

strategy & Management

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company profile

Part of the non-financial report

We are Merck, a vibrant science and technology company. Science is at the heart of everything we do. It drives the discoveries we make and the technologies we create. We make a positive difference in the lives of millions of people every day. In Healthcare, we discover unique ways to treat some of the most challenging diseases such as multiple sclerosis (MS) and cancer. Our Life Science experts develop tools and solutions, which are aimed at enabling scientists achieve breakthroughs even faster. And in Performance Materials, we develop science that sits inside technologies and changes the way we access and display information.

Everything we do is fueled by our belief in science and technology as a force for good. A belief that has driven our work since 1668, and will continue to inspire us to find more joyful and sustainable ways to live. We are curious minds dedicated to human progress.

We are Merck

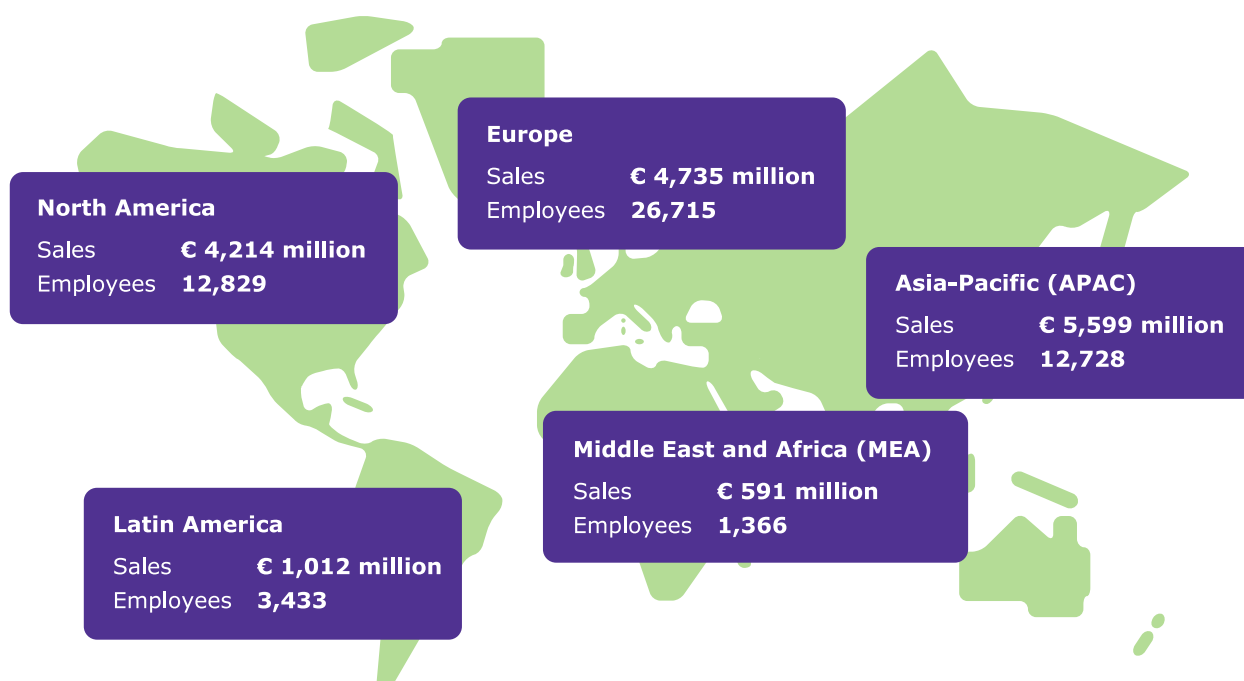
We hold the global rights to the Merck name and brand. The only exceptions are Canada and the United States. In these countries, we operate as EMD Serono in the biopharmaceutical business, as MilliporeSigma in the life science business,

and as EMD Performance Materials in the high-tech materials business.

Apart from our three business sectors, our reporting presents the five regions: Europe, North America, Asia-Pacific (APAC), Latin America as well as Middle East and Africa (MEA). As of December 31, 2019, we had 57,071 employees worldwide, which compares with 51,749 on December 31, 2017.

In 2019, our 222 subsidiaries with employees in 66 countries generated sales of € 16.2 billion. Our 103 production sites are located across 21 countries.

Employees and sales by region – 2019



Group structure

Merck comprises three business sectors: Healthcare, Life Science, and Performance Materials. Our Healthcare business sector – the biggest among our three business sectors – comprises the two businesses Biopharma and Allergopharma.

Our Biopharma business discovers, develops, manufactures and markets innovative pharmaceutical and biological prescription drugs to treat cancer, multiple sclerosis (MS), infertility, growth disorders, and certain cardiovascular and metabolic diseases. Biopharma is the larger of our **Healthcare** businesses and operates in four franchises: Oncology, Neurology & Immunology, Fertility and General Medicine & Endocrinology. Our R&D pipeline positions us with a clear focus on becoming a global specialty innovator in oncology, immuno-oncology, and immunology including MS. Our allergy business Allergopharma is a leading company in the field of allergy immunotherapy (AIT) in Europe. For high-precision, effective allergy therapy, we offer comprehensive diagnosis solutions as a basis for individual treatment concepts. Our AIT products concentrate on causal treatment of type 1 allergies such as allergic rhinitis (for example, hay fever) and allergic asthma to meet patients' needs.

