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Attractive employer



Part of the non-financial report

We recognize that our employees are crucial to our success. To secure our future viability, we seek to attract people who have the potential to take on greater future roles. Demographic change is heating up the competition to hire top talent, especially in Europe, the United States and parts of Asia. By contrast, in several emerging countries, filling leadership positions is one of the greatest challenges.

Owing to the ever-faster pace of technological progress, the bar on professional requirements is constantly being raised. In response to this situation, we constantly work to advance our employees' career development and help them build their skills. In doing so, we as an employer must also meet the growing expectations for work-life balance.

Our approach to recruiting and retaining talent

Our aim is to attract **qualified employees** and retain them over the long term. In our quest to offer our people a career that is both professionally and personally enriching, we are committed to facilitating professional paths that align with their individual ambitions, skills and talents. Especially when it comes to new challenges and development opportunities, we encourage them to take on responsibility.

In 2017, we introduced a new Group-wide job architecture called Expanding Horizons that provides leaders with greater flexibility in making employee-related decisions while also empowering them with more responsibility. Through this initiative, we are promoting strategic objectives such as empowering our leaders, engaging our employees and creating multifaceted development opportunities for our talent. Expanding Horizons combines personnel development with other HR processes such as compensation and guidelines for organizational development. This initiative builds on the Global Role Framework, a catalog of positions and functions in which all employees have been re-mapped from Global Grades into Roles. The Expanding Horizons job architecture defines **three fundamental career types** - managers, experts and project managers - which all have equal opportunities. Those who wish to advance their careers and attain a top position within the company can also do so as an expert or project manager. The job architecture thus creates greater transparency for individual employees regarding their development opportunities and the requirements of their particular Role, providing a solid framework to effectively develop human resources.

In addition to implementing this new job architecture, we have made it our mission to discover high-potential individuals at an early stage in their career and develop their talents. Within our

Succession Management Process, we work with leaders and our HR unit to systematically prepare candidates for leadership positions, allowing us to fill vacancies quickly and efficiently.

How we structure our personnel management

All global HR expert and business partner roles are organized in one global structure, serving all Merck businesses and functions. Our "Talent, Development & Recruiting", "Rewards", and "Engagement & Inclusion" expert units focus on strategies to advance and promote our employees, organization and culture, coordinating the implementation of the necessary measures. At our sites around the world, our HR staff implements these measures in collaboration with leaders from our business sectors. In doing so, they comply with global HR guidelines and requirements, which we monitor by means of internal audits that are conducted every two or three years.

In September 2017, Executive Board member Belén Garijo assumed responsibility for Group Human Resources, a function previously performed by Kai Beckmann. Our Chief HR Officer reports directly to Belén Garijo and is in charge of the various expert and business partnering HR activities. In 2017, HR Services were combined with other Group Function services into one Merck Business Services unit. Executive Board member and Chief Financial Officer Marcus Kuhnert assumed responsibility for this Business Services unit.

Digital HR tools

To harmonize our HR processes around the world, in 2012 we introduced HR4You, an online platform accessible to all employees. It is used to manage all key HR functions, such as development and succession planning, recruitment, continuing education, and employee performance assessments. Moreover, it helps calculate compensation and bonus payments.

Our commitment: People Development Policy

Our People Development Policy provides a Group-wide framework for employee development and succession planning and contains guidelines pertaining to our development opportunities, as well as roles and responsibilities. The corresponding processes are set out in the People Development process descriptions.

Group-wide labor and social standards

Our company is dedicated to appropriate labor and social standards, working hard to uphold them. Our Code of Conduct is a compulsory set of rules for our company's entire workforce. All

employees receive a copy with their letter of offer. The Code of Conduct explains the principles for dealings with business associates, general partners, co-workers, and employees, as well as the communities in which we operate. Thus, it supports all employees in choosing the ethical path. Our Human Rights Charter supplements the Code of Conduct with global human rights principles such as the fundamental conventions of the International Labour Organization (ILO), which cover topics such as freedom of association, the right to organize, collective bargaining, forced labor, child labor, anti-discrimination, equal opportunity, equal pay, working hours, occupational health & safety, and the prevention of abuse and harassment. These principles describe our commitment to respecting fundamental labor standards and are reviewed during our internal audits to check that our local subsidiaries are complying with them.

In 2017, we furthermore decided to draft a Group-wide set of guidelines on adherence to additional ILO core labor standards. Our intention is to make global occupational and social standards an integral pillar of our organization.

