January 1	–694.8	–795.6
Currency translation differences	–12.1	2.0
Remeasurements of defined benefit obligations		
Actuarial gains (+) / losses (–) arising from changes in demographic assumptions	19.1	–1.1
Actuarial gains (+) / losses (–) arising from changes in financial assumptions	–915.2	88.6
Actuarial gains (+) / losses (–) arising from experience adjustments	–26.9	–27.2
Remeasurements of plan assets		
Actuarial gains (+) / losses (–) arising from experience adjustments	50.7	49.0
Effects of the asset ceilings		
Actuarial gains (+) / losses (–)	10.8	–10.5
Reclassification within retained earnings	–	–
Cumulative actuarial gains (+) / losses (–) recognized in equity on December 31	**–1,568.4**	**–694.8**

Plan assets for funded defined benefit obligations primarily comprised fixed-income securities, stocks, and investment funds. They did not include financial instruments issued by Merck Group companies or real estate used by Group companies.

The plan assets serve exclusively to meet the defined benefit obligations. Covering the benefit obligations with financial assets represents a means of providing for future cash outflows, which occur in some countries (e.g. Switzerland and the United Kingdom) on the basis of legal requirements and in other countries (e.g. Germany) on a voluntary basis.

The ratio of the fair value of the plan assets to the present value of the defined benefit obligations is referred to as the degree of pension plan funding. If the benefit obligations exceed the plan assets, this represents underfunding of the pension fund.

It should be noted, however, that both the benefit obligations as well as the plan assets fluctuate over time. This could lead to an increase in underfunding. Depending on the statutory regulations, it could become necessary in some countries for the Merck Group to reduce underfunding through additions of liquid assets. The reasons for such fluctuations could include changes in market interest rates and thus the discount rate as well as adjustments to other actuarial assumptions (e.g. life expectancy, inflation rates).

In order to minimize such fluctuations, in managing its plan assets, the Merck Group also pays attention to potential fluctuations in liabilities. In the ideal case, assets and liabilities develop in opposite directions when exposed to exogenous factors, creating a natural defense against these factors. In order to achieve this effect, the corresponding use of financial instruments is considered in respect of individual pension plans.

The fair value of the plan assets can be allocated to the following categories:

	Dec. 31, 2014			Dec. 31, 2013		
€ million	Quoted market price in an active market	No quoted market price in an active market	Total	Quoted market price in an active market	No quoted market price in an active market	Total
Cash and cash equivalents	167.0	–	167.0	522.8	0.1	522.9
Equity instruments	544.9	–	544.9	433.8	0.9	434.7
Debt instruments	662.5	–	662.5	589.2	0.5	589.7
Direct investments in real estate	–	84.7	84.7	–	79.1	79.1
Investment funds	371.3	–	371.3	136.7	–	136.7
Insurance contracts	–	74.9	74.9	–	71.4	71.4
Other	88.2	0.9	89.1	5.7	–	5.7
Fair value of the plan assets	1,833.9	160.5	1,994.4	1,688.2	152.0	1,840.2

Employer contributions to plan assets and direct payments to beneficiaries will probably amount to around € 93.3 million in 2015. The weighted duration amounted to 20 years.

The cost of ongoing contributions for defined contribution plans that are financed exclusively by external funds and for which the companies of the Merck Group are only obliged to pay the contributions amounted to € 38.7 million (2013: € 19.3 million). In addition, employer contributions amounting to € 57.2 million (2013: € 55.5 million) were transferred to the German statutory pension insurance system and € 28.5 million (2013: € 29.7 million) to statutory pension insurance systems abroad.

(50) EQUITY

Equity capital

The total capital of the company consists of the share capital composed of shares and the equity interest held by the general partner E. Merck KG. As of the balance sheet date, the company's share capital amounting to € 168.0 million was divided into 129,242,251 no-par value bearer shares plus one registered share and is disclosed as subscribed capital. The number of shares doubled compared to the previous year, after the Annual General Meeting of Merck KGaA resolved a 1:2 stock split, which was implemented as of June 30, 2014.

The amount resulting from the issue of shares by Merck KGaA exceeding the nominal amount was recognized in the capital reserves. The equity interest held by the general partner amounted to € 397.2 million.

E. Merck KG's share of net profit

E. Merck KG and Merck KGaA engage in reciprocal net profit transfers. This makes it possible for E. Merck KG, the general partner of Merck KGaA, and the shareholders to participate in the net profit/loss of Merck KGaA in accordance with the ratio of the general partner's equity interest and the share capital (70.274 % or 29.726 % of the total capital).

The allocation of net profit/loss is based on the net income of E. Merck KG determined in accordance with the provisions of the German Commercial Code as well as the income/loss from ordinary activities and the extraordinary result of Merck KGaA. These results are adjusted for trade tax and create the basis for the allocation of net profit/loss.

The reciprocal net profit/loss transfer between E. Merck KG and Merck KGaA as stipulated by the Articles of Association was as follows:

€ million		2014		2013	
		E. Merck KG	Merck KGaA	E. Merck KG	Merck KGaA
Result of E. Merck KG		–17.9	–	–9.2	–
Result of ordinary activities of Merck KGaA		–	651.2	–	534.9
Extraordinary result		–	–	–	–
Adjustment for trade tax in accordance with Art. 27 (1) Articles of Association of Merck KGaA		–3.1	–	–	–
Trade tax in accordance with Art. 30 (1) Articles of Association of Merck KGaA		–	–54.2	–	–34.6
Basis for appropriation of profits	**(100%)**	**–21.0**	**597.0**	**–9.2**	**500.3**
Profit transfer to E. Merck KG Ratio of general partner's capital to total capital	(70.274%)	419.5	–419.5	351.6	–351.6
Profit transfer from E. Merck KG Ratio of share capital to total capital	(29.726%)	6.3	–6.3	2.7	–2.7
Trade tax		3.1	–	–	–
Corporation tax		–	–22.8	–	–12.0
Net income		**407.9**	**148.4**	**345.1**	**134.0**

The result of E. Merck KG on which the appropriation of profits adjusted for trade tax is based amounted to € –21.0 million (2013: € –9.2 million). This led to a result transfer to Merck KGaA of € –6.3 million (2013: € –2.7 million). Merck KGaA's result from ordinary activities adjusted for trade tax and extraordinary result, on which the appropriation of its profit is based, amounted to € 597.0 million (2013: € 500.3 million). Merck KGaA transferred € 419.5 million of its profit to E. Merck KG (2013: € 351.6 million). In addition, an expense from corporation tax charges amounting to € 22.8 million resulted (2013: expense of € 12.0 million). Corporation tax is only calculated on the income received by shareholders. Its equivalent is the income tax applicable to E. Merck KG. However, this must be paid by the partners of E. Merck KG directly and is not disclosed in the annual financial statements.

Appropriation of profits

The profit distribution to be resolved upon by shareholders also defines the amount of that portion of net profit/loss freely available to E. Merck KG. If the shareholders resolve to carry forward or to allocate to retained earnings a portion of Merck KGaA's net retained profit to which they are entitled, then E. Merck KG is obligated to allocate to the profit brought forward/retained earnings of Merck KGaA a comparable sum determined in accordance with the ratio of share capital to general partner's capital. This ensures that the retained earnings and the profit carried forward of Merck KGaA correspond to the ownership ratios of the shareholders on the one hand and E. Merck KG on the other hand. Consequently, for distributions to E. Merck KG, only the amount is available that results after netting the profit transfer of Merck KGaA with the amount either allocated or withdrawn by E. Merck KG from retained earnings/profit carried forward. This amount corresponds to the amount that is paid as a dividend to the shareholders, and reflects their pro rata shareholding in the company.

€ million	2014		2013	
	E. Merck KG	Merck KGaA	E. Merck KG	Merck KGaA
Net income	407.9	148.4	345.1	134.0
Profit carried forward fromprevious year	26.3	11.2	–	–
Withdrawal from revenue reserves	–	–	–	–
Transfer to revenue reserves	–	–	–	–
Retained earnings Merck KGaA		**159.6**		**134.0**
Withdrawal by E. Merck KG	– 362.3		– 318.8	
Dividend proposal		–129.2		–122.8
Profit carried forward	**71.9**	**30.4**	**26.3**	**11.2**

For 2013, a dividend of € 1.90 per share was distributed. The dividend proposal for fiscal 2014 will be € 1.00 per share, taking into account the doubling of the number of shares since June 2014. The proposed payment to shareholders amounts to € 129.2 million (2013: € 122.8 million). The amount withdrawn by E. Merck KG would amount to € 362.3 million (2013: € 318.8 million).

Changes in reserves

For 2014 the profit transfer to E. Merck KG including changes in reserves amounted to € 435.0 million. This consists of the profit transfer to E. Merck KG (€ – 419.5 million), the result transfer from E. Merck KG to Merck KGaA (€ – 6.3 million), the change in the profit carried forward of E. Merck KG (€ 45.6 million) as well as the profit transfer from Merck & Cie to E. Merck KG (€ – 54.8 million). Merck & Cie is a partnership under Swiss law that is controlled by Merck KGaA, but distributes its operating result directly to E. Merck KG. This distribution is a payment to shareholders, which is why it is likewise presented under changes in equity.

Non-controlling interests

The disclosure of non-controlling interests was based on the stated equity of the subsidiaries concerned after any adjustment required to ensure compliance with the accounting policies of the Merck Group, as well as pro rata consolidation entries.

The net equity attributable to non-controlling interests mainly related to the minority interests in the publicly traded companies Merck Ltd., India, and P.T. Merck Tbk, Indonesia, as well as Merck Ltd. Thailand, and Merck (Pvt.) Ltd., Pakistan.

For an interim period, non-controlling interests of € 161.9 million existed in the course of the acquisition of AZ Electronic Materials S.A. The acquisition of these interests after May 2, 2014 was recognized in equity as a transaction without a change of control. This lowered retained earnings by € 189.4 million, corresponding to the difference between the purchase price of € 351.3 million paid for the remaining shares and the disposal of non-controlling interests in the amount of € 161.9 million.

