

Scope 3 GHG Inventory 2015

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1. Introduction

Merck reports its Greenhouse Gas (GHG) emissions according to the "Greenhouse Gas Protocol, A corporate accounting and reporting standard, Revised Edition" by the Greenhouse Gas Protocol Initiative, a partnership between the World Resources Institute and the World Business Council for Sustainable Development.

For Merck's Scope 3 GHG Inventory, the following documents were used:

- "Corporate Value Chain (Scope 3) Accounting and Reporting Standard", GHG Protocol, 2011
- "Technical Guidance for Calculating Scope 3 Emissions (version 1.0)", GHG Protocol, 2013
- "Guidance for Accounting & Reporting Corporate GHG Emissions in the Chemical Sector Value Chain", wbcscd chemicals, 2013

Reporting period covered: Jan. 1, 2015 – Dec. 31, 2015



2. Overview Scope 3 GHG emissions 2015

Scope 3 category	Metric kilotons CO ₂ eq ¹⁾
1. Purchased goods & services	- 2)
2. Capital goods	- 2)
3. Fuel- and energy-related activities	95
4. Upstream transportation & distribution	- 2)
5. Waste generated in operations	123
6. Business travel	80
7. Employee commuting	51
8. Upstream leased assets	0 ³⁾
9. Downstream transportation & distribution	- 2)
10. Processing of sold products	0 ⁴⁾
11. Use of sold products	- 2)
12. End-of-life treatment of sold products	- 2)
13. Downstream leased assets	0
14. Franchises	0
15. Investments	- 2)

- 1) The figure does not include data from Sigma-Aldrich since the integration process is still underway.
- 2) no data available
- 3) Already covered under Scope 1/2 emissions.
- 4) Merck produces a huge variety of intermediate products for various purposes. Due to their many applications and our customer structure, the associated GHG emissions cannot be tracked in a reasonable fashion.

3. Scope 3 GHG emissions details

Scope 3 category	Data available	Metric kilotons CO ₂ eq	Methodology used/Explanations
Purchased goods & services	no	-	Emissions from purchased goods and services are expected to be highly relevant to Merck. As a global pharmaceutical and chemical company, Merck uses raw materials, packaging materials, etc. from various suppliers. Merck purchases 4,000 to 5,000 different raw materials and more than 10,000 different types of packaging. Among these, no one material is purchased in noticeably higher quantities than the others, and an initial review has not revealed materials sourced in large amounts with an exceptionally high Product Carbon Footprint. These facts do not provide a good starting point for prioritization.
Capital goods	no	-	Emissions from the production of capital goods purchased by Merck are expected to be medium to highly relevant, but no figures are available at this time.
Fuel- and energy-related activities	yes; 3rd party verified	95	Category 3 includes emissions related to the production of fuel and energy purchased and consumed by the reporting company in the reporting year that are not included in scope 1 or scope 2. To determine upstream emissions of purchased fuel, the fuel quantities are multiplied with cradle-to-gate emission factors (source: ecoinvent v2.2). Data on purchased and consumed fuel (mainly natural gas) are collected on an annual basis via Merck's central EHS data management system. Upstream emissions of purchased electricity, steam, heating and cooling are calculated based on the amount of energy purchased, fuel efficiencies, global fuel shares of electricity generation, and emission factors. Data on purchased energy is collected on an annual basis via Merck's central EHS data management system. The amount of primary energy is determined based on the quantities of purchased electricity, heating, steam, and cooling, as well as the respective fuel efficiencies (85% for steam/heat/cold

			generation, 37% for electricity generation). The proportion of the different fuel types relative to the total amount of primary energy is calculated based on the fuel shares of global electricity generation (source: "Key World Energy STATISTICS", IEA 2015). Transmission and distribution (T&D) losses are determined based on the quantities of electricity and steam/heating/cooling purchased as well as country-specific loss factors. Data on purchased energy are collected on an annual basis via Merck's central EHS data management system. Basis for country-specific electric power transmission and distribution losses (% of output): Worldbank (http://data.worldbank.org/indicator/EG.ELC.LOSS.ZS). Basis for the loss factor for purchased heat/steam (7.5%): "KEA für Produkte der organischen Chemie", Fraunhofer-Institut für Systemtechnik und Innovationsforschung (FhG-ISI), 1999. The same factor is used for cooling. Emissions from the generation of purchased electricity sold to end users is not relevant for Merck because Merck does not sell purchased electricity. A number of small commercial affiliates, labs, etc. have not been incorporated into Merck's EHS data management system. For one, integrating these sites requires a huge effort for GHG emissions that are minor in relation to the sites already included in our accounting. Secondly, very often these small sites are not able to provide the necessary data because they use rented offices and do not receive energy-related information from their landlord. We assume that the accounted emissions cover the vast majority of Merck's emissions.
Upstream transportation & distribution	no	-	Being a global company, Merck operates in 66 countries. We therefore expect that transportation and distribution of goods purchased by Merck, as well as products manufactured by Merck, to be an emission source of moderate relevance. Nevertheless, reliable data for our transport operations is not yet available Group-wide.
Waste generated in operations	yes; 3rd party verified	123	Category 5 includes emissions from third-party disposal and treatment of waste generated in facilities owned or controlled