Providing feedback and supporting development

We regularly provide our employees feedback on their performance through our **Performance and Potential Management Process**, which ensures that, in addition to the feedback, a meeting is held once a year to evaluate their overall performance. This process is applicable to all employees Group-wide with a Role of 2 or higher, and additionally to all non-exempt staff employed by either Merck KGaA or any other subsidiary based in Germany.

The process involves leaders and subordinates working together to define individual objectives and create a detailed **development plan** that reflects each employee's core tasks as well as current strategic priorities. In drafting the development plan, all employees have access to the Development Advisor. Building on Merck's competencies (p. 84), this web-based tool provides a selection of development opportunities that employees can tailor to their own needs. Thanks to a 2017 upgrade to our electronic HR4You platform, employees can now create their development plan easier and faster.

~51,000

of our people took part in the Performance and Potential Management Process in 2017, and 61% submitted a development plan.

Every three years, employees can additionally have their performance assessed by select colleagues and external

partners. This 360-degree feedback helps to identify personal strengths and advancement opportunities. Using a new feedback tool we launched in 2017, it's now easier for employees to receive and submit feedback.

Employee learning and education

Our **Group-wide advanced training and continuing education program** ensures that our employees develop the skills needed to help us realize our company strategy and continue down the path of success. Our employees can use our My Learning online tool to sign up for suitable activities such as seminars and online training courses.

In 2017, a total of 5,700 employees took part in our global classroom training. These courses are flexible, meaning that while the core curriculum is uniform around the world, there is still room for adjustments, for instance to reflect specific local change projects. As well as classroom training, more than 3,500 employees also signed up for global e-learning courses and more than 380 completed online language classes.

Performance-based pay

We endeavor to reward the performance of all our employees and maintain a competitive edge in attracting qualified professionals, which necessitates commensurate compensation. At our company, compensation is based on the requirements of each position and employee performance. In making compensation decisions, direct supervisors always consult with their respective superior. In addition to competitive remuneration, we offer attractive fringe and social benefits. Our benefits4me package, for instance, encompasses **three pillars**, namely company-funded benefits including our company pension, health & well-being, and services. To meet the multifaceted needs of our workforce worldwide, we offer a variety of benefit packages.

To ensure a **competitive compensation structure**, we regularly review our compensation policy based on data analyses and benchmarks. In doing so, we take internal factors and market requirements equally into account. In making adjustments to this policy, we involve key stakeholders such as employee representatives (p. 83) in the early stages of the process. The reward structures at Merck are gender-neutral and based on defined criteria such as job requirements and performance. Our analyses on Group level show that there are no significant gender-based compensation inequities.

Attracting qualified university graduates

We endeavor to attract the top university graduates. As part of our efforts, for instance, we partner with the German online network "careerloft". Furthermore, we regularly attend job fairs to reach out to potential applicants, informing them about job opportunities and career tracks

within our company. In countries outside of Germany, particularly the United States and China, we likewise use career fairs as a way of making **personal contact with university graduates**.

In addition to recruitment, we also provide financial assistance to talented students. That's why we collaborate with organizations such as the German National Academic Foundation and the Foundation of German Business, and furthermore support the Deutschlandstipendium (German national scholarship program).

University graduates can apply for a position with our company directly or complete one of our trainee programs. Our trainees acquire international experience in various business sectors and functions, and take part in tailored continuing education offerings.

Sparkling student and graduate interest

We employ trainees in units such as Inhouse Consulting, Finance and Production. In 2017, we launched trainee programs in Marketing, Sales, Human Resources, and Research & Development. All **trainee programs** named "GOglobal" provide graduates experience in various units, international assignments, tailored continuing education, mentoring, and coaching, while also offering participants a high level of visibility within the company. Although the programs are largely centered around Germany and the United States, we also employ trainees at our sites in Ireland and France. In 2017, the first two trainees in China started our vocational training program. In 2017, we employed 90 trainees.

Beyond trainee programs, we also offer internships to high school and university students. Through our **Keeping Ties to Students program**, we stay in touch with talented individuals who perform particularly well during their internship. Furthermore, every year we invite students from German, Austrian and Swiss universities to our company, where they learn about the various career tracks and job opportunities we offer. Going forward, we intend to step up contact with students.

The foundation: Vocational training

For us, **vocational training** is one of the most important ways to meet the current and future need for qualified professionals. In Germany, Austria and Switzerland, we offer numerous apprenticeship positions for various professions, as well as **dual vocational training programs**. We continuously invest in new technologies and integrate these into our vocational training. We also give young adults the opportunity to complete their vocational training on a part-time basis. If, after completing their apprenticeship, they wish to continue studying while working, we will cover up to 100% of the costs and also allow them to take special leave. Furthermore, apprentices can take part in community outreach programs.