SEGMENT REPORTING

(51) INFORMATION BY DIVISION / COUNTRY AND REGION

INFORMATION BY DIVISION

€ million	Merck Serono[1]		Consumer Health[1]	
	2014	2013	2014	2013
Sales	5,783.3	5,688.4	766.1	742.1
Royalty, license and commission income	191.7	372.0	2.7	2.9
Total revenues	**5,975.0**	**6,060.4**	**768.8**	**745.0**
Cost of sales[2]	–1,119.7	–1,024.4	– 250.7	– 243.0
(of which: amortization of intangible assets)[2]	*(–)*	*(–)*	*(–)*	*(–)*
Gross profit[2]	**4,855.3**	**5,036.0**	**518.1**	**502.0**
Marketing and selling expenses[2]	–1,780.2	–1,813.6	– 303.1	– 287.2
(of which: amortization of intangible assets)[2]	*(– 552.8)*	*(– 596.7)*	*(– 2.7)*	*(– 2.4)*
Royalty, license and commission expenses	– 518.3	– 547.3	– 2.6	– 2.4
Administration expenses	– 219.7	– 202.5	– 27.2	– 26.9
Research and development costs[2]	–1,343.7	–1,178.1	– 22.3	– 21.8
(of which: amortization of intangible assets)[2]	*(–1.0)*	*(–)*	*(–)*	*(–)*
Other operating expenses and income	– 36.9	– 501.4	–13.0	–1.5
Operating result (EBIT)	**956.5**	**793.1**	**149.9**	**162.1**
Depreciation and amortization	739.2	797.4	10.0	8.6
Impairment losses	90.3	196.4	0.5	0.3
Reversals of impairment losses	–	– 0.3	–	–
EBITDA	**1,786.0**	**1,786.6**	**160.4**	**171.0**
One-time items	44.9	68.5	9.0	1.4
EBITDA pre one-time items (segment result)	**1,830.9**	**1,855.1**	**169.4**	**172.4**
EBITDA margin pre one-time items (in % of sales)	31.7	32.6	22.1	23.2
Net operating assets	5,623.6	6,811.9	417.4	414.3
Segment liabilities	– 2,394.4	–1,358.0	–113.5	– 74.5
Investments in property, plant and equipment[3]	215.0	151.3	10.2	3.7
Investments in intangible assets[3]	111.5	80.6	2.6	0.4
Net cash flows from operating activities	2,120.3	1,739.8	167.0	146.2
Business free cash flow	1,577.2	1,787.1	124.0	172.5

[1] Previous year's figures have been adjusted, see Note "Information on Segment Reporting".
[2] The disclosure of amortization of intangible assets (excluding software) has been changed. See Note "Accounting and measurement principles".
[3] According to the consolidated cash flow statement.

Performance Materials		Merck Millipore		Corporate and Other		Group	
2014	2013	2014	2013	2014	2013	2014	2013
2,059.6	1,642.1	2,682.5	2,627.5	–	–	11,291.5	10,700.1
0.9	2.3	14.0	17.8	–	–	209.3	395.0
2,060.5	**1,644.4**	**2,696.5**	**2,645.3**	**–**	**–**	**11,500.8**	**11,095.1**
–983.2	–617.1	–1,168.7	–1,152.3	–4.1	–4.9	–3,526.4	–3,041.7
(–46.4)	*(–1.2)*	*(–47.6)*	*(–48.0)*	*(–)*	*(–)*	*(–94.0)*	*(–49.2)*
1,077.3	**1,027.3**	**1,527.8**	**1,493.0**	**–4.1**	**–4.9**	**7,974.4**	**8,053.4**
–177.8	–151.6	–844.1	–835.2	0.3	–1.0	–3,104.9	–3,088.5
(–11.7)	*(–11.1)*	*(–151.8)*	*(–151.9)*	*(–)*	*(–)*	*(–719.0)*	*(–762.0)*
–1.1	–1.3	–15.6	–16.1	0.1	0.1	–537.5	–567.0
–56.1	–27.8	–110.4	–99.2	–195.2	–206.0	–608.6	–562.4
–170.6	–145.4	–162.6	–159.8	–4.5	–1.6	–1,703.7	–1,506.6
(–2.8)	*(–2.3)*	*(–)*	*(–)*	*(–)*	*(–)*	*(–3.8)*	*(–2.3)*
–60.2	–47.9	–105.9	–120.7	–41.7	–46.6	–257.7	–718.1
611.5	**653.3**	**289.2**	**262.0**	**–245.1**	**–259.7**	**1,762.0**	**1,610.8**
190.0	107.7	308.1	309.2	14.3	15.0	1,261.6	1,237.9
2.7	9.3	1.6	18.8	5.1	0.8	100.2	225.6
–0.6	–4.5	–	–0.2	–0.3	–0.1	–0.9	–5.1
803.6	**765.8**	**598.9**	**589.8**	**–226.0**	**–244.0**	**3,122.9**	**3,069.2**
91.2	13.9	59.7	53.0	60.0	47.3	264.8	184.1
894.8	**779.7**	**658.6**	**642.8**	**–166.0**	**–196.7**	**3,387.7**	**3,253.3**
43.4	47.5	24.6	24.5	–	–	30.0	30.4
3,348.6	1,044.7	6,196.3	5,987.1	126.1	36.0	15,712.0	14,294.0
–355.4	–155.9	–434.6	–391.9	–56.5	–64.8	–3,354.4	–2,045.1
91.5	66.5	130.6	112.6	33.6	72.9	480.9	407.0
7.5	6.7	6.5	10.3	15.2	11.6	143.3	109.6
900.4	828.4	580.0	557.5	–1,062.2	–1,046.4	2,705.5	2,225.5
699.6	787.8	419.0	493.8	–214.7	–281.2	2,605.1	2,960.0

INFORMATION BY COUNTRY AND REGION

€ million	Europe		thereof Germany		thereof France		thereof Switzerland	
	2014	2013	2014	2013	2014	2013	2014	2013
Sales by customer location	4,014.6	3,984.6	845.2	825.4	648.3	677.0	149.3	159.0
Sales by company location	4,520.1	4,457.5	1,592.0	1,570.8	779.1	790.8	182.5	188.6
Total revenues	4,674.1	4,686.6	1,618.0	1,596.8	840.1	812.5	247.5	364.5
Intangible assets	7,966.3	7,572.4	448.9	398.0	269.2	278.0	4,151.4	4,692.3
Property, plant and equipment	2,163.1	2,075.2	1,032.8	997.5	205.4	183.6	498.2	508.0
Research and development costs[1]	–1,550.7	–1,359.7	–816.0	–851.3	–56.9	–56.4	–604.8	–411.4
Number of employees	20,537	20,013	11,191	10,868	2,943	2,946	1,347	1,232

[1] The disclosure of amortization of intangible assets (excluding software) has been changed. See Note "Accounting and measurement principles".

(52) INFORMATION ON SEGMENT REPORTING

Segmentation was performed in accordance with the organizational and reporting structure of the Merck Group that applied during 2014.

Within the Merck Serono division, Merck focuses on specialist therapeutic areas and markets innovative prescription drugs of chemical and biotechnological origin. The Consumer Health division comprises Merck's business with high-quality over-the-counter products for preventive health care and self-treatment of minor ailments. The Performance Materials division consists of the Liquid Crystals, Pigments & Cosmetics and Advanced Technologies business units as well as the businesses of the AZ Electronic Materials Group, which were added in 2014. The Merck Millipore division offers solutions to research and analytical laboratories in the pharmaceutical / biotechnology industry or in academic institutions, and customers manufacturing large- and small-molecule drugs. The fields of activity of the individual divisions are described in detail in the sections about the divisions in the Group management report.

Corporate and Other includes assets and liabilities as well as income and expenses that are largely allocable to Group functions and thus cannot be directly allocated to the reportable segments presented; it serves the reconciliation to the Group numbers. The cash flows attributable to the financial result and income taxes are also presented 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 also used for internal target agreements and individual incentive plans.

Transfer prices for intragroup sales are determined on an arm's-length basis.

The Emerging Markets region comprises Latin America and Asia with the exception of Japan. The Rest of World region comprises Japan, Africa and Australia / Oceania.

Neither in 2014 nor in 2013 did any single customer account for more than 10% of Group sales.

North America		thereof USA		Emerging Markets		Rest of World		Group	
2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
2,152.2	2,078.0	2,009.9	1,916.8	4,250.2	3,795.6	874.5	841.9	11,291.5	10,700.1
2,142.3	2,072.7	2,022.3	1,933.1	3,909.9	3,467.1	719.2	702.8	11,291.5	10,700.1
2,142.9	2,077.1	2,022.9	1,937.5	3,957.0	3,622.3	726.8	709.1	11,500.8	11,095.1
2,522.5	2,214.8	2,522.3	2,214.5	745.7	46.5	161.0	33.5	11,395.5	9,867.2
416.2	341.6	415.1	340.4	295.4	169.3	115.7	61.1	2,990.4	2,647.2
–90.4	–92.5	–88.7	–94.7	–47.2	–36.6	–15.4	–17.8	–1,703.7	–1,506.6
5,092	4,911	4,939	4,754	12,176	11,688	1,834	1,542	39,639	38,154

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	2014	2013
Total EBITDA pre one-time items of the operating businesses	**3,553.7**	**3,450.0**
Corporate and Other	–166.0	–196.7
EBITDA pre one-time items of the Merck Group	**3,387.7**	**3,253.3**
Depreciation and amortization / impairment losses / reversals of impairments	–1,360.9	–1,458.4
One-time items	–264.8	–184.1
Operating result (EBIT)	**1,762.0**	**1,610.8**
Financial result	–205.0	–222.2
Profit before income tax	**1,557.0**	**1,388.6**

EBITDA pre one-time items of all operating businesses totaled € 3,553.7 million (2013: € 3,450.0 million). Taking into account the expenses and income of € –166.0 million (2013: € –196.7 million) not allocable to the operating businesses which were reported under Corporate and Other, EBITDA pre one-time items of the Merck Group amounted to € 3,387.7 million (2013: € 3,253.3 million). This figure did not include depreciation, amortization, impairments and reversals of impairments or one-time items (excluding impairments and reversals of impairments). Consequently, the total operating result (EBIT) of the Merck Group amounted to € 1,762.0 million (2013: € 1,610.8 million).

One-time items comprised the following:

€ million	2014	2013
Integration costs / IT costs	– 87.2	– 49.0
Acquisition-related one-time items	– 85.0	–
Restructuring costs	– 83.9	–130.5
Gains / losses on the divestment of businesses	1.9	– 2.3
Other one-time items	–10.6	– 2.3
One-time items	**– 264.8**	**–184.1**
Impairment losses	– 9.8	– 207.2
Reversals of impairments	–	4.5
One-time items (total)	**– 274.6**	**– 386.8**

Of the acquisition-related one-time items of € 85.0 million (2013: € 0.0 million), € 60.5 million related to the step-up of the acquired inventories of AZ Electronic Materials S.A. (AZ).

Additionally, this figure included acquisition costs of € 24.5 million for the acquisition of AZ and the planned acquisition of the Sigma-Aldrich Corporation, USA.