In **Life Science**, with our Research Solutions, Process Solutions, and Applied Solutions business units, we are a leading, worldwide supplier of tools, high-grade chemicals, and equipment for academic labs, biotech, and pharmaceutical manufacturers, as well as the industrial sector. Research Solutions provides our academic customers with the chemicals and tools needed to make scientific discovery easier and faster. Process Solutions provides drug manufacturers with process development expertise and technologies, such as continuous bioprocessing. Applied Solutions offers both testing kits and services to ensure that our food is safe to eat and water is clean to drink. Our portfolio comprises more than 300,000 products, ranging 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. For example, our ZooMAb[®] recombinant antibodies bring the next generation of polyclonal and monoclonal antibody technology and production to the industry, specifically engineered for greater specificity, higher consistency, and maximum stability. Another example is our BioReliance[®] End-to-End Solutions, a service offering for process development and manufacturing for emerging biotech companies. Additionally, our Life Science business sector has built the expertise to further develop BrightLab™, our digital ecosystem for complete lab management.

Our **Performance Materials** business sector comprises the specialty chemicals business of Merck. We offer innov-

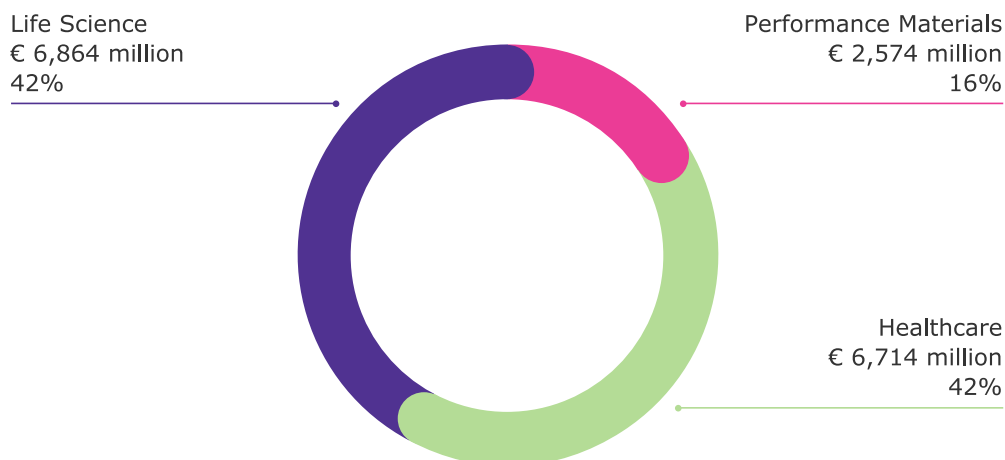
ative solutions especially for the electronics industry — for microchips and displays — and for surfaces of every kind. The business sector consists of three business units: Semiconductor Solutions, Display Solutions, and Surface Solutions. Comparing Performance Materials with a smartphone, Display Solutions represents the user interface, Semiconductor Solutions the intelligence, and Surface Solutions the aesthetics.

We are well on track in the execution of our five-year Bright Future transformation program announced in 2018, with which we are adapting to new market realities and customer requirements.

With the completion of the acquisition of Intermolecular on September 20, 2019, and Versum Materials on October 7, 2019, we reached two major milestones on our journey to transform Performance Materials into a strong solutions provider and leading player in the electronic materials market. Intermolecular has application-specific materials expertise and platforms for accelerated learning and experimentation with a powerful analytical infrastructure, all of which perfectly complement our portfolio. Together, we are well-positioned to deliver next-generation digital devices for a smarter, safer, and more connected world. Versum Materials is a leading global provider of innovative, high-purity process chemicals, gases, and equipment for semiconductor manufacturing. The merger should transform Merck into a leading provider of electronic materials for the semiconductor and display industries. The Intermolecular and Versum Materials businesses are being integrated into the Semiconductor Solutions business unit.

With the acquisition of Versum Materials and Intermolecular, Semiconductor Solutions is now the largest business unit within Performance Materials. It consists of two dedicated units: Semiconductor Materials and Delivery Systems & Services. Our Semiconductor Materials unit supplies products for every major step in the wafer manufacturing process, including doping, lithography, patterning, deposition, planarization, etching, and cleaning. Specialty cleaners and conductive pastes for semiconductor packaging round off the portfolio. The Delivery Systems & Services (DS&S) business enables the safe and responsible handling of gases and liquid chemicals for electronic manufacturers. It focuses on the development and deployment of safe and reliable delivery equipment. This allows our materials to be handled with the highest quality and safety standards for our customers. Our Display Solutions business unit comprises the liquid crystals, OLED (organic light-emitting diodes), photoresists, and liquid crystal windows businesses. In the Surface Solutions business unit, we provide our customers with solutions that help them to create innovative surfaces of all kinds. Our materials enable more beautiful, more resistant, and more effective products.

Net sales by business sector – 2019



Governance

Based in Darmstadt, Germany, our company operates in the legal form of a corporation with general partners (Kommanditgesellschaft auf Aktien – KGaA). The general partner E. Merck KG holds around 70% of the total capital of Merck KGaA (equity interest); the shareholders hold the remainder, which is divided into shares (share capital). Our shares have been included in the DAX[®] 30, the blue-chip index of the Deutsche Börse, since 2007. In September 2008, our company was added to the FTSE4Good Index, a sustainability index that assesses the social, ecological and ethical conduct of companies.