Impressive hiring rate and new dual vocational training programs

In 2017, 588 people were enrolled in vocational training programs at our sites in Germany, with 205 beginning their apprenticeship at our company. In total, we offer apprenticeships across 23 occupations, primarily in production, laboratory work and office administration. Furthermore, 18 young adults embarked on vocational training courses in the fields of business administration, business IT, process engineering (chemical engineering), and mechanical engineering. Apprentices in the Laboratory group begin their training as chemistry or biology lab technicians and, subject to suitability, may receive the opportunity to start a dual study program after six months. Since 2014, we have been offering **permanent employment contracts** to all apprentices and graduates of dual study programs working in occupations for which we have long-term demand. In 2017, the hiring rate for graduates of these programs – taking voluntary terminations into account – was over 90%.

Special vocational training opportunities

In Darmstadt, our "Start in die Ausbildung" program helps young people who have a high school diploma but have been searching for an apprenticeship for at least one year without success. We offer them the opportunity to complete an 11-month program with our company, providing **insight into professional life** and improving their chances of gaining an apprenticeship. In 2017, 20 participants aged 16-25 started this program. Since its launch in 2006, 204 young people have already taken part in the program; 103 of them have successfully completed an apprenticeship, while 37 are still in a vocational training program.

In October 2016, we established a similar program for refugees. Having entered its second round in 2017, the "Integrating refugees through training" initiative prepared 12 young people for vocational training, thereby opening the door to the German labor market. The project comprises language, technical, cultural, and career-related training. In 2017, we hired three of the participants from the 2016 program as apprentices and placed two others in apprenticeships with other companies. The seven remaining participants are now pursuing further studies at schools or academic institutions.

Leveraging the opportunities of digitalization

Our work is becoming increasingly digital and flexible, a development described by the terms "Work 4.0" and digitalization (p. 29). This trend is also impacting our vocational training and continuing education programs, where we are integrating instruction on using new technologies such as 3D printing and trying out **novel learning and innovation methods** such as design thinking. Moreover, since 2017 we've been providing all new apprentices with hybrid laptop/tablets to teach them how to navigate our company's soft-

ware landscape and to educate them on data protection. In 2017, members of the Production Engineering group partnered with employees from Organic Polyproduction to implement damage simulation software. In addition to simulation software, apprentices also utilize augmented reality technology to learn how to operate plants and machinery, accessing useful additional information via a display.

Our EVA collaboration platform is another example of an innovative, cutting-edge working environment. EVA stands for “**E**xpertise everywhere, **V**irtual teams, **A**ccess to information” and brings our employees from across the globe together. It allows virtual teams to collaborate and communicate across departmental boundaries and national borders. In total, approximately 50,000 people have access to the platform, which has won an array of international awards. A dedicated project team is continuously working to improve and optimize this tool.

Good standing in employer rankings

Our company is one of the world’s best employers, a fact now officially verified by the Global Top Employer 2017 certificate awarded by the Netherlands-based Top Employers Institute. Every year, this independent institute organizes an international assessment involving an external audit as well as a detailed survey to determine the processes and structures that make up a company’s human resources environment.

Rolled out in 2017, our **newly developed employer brand** sums up what it means to work for Merck. It is built on the passion, creativity and curiosity of the employees who have helped us become a global science and technology company. We believe that curiosity always leads to positive outcomes, something we hope to make clear both through our employer brand and the accompanying campaign. We are aspiring to become the employer of choice for all inquisitive individuals, which is why this campaign centers on our promise to “Bring your curiosity to life”.

The success of our efforts is also confirmed by our **ranking among the 100 top employers** for students and experienced scientists in Germany. This index is published annually by the research and consulting firm Universum and involves a survey of more than 5,000 people. Among scientists, in 2017 our Group ranked fifth in the student survey and seventh among experienced professionals.

In addition to this recognition, we were also ranked fourth among the world’s top employers by Science, a leading peer-reviewed scientific journal. Almost 7,000 employees as well as managers from biotech and pharmaceutical companies took part in the magazine’s online survey.

Finding work-life balance

We recognize how important **work-life balance** is for a productive and motivated workforce, which is why in many

countries we allow our employees the flexibility to organize their own work schedule. Our people make use of more than 30 different part-time models. In Germany and the United States, where around 45% of our workforce is based, we offer parental leave conditions that go beyond the statutory minimum requirements. Moreover, in Darmstadt we hold special seminars and offer referral services for employees who provide care for family members.