Business free cash flow was determined as follows:

€ million	2014	2013
EBITDA pre one-time items	**3,387.7**	**3,253.3**
Less investments in property, plant and equipment, software as well as advance payments for intangible assets	– 527.5	– 446.2
Changes in inventories as reported in the balance sheet	–185.5	59.7
Changes in trade accounts receivable as reported in the balance sheet	– 214.2	93.2
Adjustment first-time consolidation of AZ Electronic Materials S.A.	144.6	–
Business free cash flow	**2,605.1**	**2,960.0**

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

€ million	Dec. 31, 2014	Dec. 31, 2013
Assets	26,010.1	20,818.6
Monetary assets (cash and cash equivalents, current financial assets, loans and securities)	– 5,563.1	– 3,539.3
Non-operating receivables, income tax receivables, deferred taxes and net defined benefit assets	–1,380.6	– 913.1
Assets held for sale	–	– 27.1
Operating assets (gross)	**19,066.4**	**16,339.1**
Trade accounts payable	–1,539.4	–1,364.1
Other operating liabilities	–1,815.0	– 681.0
Segment liabilities	**– 3,354.4**	**– 2,045.1**
Operating assets (net)	**15,712.0**	**14,294.0**

The operating assets (gross) of the Merck Group are determined by adjusting all assets totaling € 26,010.1 million (2013: € 20,818.6 million) for monetary assets totaling € 5,563.1 million (2013: € 3,539.3 million) as well as all other non-operating assets totaling € 1,380.6 million (2013: € 913.1 million). Furthermore, in 2013 assets held for sale of € 27.1 million were not included in operating assets. After deducting the reported segment liabilities which represented the operating liabilities totaling € 3,354.3 million (2013: € 2,045.1 million), the operating assets (net) of the Merck Group amounted to € 15,712.0 million (2013: € 14,294.0 million).

As of January 1, 2014, the two product groups Neurobion® (vitamin B-based analgesic) and Floratil® (a probiotic antidiarrheal) were transferred from the Merck Serono division to the Consumer Health division. This involved a transfer of goodwill in the amount of € 78.8 million, which had been allocated previously to the Merck Serono division. The transfer of the product groups resulted in the following adjustments of prior-year figures, taking into account the adjusted disclosure of amortization of intangible assets:

	Merck Serono			
€ million	2013 reported	Product group transfer adjustments	Disclosure change[1]	2013 adjusted
Sales	5,953.6	– 265.2	–	5,688.4
Royalty, license and commission income	372.2	– 0.2	–	372.0
Total revenues	**6,325.8**	**– 265.4**	**–**	**6,060.4**
Cost of sales[1]	–1,106.1	81.7	–	–1,024.4
(of which: amortization of intangible assets)[1]	*(–)*	*(–)*	*(–)*	*(–)*
Gross profit[1]	**5,219.7**	**–183.7**	**–**	**5,036.0**
Marketing and selling expenses[1]	–1,288.7	71.8	– 596.7	–1,813.6
(of which: amortization of intangible assets)[1]	*(–)*	*(–)*	*(– 596.7)*	*(– 596.7)*
Royalty, license and commission expenses	– 547.7	0.4	–	– 547.3
Administration expenses	– 211.3	8.8	–	– 202.5
Research and development costs[1]	–1,182.8	4.7	–	–1,178.1
(of which: amortization of intangible assets)[1]	*(–)*	*(–)*	*(–)*	*(–)*
Other operating expenses and income	– 499.4	– 2.0	–	– 501.4
Operating result (EBIT)	**893.0**	**– 99.9**	**–**	**793.1**
Depreciation and amortization	797.4	–	–	797.4
Impairment losses	196.4	–	–	196.4
Reversals of impairment losses	– 0.3	–	–	– 0.3
EBITDA	**1,886.5**	**– 99.9**	**–**	**1,786.6**
One-time items	68.5	–	–	68.5
EBITDA pre one-time items (Segment result)	**1,955.0**	**– 99.9**	**–**	**1,855.1**
EBITDA margin pre one-time items (% of sales)	32.8	– 0.2	–	32.6
Net operating assets	6,968.0	–156.1	–	6,811.9
Segment liabilities	–1,358.0	–	–	–1,358.0
Investments in property, plant and equipment[2]	151.3	–	–	151.3
Investments in intangible assets[2]	80.6	–	–	80.6
Net cash flows from operating activities	1,818.9	– 79.1	–	1,739.8
Business free cash flow	1,875.7	– 88.6	–	1,787.1

[1] The disclosure of amortization of intangible assets (excluding software) has been changed. See Note "Accounting and measurement principles".
[2] According to the consolidated cash flow statement.

€ million	Consumer Health			
	2013 reported	Product group transfer adjustments	Disclosure change[1]	2013 adjusted
Sales	476.9	265.2	–	742.1
Royalty, license and commission income	2.7	0.2	–	2.9
Total revenues	**479.6**	**265.4**	**–**	**745.0**
Cost of sales[1]	–161.3	–81.7	–	–243.0
(of which: amortization of intangible assets)[1]	*(–)*	*(–)*	*(–)*	*(–)*
Gross profit[1]	**318.3**	**183.7**	**–**	**502.0**
Marketing and selling expenses[1]	–213.0	–71.8	–2.4	–287.2
(of which: amortization of intangible assets)[1]	*(–)*	*(–)*	*(–2.4)*	*(–2.4)*
Royalty, license and commission expenses	–2.0	–0.4	–	–2.4
Administration expenses	–18.1	–8.8	–	–26.9
Research and development costs[1]	–17.1	–4.7	–	–21.8
(of which: amortization of intangible assets)[1]	*(–)*	*(–)*	*(–)*	*(–)*
Other operating expenses and income	–3.5	2.0	–	–1.5
Operating result (EBIT)	**62.2**	**99.9**	**–**	**162.1**
Depreciation and amortization	8.6	–	–	8.6
Impairment losses	0.3	–	–	0.3
Reversals of impairment losses	–	–	–	–
EBITDA	**71.1**	**99.9**	**–**	**171.0**
One-time items	1.4	–	–	1.4
EBITDA pre one-time items (Segment result)	**72.5**	**99.9**	**–**	**172.4**
EBITDA margin pre one-time items (% of sales)	15.2	8.0	–	23.2
Net operating assets	258.2	156.1	–	414.3
Segment liabilities	–74.5	–	–	–74.5
Investments in property, plant and equipment[2]	3.7	–	–	3.7
Investments in intangible assets[2]	0.4	–	–	0.4
Net cash flows from operating activities	67.1	79.1	–	146.2
Business free cash flow	83.9	88.6	–	172.5

[1] The disclosure of amortization of intangible assets (excluding software) has been changed. See Note “Accounting and measurement principles”.
[2] According to the consolidated cash flow statement.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement has been prepared in accordance with IAS 7 "Statement of Cash Flows". It presents the changes in cash and cash equivalents as a result of cash inflows and outflows in the year under review. Further information on cash flows can be found in the explanation of cash and cash equivalents (see Note [35]). The amount of undrawn borrowing facilities that could be tapped for future operating activities and to meet obligations is disclosed in Note [44].

The cash flows reported by Group companies in non-functional currencies are translated at average exchange rates. Cash and cash equivalents are translated at the closing rates. The impact of foreign exchange rate changes is disclosed separately under changes in cash and cash equivalents.

Within the cash flows from investing activities reclassifications were made with the aim of a clearer and more understandable presentation. The 2013 figures were correspondingly adjusted.

(53) NET CASH FLOWS FROM OPERATING ACTIVITIES

In 2014, tax payments totaled € 667.8 million (2013: € 491.4 million). Tax refunds totaled € 54.9 million (2013: €85.9 million). Interest paid totaled € 191.1 million (2013: € 248.3 million). Interest received amounted to € 89.4 million (2013: € 89.5 million). Within the scope of a Contractual Trust Arrangement in Germany, € 200.0 million was transferred to Merck Pensionstreuhand e.V., Darmstadt (trustee) in 2013. This led to a corresponding decline in pension provisions and to a decrease in cash flows from operating activities. No transfers were made in 2014.

The changes in provisions during the reporting period were affected by the written settlement reached with Israel Bio-Engineering Limited Partnership (IBEP). The changes in other assets and liabilities included the upfront payment in the amount of US$ 850 million (€ 678.3 million) paid in cash by Pfizer Inc., USA, after the agreement had been entered into (see Note [5]).

Net cash flows from operating activities broken down by the segments of the Merck Group are disclosed in Note [51].

(54) NET CASH FLOWS FROM INVESTING ACTIVITIES

A total of € 4,562.6 million was used for acquisitions and investments in financial assets (2013: € 990.3 million). Of this amount, € 1,419.3 million was attributable to the acquisition of AZ Electronic Materials S.A., Luxembourg. Net cash outflows from investments in current and non-current assets amounting to € 3,143.3 million (2013: € 975.2 million) mainly resulted from the purchase of current financial assets.

In 2014, cash inflows from disposals of other current financial assets amounted to € 3,508.6 (2013: € 372.1 million). In 2013, cash inflows of € 251.1 million were attributable to the sale of the Merck Serono site in Geneva, Switzerland.

OTHER DISCLOSURES

(55) DERIVATIVE FINANCIAL INSTRUMENTS

Merck uses derivative financial instruments (hereinafter “derivatives”) exclusively to hedge and reduce risks from currency and interest rate positions. Merck uses marketable forward exchange contracts, options and interest rate swaps as hedging instruments. Depending on the nature of the hedged item, changes in the fair values of derivatives are recorded in the income statement either in the operating result or in the financial result. The strategy to hedge interest rate and foreign exchange rate fluctuations arising from forecast transactions and transactions already recognized in the balance sheet is set by a Merck Group risk committee, which meets on a regular basis. Extensive guidelines regulate the use of derivatives. There is a ban on speculation. Derivative transactions are subject to continuous risk management procedures. Trading, settlement and control functions are strictly separated. Derivatives are only entered into with banks that have a good credit rating. Related default risks are continuously monitored.