		by Merck (including disposal of both solid waste and wastewater). The calculation of emissions from waste generated in operations and disposed of by third parties is based on primary data from Merck's manufacturing sites collected on an annual basis via Merck's central EHS data management system. This data is split up into various waste types (e.g. solvent waste, soil waste) and waste disposal methods (e.g. waste-to-energy, landfill, recycling). Emission factors based on the carbon content of the waste were taken from the "Guidance for Accounting & Reporting Corporate GHG Emissions in the Chemical Sector Value Chain". The emission factor for external waste recycling/recovery and for external waste incineration with energy recovery is 0 kg CO₂eq/metric ton carbon (it is assumed that recycling and energy recovery are attributed to the organization that uses the recycled material, or that uses the waste to generate energy); the emission factor for external waste incineration without energy recovery is 1 kg CO₂eq/metric ton carbon; the emission factor for external landfill waste is 13 kg CO₂eq/metric ton carbon. Carbon content factors are mainly taken from the "2006 IPCC Guidelines for National Greenhouse Gas Inventories" (e.g. solvent waste: 80%; construction and demolition waste: 20%; plastic waste: 75%). These data are then multiplied with each other. Emissions resulting from the transportation of waste materials are not taken into account. To calculate greenhouse gas emissions from wastewater treatment in third party municipal or industrial wastewater treatment plants, we use primary data from Merck's manufacturing sites, which is collected on an annual basis via Merck's central EHS data management system. Wastewater quantities are multiplied by an emission factor (0.708 kg CO₂eq/m³ wastewater) from "UK Government conversion factors for Company Reporting", 2015. Merck's waste and wastewater accounting only covers manufacturing sites. Pure warehouse sites, labs or commercial affiliates are not included in our waste reporting. Nevertheless, it is expected that the accounting covers more than
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			95% of Merck's overall waste quantity. Additionally, it can be assumed that the majority of waste not taken into account is recycled (paper, cardboard, plastic, etc.).
Business travel	yes; 3rd party verified	80	Category 6 includes emissions from the transportation of employees for business related activities in vehicles owned or operated by third parties, such as aircraft, trains, buses, and passenger cars. Air travel: Based on its flight booking and billing processes, Merck's payment solution service provider supplies detailed data of all flights booked. Greenhouse gas emissions are calculated by atmosfair (www.atmosfair.de), a recognized non-governmental organization dealing with climate protection with a focus on travel (exception: 2010). Methodology used: DEFRA/GHG Protocol. Data from 2010 to 2012 covers approximately 70% to 80% of the business flights of Merck employees. Data from 2013 onwards covers approximately 90% to 95% of the business flights. When the greenhouse effect at high altitudes is taken into account, the emissions from air travel add up to 159 metric kilotons CO₂eq (Radiation Forcing Index RFI of 2.7). Rail travel: Rail travel is considered relevant in some European countries (e.g. Germany, France, Spain). In non-European countries, it is seen as rather negligible. At this time, data for rail travel is only available in Germany. This data is provided by Deutsche Bahn AG Emission factors used per type of train: long distance trains: 0 kg CO₂/passenger-km (the Deutsche Bahn AG switched to renewable energy for long distance trains); short distance service: 0.0752 kg CO₂/passenger-km. Rental cars: Basic data (distance driven, average fuel consumption per rental car type) is provided by Merck's global rental car provider on an annual basis. The emissions reported include car rental in Europe and North America. This covers the most relevant countries. Only a few cars are rented in Asia and South America. An emission factor of 2.627 kg CO₂/L is used for diesel, with a factor of 2.302 kg CO₂/L for gasoline.