Group strategy

Throughout the past years, Merck has grown significantly through a series of strategic moves that have enabled us to develop into the vibrant science and technology company we are today. We have systematically and continuously strengthened and focused our portfolio of innovative science and technology throughout our business sectors. In Healthcare we divested our Generics business (2007) to focus on highly specialized products and acquired Serono (2007) to expand our pipeline and strengthen our business. This focused approach has continued until today with the divest-

ments of the Biosimilars business (2017) and Consumer Health business (2018), so that we can increase our efforts on our Oncology, Immuno-oncology and Immunology franchises. Within Life Science, we have significantly transformed to become a diversified industry leader through the acquisition of Millipore (2010) and Sigma-Aldrich (2015). During the last years, Performance Materials has continued to deliver profitable growth and a significant cash contribution, and we evolved this business further into attractive science and technology areas such as semiconductor materials (Semiconductor Solutions) through the acquisition of AZ Electronic Materials (2014) as well as Intermolecular and Versum Materials (both in 2019), which also helped us further diversify our product portfolio that was strongly driven by liquid crystals. Our Group Strategy considers certain foundational elements such as, first and foremost, a risk diversification strategy that ensures that we are not over-exposed to any single customer, industry or geography. We want to be a forward-thinking company generating long-term sustainable value. We focus our efforts and activities on innovative areas to add maximum value to the future of science and technology.

You can find more information on our strategy in our [Annual Report 2019](#).

CR strategy

Part of the non-financial report

Major global trends are fundamentally transforming societies and people's lives while also raising the bar for responsible corporate citizenship. We are tackling the major issues facing society today, including the growing global population, increasing life expectancy, resource scarcity, and climate impact mitigation. In developing and commercializing new technologies, our ambition is to generate added value for both our company and society as a whole.

Our approach: Creating shared value

As a leading science and technology company, we know that our business operations impact our environment and the people around us, which is why we have made **responsible conduct** a pillar of our company culture. This approach is also the foundation of our sustained business success. Through innovative top-quality products from our Health-care, Life Science and Performance Materials business sectors, we help solve global challenges while also bolstering financial performance.

Our **Group strategy** is geared to profitable growth and thus business success, which means respecting the interests of employees, customers, investors and the community while also doing our best to mitigate ethical, economic and social risks. Our corporate responsibility (CR) strategy is derived from our Group strategy and focuses our resources on those areas where we can have the greatest impact. All our CR activities can be summed up as "good corporate citizenship", which most importantly means listening and taking action.

We take on responsibility for our products, the environment and our neighbors and aspire to develop products and services that can help **solve the major challenges** of our time. With safety and ethics mattering just as much to us as business success, we work to minimize the environmental impacts of our production activities, which neces-

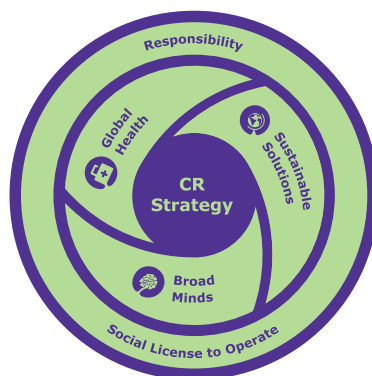
sitates safe manufacturing techniques, high environmental standards and strict quality management. Furthermore, we aim to strengthen our company by recruiting, developing and motivating talented employees. We want to serve as an example for ethical conduct and actively contribute to the communities we live in.

In order to stay abreast of new **global trends and challenges**, we engage in dialogues and initiatives, share lessons learned and best practices with other organizations in our industry and assess media and news coverage. This allows us to minimize risks while also leveraging new business opportunities.

In 2019, we moved forward with the realignment of our CR strategy, which had started in 2018. We are increasingly pursuing a **shared value approach** and are working to make the value we create for the company and for society measurable.

Our CR strategy builds on our ambition to be a responsible corporate citizen, ensuring our social license to operate and maintaining our competitive edge. We believe that research and technology hold the key to solving global challenges and see our role in helping to shape society. In aligning our activities with the areas where we can have the **greatest impact**, we have defined three strategic spheres of activity as the center of our CR strategy – Global Health, Sustainable Solutions and Broad Minds.

CR strategy



Global Health

We develop and manufacture medicines and smart devices that offer patients a broad array of healthcare solutions. Health awareness plays a key role in our approach to improving access to these healthcare solutions. For this reason, we regularly conduct disease awareness campaigns worldwide, drawing on a wealth of expertise from our businesses. Additionally, we collaborate with a range of partners to reach out to people in low- and middle-income countries. For example, we are engaged in the fight against schistosomiasis, a parasitic infection. Through our Global Health Institute, we are developing diagnostics, therapies and preventive solutions to address malaria as well as schistosomiasis and other neglected tropical diseases. You can find more information under "[Health for all](#)".

Sustainable Solutions

We are constantly working to improve the sustainability footprint of our products to include their use phase as well. These efforts also help our customers achieve their own sustainability goals. To this end, we have established systematic approaches for product development such as Design for Sustainability. A program of our Life Science business sector, this initiative allows us to assess the sustainability of products under development through techniques such as life cycle analyses. You can find more information under "[Sustainable product design](#)".

Broad Minds

As a science and technology company, we endeavor to excite people about science, inspire curiosity and help their creativity take flight. Our goal is to bolster the reputation of our company in the science community, especially in those areas where we have particular expertise. We not only support educational programs for schools, but also back pioneering research at institutes of higher learning. Because music and literature inspire people, we also support a number of cultural initiatives worldwide. Creativity and curiosity are the bedrock of science, culture and art and also underpin our holistic approach. You can find more information under "[Broad Minds](#)".

Corporate responsibility embedded in governance

Our CR strategy is approved by our Executive Board, which meets regularly to make decisions regarding our CR goals and reporting. Also tasked with overseeing corporate responsibility, our Group Corporate Affairs function reports to the Chairman of the Executive Board. We additionally have a CR Committee in place to steer the implementation of our CR strategy and submit recommendations regarding **CR goals** to the Executive Board. While our Executive Board Chairman bears overall responsibility for this body, it is led by the head of our Group Corporate Responsibility unit and consists of representatives from our business sectors as well as from relevant Group functions such as EQ, HR, Compliance, and Procurement.