The following derivatives were held as of the balance sheet date:

€ million	Nominal volume		Fair value	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Cash flow hedge	10,041.8	4,073.5	313.4	82.2
Interest	650.0	650.0	–99.9	–39.9
Currency	9,391.8	3,423.5	413.3	122.1
Fair value hedge	–	–	–	–
Interest	–	–	–	–
Currency	–	–	–	–
No hedge accounting	3,682.6	2,042.5	9.4	5.3
Interest	–	–	–	–
Currency	3,682.6	2,042.5	9.4	5.3
	13,724.4	**6,116.0**	**322.8**	**87.5**

The nominal volume corresponds to the total of all nominal values of currency hedges (translated at the closing rate into euros) as well as all the nominal values of interest rate hedges. The fair value results from the actuarial valuation of the derivatives on the basis of quoted prices or current market data as of the balance sheet date provided by a recognized information service and the application of a discount for own credit risk or counterparty credit risk. Any offsetting effects from hedged items are not taken into account in the derivatives’ fair value. The maturities of the derivatives (nominal volume) were as follows as of the balance sheet date:

€ million	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2014	Remaining maturity less than 1 year	Remaining maturity more than 1 year	Total Dec. 31, 2013
Foreign exchange contracts	11,942.6	433.9	12,376.5	3,763.2	1,244.9	5,008.1
Currency options	653.1	44.8	697.9	297.2	160.7	457.9
Interest rate swaps	100.0	550.0	650.0	–	650.0	650.0
	12,695.7	**1,028.7**	**13,724.4**	**4,060.4**	**2,055.6**	**6,116.0**

Currency hedging serves to economically protect the company from the foreign exchange risks of the following types of transaction:

→ Forecast transactions in non-functional currency, the expected probability of which within the next 36 months is very high,
→ Off-balance sheet firm purchase commitments of the next 36 months in non-functional currency,
→ Intragroup financing in non-functional currency as well as
→ Receivables and liabilities in non-functional currency

Exchange rate fluctuations of mainly the following currencies against the euro were hedged:

Nominal volume € million	Dec. 31, 2014	Dec. 31, 2013
USD	10,233.5	3,219.9
JPY	920.8	465.2
CHF	431.2	603.4
GBP	383.6	347.3
TWD	255.5	215.3

Forecast transactions and firm purchase commitments in non-functional currency are hedged using forward exchange transactions and currency options which are due within the next 36 months. Overall, forecast transactions and firm purchase commitments in non-functional currency were hedged in the amount of € 9,044.6 million (2013: € 1,318.2 million). One of the major components is the hedge entered into in 2014 in relation to the expected U.S. dollar-denominated purchase price payment for the proposed acquisition of the Sigma-Aldrich Corporation, USA.

All hedging transactions for forecast transactions and firm purchase commitments in non-functional currency represent cash flow hedges.

Intragroup financing as well as receivables and payables in non-functional currency are hedged exclusively and fully using forward exchange contracts. Overall, balance sheet items amounting to € 4,029.8 million (2013: € 4,147.9 million) were hedged. In this context, the hedging transactions are largely purely economic hedges for which hedge accounting is not applied.

Interest hedges serve to economically protect the company from the interest rate risks from the forecast and highly probable refinancing of a bond maturing in 2015 as well as from an existing variable interest private placement.

The planned refinancing was hedged to fix the interest rate level using forward started payer interest rate swaps with a nominal volume of € 550.0 million and interest payments from 2015 to 2022. The existing variable interest private placement was hedged using a payer interest rate swap with a nominal volume of € 100.0 million and interest payments until 2015. All interest hedging relationships represented cash flow hedges.

Overall, income of € 411.7 million (2013: € 125.5 million) from the fair value measurement of derivatives designated as cash flow hedges was recognized in equity in 2014. € 43.0 million was transferred from equity and recognized as income (2013: € 26.5 million recognized as income). In 2014, no ineffectiveness resulted from hedge accounting.

(56) MANAGEMENT OF FINANCIAL RISKS

Market fluctuations with respect to foreign exchange and interest rates represent significant profit and cash flow risks for Merck. Merck aggregates these Group-wide risks and steers them centrally also by using derivatives. Merck uses scenario analyses to estimate existing risks of foreign exchange and interest rate fluctuations. Merck is not subject to any material risk concentration from financial transactions. The Report on Risks and Opportunities included in the Group Management Report provides further information on the management of financial risks.

Foreign exchange risks

Owing to its international business focus, Merck is exposed to foreign exchange-related transaction risks within the scope of both ordinary business and financing activities. Different strategies are used to limit or eliminate these risks. Foreign exchange risks from recognized transactions are eliminated as far as possible through the use of forward exchange contracts. Foreign exchange risks arising from forecast transactions are analyzed regularly and reduced if necessary through forward exchange contracts or currency options by applying the hedge accounting rules.

The following table presents the net exposure of the Merck Group in relation to exchange rate fluctuations of the major currencies against the euro:

€ million	CHF	CNY	JPY	TWD	USD
Net exposure Dec. 31, 2014	–246.6	355.8	121.6	260.0	753.0
Net exposure Dec. 31, 2013	–233.0	251.4	107.9	169.0	690.4

Net exposure per currency consists of the following components:

- Balance sheet items in the respective currency, unless such currency corresponds to the functional currency of a company;
- forecast cash flows for the next twelve months in the respective currency; and
- derivatives used to hedge the abovementioned balance sheet items and forecast cash flows for the next twelve months.

The following table presents the effect of exchange rate fluctuations in the key currencies versus the euro on net income and Group equity:

€ million *Dec. 31, 2014*		CHF	CNY	JPY	TWD	USD
Exchange rate +10% (Appreciation vs. EUR)	Consolidated income statement	0.0	0.0	0.1	0.0	0.0
	Total equity	0.0	0.0	–14.2	–10.8	844.1
Exchange rate –10% (Depreciation vs. EUR)	Consolidated income statement	0.0	0.0	32.1	0.0	0.0
	Total equity	0.0	0.0	9.2	9.1	–681.7

€ million *Dec. 31, 2013*		CHF	CNY	JPY	TWD	USD
Exchange rate +10% (Appreciation vs. EUR)	Consolidated income statement	0.0	0.0	0.0	0.0	0.0
	Total equity	0.0	0.0	–26.3	–9.8	–94.4
Exchange rate –10% (Depreciation vs. EUR)	Consolidated income statement	0.0	0.0	0.0	0.0	0.0
	Total equity	0.0	0.0	19.0	6.7	69.8

In addition to the previously described transaction risks, the Merck Group is also exposed to currency translation risks since many Merck companies are located outside the eurozone. The financial statements of these companies are translated into euros. Exchange rate differences in the assets and liabilities of these companies resulting from currency translation are recognized directly in Group equity.

Interest rate risks

The Merck Group's exposure to interest rate changes comprises the following:

€ million	2014	2013
Short-term or variable interest rate monetary deposits	5,131.9	3,236.3
Short-term or variable interest rate monetary borrowings	– 2,169.0	– 403.3
Net interest rate exposure	**2,962.9**	**2,833.0**

The effects of a parallel shift in the yield curve by +100 or –100 basis points on the income statement as well as on equity relative to all variable interest rate balance sheet items, all available-for-sale securities as well as all derivatives with a hedging relationship are presented in the following table:

€ million	2014		2013	
Change in market interest rate	+100 basis points	–100 basis points	+100 basis points	–100 basis points
thereof in the consolidated income statement	21.3	–1.3	11.6	– 2.4
thereof recognized in equity	40.5	– 22.9	33.4	– 38.9

The scenario calculations assumed that the interest rate cannot fall below 0 %.

Share price risks

The shares in publicly listed companies amounting to € 1.3 million (2013: € 5.0 million) are generally exposed to a market value risk. A 10 % change in the value of the stock market would impact equity by € 0.1 million (2013: € 0.5 million). This change in value would be recognized in profit or loss at the time of disposal.

Liquidity risks

The liquidity risk, meaning the risk that Merck cannot meet its payment obligations resulting from financial liabilities, is limited by establishing the required financial flexibility and by effective cash management. Apart from cash and cash equivalents of € 5,077.9 million (2013 € 3,391.3 million), Merck had at its disposal a multi-currency revolving credit facility of € 2 billion with a term running until 2019 and one extension option of one year as well as bilateral credit facilities and various bank credit lines of € 11,748.0 million (2013: € 267.2 million), mainly intended for the expected purchase price payment for the proposed acquisition of the Sigma-Aldrich Corporation, USA. There were no indications that the availability of credit facilities already extended was restricted. Moreover, a commercial paper program with a volume of € 2 billion and a debt issuance program with a volume of € 15 billion were available. Information on bonds issued by the Merck Group can be found in Note [44].

Liquidity risks are monitored and reported to management on a regular basis. No liens or similar forms of collateral are provided for financial liabilities of the Merck Group. The loan agreements do not contain any financial covenants.

Trade payables amounting to € 1,539.4 million (2013: € 1,364.1 million) had a remaining term of less than one year. With respect to liabilities from operating derivatives amounting to € 35.4 million (2013: € 2.1 million), € 29.0 million (2013: € 1.5 million) was short-term. Out of other financial liabilities amounting to € 696.1 million (2013: € 581.1 million), € 692.9 million (2013: € 578.9 million) was due within one year.

The following tables present the contractual cash flows such as repayments and interest on financial liabilities and derivative financial instruments with a negative fair value:

€ million as of Dec. 31, 2014	Carrying amount	Cash flows < one year Interest	Cash flows < one year Repayment	Cash flows 1–5 years Interest	Cash flows 1–5 years Repayment	Cash flows > 5 years Interest	Cash flows > 5 years Repayment
Bonds and commercial paper	4,624.2	170.9	1,450.0	442.3	342.1	197.6	2,850.0
Liabilities to banks	267.4	5.1	67.4	2.8	200.0	–	–
Liabilities to related parties	501.4	1.6	501.4	–	–	–	–
Loans from third parties and other financial liabilities	84.5	5.8	18.6	11.8	61.6	–	4.3
Liabilities from derivatives (financial transactions)	153.0	2.5	36.0	63.7	17.3	40.7	–
Financing leasing liabilities	6.5	0.2	2.8	0.2	3.7	–	–
	5,637.0	**186.1**	**2,076.2**	**520.8**	**624.7**	**238.3**	**2,854.3**

€ million as of Dec. 31, 2013	Carrying amount	Cash flows < one year Interest	Cash flows < one year Repayment	Cash flows 1–5 years Interest	Cash flows 1–5 years Repayment	Cash flows > 5 years Interest	Cash flows > 5 years Repayment
Bonds and commercial paper	3,142.7	127.8	–	333.8	1,722.1	124.5	1,420.0
Liabilities to banks	42.2	4.7	42.2	–	–	–	–
Liabilities to related parties	361.9	0.2	361.9	–	–	–	–
Loans from third parties and other financial liabilities	84.0	6.0	24.0	11.1	56.0	–	4.0
Liabilities from derivatives (financial transactions)	59.4	2.4	10.0	27.6	9.5	14.7	–
Financing leasing liabilities	7.7	0.4	2.3	0.1	5.0	–	0.4
	3,697.9	**141.5**	**440.4**	**372.6**	**1,792.6**	**139.2**	**1,424.4**

Credit risks

Merck is only subject to a relatively low credit risk, meaning the unexpected loss of payment funds or income. On the one hand, financial contracts are only entered into with banks and industrial companies with good credit ratings and on the other hand, due to the broad-based business structure of the Merck Group, there is no particularly high concentration of credit risks with respect to either customers or individual countries. The credit risk from financial contracts is monitored daily on the basis of rating information as well as market information on credit default swap rates. In the case of derivative transactions, credit risk is taken into account in the fair value determination by means of a discount (so-called credit valuation adjustments and debit valuation adjustments).