Expanding flexible working models

We offer our employees various flexible and innovative working models. The mywork@merck program was implemented in 2013 at the Darmstadt and Gernsheim sites in Germany and is now open to all exempt and non-exempt employees. Since 2017, this model has been available in many countries across Asia and Europe, and also in Australia. In agreement with their teams and supervisors, employees can freely choose their working hours and location. Employees can decide for themselves, together with their respective supervisors, when and how often fixed physical presence in the office is necessary for all team members. Working hours are no longer recorded or monitored. This approach aims to strengthen the **culture of performance and trust** within the company. At the end of December 2017, a total of 5,267 employees were making use of this model.

In 2017, 4.6% of our employees worldwide worked part-time, 10.7% of whom were men. We believe that with these flexible working models, we are on the right track to achieving a better balance between the expectations we set as an employer and the home life demands of our employees. Ideally, such a balance should lead to greater employee satisfaction and increase our appeal as an employer.

Supporting parents

We endeavor to make it easier for our employees to return to work following parental leave, which is why in 2016 we launched the Parents@Merck program in Darmstadt and Gernsheim (Germany). By the end of 2017, 101 employees had signed up for this program, which gives mothers and fathers on parental leave the opportunity to talk and interact while also helping them keep in touch with the company. Moreover, they can make use of the various **training and networking offerings**. We have established a similar program in the United States.

In the United States, we offer the female employees in our Life Science and Healthcare business sectors eight weeks of paid maternity leave. In Life Science, fathers are eligible for two weeks of paid paternity leave, which also applies when adopting a child, while Healthcare staff are given five weeks of paid paternity or adoption leave. By contrast, the statutory minimum only provides for 12 weeks of unpaid parental leave per year. Furthermore, we also reimburse up to US\$ 5,000 in adoption fees.

At our sites in Germany (around 25% of our workforce), 452 employees were on parental leave at the end of December 2017, 51% of whom were fathers. In other key countries, we go beyond the legal requirements to offer other kinds of new parent support such as extended leave for employees in Brazil. In India, too, we offer five days of paid paternity leave to fathers, even though it is not a legal entitlement. In offering these benefits, we do not differentiate between full- and part-time staff or employees with fixed-term contracts. The latter may apply for parental leave until the end of their term of employment.

Daycare support

For 50 years, a **daycare center for children** aged 1-12 has been operating at our global headquarters in Darmstadt. This facility is funded by the Merck family (Merck'scher Kindertagesstätten-Verein e.V.) and offers 150 slots. Since 2013, we've been providing year-round care from 6:30 a.m. to 7 p.m. For the children of our employees in Gernsheim, five places are available at a public daycare center.

Our Darmstadt site also offers **provisional daycare services** to cover times when an employee's regular childcare falls through. During school breaks in the German Federal State of Hesse, we host a variety of vacation camps

focused on sports, art, research, and nature for up to 450 children. Since June 2016, we have also been providing temporary care for sick children. For up to two days, parents throughout Germany can engage the services of an education specialist free of charge to look after their children at home.

Our facility in Mumbai, our main site in India, also features a **daycare center** for the children of our employees. In the United States, parents can go to www.care.com to find external childcare. Furthermore, we offer up to ten days of provisional childcare, as well as daycare center slots at special rates and home childcare. We are currently considering the possibility of introducing measures at our other sites as well to help our staff reconcile work and family life.

Family and elderly care: Better informed

Twice a year, we offer our employees in Germany **family care seminars** on a range of topics. An external associate provides advice on all issues relating to family care and guides people in their search for suitable options. In Darmstadt, our company health insurance fund also puts people in touch with nurses and, in the United States, our employees can use the online portal care.com to locate family care services.

Diversity



Part of the non-financial report

We are an international company with employees who represent a varied cross-section of nationalities, cultures, religions, and age groups, as well as different gender identities, different sexual orientations and an array of professional backgrounds. We believe that a diverse workforce – paired with a respectful corporate culture – strengthens our ability to innovate and contributes significantly to our business success. With this in mind, we work hard to foster a culture of diversity and inclusion.

Our approach to diversity and equal opportunity

Our goal is to further drive diversity across our workforce and offer all our employees **equal opportunities** for advancement. In particular, we endeavor to promote greater opportunities for women, cultivate an international working environment and form teams with a balanced age structure. To this end, we offer our employees global development opportunities and are working to increase the percentage of leaders from international growth markets across the Group to leverage their knowledge of local markets. To support

these efforts, in 2017 we developed a detailed diversity policy for the Executive Board and Supervisory Board of Merck KGaA. The policy is published in our management report.