Our CR Committee also reviews our CR strategy to ensure that it covers the issues material to our company. In doing so, we draw on regular input from our [stakeholders](#) as well as the results of [materiality analyses](#). This committee also defines measures to enact our CR strategy and assesses the success of these efforts. In addition, it ensures that the initiatives of our business sectors, Group functions and subsidiaries align with our Group-wide CR strategy. The measures adopted by the CR Committee are implemented by our subject matter experts and by interdisciplinary project teams.

In 2019, the CR Committee met twice, focusing its attention on human rights, environmental and social standards across the supply chain, animal welfare, bioethics, and the evolution of our CR strategy and its implementation.

Understanding and improving the impacts of our operations

We do our best to mitigate the ethical, financial and legal risks of our business activities, thereby advocating for and ensuring our social license to operate. To this end, we have comprehensive structures and systems in place to ensure compliance with legal requirements, along with ethical, social and ecological standards, all of which are explained in detail in the individual sections of this report.

sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) are aimed at all countries and organizations across the globe. We are also helping to achieve these objectives, doing so in nearly every field in which we operate.

Our approach

The international community has defined 169 targets for the 17 SDGs in order to facilitate specific actions necessary to achieving the SDGs. As a member of global society, we see ourselves obligated to support the implementation of the SDGs.

What we are doing

Our CR efforts particularly focus on good health and well-being (SDG 3), quality education (SDG 4) and affordable and clean energy (SDG 7) (see diagram below).

But we not only help tackle global challenges within the areas of "Global Health", "Sustainable Solutions" and "Broad Minds". Our contributions towards achieving the SDGs have positive effects beyond the strategic spheres of activity established in our Corporate Responsibility strategy. Our 2019 CR Report illustrates the SDGs and targets we specifically support through our management practices and projects.



SDG 3: Good health and well-being

Ensure healthy lives and promote well-being for all at all ages.

Across the globe, two billion people lack access to medicines, with an estimated 400 million lacking access to effective and affordable essential health services. Given this reality, we are working to help rectify the situation through our Global Health Strategy. However, recognizing that we cannot solve these challenges alone, we have joined forces with strong partners to work towards creating solutions.

Target 3.3: By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases.

- Our approach to improving healthcare for underserved populations
- Strategy for preventing and treating infectious diseases
- Our fight against schistosomiasis
- Our fight against malaria
- Alliances for better access to health
- Access to Medicine Index ranking 2018

Target 3.B: Support the research and development of vaccines and medicines for the communicable and non-communicable diseases that primarily affect developing countries, provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Agreement and Public Health, which affirms the right of developing countries to use to the full the provisions in the Agreement on Trade-Related Aspects of Intellectual Property Rights regarding flexibilities to protect public health, and, in particular, provide access to medicines for all.

- Our approach to sharing and protecting intellectual property
- Collaboration on open innovation: WIPO Re:Search
- Provide a solid basis for access to healthcare
- Drugs for Neglected Diseases initiative
- Research work on novel therapies, diagnostics, technologies and prevention to combat communicable diseases
- Consortium for the development of a pediatric praziquantel formulation

SDG 4: Quality education

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

We invest in high-quality education, which applies above all to the vocational and advanced training of our employees. This is how we offer an attractive environment for development and remain competitive. In addition, we foster the education of young people so as to empower them to help shape society.

Target 4.1: By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes.

- Community outreach in the mica supply chain

Target 4.3: By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.

- Vocational training and dual education programs
- SPARK: igniting a passion for science in the next generation
- Continuing education for teachers and school partnerships
- Junior labs at the Technical University Darmstadt

Target 4.4: By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.

- Employee learning and education
- Trainee programs and job orientation
- Vocational training and dual education programs
- Integrating refugees through training

SDG 5: Gender equality

Achieve gender equality and empower all women and girls.

Gender equality is essential to creating a diverse workforce and an inclusive company culture, which is why we do not tolerate discrimination. In addition, we promote and advance women in low- and middle-income countries through a variety of initiatives.

Target 5.1: End all forms of discrimination against all women and girls everywhere.

- Our commitment: Group-wide Social and Labor Standards Policy
- Our commitment: Industry-wide initiatives and regulations
- Taking action against discrimination

Target 5.5: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.

- Our approach to diversity and equal opportunity
- Women in leadership roles: Requirements and targets
- Promoting women leaders and talent
- Rooting out unconscious bias
- Networks to bolster diversity
- Healthy Women, Healthy Economies initiative

SDG 6: Clean water and sanitation

Ensure availability and sustainable management of water and sanitation for all.

Sustainable water management is a key component of our environmental stewardship. In withdrawing or discharging water, we aim to impact the aquatic ecosystems near our sites as little as possible and to lower our water consumption, especially in water-stressed areas. Furthermore, we are committed to ensuring that people have access to clean, safe drinking water.

Target 6.1: By 2030, achieve universal and equitable access to safe and affordable drinking water for all.

- Clean water for Chinese schools
- Schistosomiasis health education project

Target 6.3: By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.

- Assessing our water management practices
- Avoiding antibiotic residues in wastewater

Target 6.4: By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.

- Curbing water use

SDG 7: Affordable and clean energy

Ensure access to affordable, reliable, sustainable and modern energy for all.