The credit risk with customers is continuously monitored by analyzing the age structure of trade accounts receivable. Merck continuously reviews and monitors open positions vis-à-vis all trading partners in the affected countries and takes risk-mitigating measures and accounts for impairments as necessary. On the reporting date, the theoretically maximum default risk corresponded to the carrying amounts.

(57) OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

The following table presents the reconciliation of the balance sheet items to categories of financial instruments pursuant to the disclosures required by IFRS 7 and provides information on the measurement of fair value:

€ million	Carrying amount Dec. 31, 2014	Subsequent measurement according to IAS 39			Carrying amount according to IAS 17	Non-financial items
		Amortized cost	At cost	Fair value		
Assets						
Cash and cash equivalents	2,878.5	2,878.5	–	–	–	–
Current financial assets	2,199.4	24.6	–	2,174.8	–	–
Held for trading (non-derivatives)	–	–	–	–	–	–
Derivatives not in a hedging relationship	39.8	–	–	39.8	–	–
Held to maturity	21.7	21.7	–	–	–	–
Loans and receivables	2.9	2.9	–	–	–	–
Available-for-sale	2,135.0	–	–	2,135.0	–	–
Derivatives in a hedging relationship	–	–	–	–	–	–
Trade receivables	2,235.6	2,235.6	–	–	–	–
Loans and receivables	2,235.6	2,235.6	–	–	–	–
Current and non-current other assets	1,266.7	152.4	–	471.4	–	642.9
Derivatives not in a hedging relationship	0.7	–	–	0.7	–	–
Loans and receivables	152.4	152.4	–	–	–	–
Derivatives in a hedging relationship	470.7	–	–	470.7	–	–
Non-financial items	642.9	–	–	–	–	642.9
Non-current financial assets	94.4	13.7	66.9	13.8	–	–
Derivatives not in a hedging relationship	–	–	–	–	–	–
Held to maturity	–	–	–	–	–	–
Loans and receivables	13.7	13.7	–	–	–	–
Available-for-sale	80.7	–	66.9	13.8	–	–
Derivatives in a hedging relationship	–	–	–	–	–	–
Liabilities						
Current and non-current financial liabilities	5,637.0	5,477.5	–	153.0	6.5	–
Derivatives not in a hedging relationship	25.4	–	–	25.4	–	–
Other liabilities	5,477.5	5,477.5	–	–	–	–
Derivatives in a hedging relationship	127.6	–	–	127.6	–	–
Finance lease liabilities	6.5	–	–	–	6.5	–
Trade payables	1,539.4	1,539.4	–	–	–	–
Other liabilities	1,539.4	1,539.4	–	–	–	–
Other current and non-current liabilities	2,356.6	696.1	–	35.4	–	1,625.1
Derivatives not in a hedging relationship	5.7	–	–	5.7	–	–
Other liabilities	696.1	696.1	–	–	–	–
Derivatives in a hedging relationship	29.7	–	–	29.7	–	–
Non-financial items	1,625.1	–	–	–	–	1,625.1

	Subsequent measurement according to IAS 39						
Fair value, Dec. 31, 2014	Carrying amount Dec. 31, 2013	Amortized cost	At cost	Fair value	Carrying amount according to IAS 17	Non-financial items	Fair value Dec. 31, 2013
2,878.5	980.8	980.8	–	–	–	–	980.8
	2,410.5	80.7	–	2,329.8	–	–	
–	–	–	–	–	–	–	–
39.8	6.8	–	–	6.8	–	–	6.8
21.7	53.4	53.4	–	–	–	–	53.4
2.9	27.3	27.3	–	–	–	–	27.3
2,135.0	2,312.1	–	–	2,312.1	–	–	2,312.1
–	10.9	–	–	10.9	–	–	10.9
	2,021.4	2,021.4	–	–	–	–	
2,235.6	2,021.4	2,021.4	–	–	–	–	2,021.4
	466.2	115.4	–	126.6	–	224.2	
0.7	2.9	–	–	2.9	–	–	2.9
152.4	115.4	115.4	–	–	–	–	115.4
470.7	123.7	–	–	123.7	–	–	123.7
	224.2	–	–	–	–	224.2	
	77.8	15.8	52.3	9.7	–	–	
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
13.7	15.8	15.8	–	–	–	–	15.8
80.7	57.3	–	52.3	5.0	–	–	57.3
–	4.7	–	–	4.7	–	–	4.7

	3,697.9	3,630.8	–	59.4	7.7	–	
25.4	4.0	–	–	4.0	–	–	4.0
5,835.6	3,630.8	3,630.8	–	–	–	–	3,916.6
127.6	55.4	–	–	55.4	–	–	55.4
6.5	7.7	–	–	–	7.7	–	7.7
	1,364.1	1,364.1	–	–	–	–	
1,539.4	1,364.1	1,364.1	–	–	–	–	1,364.1
	1,140.1	581.1	–	2.1	–	556.9	
5.7	0.4	–	–	0.4	–	–	0.4
696.1	581.1	581.1	–	–	–	–	581.1
29.7	1.7	–	–	1.7	–	–	1.7
	556.9	–	–	–	–	556.9	

Net gains and losses on financial instruments mainly include measurement results from currency translation, fair value adjustments, impairments and reversals of impairments as well as the recognition of premiums and discounts. Dividends and interest are not recognized in the net gains and losses on financial instruments, except for dividends and interest in the category "held for trading". At Merck, the category "held for trading" only includes derivatives not in a hedging relationship.

The net gains and losses on financial instruments by category on the reporting date were as follows:

€ million *2014*	Interest	Net gains or losses			
		Impairments	Reversals of impairment	Fair value adjustments	Disposal gains/losses
Financial instrument of the category					
Held for trading	–	–	–	– 90.8	–
Held to maturity	1.4	–	–	–	–
Loans and receivables	18.2	– 41.9	41.8	–	–
Available-for-sale	10.0	– 4.4	–	–	0.2
Other liabilities	–141.4	–	–	–	–

€ million *2013*	Interest	Net gains or losses			
		Impairments	Reversals of impairment	Fair value adjustments	Disposal gains/losses
Financial instrument of the category					
Held for trading	–	–	–	131.7	–
Held to maturity	2.5	–	–	–	–
Loans and receivables	10.3	– 47.2	42.1	–	–
Available-for-sale	15.1	– 4.1	–	–	1.6
Other liabilities	–163.3	–	–	–	–

In 2014, foreign exchange gains of € 53.3 million resulting from receivables and payables in operating business, their economic hedging, as well as hedging of forecast transactions in operating business were recorded (2013: gains of € 26.0 million). Foreign exchange losses of € –13.0 million resulting from financial balance sheet items, their economic hedging as well as fair value fluctuations of option contracts to hedge forecast transactions were recorded (2013: losses of € – 4.3 million).

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.

Level 3 assets comprise investments in equity instruments classified as available-for-sale. These include interests in InfraServ GmbH & Co. Wiesbaden KG, Germany, which were acquired in the context of the acquisition of AZ Electronics Materials S.A. The fair values of these interests were determined using a discounted cash flow method where expected future cash flows from dividends are taken into account.

Counterparty credit risk is taken into consideration for all valuations. In the case of non-derivative financial instruments, such as other liabilities or interest-bearing securities, this is reflected using risk-adequate premiums on the discount rate, while discounts on market value (so-called credit valuation adjustments and debit valuation adjustments) are used for derivatives.

The fair value of available-for-sale investments in equity instruments with a carrying amount of € 66.9 million (2013: € 52.3 million) could not be reliably determined. They were measured at cost. There is no intention to sell these financial instruments.

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 *as of Dec. 31, 2014*	Assets	Liabilities
Fair value determined by official prices and quoted market values (Level 1)	**1,178.6**	**4,970.2**
thereof available-for-sale	1,178.6	–
thereof other liabilities	–	4,970.2
Fair value determined using inputs observable in the market (Level 2)	**1,470.1**	**1,053.8**
thereof available-for-sale	958.9	–
thereof derivatives with a hedging relationship	470.7	157.3
thereof derivatives without a hedging relationship	40.5	31.1
thereof other liabilities	–	865.4
Fair value determined using inputs unobservable in the market (Level 3)	**11.3**	**–**
thereof available-for-sale	11.3	–

€ million *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 with a hedging relationship	139.3	57.1
thereof derivatives without a hedging relationship	9.7	4.4
thereof other liabilities	–	502.3
Fair value determined using inputs unobservable in the market (Level 3)	**–**	**–**

The changes of financial assets allocated to Level 3 and measured at fair value were as follows:

€ million	2014	2013
Net book value as of January 1	**–**	**–**
Additions due to the acquisition of AZ Electronic Materials S.A.	10.8	–
Transfers into Level 3 out of Level 1/Level 2	–	–
Fair value changes		
Gains (+)/losses (–) recognized in profit or loss	–	–
Gains (+)/losses (–) recognized in other comprehensive income	0.5	–
Sales	–	–
Transfers out of Level 3 into Level 1/Level 2	–	–
Net book value as of December 31	**11.3**	**–**

Gains and losses from Level 3 assets are reported in other comprehensive income in the consolidated statement of comprehensive income under the item "fair value adjustments" related to available-for-sale financial assets. If the discount factor used for fair value determination was higher by one percentage point, other comprehensive income would decrease by € 2.1 million.

Balance sheet netting is not possible at Merck. From an economic perspective, netting is only possible with derivatives. This possibility results from the framework agreements on derivatives trading which Merck enters into with commercial banks. Merck does not offset financial assets and financial liabilities in its balance sheet.

The following table presents the potential netting volume of the reported derivative financial assets and liabilities:

€ million as of Dec. 31, 2014	Gross presentation	Netting	Net presentation	Potential netting volume: Due to master netting agreements	Potential netting volume: Due to financial collateral	Potential net amount
Derivative financial assets	511.2	–	511.2	70.5	–	440.7
Derivative financial liabilities	–188.4	–	–188.4	–70.5	–	–117.9

€ million as of Dec. 31, 2013	Gross presentation	Netting	Net presentation	Potential netting volume: Due to master netting agreements	Potential netting volume: Due to financial collateral	Potential net amount
Derivative financial assets	149.0	–	149.0	45.9	–	103.1
Derivative financial liabilities	–61.5	–	–61.5	–45.9	–	–15.6

(58) CAPITAL MANAGEMENT

The objective of capital management is to secure the financial flexibility in order to maintain long-term business operations and to realize strategic options. Maintaining a stable investment grade rating, ensuring liquidity, limiting financial risks as well as optimizing the costs of capital are the objectives of our financial policy and set important framework conditions for capital management. Traditionally, the capital market represents a major source of financing for Merck, for instance via bond issues. In addition, Merck has both a commercial paper program for short-term financing on the capital market as well as a multi-currency working capital credit facility of € 2 billion with a term running until 2019 and one extension option for one year.