The strategic competencies that guide our employees and leaders in their tasks are set out in our Competency Model (p. 84), a fundamental element of HR processes such as recruitment, feedback and training for supervisors and leaders. We have software in place that allows our leaders to quickly and reliably analyze their personnel and team data. Select data on topics such as diversity are also presented in this report.

Women in leadership roles: Requirements and targets

Our target for 2021 is to maintain a 30% representation of **women in leadership roles**, and we are working to further increase the representation of women in leadership positions and business units where they are still underrepresented. To achieve this objective, in 2017 we formed special teams that are responsible for developing goals and measures at a departmental level to help us move female candidates into

positions in different areas and hierarchies. At the end of 2017, women occupied 30.3% of leadership roles Group-wide. Although these figures are increasing steadily across the company, this is not the case within certain business units, Group functions and hierarchical levels.

How we're making diversity a pillar of the company

Our Chief Diversity Officer is responsible for overseeing our Group's diversity strategy and reports directly to Belén Garijo, the Executive Board member whose responsibilities include Group Human Resources. Consisting of executives from all our business sectors and select Group functions, our **Diversity Council** performs four key tasks:

1. It is responsible for implementing our strategy for greater diversity.
2. It evaluates and further develops proposals to increase diversity submitted by our business sectors and functions as well as employee-organized networks.
3. The council members ensure implementation of the Diversity Strategy in their respective areas, monitoring the progress of the initiatives.
4. Members act as direct points of contact for the employees in their respective areas.

Group Human Resources (HR) has also implemented a number of programs and processes in order to further enhance diversity within the company.

Our commitment: Industry-wide initiatives and regulations

In an effort to promote further diversity and underscore our **commitment to fairness, inclusion and tolerance** in the workplace, we support industry-wide initiatives:

- In 2017, we adopted the new Inclusion Action Plan of the German Mining, Chemical and Energy Industrial Union (IG BCE), which sets out concrete measures and provides guidance for creating a more inclusive workforce for employees with disabilities. In endorsing this plan, we are meeting the requirements of the United Nations Convention on the Rights of Persons with Disabilities.
- In 2015, we furthermore signed the IG BCE Equal Opportunity Charter, thereby promising to do everything in our power to achieve gender equality within the company.
- In 2013, we endorsed the German industry-wide "Charta der Vielfalt" (Diversity Charter).
- In 2011, we joined other DAX® 30 companies in signing a declaration committing to advance women in leadership roles.

Meeting statutory requirements

The German Law for the Equal Participation of Women and Men in Leadership Positions in the Public and Private Sector has been in effect in Germany since 2015. Owing to our legal form as a KGaA (corporation with general partners), this law also applies in part to us. Detailed information can be found on our website.

Consisting of 37.5% women (6 out of 16 members), our Supervisory Board already meets the stipulations of the German legislation on the **gender quota**. Owing to our legal form as a KGaA (corporation with general partners), we are not required to set targets for our Executive Board. For the two management levels below the Executive Board, however, the Executive Board set the following targets in 2016:

- 21% women on the first management level below Executive Board
- 26% women on the second management level below Executive Board.
- We've set a deadline of December 31, 2021 for reaching these targets.

Increasing diversity awareness

We seek to raise awareness for diversity and inclusion among our employees. In a bid to educate people on **unconscious bias**, in 2017 we conducted pilot projects Group-wide involving a variety of training seminars and webinars. 192 employees took part. These seminars help participants recognize unconscious thought patterns and stereotypes, thereby preventing any unfair treatment resulting from such a mindset. In addition to raising diversity awareness, we also support our business units in their efforts to advance a greater number of women into leadership roles. Launched in 2017, our Gender Balance Toolkit enables them to identify gaps in recruitment processes and develop a custom-tailored course of action to increase the percentage of female employees in their ranks. In 2017, we also started looking into ways to leverage the Healthy Women, Healthy Economies toolkit, whose guidelines help identify methods of promoting worker health.

In 2017, for the sixth year running, we dedicated the entire month of September to the topic of diversity and inclusion. Under the banner of "Different Perspectives", we hosted a variety of activities around the globe. The approximately 11,100 employees participating across 32 countries showed how important the issue is. Our Diversity Council sponsored the campaign, supporting it through media articles and by participating in roundtables and employee events.