Efficient energy management is absolutely essential to mitigating our climate impact, which is why we invest in renewable energies and endeavor to develop technologies that are more energy-efficient.

Target 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix.

- Buying renewable energy

Target 7.3: By 2030, double the global rate of improvement in energy efficiency.

- Development of energy efficient building solutions

SDG 8: Decent work and economic growth

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

In our Human Rights Charter, we acknowledge our responsibility to uphold and protect human rights and are constantly working to integrate human rights due diligence into our processes. Our dedication to appropriate and fair labor standards is a fundamental component of this responsibility. We expect our suppliers and service providers to comply with social standards that are primarily derived from the core labor standards of the International Labour Organization (ILO) and the [United Nations Global Compact](#). We also maximize resource efficiency in our water and waste management practices and product development activities, in a bid to promote sustainable economic growth.

Target 8.4: Improve progressively, through 2030, global resource efficiency in consumption and production and endeavor to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programs on sustainable consumption and production, with developed countries taking the lead.

- Our approach to waste and recycling
- Systematic waste reduction
- Advancing the circular economy
- Curbing water use
- Our sustainable packaging strategy

Target 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities and equal pay for work of equal value.

- Performance-based pay

Target 8.7: Take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms.

- UK Modern Slavery Statement
- Our approach to human rights due diligence
- Our commitment: Guiding principles, Human Rights Charter and laws
- Our approach to making our supply chains more sustainable
- Our approach to responsibility in the mica supply chain

Target 8.8: Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

- Our approach to human rights due diligence
- Our commitment: Guiding principles, Human Rights Charter and laws

SDG 9: Industry, innovation and infrastructure

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

We are always on the lookout for pioneering developments and trends. We develop products and technologies that enrich people's lives. New technologies and the advance of digitalization in particular enable us to create innovative products, services and business models.

Target 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

- Our approach to environmental stewardship
- Material investments in environmental impact mitigation
- Climate impact mitigation

SDG 10: Reduced inequalities

Reduce inequality within and among countries.

We leverage our expertise from our Healthcare business sector to improve access to health worldwide, particularly for people in low- and middle-income countries. Moreover, we believe that a diverse workforce makes us more innovative and successful.

Target 10.2: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

- Our approach to diversity and equal opportunity

Target 10.A: Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements.

- Shared data platform for medicine donations
- CURAFA™ Points of Care
- Low-price second brands
- Generics

SDG 11: Sustainable cities and communities

Make cities and human settlements inclusive, safe, resilient and sustainable.

We take on social responsibility. Focusing especially on those areas where we can best leverage our expertise, we primarily support health, education and cultural projects. Furthermore, we provide disaster relief and assist people in need in the countries where we operate, especially communities in the immediate vicinity of our sites.

Target 11.6: By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.

- Environmental certification according to ISO 14001:2015
- Reducing the environmental impacts of waste

SDG 12: Responsible consumption and production

Ensure sustainable consumption and production patterns.

Respect for the environment is the bedrock of our approach to sustainability. We see it as our duty to not only conserve resources in developing and manufacturing our own products, but also to help our customers make their products more sustainable and more efficient.

Target 12.4: By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.

- Our approach to sustainable product design
- Green chemistry assessment tool
- Our approach to safe chemical products
- Safety analysis during product development
- Environmentally friendly solvents
- Our approach to plant and process safety
- Our approach to safe transport and storage

Target 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

- Our approach to waste and recycling
- Systematic waste reduction
- Reducing the environmental impacts of waste
- Advancing the circular economy

Target 12.6: Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.

- Our CR strategy
- Annual reporting cycle

SDG 13: Climate action

Take urgent action to combat climate change and its impacts.

Climate change is one of the major challenges of the 21st century. Our company is no exception when it comes to generating greenhouse gases. We are continuously working to reduce these emissions to mitigate our impact on the climate. In addition, we encourage our employees to do their part to preserve the climate.

Target 13.2: Integrate climate change measures into national policies, strategies and planning.

- Development of a new climate target
- Climate impact mitigation

Target 13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

- Employees and climate action

SDG 14: Life below water

Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Our wastewater may contain traces of substances such as heavy metals or active pharmaceutical ingredients. For us, sustainable water management means not negatively impacting the aquatic ecosystems from which we obtain freshwater, or into which we discharge treated wastewater.

Target 14.1: By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution

- Wastewater continuously monitored
- Avoiding antibiotic residues in wastewater
- Alternatives to microplastics in cosmetics

SDG 15: Life on land

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation and halt biodiversity loss.

Unsealed surfaces represent an important habitat for plants and animals and we think it essential to seal as little surface area as possible. Furthermore, we comply with the stipulations of the Nagoya Protocol and German law that govern natural resource access and benefit sharing. Thus, we ensure that countries providing genetic resources and expertise also benefit from their use.

Target 15.6: Promote fair and equitable sharing of the benefits arising from the utilization of genetic resources and promote appropriate access to such resources, as internationally agreed.

- Responsible use of natural resources

SDG 16: Peace, justice and strong institutions

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

First and foremost, responsible entrepreneurship means complying with laws, regulations and ethics standards. For us, this is key to maintaining our reputation as an attractive employer and reliable business partner. We also expect fair and responsible conduct from our employees, suppliers and customers.

Target 16.2: End abuse, exploitation, trafficking and all forms of violence against and torture of children

- UK Modern Slavery Statement
- Our approach to human rights due diligence
- Our commitment: Guiding principles, Human Rights Charter and laws
- Our commitment: Group-wide Social and Labor Standards Policy

Target 16.5: Substantially reduce corruption and bribery in all their forms.