The responsible committees decide on the capital structure of the balance sheet, the appropriation of net retained profit and the dividend level. In this context, net financial debt is one of the leading capital management indicators. It was as follows:

€ million	Dec. 31, 2014	Dec. 31, 2013	Change
Financial liabilities	5,637.0	3,697.9	1,939.1
less:			
Cash and cash equivalents	2,878.5	980.8	1,897.7
Current financial assets	2,199.4	2,410.5	– 211.1
Net financial debt	**559.1**	**306.6**	**252.5**

(59) CONTINGENT LIABILITIES

€ million	Dec. 31, 2014	thereof affiliates	Dec. 31, 2013	thereof affiliates
Guarantees	17.1	–	2.5	–
Warranties	0.5	–	0.9	–
Other contingent liabilities	**54.3**	**–**	**32.9**	**–**

Other contingent liabilities included, among other things, potential obligations from legal disputes, for which the probability of an outflow of resources did not suffice to recognize a provision as of the balance sheet date.

(60) OTHER FINANCIAL OBLIGATIONS

Other financial obligations comprised the following:

€ million	Dec. 31, 2014	thereof affiliates	Dec. 31, 2013	thereof affiliates
Obligation to purchase the entire share capital of Sigma-Aldrich Corporation	13,975.0	–	–	–
Obligation to purchase the entire share capital of AZ Electronic Materials S.A.	–	–	1,876.5	–
Obligations to acquire intangible assets	1,494.8	–	2,000.2	–
Obligations to acquire property, plant and equipment	55.3	–	44.7	–
Future operating lease payments	199.7	–	172.0	–
Long-term purchase commitments	138.4	–	151.5	–
Other financial obligations	30.8	–	29.0	–
	15,894.0	**–**	**4,273.9**	**–**

In connection with the offer to acquire Sigma-Aldrich Corporation, USA, which was announced by Merck on September 22, 2014, there is a contingent financial obligation in the amount of € 13,975.0 million (US$ 16,985.2 million; €/US$ exchange rate on December 31, 2014: 1.2154) to acquire the entire share capital of Sigma-Aldrich for a cash consideration.

If the merger agreement with Sigma-Aldrich is terminated, Merck will be obligated to pay Sigma-Aldrich a termination fee of € 768.8 million (US$ 934.4. million, €/US$ exchange rate on December 31, 2014: 1.2154).

Obligations to acquire intangible assets existed in particular within the scope of research and development collaborations. Here Merck has obligations to make milestone payments when its partner achieves certain objectives.

In the unlikely event that all contract partners achieve all milestones, Merck would be obligated to pay up to € 1,494.8 million (2013: € 2,000.2 million) for the acquisition of intangible assets.

Our expectations regarding the potential maturities of these obligations were as follows:

€ million	Dec. 31, 2014	Dec. 31, 2013
Obligations to acquire intangible assets		
within one year	61.2	56.8
in 1–5 years	390.2	508.4
more than 5 years	1,043.4	1,435.0
	1,494.8	**2,000.2**

Other financial obligations were recognized at nominal value.

The maturities of liabilities from lease agreements were as follows:

€ million Dec. 31, 2014	within 1 year	1–5 years	more than 5 years	Total
Present value of future payments from finance leases	2.8	3.7	–	6.5
Interest component of finance leases	0.2	0.2	–	0.4
Future finance lease payments	**3.0**	**3.9**	**–**	**6.9**
Future operating lease payments	**83.7**	**108.7**	**7.3**	**199.7**

€ million Dec. 31, 2013	within 1 year	1–5 years	more than 5 years	Total
Present value of future payments from finance leases	2.3	5.0	0.4	7.7
Interest component of finance leases	0.4	0.1	0.1	0.6
Future finance lease payments	**2.7**	**5.1**	**0.5**	**8.3**
Future operating lease payments	**64.9**	**103.0**	**4.1**	**172.0**

Operating lease agreements related mainly to customary leasing arrangements to lease operating and office equipment. The payments resulting from operating lease agreements amounted to € 91.8 million (2013: € 104.0 million) and were recorded as an expense in the reporting period.

(61) PERSONNEL EXPENSES/HEADCOUNT

Personnel expenses comprised the following:

€ million	2014	2013
Wages and salaries	2,630.9	2,611.8
Compulsory social security contributions and special financial assistance	376.6	368.0
Pension expenses	157.4	146.6
	3,164.9	**3,126.4**

As of December 31, 2014, the Merck Group had 39,639 employees (2013: 38,154). The average number of employees during the year was 38,930 (2013: 38,282).
The breakdown of personnel by function was as follows:

Average number of employees	2014	2013
Production	10,176	9,985
Logistics	2,207	1,779
Marketing and Sales	12,113	12,214
Administration	6,342	5,106
Research and Development	4,738	4,433
Infrastructure and Other	3,354	4,765
	38,930	**38,282**

In 2013 and 2014, Merck substantially increased transparency by assigning all positions to a standardized job profile. In this way, positions that were previously not assigned to specific functional areas were assigned according to function.

(62) MATERIAL COSTS

Material costs in 2014 amounted to € 1,516.8 million (2013: € 1,473.2 million) and were reported under cost of sales.

(63) AUDITORS' FEES

The costs of the auditors (KPMG) of the financial statements of the Merck Group consisted of the following:

€ million	2014		2013	
	Merck Group	thereof KPMG Germany	Merck Group	thereof KPMG Germany
Audits of financial statements	5.4	1.6	5.2	1.5
Other audit-related services	0.6	0.5	0.4	0.2
Tax consultancy services	0.6	0.3	0.8	0.7
Other services	0.3	0.2	0.4	0.3
	6.9	**2.6**	**6.8**	**2.7**

(64) CORPORATE GOVERNANCE

The Statement of Compliance in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz) was published in the corporate governance section of our website www.merckgroup.com/investors/corporate governance in March 2014 and thus made permanently available.

(65) COMPANIES OPTING FOR EXEMPTION UNDER SECTION 264 (3) HGB OR SECTION 264 HGB

The following companies, which have been consolidated in these financial statements, have opted for exemption:
Allergopharma GmbH & Co. KG, Reinbek
Allergopharma Verwaltungs GmbH, Darmstadt
Biochrom GmbH, Berlin
Chemische Fabrik Lehrte Dr. Andreas Kossel GmbH, Lehrte
Chemitra GmbH, Darmstadt
heipha Dr. Müller GmbH, Eppelheim
Litec-LLL GmbH, Greifswald
Merck Accounting Solutions & Services Europe GmbH, Darmstadt
Merck Chemicals GmbH, Schwalbach
Merck Consumer Health Holding GmbH, Darmstadt
Merck Export GmbH, Darmstadt
Merck Selbstmedikation GmbH, Darmstadt
Merck Serono GmbH, Darmstadt
Merck Versicherungsvermittlung GmbH, Darmstadt

(66) RELATED-PARTY DISCLOSURES

Related parties in respect of the Merck Group are E. Merck KG as well as Emanuel-Merck-Vermögens-KG and E. Merck Beteiligungen KG. In principle, direct or indirect subsidiaries of Merck KGaA, associates of the Merck Group, jointly controlled companies where the Merck Group is involved, as well as pension funds that are classified as funded defined benefit plans in accordance with IAS 19 are also related parties within the meaning of IAS 24. Members of the Executive Board and the Supervisory Board of Merck KGaA, the Executive Board and the Board of Partners of E. Merck KG as well as close members of their families are also related parties.

As of December 31, 2014, there were liabilities by Merck Financial Services GmbH, Merck KGaA, and Merck & Cie, Altdorf, Switzerland, to E. Merck KG in the amount of € 926.9 million (2013: € 734.7 million) as well as by Merck Financial Services GmbH to Merck Capital Asset Management, Malta, and Merck Capital Asset Management Holding, Malta, amounting to € 0.1 million (2013: € 0.2 million) and € 0.0 million (2013: € 0.1 million), respectively. In addition, as of December 31, 2014, Merck KGaA had receivables from E. Merck Beteiligungen KG in the amount of € 76.5 million (2013: € 32.5 million). The balances result 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 payables of € 501.4 million (2013: € 361.9 million) which were subject to standard market interest rates. Neither collateral nor guarantees existed for any of the balances either in favor or to the disadvantage of Merck.

From January to December 2014, Merck KGaA performed services for E. Merck KG with a value of € 1.2 million (2013: € 1.2 million), for Emanuel-Merck-Vermögens-KG with a value of € 0.3 million (2013: € 0.4 million) and for E. Merck Beteiligungen KG with a value of € 0.3 million (2013: € 0.3 million). During the same period, E. Merck KG performed services for Merck KGaA with a value of € 0.5 million (2013: € 0.5 million).

Business transactions with major subsidiaries were eliminated during consolidation. Information on pension funds that are classified as funded defined benefit plans in accordance with IAS 19 can be found under Note [49]. There were no further material transactions with these pension funds.

From January to December 2014, there were no transactions between companies of the Merck Group and associates, as was the case in 2013. As in the previous year, companies of the Merck Group had no receivables or liabilities vis-à-vis associates as of December 31, 2014.

There were no material transactions such as, for example, the provision of services or the granting of loans, between companies of the Merck Group and members of the Executive Board or the Supervisory Board of Merck KGaA, the Executive Board or the Board of Partners of E. Merck KG or members of their immediate families.

(67) EXECUTIVE BOARD AND SUPERVISORY BOARD COMPENSATION

The compensation of the Executive Board of Merck KGaA is paid by the general partner, E. Merck KG, and recorded as an expense in its income statement. For the period from January to December 2014 fixed salaries of € 5.3 million (2013: € 4.9 million), variable compensation of € 18.3 million (2013: € 17.6 million), and additional benefits of € 0.2 million (2013: € 0.2 million) were recorded for members of the Executive Board of Merck KGaA. Furthermore, additions to the provisions of E. Merck KG for the Long-Term Incentive Plan totaled € 12.7 million (2013: € 8.0 million), and additions to the pension provisions of E. Merck KG include current service costs of € 2.1 million (2013: € 2.5 million) for members of the Executive Board of Merck KGaA.

The compensation of the Supervisory Board amounting to € 882.1 thousand (2013: € 847.4 thousand) consisted of a fixed portion of € 823.6 thousand (2013: € 599.5 thousand), meeting attendance compensation of € 58.5 thousand (2013: € 45.7 thousand), as well as a variable portion of € 0.0 thousand (2013: € 202.2 thousand).

Further individualized information and details can be found in the Compensation Report on pages 147 et seq.