Networks to bolster diversity

Creating an inclusive work environment that promotes mutual respect is a particular focus of our diversity strategy. We support specific employee networks in order to foster **exchange among like-minded individuals**. Apart from our internal women's network in various countries, we also promote networks that further the interests of the LGBTIQ (Lesbian, Gay, Bisexual, Trans, Intersex, Queer) community, Afro-American employees, and international staff.

Owing to the acquisitions we have made in recent years, there has been a steady increase in the number of our employee networks. Going forward, we intend to better leverage the potential of these networks to benefit our business activities. Networks with similar objectives are to be merged and expanded internationally. Moreover, we want to help establish leadership structures within these networks and define their goals. To this end, we invited leaders from all networks Group-wide to a first-ever leadership summit in 2017.

Through our Rainbow Network for homosexual, bisexual and transsexual employees, in 2017 we supported Christopher Street Day in Frankfurt and Darmstadt (Germany). As well as taking part, we were the official corporate sponsor of the event in Darmstadt. Since 2016, the Rainbow Network has also been active in the United States and Canada.

Our U.S.-based Black Leadership Network is dedicated to advancing and developing African American employees, offering its members advanced training and continuing education programs, tailored career advice and networking opportunities.

Tapping into external networks

We are a corporate partner of the Healthcare Businesswomen's Association (HBA), a non-profit organization committed to furthering the advancement and impact of women in the healthcare industry. We encourage our female employees to get involved in this network because it gives them access to mentoring programs as well as the opportunity to attend various seminars and conferences at our global headquarters in Darmstadt (Germany), as well as in Lyon (France), or Boston, MA (USA). In autumn 2017, several of our employees participated in the HBA's European conference in London (United Kingdom) as well as its annual conference in Philadelphia, PA (USA), not to mention regional events held in cities such as Darmstadt. Furthermore, three of our female employees are board members of HBA Europe.

As well as supporting the HBA, we were also a primary sponsor of the 2017 Women's International Networking (WIN) Conference in Oslo (Norway), which was attended by 15 of our employees, some of whom gave talks. The network connects **women in leadership roles** with the aim of helping them gain more influence. As a member of the Center for Talent Innovation, we benefit from their research on diversity and inclusion. In 2017, two of our female employees participated in the Task Force Summit held in New York City (USA).

Taking action against discrimination

As stipulated in our Code of Conduct, we do not tolerate any form of discrimination within our company. If an employee feels they have been discriminated against, they can report the issue via **various channels**. Their first point of contact is their supervisor, but they can also contact Human Resources, Legal or Compliance. Alternatively, employees can call our SpeakUp Line anonymously from anywhere Group-wide. Group Compliance (p. 11) is responsible for investigating alleged cases, a process coordinated by the Group Compliance Case Committee. In confirmed cases of discrimination, a subcommittee provides a recommendation for disciplinary action that is implemented by our management team. In this way, we ensure that similar cases are dealt with consistently across the company. In 2017, **no suspected cases of discrimination** were reported via the SpeakUp Line or other channels.

Successfully integrating international employees

Our company is becoming increasingly international. We currently employ people from a total of 131 nations, 23% of whom are German citizens. Our leadership (Role 4+) includes representatives of 65 nationalities. In 2017, 64% of leadership positions were held by non-German employees. As of the end of 2017, 8% of our employees were working outside their home countries.

To best facilitate this **international collaboration**, we offer intercultural seminars for all employees along with suitable online tools. For instance, our Cultural Navigator helps prepare our staff for international projects and business trips abroad. We also provide the majority of our company-related documents in English, and support employees posted to other countries through language courses and international networks to help them adjust more quickly to their new country. For instance, around 600 expatriate employees are members of the International Community, which meets regularly in Darmstadt.

Addressing demographic change

Another issue we're tackling is demographic change. We expect the average age of our workforce to continue to rise in the coming years. In Germany, we are responding to this trend with various initiatives including our corporate health management program. Take for instance BELS, the tool for strain evaluation that we use to **design ergonomic work spaces that boost performance**. BELS takes demographic change into consideration by assessing a range of stressors through the lens of age. This approach allows us to adapt our workplaces to suit the needs of older individuals. In addition to modifying physical working environments, in 2015 we developed new shift models and introduced a prevention program for shift workers. In 2017, our company health insurance fund (Merck BKK) partnered with our health management organization to conduct a year-long campaign entitled "Time for me - Building resources". Under this campaign, we hosted health and safety days that were attended by over 1,200 employees.

Health and safety



Part of the non-financial report

We take responsibility for the health and safety of our employees, doing everything in our power to safeguard them against work-related illnesses and accidents. When it comes to office work, issues such as stress prevention, nutrition and mobility are top priorities. Here, we focus our efforts on helping our employees prevent temporary or long-term health problems.