- Our approach to compliance
- Our approach to responsible governance

Target 16.B: Promote and enforce non-discriminatory laws and policies for sustainable development.

- Our commitment: Group-wide Social and Labor Standards Policy
- Industry initiatives and regulations for diversity and gender equality

SDG 17: Partnerships for the goals

Strengthen the means of implementation and revitalize the global partnership for sustainable development.

To reach our goals and drive sustainable development within our company and beyond, we need strong partners. We therefore collaborate with a wide array of organizations, federations, associations, and networks to tackle the challenges of today and tomorrow.

Target 17.6: Enhance North-South, South-South and triangular regional and international cooperation on and access to science, technology and innovation and enhance knowledge sharing on mutually agreed terms, including through improved coordination among existing mechanisms, in particular at the United Nations level, and through a global technology facilitation mechanism.

- Our approach to stakeholder dialogues
- Stakeholder dialogues on health for all

Target 17.9: Enhance international support for implementing effective and targeted capacity-building in developing countries to support national plans to implement all the sustainable development goals, including through North-South, South-South and triangular cooperation.

- Collaboration with WHO
- Education partnership with the NALA Foundation
- Consortium for the development of a pediatric praziquantel formulation
- Partnership to develop new lead programs for antimalarials

stakeholder dialogue

Our business activities converge with the interests of many people, which is why engaging with our various stakeholders is particularly important to us. Through this dialogue, we communicate our decisions and actions transparently so as to ensure our social license to operate. We aim to unite divergent interests as far as possible as well as build and sustain trust.

Dialogue at various levels

Our key stakeholders include our employees, customers and business partners, patients, the Merck family as the majority owner of our company, shareholders and our suppliers. We maintain continuous contact with these

groups through a variety of channels, such as stakeholder surveys, issue-specific dialogues, roundtable discussions, and information forums. We also engage stakeholders through our advocacy work and industry coalitions.

Our stakeholders



Stakeholder surveys

We regularly conduct surveys among our employees and customers. We want to know which issues they consider to be of importance to our company today and tomorrow, and how they rate our performance in addressing the individual areas. We also seek to understand their expectations of us as a responsible company.

In 2019, we conducted a **Group-wide employee survey** in 22 languages. Around 47,000 employees took part, resulting in a response rate of 88%. We also conducted a survey among our Life Science customers to understand which of our material topics are most important to them.

Roundtables and informational forums

At our major sites, we conduct roundtable discussions and informational forums for local residents. Since 1994, we have been holding an annual public planning forum in Darmstadt (Germany) to discuss the development of our site with members of the city council, local authorities and the community. In 2019, the forum focused on our investments at the site, such as the new Performance Materials Research Center or the new daycare center, which will both be completed in 2020.

Issue-specific dialogues

Our business operations in Healthcare, Life Science and Performance Materials intersect the interests of various societal groups, with whom we engage via questionnaires, workshops and seminars, as well as at major conferences. Our departments organize these exchanges at the local, national and international level, depending on the topic and degree of importance. Beyond this, we are also involved in industry networks and participate in symposia. In 2019, we took part in numerous dialogues on material topics with our stakeholders. These include:

- **Bioethics:** In May 2019, we hosted a "Dialogue on Ethics of Genome Editing" for policymakers. 45 political stakeholders engaged in an open debate on the topic.
- **Human rights:** We participate in the **Business & Human Rights Peer Learning Group** of the German Global Compact Network. Within this group, we share lessons learned as well as successes in implementing human rights due diligence. Moreover, in 2019, we included external stakeholders such as trade unions, industry associations and representatives of potentially impacted groups in our work to update our **Human Rights Charter**.
- **Health for all:** In 2019, we participated in **numerous events** with global reach or relevance in order to participate in and advance global health discussions.

Advocacy groups and industry coalitions

We actively participate in the political process and advocate our views by engaging policy makers in a direct dialogue and by working with industry coalitions. Below are several examples of major national and international industry associations of which we are members and where we hold positions:

- German Chemical Industry Association e. V. (**VCI**)
- European Chemical Industry Council (**Cefic**)
- German Association of Research-based Pharmaceutical Manufacturers e. V. (**vfa**)
- International Federation of Pharmaceutical Manufacturers & Associations (**IFPMA**)

Examples of positions held by members of our **Executive Board** include:

Stefan Oschmann, Executive Board Chairman and CEO:

- European Federation of Pharmaceutical Industries and Associations (**EFPIA**), President (until 30 June 2019)
- German Chemical Industry Association e. V. (**VCI**), Member of the Executive Committee
- National Academy of Science and Engineering (acatech), Member of the Executive Committee

Udit Batra, Executive Board member and CEO Life Science:

- **Greater Boston Chamber of Commerce**, Member of the Board
- Massachusetts High Technology Council (**MHTC**), Chairman
- **Massachusetts Biotechnology Council**, Member of the Board
- **University of Delaware**, Department of Chemical Engineering, Member of the Advisory Council
- **Princeton University**, Department of Chemical Engineering, Member of the Advisory Council

Kai Beckmann, Executive Board member and CEO Performance Materials:

- German Federation of Chemical Employers' Associations (**BAVC**), President
- Fraunhofer Institute for Computer Graphics Research (**IGD**), Chairman of the Advisory Board
- Confederation of German Employers' Associations (**BDA**), Vice President

Belén Garijo, Executive Board member and CEO Healthcare:

- Pharmaceutical Research and Manufacturers of America (**PhRMA**), Board member

Marcus Kuhnert, Executive Board member and Chief Financial Officer:

- German Chemical Industry Association e. V. (**VCI**), Vice Chairman of the Hessian Chapter

Involvement in initiatives

We collaborate with an array of civic organizations, such as the [Goethe-Institut](#) and the World Environment Center ([WEC](#)). In addition, for many years we worked successfully with The Joint Conference Church and Development ([GKKE](#)) in Germany and will continue the dialogue and collaboration with a number of other church representatives and organizations. Furthermore, we are also involved in [initiatives and projects](#) that share our interpretation of responsible entrepreneurial conduct. This is why we support, for instance, the [Code of Responsible Conduct for Business](#) and are members of the Chemie³ and [Responsible Care](#)[®] initiatives.

