

# Merck Group Modern Slavery Statement 2016

This statement has been published in accordance with the UK Modern Slavery Act 2015. It sets out the steps that Merck KGaA and the relevant Merck Group companies have taken during the 2016 financial year to prevent slavery and human trafficking in any of our supply chains and in any part of our own business. The statement has been approved by the Board of Directors.

## Introduction

At Merck, we strive for responsible conduct in our operations, the communities where we operate, our supply chain and our overall business relationships worldwide. With our history of almost 350 years, our heritage anchors us to a moral and ethical code of conduct that is reflected in our Mission Statement and our Values. Respecting and supporting human rights is an integral part of this responsibility.

We know that slavery and human trafficking are present in many global supply chains. We are committed to taking effective steps towards preventing and mitigating harm to people in our operations, supply chains and business relationships.

## Structure, business and supply chains

Merck is a leading science and technology company in healthcare, life science and performance materials with around 50,000 employees in 66 countries.

In 2016, Merck was represented by a total of more than 200 subsidiaries across 66 countries, with 91 production sites located across 22 countries. The shareholdings of Merck KGaA as of 31 December 2016 are presented on pages 262-271 in the [2016 Annual Report](#).



## Employees and sales by region 2016



Merck operates in the following business sectors:

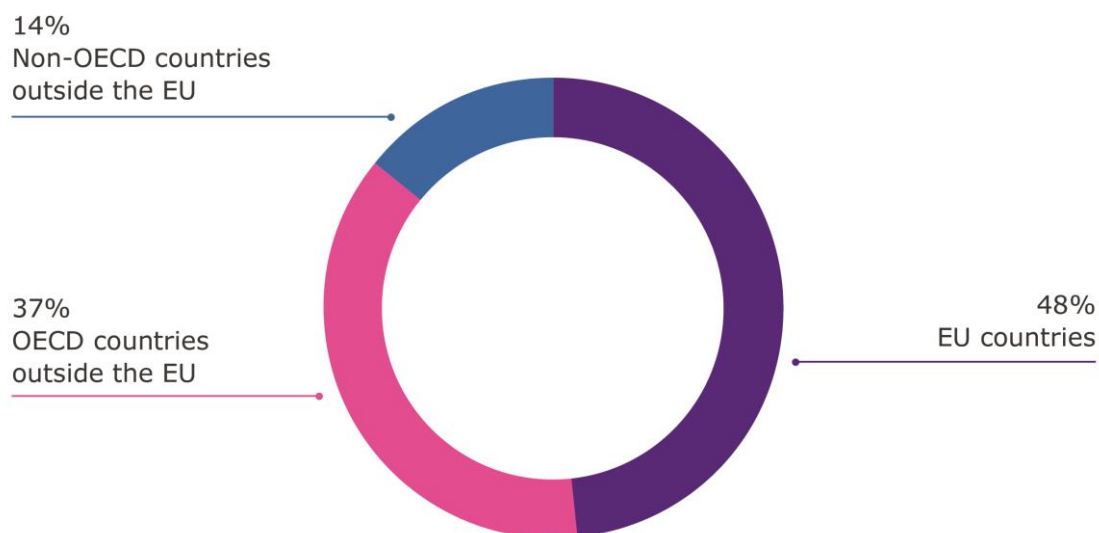
- **Healthcare:** Through our **Biopharmaceuticals** business, we provide drugs for use in oncology, fertility, endocrinology and the treatment of neurodegenerative and cardiometabolic diseases. Our **Consumer Health** range comprises over-the-counter pharmaceuticals, while the **Allergopharma** portfolio comprises products for diagnostic testing and treatment of allergies. Our **Biosimilars** business is committed to increasing access to top-quality biologics for patients across the globe. We are in the advanced stages of negotiations to divest the Biosimilars business, with the transaction expected to close in fiscal 2017.
- **Life Science:** Merck provides technologies, tools and solutions for life science research as well as biotech and pharmaceutical manufacturing. With more than 300,000 products, brands include Millipore, Milli-Q, SAFC, BioReliance and Sigma-Aldrich.
- **Performance Materials:** This business sector offers specialty chemicals – including liquid crystals and effect pigments – to customers in the consumer electronics, lighting, printing technology, plastics and cosmetics industries. End products include for example liquid crystal displays, LED/OLED lighting solutions and coatings as well as cosmetics, food and pharmaceutical products.



In 2016, we derived 45% of net sales from Healthcare, 38% from Life Science and 17% from Performance Materials. The Asia-Pacific region and Europe each accounted for 31% of sales, with 26% of sales in North America and 12% in Latin America, the Middle East and Africa.

