

Merck Group Modern Slavery Statement 2017

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 2017 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 350 years, our heritage anchors us to a moral and ethical code of conduct that is reflected in 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 and may be present in ours. 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 with around 53,000 employees in 66 countries.

In 2017, Merck was represented by a total of more than 200 subsidiaries across 66 countries, with 98 production sites located across 24 countries. The shareholdings of Merck KGaA as of 31 December 2017 are presented on pages 290-298 of the [2017 Annual Report](#).



Employees and sales by region



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. In April 2018 Merck signed an agreement to sell its Consumer Health Business. The **Allergopharma** portfolio comprises products for diagnostic testing and treatment of allergies.
- **Life Science:** Merck provides technologies, tools and solutions for life science research as well as biotech and pharmaceutical manufacturing. Our 300,000 products range from lab water systems to genome-editing tools, antibodies and cell lines, as well as end-to-end bioprocessing systems to support the manufacturing needs of both emerging biotech and large pharma companies.
- **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 2017, we derived 46% of net sales from Healthcare, 38% from Life Science and 16% from Performance Materials. The Asia-Pacific region accounted for 32% of sales,



Europe for 31%, with 25% 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 almost 64,000 suppliers across more than 145 countries. All goods and services purchased in 2017 totaled around € 7.0 billion. Of the goods and services (including R&D services) procured in 2017, we purchased 50% from suppliers based in EU countries and 35% from vendors in OECD countries outside the EU. The share of goods and services sourced from non-OECD countries outside the EU increased from 14% in 2016 to 15% in 2017.

Share of overall goods and services purchased



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. 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. Our Code of Conduct was updated in 2017 and now also includes more specifically the topic of human rights.

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, including the ILO Core Labor Standards, 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. The Principles also strictly prohibit child labor.

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

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



- 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 in India to understand the opportunities and challenges in applying Group-wide standards to local operations.
- 2016: Merck conducted a human rights self-assessment that covered all Merck locations globally, with the aim of improving our knowledge of our global human rights profile and identifying opportunities for targeted activities to enhance human rights due diligence worldwide. 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.

The 2016 self-assessment included questions on participants' perception of modern slavery risks in their country, operational activity and locally managed supply chain, as well as activities undertaken to manage these risks.

The findings highlighted that we could address better the risks associated with the use of labor providers and contracted workforces, and we have worked to improve our due diligence activities in this area in 2017.

We introduced a new supplier risk assessment tool, which includes human rights, child labor and supplier labor practices including modern slavery as risk criteria. As of December 2017, we have incorporated data on 1,200 suppliers in the tool, with further implementation planned for 2018. The tool will help guide future TfS assessments and audits, as well as potential additional measures, to ensure a more risk-based approach to supplier assessment and capacity-building.

In order to guide our due diligence activities going forward, we plan to establish a Human Rights Working Group. This group will come together regularly to maintain a dialogue on human rights. The Human Rights Working Group will consist of members from the Group functions such as Compliance; Procurement; Human Resources; Environment, Health, Safety, Security, Quality and Corporate Responsibility.



Effectiveness

In 2017, there were no instances of modern slavery in our operations identified via the SpeakUp Line, through which employees can report violations of the Merck Human Rights Charter. At the same time, we recognize that as a hidden issue, modern slavery requires more effort to uncover, including in our supply chain.

In 2018, we therefore commenced an evaluation of the coverage and effectiveness of existing grievance mechanisms. The aim of this evaluation is to better understand how for example contractors are covered in our grievance mechanisms as well as where we can improve our existing processes, if necessary. We also identified various opportunities to raise awareness with relevant staff such as our EHS managers.

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 730 of our key suppliers. In 2017 100 cases with 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 and awareness-raising

We are working on integrating human rights related content, including on modern slavery, into existing training and awareness-raising formats for relevant internal functions. For example:

- In April 2018, we raised awareness about the link between security and human rights at Merck's Global Security Network meeting. The session also covered the vulnerabilities of security personnel as subcontracted workers.
- In May 2018, we integrated relevant content into our on-boarding training for new EHS managers. In June 2018 we ran a workshop covering human rights with focus on modern slavery at our EHS Forum in Asia.
- In the context of our Code of Conduct revision in 2017, we included content on human rights in our internal communication and awareness raising. We will also integrate further details in our Code of Conduct online training which is mandatory for all employees in 2018.

In September 2017, we launched an electronic confirmation course for our Human Rights Charter as one of the first follow-up actions from our human rights self-assessment. This course is mandatory Group-wide for all Managing Directors as well as all managers directly below Executive Board level. Procurement executives from the second and third managerial tiers below the Executive Board are also required to take the course, which focuses on modern slavery and the increasing regulatory requirements for companies such as those set out in the National Action Plan and the



UK Modern Slavery Act. By taking the course, participants confirm that they have read and understood our Human Rights Charter, and are implementing it within their area of responsibility.

We also intend to inform our Managing Directors more specifically on their responsibility with regard to human rights. By September 2018, we will integrate human rights content into communication material on legal and compliance tasks for Managing Directors.

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:

- Continue to strengthen our internal communication and awareness-raising about human rights and modern slavery at more function events, including an EHS Forum in Europe in September 2018 and the Global Procurement Summit in October 2018
- Incorporate country and category risk for modern slavery in selection of suppliers for TfS assessments and audits
- Reflect on our current supplier assessment and audit procedure and define e.g. an escalation process

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
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