Political donations

In 2019, our Executive Board approved the new Sponsorships & Memberships Policy, which stipulates how political

contributions are to be handled. Pursuant to the policy, we will not transfer any value to political parties or related political organizations, initiatives serving the goals of a political party or candidates of any public office. Furthermore, we will not transfer value to support, defeat or influence the election of a representative in a public office or candidate for public office. Generally speaking, political action committees (PACs) exist in the United States through which our employees can donate money to support political candidates and organizations. Such donations are not made by or on behalf of the company. These indirect and voluntary donations are reported to the [U.S. Federal Election Commission](#) and publicly disclosed.

Materiality analysis

Part of the non-financial report

Which topics are key to our long-term, environmentally and socially responsible business success? What expectations do our stakeholders have of us? In which areas do we help create a more sustainable future? To answer these questions, in 2019 we updated the materiality analysis we conducted in 2018, thereby meeting the applicable reporting requirements of the Global Reporting Initiative (GRI) and the German CSR Directive Implementation Act.

Material issues updated and validated

We regularly conduct a comprehensive materiality assessment to help us define key topics for our Corporate Responsibility (CR) management and for our report content.

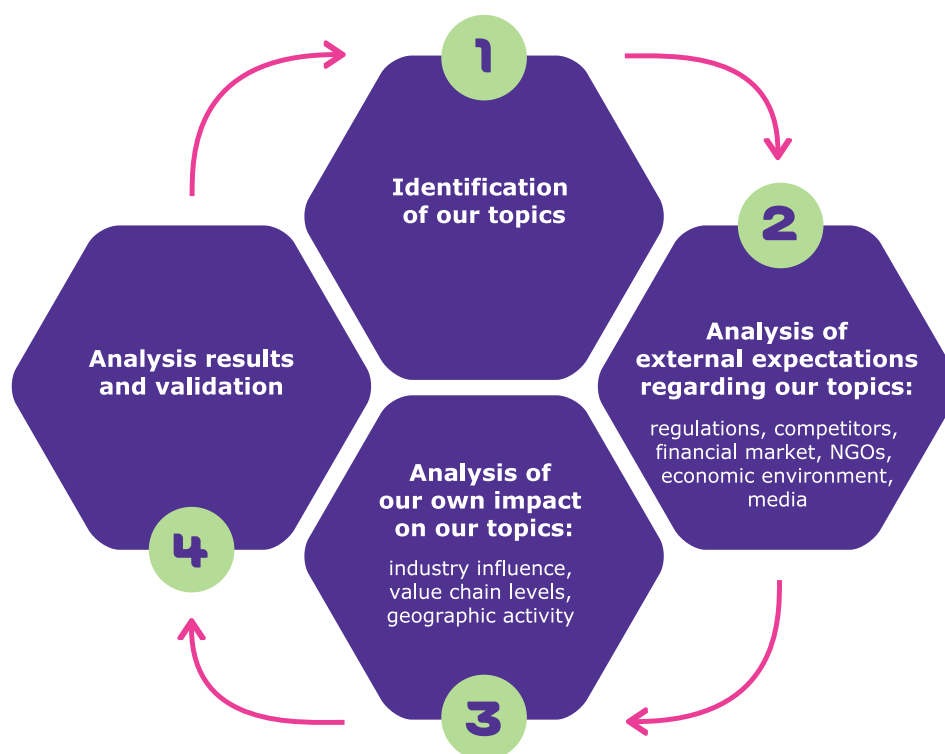
We conducted our last **comprehensive analysis** in 2018, which reflected the requirements and expectations that our stakeholders place on us. In the process, we reviewed:

- Relevant regulations
- Goals and positions of our competitors
- Requirements imposed by investor ratings

- Expectations that non-governmental organizations (NGOs) have of the chemical and pharmaceutical industries
- Relevance of various CR topics to our economic environment.

Likewise, we analyzed how our industries, value chain and sites impact sustainable development. For our 2019 CR Report, we updated the existing analysis by **including the media as a further external stakeholder group**. We additionally conducted a media analysis and integrated the results into our previous approach.

Materiality process



Results of the update

The 35 topics identified as being of significance to our CR strategy and reporting did not change relative to the 2018 analysis. As a result of having incorporated a structured media analysis into the materiality process, the results changed minimally, but this impacted neither the reporting framework nor the contents.

Since our stakeholders additionally expect information and transparency regarding less significant issues, we also report on these, albeit in less detail.

Topics for the non-financial report

The German CSR Directive Implementation Act obliges us to review the **"double materiality"** of topics according to section 289c (3) of the German Commercial Code. The principle of double materiality requires companies to disclose non-financial information when the following two criteria are met. Firstly, the information is necessary to understand the company's business performance, business results and financial situation. And secondly, the information makes it possible to understand how the company's business activities affect non-financial aspects.

In 2019, we again reviewed the double materiality of the topics identified. Those that fall within the scope of this definition are marked in the materiality matrix and linked to the respective chapters in this report.