(68) INFORMATION ON PREPARATION AND APPROVAL

The Executive Board of Merck KGaA prepared the consolidated financial statements on February 18, 2015 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the responsibility to examine the consolidated financial statements and to declare whether it approves them.

(69) SUBSEQUENT EVENTS

Subsequent to the balance sheet date, no events of special importance occurred that could have a material impact on the financial position and results of operations of the Merck Group.

(70) LIST OF SHAREHOLDINGS

The shareholdings of Merck KGaA as of December 31, 2014 are presented in the following table.

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
I. Fully consolidated companies				
Germany				
Germany	Merck KGaA	Darmstadt	Parent company	
Germany	AB Allgemeine Pensions GmbH & Co. KG	Zossen	100.00	100.00
Germany	Allergopharma GmbH & Co. KG	Reinbek	100.00	
Germany	Allergopharma Verwaltungs GmbH	Darmstadt	100.00	100.00
Germany	AZ Electronic Materials (Germany) GmbH	Wiesbaden	100.00	
Germany	Biochrom GmbH	Berlin	100.00	
Germany	Chemische Fabrik Lehrte Dr. Andreas Kossel GmbH	Lehrte	100.00	100.00
Germany	Chemitra GmbH	Darmstadt	100.00	100.00
Germany	Emedia Export Company mbH	Gernsheim	100.00	
Germany	heipha Dr. Müller GmbH	Eppelheim	100.00	100.00
Germany	IHS - Intelligent Healthcare Solutions GmbH	Frankfurt / Main	100.00	
Germany	Litec-LLL GmbH	Greifswald	100.00	100.00
Germany	Merck 12. Allgemeine Beteiligungs-GmbH	Darmstadt	100.00	100.00
Germany	Merck 13. Allgemeine Beteiligungs-GmbH	Darmstadt	100.00	
Germany	Merck 15. Allgemeine Beteiligungs-GmbH	Darmstadt	100.00	
Germany	Merck Accounting Solutions & Services Europe GmbH	Darmstadt	100.00	100.00
Germany	Merck Chemicals GmbH	Schwalbach	100.00	
Germany	Merck China Chemicals Holding GmbH	Darmstadt	100.00	
Germany	Merck Consumer Health Holding GmbH	Darmstadt	100.00	100.00
Germany	Merck Export GmbH	Darmstadt	100.00	100.00
Germany	Merck Financial Services GmbH	Darmstadt	100.00	100.00
Germany	Merck Financial Trading GmbH	Gernsheim	100.00	100.00
Germany	Merck Holding GmbH	Gernsheim	100.00	100.00
Germany	Merck International GmbH	Darmstadt	100.00	100.00
Germany	Merck Internationale Beteiligungen GmbH	Darmstadt	100.00	
Germany	Merck Schuchardt OHG	Hohenbrunn	100.00	100.00
Germany	Merck Selbstmedikation GmbH	Darmstadt	100.00	
Germany	Merck Serono GmbH	Darmstadt	100.00	100.00
Germany	Merck Versicherungsvermittlung GmbH	Darmstadt	100.00	100.00
Germany	Merck Vierte Allgemeine Beteiligungsgesellschaft mbH	Gernsheim	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Other European countries				
Austria	Allergopharma Vertriebsgesellschaft m.b.H.	Vienna	100.00	
Austria	Merck Chemicals and Life Science GesmbH	Vienna	100.00	
Austria	Merck Gesellschaft mbH	Vienna	100.00	
Austria	Merck KGaA & Co. Werk Spittal	Spittal	100.00	99.00
Belgium	Merck Chemicals N.V./S.A.	Overijse	100.00	
Belgium	Merck Consumer Healthcare N.V.-S.A.	Overijse	100.00	
Belgium	Merck N.V.-S.A.	Overijse	100.00	
Bulgaria	Merck Bulgaria EAD	Sofia	100.00	
Croatia	Merck d.o.o.	Zagreb	100.00	
Czech Republic	Merck spol.s.r.o.	Prague	100.00	
Denmark	Merck A/S	Hellerup	100.00	
Denmark	Merck Life Science A/S	Hellerup	100.00	
Denmark	Survac ApS	Frederiksberg	100.00	100.00
Estonia	Merck Serono OÜ	Tallinn	100.00	
Finland	Merck OY	Espoo	100.00	
Finland	Millipore OY	Espoo	100.00	
France	AZ Electronic Materials France S.A.S.	Trosly-Breuil	100.00	
France	Laboratoire Médiflor S.A.S.	Lyon	100.00	
France	Merck Biodevelopment S.A.S.	Lyon	100.00	
France	Merck Chimie S.A.S.	Fontenay s/Bois	100.00	
France	Merck Médication Familiale S.A.S.	Lyon	100.00	
France	Merck S.A.	Lyon	99.83	
France	Merck Santé S.A.S.	Lyon	100.00	
France	Merck Serono S.A.S.	Lyon	100.00	
France	Millipore S.A.S.	Molsheim	100.00	
Greece	Merck A.E.	Maroussi, Athens	100.00	
Hungary	Merck Kft.	Budapest	100.00	
Ireland	Merck Millipore Ltd.	Carrigtwohill	100.00	
Ireland	Merck Serono (Ireland) Ltd.	Dublin	100.00	
Ireland	Millipore Cork	Carrigtwohill	100.00	
Ireland	Millipore Dublin International Finance Company	Dublin	100.00	
Italy	Allergopharma S.p.A.	Rome	100.00	
Italy	Istituto di Ricerche Biomediche Antoine Marxer RBM S.p.A.	Colleretto Giacosa	100.00	
Italy	Merck S.p.A.	Vimodrone	100.00	
Italy	Merck Serono S.p.A.	Rome	99.74	
Latvia	Merck Serono SIA	Riga	100.00	
Lithuania	Merck Serono, UAB	Vilnius	100.00	
Luxembourg	AZ Electronic Materials (Luxembourg) S.a.r.l.	Luxembourg	100.00	
Luxembourg	AZ Electronic Materials Group S.a.r.l.	Luxembourg	100.00	
Luxembourg	AZ Electronic Materials S.A.	Luxembourg	100.00	
Luxembourg	AZ Electronic Materials TopCo S.a.r.l.	Luxembourg	100.00	
Luxembourg	Merck Chemicals Holding S.a.r.l.	Luxembourg	100.00	
Luxembourg	Merck Finance S.a.r.l.	Luxembourg	100.00	
Luxembourg	Merck Holding S.a.r.l.	Luxembourg	100.00	
Luxembourg	Merck Re S.A.	Luxembourg	100.00	
Luxembourg	Merck-Finanz AG	Luxembourg	100.00	100.00