Our approach to preventing accidents and promoting health

We seek to promote the health of our employees and maintain their ability to perform over the long run, which requires a **safe workplace**. One of our Group-wide objectives is to step up our safety culture. Our goal for 2020 is to keep our lost time injury rate (LTIR) under 1.5. Furthermore, we are working to make workplace health management a greater part of our corporate culture and leadership.

How we manage occupational health and safety

Our Environment, Health, Safety, Security, Quality (EQ) Group function is responsible for our Environment, Health and Safety (EHS) management system. This unit reports to Executive Board member Walter Galinat, setting objectives, overseeing global initiatives and conducting internal audits. Local EHS managers ensure that each individual site adheres to occupational safety laws and regulations.

We collect **workplace accident data** from our sites on a monthly basis. Every facility is required to immediately report relevant accidents to EQ, where the cases are investigated and assessed. If necessary, we implement additional safety measures at our sites.

Furthermore, our Life Science business sector holds monthly safety calls with local EHS officers to share lessons learned and discuss recommended actions for comparable situations.

At our Darmstadt and Gernsheim sites, our Health Management unit helps weave health awareness into our corporate culture. The strategy necessary, individual focal areas and measures required are developed by an interdisciplinary steering committee consisting of various senior leaders such as the Head of Occupational Health & Safety, the Chairman of the Works Council, and the Head of Health Management. Topics include workplace health fundamentals, good leadership and tailored health programs.

Our commitment: Policies and bylaws

Our approach to occupational health and safety is detailed in our Corporate Environment, Health and Safety Policy. This is an integral part of our EHS management system, which undergoes an external OHSAS 18001 audit every year.

Our Group Health Policy defines how we ensure workplace safety for our employees while also promoting their health and welfare. This document details our **Group-wide approach to safety and health management** as well as our comprehensive behavioral modification program to prevent workplace accidents and occupational diseases. One component of the policy is our Global Wellbeing and Health Promotion Framework, which describes the differing requirements in a wide array of countries. Our individual sites are responsible for performing local workplace risk assessments and hazard analyses.

At most of our sites in Germany, we work in partnership with employee representatives to craft bylaws on occupational health and safety. Our Employee Care bylaw defines processes such as employee care conversations, which help our managers promptly identify health risks and mental stress in their employees. In 2017, this bylaw was extended by an additional three years. Introduced in 2017, our Occupational Integration Management bylaw governs the procedure for protracted employee illness and applies to nearly all our facilities in Germany. This bylaw aims to help keep the employee's position open while also helping prevent adverse health impacts after their return to work.

Safety certification expanded

By the end of 2017, all Performance Materials production sites had been certified to the international standard OHSAS 18001. In 2017, the Healthcare facilities at our Darmstadt site were certified, along with those of other units. Our Life Science facilities in Bangalore (India), Buchs (Switzerland), Irvine and Haverhill (both in the United Kingdom), and Jerusalem and Rehovot (both in Israel) are now OHSAS 18001 certified. The certification process helps us pinpoint weak areas, **identify opportunities for improvement** and take suitable measures. Other sites have also been required to apply this standard.

Reducing our accident rate

The lost time injury rate (LTIR) is the indicator used to assess the success of our safety efforts. This figure measures the accidents resulting in at least one day of missed work per one million man-hours. We track the LTIR for both employees and temporary workers. After having achieved our 2010 target of a 2.5 LTIR, in

2015 we set a new ambitious goal of sustainably lowering the LTIR to 1.5 by 2020. In our view, nothing is worth an accident. In 2017, our LTIR was 1.5. The majority of incidents resulting in lost time were slips, trips and falls, along with accidents involving the operation of machinery and equipment. In 2017, there were no fatal accidents.

Clear rules of conduct

Experience shows that most workplace accidents can be prevented by proper conduct. Through our "BeSafe!" **safety culture initiative**, we are working to raise employee awareness of dangers in the workplace and provide them with rules of conduct that help keep them safe. All production and warehouse sites have now been incorporated into the program. Eight former Sigma-Aldrich facilities have likewise implemented BeSafe! since being acquired by our company in 2015. The rollout at these newly acquired sites will continue until 2020.

In 2017, we conducted initiatives, campaigns, and awareness efforts across the Group as part of our BeSafe! program. For instance, by means of a safety video we increased employee awareness in a bid to further bolster our safety culture. In addition, several subsidiaries held safety competitions. To underscore the importance of safety, we launched the Safety Excellence Award in 2010, which is presented annually to all production sites that have no workplace accidents on record for the year. In 2017, 59 of 97 facilities achieved this honor. Furthermore, we conducted refresher training on key content from our BeSafe! program.