Merck requires numerous raw materials, packaging materials, technical products, components, and services, which we procure from more than 70,000 suppliers across 130 countries. All goods and services purchased in 2016 totaled around € 6.5 billion in 2016. Of the goods and services (including R&D services) procured in 2016, we purchased 48% from suppliers based in EU countries and 37% from vendors in OECD countries outside the EU. The share of goods and services sourced from non-OECD countries outside the EU decreased from 15% in 2015 to 14% in 2016.

**Share of overall goods and services purchased 2016**



A human rights risk assessment conducted in 2012 highlighted that the key risks for forced labor and modern slavery in our operations are present in high risk countries and with vulnerable groups such as contract workers and migrant workers. In our supply chain, we believe that modern slavery risks are highest in the sourcing of raw materials, for example in our mica supply chain (see case study). Our activities to mitigate these risks are set out below.



## Policies in relation to slavery and human trafficking

As a signatory to the [UN Global Compact](#) since 2005, Merck has committed to upholding [ten principles](#) based on key UN conventions, including the elimination of all forms of forced and compulsory labor.

The Merck [Human Rights Charter](#) sets out our overarching commitment to human rights and defines the requirements for our company. The Charter brings together and complements the human rights aspects from other Merck regulations and guidelines, such as our [Code of Conduct](#); the [Environment, Health and Safety Policy](#); and the Procurement Policy.

The Charter was developed in 2013 based on an initial corporate human rights risk assessment, and informed by internal and external stakeholder expertise. During the development process, we asked external stakeholders for their opinion on our human rights positions, including labor rights. These stakeholders included business and human rights experts from various countries, including emerging markets such as India and Brazil, NGOs, trade union representatives and specialists regarding specific aspects of the Charter.

**For our own employees**, we do not accept any form of forced labor: everyone should be working of his or her own free will. Our Global Rewards Policy ensures we pay competitive wages that at least meet the applicable legal or industry minimum standard and ensure an adequate standard of living for our employees and their families. Wage standards and minimum employee ages are verified through our HR systems.

Our expectations towards **suppliers** are set out in the Merck [Responsible Sourcing Principles](#). We require our suppliers to support and respect the protection of internationally proclaimed human rights and ensure that they are not complicit in any form of human rights abuses. The Principles require suppliers to ensure that no form of forced, bonded or involuntary labor is used. Wages and other benefits must at least correspond to the lowest legal limit and be paid. Regular working hours and overtime may not exceed the maximum legal limits. The Principles also strictly prohibit child labor.

Suppliers are requested to maintain a continual improvement program to translate the Responsible Sourcing Principles into action by setting targets and monitoring their realization. They are also requested to cascade the Principles to their business partners.



Merck is also a member of the [Together for Sustainability](#) (TfS) initiative, founded in 2011 by companies in the chemical sector, which aims to systematically assess and improve sustainable sourcing practices across the globe, including labor and human rights aspects. We actively participate in the work of the TfS Association and currently chair one of the four cross-company work stream teams on the topic of supplier self-assessments. Under TfS, Merck conducts supplier assessments and audits of first tier suppliers that also cover forced labor issues.

The Merck SpeakUp Line is a key grievance mechanism for employees regarding any infringements against the Human Rights Charter. Employees can contact the SpeakUp Line via telephone or the web from anywhere Group-wide in their respective national language, free of charge and, if desired, anonymously.

## Risk management and due diligence processes

### Human rights risk assessment and management

Over the years, Merck has conducted a range of human rights risk and impact assessment processes across the business which have covered labor rights issues and, most recently, explicitly consider modern slavery risks. Earlier assessments included:

- 2009: A first assessment prioritized the countries Merck operates in for the purposes of conducting audits on the implementation of the Social Charter, the precursor to the Human Rights Charter.
- 2012: A corporate human rights risk assessment aimed to identify the human rights and rightsholders affected by Merck's operations, and to assess Merck's human rights performance.
- 2014: Following the introduction of the Human Rights Charter in 2013, Merck conducted a human rights impact assessment (HRIA) in India to understand the opportunities and challenges in applying group-wide standards to local operations.

In 2016, we further expanded our activity in implementing human rights due diligence across the group, via a human rights self-assessment that covered all Merck locations globally. The assessment was based on the Merck Human Rights Charter and structured in line with the process requirements for human rights due diligence set out in the UN Guiding Principles on Business and Human Rights. Its aim was to improve our knowledge of our global human rights profile and to identify opportunities for targeted activities to enhance human rights due diligence worldwide.