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
Luxembourg	Millilux S.a.r.l.	Luxembourg	100.00	
Luxembourg	Millipart S.a.r.l.	Luxembourg	100.00	
Luxembourg	Millipore International Holdings, S.a.r.l.	Luxembourg	100.00	
Luxembourg	Ridgefield Acquisition S.a.r.l.	Luxembourg	100.00	
Luxembourg	Ridgefield Holdco S.a.r.l.	Luxembourg	100.00	
Malta	Merck Capital Holding Ltd.	Pietà	100.00	
Malta	Merck Capital Ltd.	Pietà	100.00	
Netherlands	Merck B.V.	Schiphol-Rijk	100.00	
Netherlands	Merck Chemicals B.V.	Amsterdam Zuidoost	100.00	
Netherlands	Serono Tri Holdings B.V.	Schiphol-Rijk	100.00	
Norway	Merck Life Science AS	Oslo	100.00	
Poland	Merck Sp.z o.o.	Warsaw	100.00	
Portugal	Merck, S.A.	Algés	100.00	
Romania	Merck Romania S.R.L.	Bucharest	100.00	
Russia	Merck LLC	Moscow	100.00	
Slovakia	Merck spol.s.r.o.	Bratislava	100.00	
Slovenia	Merck d.o.o.	Ljubljana	100.00	
Serbia	Merck d.o.o. Beograd	Belgrade	100.00	
Spain	Merck Chemicals and Life Science S.A.	Madrid	100.00	
Spain	Merck, S.L.	Madrid	100.00	
Sweden	Merck AB	Solna	100.00	
Sweden	Merck Chemicals and Life Science AB	Solna	100.00	
Switzerland	Allergopharma AG	Therwil	100.00	
Switzerland	Ares Trading SA	Aubonne	100.00	
Switzerland	AZ Electronic Materials (Schweiz) AG	Zurich	100.00	
Switzerland	Merck & Cie	Altdorf	51.63	51.63
Switzerland	Merck (Schweiz) AG	Zug	100.00	
Switzerland	Merck Biosciences AG	Läufelfingen	100.00	
Switzerland	Merck Serono SA	Coinsins	100.00	
Switzerland	Millipore AG	Zug	100.00	
Switzerland	SeroMer Holding SA	Chéserex	100.00	
Turkey	Merck Ilac Ecza ve Kimya Ticaret AS	Istanbul	100.00	
United Kingdom	AZ Electronic Materials (UK) Ltd.	Stockley Park	100.00	
United Kingdom	AZ Electronic Materials Services Ltd.	Stockley Park	100.00	
United Kingdom	Lamberts Healthcare Ltd.	Tunbridge Wells	100.00	
United Kingdom	Merck Chemicals Ltd.	Nottingham	100.00	
United Kingdom	Merck Consumer Health Care Ltd.	Hull	100.00	
United Kingdom	Merck Cross Border Trustees Ltd.	Hull	100.00	
United Kingdom	Merck Holding Ltd.	Feltham	100.00	
United Kingdom	Merck Investments Ltd.	Hull	100.00	
United Kingdom	Merck Ltd.	Hull	100.00	
United Kingdom	Merck Pension Trustees Ltd.	Hull	100.00	
United Kingdom	Merck Serono Europe Ltd.	London	100.00	
United Kingdom	Merck Serono Ltd.	Feltham	100.00	
United Kingdom	Millipore (U.K.) Ltd.	Feltham	100.00	
United Kingdom	Millipore UK Holdings LLP	London	100.00	
United Kingdom	Seven Seas Limited	Hull	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
North America				
Canada	EMD Chemicals Canada Inc.	Toronto	100.00	
Canada	EMD Crop BioScience Canada Inc.	Toronto	100.00	
Canada	EMD Inc.	Mississauga	100.00	
Canada	Millipore (Canada) Ltd.	Toronto	100.00	
United States	Amnis Corp.	Seattle	100.00	
United States	AZ Electronic Materials Holdings U.S. Inc.	Wilmington	100.00	
United States	AZ Electronic Materials USA Corp.	Wilmington	100.00	
United States	EMD Accounting Solutions & Services America, Inc.	Quincy	100.00	
United States	EMD Holding Corp.	Rockland	100.00	
United States	EMD Millipore Corporation	Billerica	100.00	
United States	EMD Serono Holding Inc.	Rockland	100.00	
United States	EMD Serono Research & Development Institute, Inc.	Billerica	100.00	
United States	EMD Serono, Inc.	Rockland	100.00	
United States	Mario Finance Corp.	Wilmington	100.00	
United States	Millipore Asia Ltd.	Wilmington	100.00	
United States	Millipore Pacific Ltd.	Wilmington	100.00	
United States	Millipore UK Holdings I, LLC	Wilmington	100.00	
United States	Millipore UK Holdings II, LLC	Wilmington	100.00	
United States	Serono Laboratories Inc.	Rockland	100.00	
Emerging Markets				
Argentina	Merck Quimica Argentina S.A.I.C.	Buenos Aires	100.00	
Brazil	Merck S.A.	Rio de Janeiro	100.00	
Chile	Merck S.A.	Santiago de Chile	100.00	
China	AZ Electronic Materials (Hong Kong) Finance Ltd.	Hong Kong	100.00	
China	AZ Electronic Materials (Suzhou) Ltd.	Suzhou	100.00	
China	Beijing Skywing Technology Co., Ltd.	Beijing	100.00	
China	Merck Chemicals (Shanghai) Co., Ltd.	Shanghai	100.00	
China	Merck Display Materials (Shanghai) Co., Ltd.	Shanghai	100.00	
China	Merck Holding (China) Co., Ltd.	Shanghai	100.00	
China	Merck Ltd.	Hong Kong	100.00	
China	Merck Millipore Lab Equipment (Shanghai) Co., Ltd.	Shanghai	100.00	
China	Merck Performance Materials Hong Kong Ltd.	Hong Kong	100.00	
China	Merck Performance Materials Hong Kong Services Ltd.	Hong Kong	100.00	
China	Merck Pharmaceutical (HK) Ltd.	Hong Kong	100.00	
China	Merck Pharmaceutical Manufacturing (Jiangsu) Co., Ltd.	Nantong	100.00	
China	Merck Serono (Beijing) Pharmaceutical Distribution Co., Ltd.	Beijing	100.00	
China	Merck Serono (Beijing) Pharmaceutical R&D Co., Ltd.	Beijing	100.00	
China	Merck Serono Co., Ltd.	Beijing	100.00	
China	Millipore (Shanghai) Trading Co., Ltd.	Shanghai	100.00	
China	Millipore China Ltd.	Hong Kong	100.00	
China	Suzhou Taizhu Technology Development Co., Ltd.	Taicang	100.00	
Colombia	Merck S.A.	Bogotá	100.00	
Ecuador	Merck C.A.	Quito	100.00	
Guatemala	Merck, S.A.	Guatemala City	100.00	
India	Chemtreat Composites India Pvt. Ltd.	Sanpada New Mumbai	100.00	
India	Merck Ltd.	Mumbai	51.80	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
India	Merck Specialities Pvt. Ltd.	Mumbai	100.00	
India	Millipore India Pvt. Ltd.	Bangalore	100.00	
Indonesia	P.T. Merck Chemicals and Life Sciences	Jakarta	100.00	
Indonesia	P.T. Merck Tbk.	Jakarta	86.65	
Israel	Inter-Lab Ltd.	Yavne	100.00	
Israel	InterPharm Industries Ltd.	Yavne	100.00	
Israel	InterPharm Laboratories Ltd.	Yavne	100.00	
Israel	Merck Serono Ltd.	Herzliya Pituach	100.00	
Malaysia	Merck Sdn Bhd	Petaling Jaya	100.00	
Mexico	Merck, S.A. de C.V.	Mexico City	100.00	
Pakistan	Merck (Pvt.) Ltd.	Karachi	75.00	26.00
Pakistan	Merck Pharmaceuticals (Pvt.) Ltd.	Karachi	75.00	
Pakistan	Merck Specialities (Pvt.) Ltd.	Karachi	100.00	
Panama	Mesofarma Corporation	Panama City	100.00	
Peru	Merck Peruana S.A.	Lima	100.00	
Philippines	Merck Inc.	Makati City	100.00	
Singapore	AZ Electronic Materials (Singapore) Pte. Ltd.	Singapore	100.00	
Singapore	Merck Pte. Ltd.	Singapore	100.00	
South Korea	AZ Chem Korea Ltd.	Seoul	100.00	
South Korea	AZ Electronic Materials (Korea) Ltd.	Seoul	100.00	
South Korea	Merck Advanced Technologies Ltd.	Pyeongtaek-si	100.00	
South Korea	Merck Ltd.	Seoul	100.00	
Taiwan	AZ Electronic Materials Taiwan Co. Ltd.	Taipei	100.00	100.00
Taiwan	AZ EM Taiwan Holding Co. Ltd.	Taipei	100.00	
Taiwan	Merck Display Technologies Ltd.	Taipei	100.00	
Taiwan	Merck Ltd.	Taipei	100.00	
Thailand	Merck Ltd.	Bangkok	45.11	
United Arab Emirates	Merck Serono Middle East FZ-LLC	Dubai	100.00	
Uruguay	ARES Trading Uruguay S.A.	Montevideo	100.00	
Venezuela	Merck S.A.	Caracas	100.00	
Venezuela	Representaciones MEPRO S.A.	Caracas	100.00	
Vietnam	Merck Vietnam Ltd.	Ho Chi Minh City	100.00	
Rest of the World				
Australia	Merck Pty. Ltd.	Bayswater	100.00	
Australia	Merck Serono Australia Pty. Ltd.	Sydney	100.00	
Egypt	Merck Ltd.	Cairo	100.00	
Japan	AZ Electronic Materials IP (Japan) KK	Tokyo	100.00	
Japan	AZ Electronic Materials Manufacturing (Japan) KK	Tokyo	100.00	
Japan	Merck Ltd.	Tokyo	100.00	15.89
Japan	Merck Performance Materials G.K.	Tokyo	100.00	
Japan	Merck Serono Co., Ltd.	Tokyo	100.00	
Mauritius	Millipore Mauritius Ltd.	CyberCity	100.00	
New Zealand	Merck Ltd.	Palmerston North	100.00	
South Africa	Merck (Pty) Ltd.	Halfway House	100.00	
South Africa	Merck Pharmaceutical Manufacturing (Pty) Ltd.	Wadeville	100.00	
Tunisia	Merck Promotion SARL	Tunis	100.00	
Tunisia	Merck SARL	Tunis	100.00	

Country	Company	Registered office	Equity interest (%)	thereof Merck KGaA (%)
II. Companies not consolidated due to secondary importance				
Germany				
Germany	AB Pensionsverwaltung GmbH	Zossen	100.00	100.00
Germany	Merck 14. Allgemeine Beteiligungs-GmbH	Darmstadt	100.00	
Germany	Merck 16. Allgemeine Beteiligungs-GmbH	Darmstadt	100.00	100.00
Germany	Merck 17. Allgemeine Beteiligungs-GmbH	Darmstadt	100.00	100.00
Germany	Merck 18. Allgemeine Beteiligungs-GmbH	Darmstadt	100.00	100.00
Germany	Merck 19. Allgemeine Beteiligungs-GmbH	Darmstadt	100.00	100.00
Germany	Merck 20. Allgemeine Beteiligungs-GmbH	Darmstadt	100.00	100.00
Germany	Merck 21. Allgemeine Beteiligungs-GmbH	Darmstadt	100.00	100.00
Germany	Merck Patent GmbH	Darmstadt	100.00	
Germany	Merck Wohnungs- und Grundstücksverwaltungsgesellschaft mbH	Darmstadt	100.00	100.00
Other European countries				
France	Gonnon S.A.S.	Lyon	100.00	
Netherlands	Merck Finance B.V.	Schiphol-Rijk	100.00	100.00
Netherlands	Merck Holding Netherlands B.V.	Schiphol-Rijk	100.00	100.00
Netherlands	Peer+ B.V.	Eindhoven	100.00	100.00
Portugal	Laquifa Laboratorios S.A.	Algés	100.00	
Switzerland	Asceneuron SA	Lausanne	80.00	
Switzerland	Calypso Biotech SA	Plan-les-Ouates	75.00	
Switzerland	Prexton Therapeutics SA	Plan-les-Ouates	55.00	
United Kingdom	Nature´s Best Health Products Ltd.	Tunbridge Wells	100.00	
North America				
United States	EMD Finance LLC	Wilmington	100.00	
United States	Mario II Finance Corp.	Wilmington	100.00	
United States	TocopheRx, Inc.	Groton	65.78	
Emerging Markets				
Dominican Republic	Merck Dominicana, S.R.L.	Santo Domingo	100.00	
Rest of the World				
Australia	Biochrom Australia Pty. Ltd.	Bayswater	100.00	
Morocco	Merck Maroc S.A.R.L.	Casablanca	100.00	
Nigeria	Merck Pharmaceutical and Life Sciences Ltd.	Lagos	100.00	
South Africa	Serono South Africa Ltd.	Johannesburg	100.00	
III. Associates not included at equity due to secondary importance				
Other European countries				
Switzerland	Vaximm AG	Basel	24.66	
Emerging Markets				
Israel	Neviah Genomics Ltd.	Yavne	69.00	7.75
Israel	QLight Nanotech Ltd.	Jerusalem	47.73	

Darmstadt, February 18, 2015

KARL-LUDWIG KLEY

KAI BECKMANN

BELÉN GARIJO LOPEZ

MARCUS KUHNERT

STEFAN OSCHMANN

BERND RECKMANN

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements of the Merck Group give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Darmstadt, February 18, 2015

KARL-LUDWIG KLEY

KAI BECKMANN

BELÉN GARIJO LOPEZ

MARCUS KUHNERT

STEFAN OSCHMANN

BERND RECKMANN

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Merck Kommanditgesellschaft auf Aktien, Darmstadt, 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 the Notes to the Group accounts, together with the Group Management Report for the business year from January 1 to December 31, 2014. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB [Handelsgesetzbuch "German Commercial Code"] and supplementary provisions of the articles of association are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and supplementary provisions of the articles of association and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, February 19, 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Original German version signed by

KARL BRAUN
Wirtschaftsprüfer

MANFRED JENAL
Wirtschaftsprüfer

INFORMATION AND SERVICE

The Annual Report for 2014 was published in German and English. A fully navigable online version of the report along with the consolidated financial statements is available on the Web at ar2014.merckgroup.com. It has been optimized for mobile devices.

More information about Merck can be found on the Web at www.merckgroup.com and in the brochures “Merck from 1668 until today – Exploring new horizons” and “The Merck Way”, which you may read or order at www.merckgroup.com/publications.

You can order all publications from Group Communications, Merck KGaA, 64271 Darmstadt, comms@merckgroup.com.

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