

Merck Group Modern Slavery Statement 2018

This statement is published in accordance with the UK Modern Slavery Act 2015. It sets out the steps that Merck KGaA and the relevant Merck Group companies in the UK including Merck Serono Limited, Merck Chemicals Limited, Millipore (U.K) Limited, Sigma Aldrich Company Limited, Bioreliance Limited and, SAFC Biosciences Limited have taken during the 2018 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 Executive Board as well as the relevant UK 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 more than 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 our responsibility.

We know that slavery and human trafficking are hidden in many global supply chains and may be also in ours. We find this unacceptable and are committed to taking effective steps towards preventing and mitigating harm to people in our operations, supply chains and business relationships.

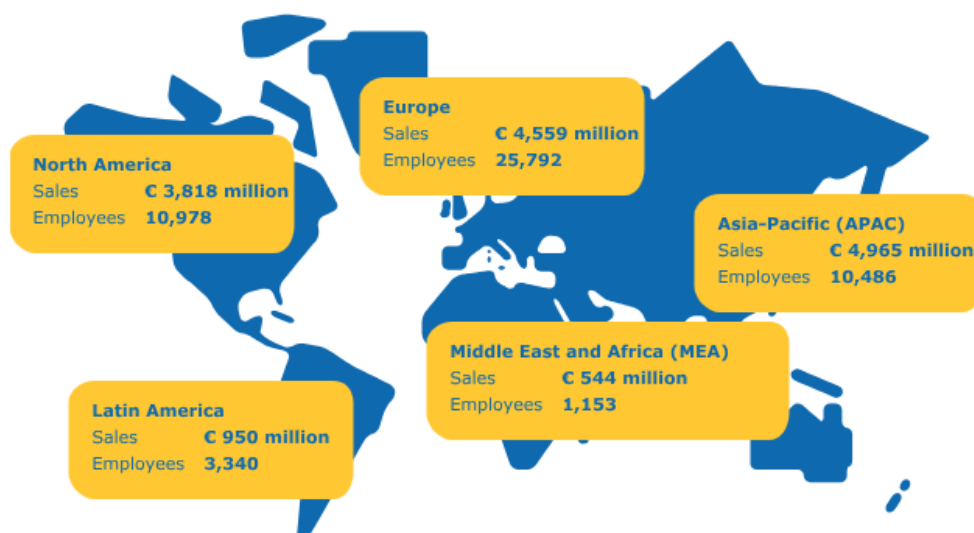
Structure, business and supply chains

We are Merck, a vibrant science and technology company with around 52,000 employees in 66 countries.

In 2018, Merck was represented by more than 200 subsidiaries across 66 countries, with 90 production sites located across 21 countries. The shareholdings of Merck KGaA as of 31 December 2018 are presented on pages 312-321 of the [2018 Annual Report](#).



Employees and sales by region



Merck comprises the following three business sectors:

- **Healthcare:** Through our **Biopharma** business, we provide drugs to treat cancer, multiple sclerosis (MS), infertility, growth disorders as well as certain cardiovascular and metabolic diseases. The **Allergopharma** portfolio comprises products for diagnostic testing and treatment of allergies. On 1 December 2018, our **Consumer Health** business transferred to Procter & Gamble (P&G).
- **Life Science:** We provide tools, high-grade chemicals and equipment for life science research as well as biotech and biopharmaceutical 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 comprises the specialty chemicals business of Merck and supplies solutions for displays, computer chips and surfaces of all kinds. End products include for example liquid crystal displays, LED/OLED lighting solutions and coatings, microelectronic systems as well as cosmetics, food and pharmaceutical products.

In 2018, we derived 42% of net sales from Healthcare, 42% from Life Science and 16% from Performance Materials. The Asia-Pacific region accounted for 33% of sales,



Europe for 31%, with 26% of sales in North America and 10% in Latin America, the Middle East and Africa.

We require numerous raw materials, packaging materials, technical products, components and services, which we procure from more than 60,000 suppliers in almost 150 countries. All goods and services purchased in 2018 amounted to around € 7.4 billion. Of these (including R&D services), 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 14.8% in 2017 to 15% in 2018.

Share of overall goods and services purchased



We know from the human rights risk assessments we have conducted that the key risks for forced labor and modern slavery in our operations are present in high risk countries such as China, Vietnam and the Philippines, and with vulnerable groups including 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.

In 2018, we commenced an update of the Charter which was originally developed in 2013 based on an initial corporate human rights risk assessment and informed by internal and external stakeholder expertise. The update, likewise, will include a process of external stakeholder engagement. We will engage business and human rights experts from various countries, including emerging markets, NGOs, trade union representatives and specialists regarding specific aspects of the Charter. The revised Charter will be published in July 2019.