Among other topics, the self-assessment asked survey participants about their perception of modern slavery risks in their country, operational activity and locally managed supply chain, as well as what was being undertaken to manage these risks.

The findings demonstrated that further activity is needed to increase awareness that forced labor and modern slavery can occur in almost any country and in many supply chains. We also identified an area of risk that we could address better, namely the use of labor providers. While the standard contracts for labor providers include a requirement of adherence to the [Merck Code of Conduct](#) and the [Responsible Sourcing Principles](#), there is little visibility of their actual performance, bearing the risk of labor exploitation. We have therefore identified this as an area for improving our due diligence activities in the future.

### **Case study: Monitoring working conditions in mica mines**

Merck has already undertaken significant work on specific forms of modern slavery, namely child labor in mica production. The insights from this process will be helpful in addressing other aspects of modern slavery through future due diligence efforts.

During an investigation in 2008, Merck discovered that at the start of the supply chain, a primary raw material for effect pigment production sourced in India – mica – is sometimes collected by children, generally together with their parents. This is not compatible with our corporate values, nor with the principles of our [Human Rights Charter](#).

The Indian state of Jharkhand, where Merck sources mica, is a region plagued by poverty and political uncertainty, where child labor is widespread.

Based on the results of the investigation, Merck has changed the mica supply chain to ensure that sourcing is compliant with our principles and that no children are involved in the processing of mica. We exclusively source mica directly from licensed mines, as we are unable to preclude child labor for mica that has been collected in publicly accessible areas without formal working conditions. We have also established direct business relationships with our different partners in the mica supply chain, i.e. the mica mine operators and the mica processing plants.

The [IGEP Foundation](#) (Indo-German Environment Partnership), a local organization, arranges unannounced visits every month to check the labor



conditions in the mines, including occupational safety and adherence to the ban on child labor.

An additional six third party audits of our mica suppliers in 2016 showed that roughly 90% of the corrective actions specified in previous audits had already been implemented or were being implemented at the time of the audits. The audits investigate working conditions as well as environment, health and safety issues.

Apart from our strategy to guarantee oversight of the entire mica supply chain, we are working together with the IGEP Foundation to improve the living conditions of the families in the mica mining regions of India. We are financing three schools with daycare centers as well as a vocational training center for tailoring and carpentry. At a fourth school opened by one of our mica suppliers in 2014, we also provide scholarships for 200 children.

In addition to our education efforts, we are also committed to improving access to healthcare. To this end, in 2010 we established a health center operated by IGEP Foundation to serve the region's 20,000 residents.

## Effectiveness

Merck's SpeakUp Line is a key communication channel for employees who want to report compliance violations – if wanted – anonymously. Among other compliance aspects, this includes violations of the Merck Human Rights Charter. In 2016, there were no instances of modern slavery identified via the SpeakUp Line in our operations. At the same time, we recognize that as a hidden issue, modern slavery requires more effort to uncover, including in our supply chain. This includes raising awareness with relevant staff and reviewing the coverage and effectiveness of existing grievance mechanisms.

Through supplier assessments and audits, most of which were conducted in the context of the TFS Initiative, we now have detailed sustainability information available for more than 670 of our key suppliers. In 38 cases, possible negative impacts regarding labor practices and human rights were observed, for which we are currently in the process of defining countermeasures with our suppliers.



## Training

In 2016, we raised awareness of human rights, including modern slavery, with senior managers via introductory webinars to the human rights self-assessment. More than 40 country Managing Directors participated, covering most Merck locations globally. The webinar introduced the audience to the UN Guiding Principles on Business and Human Rights, highlighted the importance of ongoing human rights due diligence, referenced the Merck Human Rights Charter and set out the process for the self-assessment.

Our 1.5-day onboarding training for Managing Directors currently covers the topic areas of governance, compliance, EQ (environment, health, safety, security and quality), communications and auditing. We will consider how we can integrate human rights and modern slavery into the training to raise awareness of these important issues with an influential internal stakeholder group.

## Looking ahead

Merck took the first step towards implementing the UN Guiding Principles on Business and Human Rights in 2012, and we have since worked to continuously improve our human rights due diligence.

At the same time, we know we have more work to do, including in combatting modern slavery. In summary, our focus areas for action include:

- Increasing awareness of human rights and specifically modern slavery via (risk based) training activities in our operations
- Evaluating the coverage and effectiveness of existing grievance mechanisms.

We are committed to ensuring that we continuously improve our approach, in line with our values and international expectations on corporate human rights and labor rights due diligence.



Stefan Oschmann  
Chairman of the Executive Board and CEO



Kai Beckmann  
Member of the Executive Board and  
Chief Administration Officer