			Data on other means of transportation (e.g. trams, taxis and buses) are not available. Their impact on Merck's overall emissions is expected to be negligible.
Employee commuting	yes; 3rd party verified	51	Category 7 includes emissions from the transportation of employees between their homes and work. Within Merck, there is no detailed data available on how employees commute to work (means of transport), the distance they travel each day, and how often they commute to work per year. Therefore, the assessment of the GHG emissions is based on estimates and assumptions. For this, we use the "Guidance for Accounting & Reporting Corporate GHG Emissions in the Chemical Sector Value Chain" along with statistical data. For Darmstadt, Merck's largest site with approx. 9,100 employees, the number of parking spots and Job-Tickets (Merck supports the use of public transportation at the Darmstadt facility) are taken into account when estimating the percentages for the different modes of transportation. For the rest of Europe and North America, statistical data from internet research is used. We then take this data and calculate estimates for the Emerging Markets (Latin America and Asia without Japan) and ROW (Rest of World). For Darmstadt, it was assumed that 36.3% of the employees travel by car, 11.2% travel by rail, 19.7% travel by bus, and 21.6% are non-motorized (on foot, by bike etc.; incl. passengers car-pooling). For Europe, it was assumed that 61.8% of the employees travel by car, 4.8% travel by rail, 8.4% travel by tram/subway, 4.8% travel by bus, and 20.4% are non-motorized. For North America, it was assumed that 82% of the employees travel by car, 0.6% travel by rail, 1.7% travel by tram/subway, 2.8% travel by bus, and 13% are non-motorized. For Latin America, Asia/Pacific and Middle East/Africa, it was assumed that 10% of the employees travel by car, 10% travel by rail, 35% travel by tram/subway, 30% travel by bus, and 15% are non-motorized. The average number of trips per year and employee (440) as well as the average

			travel distance (30 km by car or rail, 20 km by bus or tram/subway; single trips) are taken from the "Guidance for Accounting & Reporting Corporate GHG Emissions in the Chemical Sector Value Chain". Emission factors for modes of transport are taken from "UK Government conversion factors for Company Reporting", 2014 (cars: 186.35 g CO ₂ eq/km; rail: 45.06 g CO ₂ eq/km; bus: 100.33 g CO ₂ eq/km; tram/subway: 54.61 g CO ₂ eq/km).
Upstream leased assets	Scope 1/2 emissions; third party verified	0	Category 8 includes emissions from the operation of assets that are leased by Merck and that are not already included in the reporting company's scope 1 or scope 2 inventories. Emissions from this category are not relevant for Merck's scope 3 reporting because leased assets (e.g. rented offices, labs or warehouses) are integrated in the annual EHS data collection processes and are part of Merck's scope 1 and 2 GHG inventory. A number of small commercial affiliates, labs, etc. have not been incorporated into Merck's EHS data management system. For one, integrating these sites requires a huge effort for GHG emissions that are minor in relation to the sites already included in our accounting. Secondly, very often these small sites are not able to provide the necessary data because they use rented offices and do not receive energy-related information from their landlord.
Downstream transportation & distribution	no		Emissions from downstream transportation and distribution processes are expected to be of low relevance for Merck. Reliable data for our transport operations is not yet available Group-wide.
Processing of sold products	no	-	Category 10 includes emissions from the processing of sold intermediate products by third parties (e.g. manufacturers) subsequent to sale by the reporting company. Merck produces a huge variety of intermediate products for various purposes. Due to the range of potential applications and our customer structure, the related GHG emissions cannot be tracked in a practical fashion. Reliable figures are difficult to obtain.

Use of sold products	no		Emissions from the use of sold products are expected to be of low relevance because of Merck's product portfolio.
End-of-life treatment of sold products	no		Emissions from the end-of-life treatment of sold products are expected to be of low relevance because of Merck's product portfolio.
Downstream leased assets	not relevant; third party verified	0	Category 13 includes emissions from the operation of assets that are owned by the reporting company (acting as lessor) and leased to other entities. This category is not relevant for Merck because Merck essentially does not lease out real estate or other fixed assets (as assessed by Merck experts).
Franchises	not relevant; third party verified	0	Category 14 includes emissions from the operation of franchises. This category is not relevant for Merck as Merck does not operate franchises, i.e. businesses operating under a license to sell or distribute another company's goods or services within a certain location. Out-licensing in the pharmaceutical sector is not regarded as franchising.
Investments	no		Emissions from investments are expected to be of low relevance as Merck normally has operational control when investing in (emission-intensive) sites; in this case, GHG emissions are covered via scope 1 and 2 emissions.