For our own employees, our [Global Social and Labor Standards Policy](#), developed in 2018, sets out our commitment to international social and labor standards. The policy specifically states that Merck does not accept any form of forced or compulsory labor, child labor, modern slavery or human trafficking in any of our global operations or facilities. It prohibits practices such as confiscating or withholding worker identity documents and notes our commitment to ethical recruitment and the Employer Pays Principle.

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 and third parties regarding any infringements against the Human Rights Charter. All stakeholders and rightsholders 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. These processes are described in our [2017 Modern Slavery Statement](#).

A 2016 human rights self-assessment conducted with all Merck locations globally highlighted that we could address better the modern slavery risks associated with the use of labor providers and contracted workforces, and we have worked to improve our due diligence activities in this area since then.

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 March 2019, we have incorporated data on 1,800 suppliers in the tool, with further implementation planned for 2019 and 2020. The tool will help guide future supplier assessments and audits, as well as potential additional measures, to ensure a more risk-based approach to supplier assessment and capacity-building.

In 2018, we commenced a mapping process to identify higher risk groups among our contractor population, focusing on China, Vietnam and the Philippines. Once completed, we will work with our suppliers to define appropriate actions to prevent, mitigate and where necessary remediate forced labor and modern slavery risks and impacts.

Recognizing that our mica supply chain carries risks of human rights violations including risks of child labor, we have redesigned our supply chain already in 2010 and have established direct business relationships with our suppliers who handle mica mining and processing in India. Furthermore, we have implemented a series of oversight mechanisms to monitor and audit compliance with our social standards. Our approach is described in our [Corporate Responsibility Report 2018](#).

In addition to our internal efforts, we are a member of the industry initiative “Together for Sustainability” (TfS). As such, we are able to use the supplier self-assessments and audit results shared among all member companies. TfS assessments and audits cover both child labor and forced and compulsory labor.

In 2018 we established a Human Rights Working Group to implement effective cross-organisational, collaborative efforts to fulfil Merck’s commitments to respect human rights across our operations, supply chain, business relationships and potentially impacted communities. The group comprises members from functions such as



Compliance; Procurement; Human Resources; Environment, Health, Safety, Security and Quality; and, Corporate Responsibility.

Effectiveness

In 2018, 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 reviewed our existing grievance mechanisms, focusing particularly on their scope and effectiveness. Based on the results, in 2019 we decided to open up the SpeakUp Line, previously only accessible to employees and selected third parties, to all external stakeholders. Grievances can now be reported via a link on our [external website](#).

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 10,700 companies as well as over 1,000 audit reports, initiated either by Merck or by other TfS members. Based on the audits and assessments conducted since joining TfS, in 2018 we focused on scorecard improvements of our suppliers rather than conducting additional new assessments and audits.

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. Activities in 2018 included:

- We hosted a workshop on modern slavery, which was attended by representatives from the Group functions Environment, Health, Safety, Security, Quality (EQ), Procurement, Human Resources, Compliance, and Corporate Responsibility.
- 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.
- We integrated relevant content into our on-boarding training for new EHS managers and ran workshops covering human rights with focus on modern slavery at our EHS Forums in Asia and Europe.



- Our Procurement Training Academy for new employees of Group Procurement included a session on sustainability and human rights, as did our Group Procurement Summit for all Procurement employees.

Our Group-wide online course on our Human Rights Charter was successfully completed by 194 people in 2018. This course was mandatory Group-wide for all managing directors as well as all leaders from the first managerial level below Executive Board. In addition to this, Procurement executives from the second and third managerial tiers were 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 German National Action Plan on Business and Human Rights 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. While this was a one-off effort, we will require all managing directors – including those coming new into the role – to take a course on the revised Human Rights Charter, to be published in July 2019. As part of the Charter roll-out, we will also consider which other specific groups require training on the Charter.

In 2018, we also added the topic of human rights to our manual for new managing directors in an effort to heighten awareness at the executive level. The manual is primarily intended to consolidate all the legal and compliance-related responsibilities of a managing director into one document.

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:

- Develop a Global Standard on Managing Contractors that sets out our commitment to working conditions of external employees
- Roll out the Global Social and Labor Standards Policy and the revised Human Rights Charter, including targeted training, broader internal communications and systems for ensuring compliance
- Introduce a mandatory risk assessment for modern slavery and human trafficking as part of the annual Compliance Risk Reporting and Self-Monitoring process for all legal entities



- Review our current supplier assessments and audit procedures to define appropriate mitigation measures, including with regard to modern slavery and human trafficking
- Continue to strengthen our internal communication and awareness-raising about human rights and modern slavery

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



Peter Biro
CFO United Kingdom and Ireland



Appendix

List of our UK subsidiaries that fall under the UK Modern Slavery Act

Merck Serono Limited

Merck Chemicals Limited

Millipore (U.K) Limited

Sigma Aldrich Company Limited

Bioreliance Limited

SAFC Biosciences Limited