Material topics

Resource efficiency - Waste and recycling - Water management	Product safety and quality - Patient safety - Chemical product safety - Product-related crime - Transport and warehouse safety	Supply chain standards Supply chain standards
Environmental protection - Emissions - Plant and process safety - Energy efficiency and renewable energies - Greenhouse gas emissions - Biodiversity	Health for everyone - Prices of medicines - Access to health - Health awareness	Ethical conduct - Bioethics - Clinical studies - Animal welfare
Sustainable products Sustainable products (including design, packaging and recycling)	Human rights Human rights	Good business practice - Compliance - Data protection - Governance - Responsible marketing - Interactions with health systems - Community involvement
Technology - Digitalization - Innovation and R&D	Attractive employer - Health and safety - Good leadership - Employee engagement - Employee development - Attracting and retaining employees - Diversity - Work 4.0	

■ Very high importance
 ■ High importance
 ■ Medium importance
 🔗 Part of the non-financial report

Material issues in our value chain

The following table shows where our material issues fall within the value chain: upstream in our supply chain, in the course of activities within our own business sectors, or downstream with our customers and patients. Moreover, we listed the issues to show the breakdown of materiality by stakeholder groups.



Product safety and quality

	Upstream activities	Healthcare	Life Science	Performance	Downstream activities
Chemical product safety		✓	✓	✓	✓
Material for:	Customers, Merck family, shareholders, government agencies, NGOs, commercial and business partners associates				
Patient safety		✓			✓
Material for:	Merck family, shareholders, government agencies, NGOs, health systems, patients				
Product-related crime		✓	✓	✓	✓
Material for:	Customers, Merck family, shareholders, federations and policy makers, government agencies, NGOs, commercial and business partners, health systems, patients				
Transport and warehouse safety	✓		✓	✓	✓
Material for:	Customers, government agencies, suppliers, commercial and business partners, communities				

Ethical conduct

	Upstream activities	Healthcare	Life Science	Performance	Downstream activities
Bioethics		✓	✓		✓
Material for:	Customers, federations and policy makers, government agencies, NGOs, media, scientists				
Clinical studies	✓	✓			✓
Material for:	Merck family, shareholders, federations and policy makers, government agencies, NGOs, media, suppliers, scientists, patients				
Animal welfare	✓	✓	✓	✓	
Material for:	Government agencies, NGOs, media, suppliers, scientists				

Good business practice

Compliance					
Material for:	Employees, Merck family, shareholders, government agencies, NGOs, suppliers, commercial and business partners, health systems, competitors				
Responsible marketing					
Material for:	Customers, federations and policy makers, media, commercial and business partners, health systems, patients				
Community involvement					
Material for:	Merck family, employees, NGOs, media, communities				
Interactions with health systems					
Material for:	Federations and policy makers, government agencies, NGOs, health systems, patients				
Governance					
Material for:	Employees, employee representatives, Merck family, shareholders, government agencies, suppliers, commercial and business partners, customers				
Data protection					
Material for:	Employees, employee representatives, suppliers, commercial and business partners, customers, patients				

Health for all

Access to health					
Material for:	NGOs, media, commercial and business partners, health systems, patients				
Prices of medicines					
Material for:	Merck family, shareholders, NGOs, media, commercial and business partners, health systems, patients				
Health awareness					
Material for:	NGOs, media, commercial and business partners, health systems, patients, communities, competitors				

Supply chain standards

Supply chain standards

✓	✓	✓	✓	✓
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Material for:

Customers, Merck family, shareholders, federations and policy makers, NGOs, media, suppliers, competitors

Human rights

Human rights

✓	✓	✓	✓	✓
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Material for:

Customers, federations and policy makers, NGOs, media, suppliers, communities, employees

Sustainable products

Sustainable product design

		✓	✓	✓
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Material for:

Customers, scientists

Attractive employer

Diversity

	✓	✓	✓	
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Material for:

Employees, employee representatives, Merck family, media

Recruiting and retaining employees

	✓	✓	✓	
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Material for:

Employees, employee representatives, Merck family, shareholders, competitors

Employee development

	✓	✓	✓	
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Material for:

Employees, employee representatives

Good leadership

	✓	✓	✓	
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Material for:

Employees, employee representatives

Employee engagement

	✓	✓	✓	
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Material for:

Employees, employee representatives

Health and safety

✓	✓	✓	✓	
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Material for:

Employees, employee representatives, government agencies

Work 4.0

	✓	✓	✓	
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Material for:

Employees, employee representatives

Technology

Innovation and R&D

✓	✓	✓	✓	✓
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Material for: Customers, Merck family, shareholders, Scientists, health systems, patients

Digitalization

✓	✓	✓	✓	✓
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Material for: Scientists, commercial and business partners, customers, patients

Resource efficiency

Waste and recycling

	✓	✓	✓	✓
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Material for: Government agencies, NGOs, communities, customers

Water management

	✓	✓	✓	✓
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Material for: Government agencies, NGOs, communities

Environmental protection

Energy efficiency and renewable energy

	✓	✓	✓	✓
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Material for: Federations and policy makers, NGOs, customers

Greenhouse gas emissions

✓	✓	✓	✓	✓
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Material for: Customers, federations and policy makers, government agencies, NGOs, media, suppliers

Plant and process safety

	✓	✓	✓	
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Material for: Employees, shareholders, Merck family, government agencies, media

Biodiversity

	✓	✓	✓	
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Material for: Federations and policy makers, government agencies, NGOs

Emissions

	✓	✓	✓	
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Material for: Federations and policy makers, government agencies, NGOs