Workplace health management

At our Darmstadt and Gernsheim sites, our Health Management unit conducts numerous campaigns and programs to promote the health of our workforce. These activities are based on health indicators derived from sources such as our employee surveys, the health report issued by our company health insurance fund and evaluations from our Site Medical Center. We utilize the analysis findings in the creation of **prevention programs tailored to specific target groups or facilities**.

Moreover, our Health Management unit offers individualized health programs such as awareness courses and workplace ergonomics consultation. Along these lines, we have a standard procedure in place for continuously assessing the working conditions and environment, making state-of-the-art updates wherever needed. If other sites express interest, our Health Management unit will advise on potential improvements or health programs. When requested, we provide local consultation and promotional activities by means a service contract.

Since 2013, our Darmstadt site's restaurant & catering services have been certified with the "Job&Fit Premium" certification from the German Nutrition Society e. V. (DGE). For our healthy and sustainable employee food service in Darmstadt, we were nominated in 2017 for the Dr. Rainer Wild Prize, which recognizes outstanding projects, individuals and initiatives in support of healthy nutrition.

Our employees have access to a health catalog detailing our Health Management offerings. Available in English and German, it contains information on ergonomics, nutrition, stress, and mental health issues.

In 2017, we were granted the "Excellence" certification for our Germany-wide health management efforts, presented under the auspices of the 2016/2017 German Corporate Health Award sponsored by BKK Dachverband e. V. This organization recognizes companies that have implemented exemplary health management programs and met the quality criteria of the European Network For Workplace Health Promotion (ENWHP).

Launched at the end of 2016, our program to minimize chronic back pain has become an integral component of our workplace health management activities in Darmstadt and Gernsheim. This initiative, which also takes mental health factors into account, is offered in units with demonstrable need, such as a relatively high number of employees suffering from these sorts of symptoms.

Throughout Germany, we also regularly offer our employees services such as our Fit@Merck fitness program, which provides them with up to € 195 per year towards **health prevention classes**. In Darmstadt and Gernsheim, we furthermore run a company athletics program that currently features 25 different sports.

In an effort to improve our workplace, we analyze the ergonomics of individual workstations and then implement any measures required. Our workers also receive training on occupational ergonomics tailored to specific areas such as manufacturing, office work or the laboratory. Moreover, we conduct programs at many sites, doing so either ourselves or in collaboration with external providers. Our Life Science employees at our Bedford (MA), Danvers (MA) and Jaffrey (NH) sites in the United States, for instance, have access to the Early Symptom Intervention and Prevention Program (ESI), which saw 59 people participate from January to April 2017. In early 2018, we replaced the ESI program at the Jaffrey facility with a pilot of the Industrial Athlete Program (IAP). While ESI focused on individuals with pre-existing conditions, IAP is open to all employees who wish to improve their physical and general wellbeing through exercise in small groups.

Testing and supporting our employees

Our Physical Ability Test and Health Preservation process ensures that all employees meet the health requirements for their particular tasks. This test helps us implement targeted intervention as necessary.

Our Travel Health & Medical Advisory Service assists employees who spend a lot of time abroad on Merck business, providing them with recommendations on necessary vaccinations and advice on hygiene risks.

Employee engagement



Part of the non-financial report

As a science and technology company, we are always looking for new solutions and working to continuously evolve our approaches. Engaged, curious employees are key to our ability to innovate, and therefore also to our success. We need a corporate culture that broadens the knowledge base of our employees, one that creates exciting opportunities and motivates them to take a proactive role in shaping the development of our company. Candid feedback from every individual helps show us where we have room for further improvement.

Our approach to engagement

We strive to create a work environment that empowers our employees to think outside the box and seek new solutions, opening the door to creative ideas and the discovery of new market opportunities. To better engage employees, we have set clear goals and defined the steps necessary to accomplishing them.

We seek to understand the needs of the people who work for us and therefore regularly conduct employee surveys that show where we can do better. Following each survey, we plan improvements that are implemented by the respective units.

How we engage our employees

Engagement and Inclusion, a unit within our HR organization, creates and oversees our employee surveys.

In addition to conducting employee surveys, we regularly include local employee representatives in our decision-making processes. Within Germany, 14 of our subsidiaries have employee representation. These local works councils as well as a Germany-wide Group works council represent the interests of our employees, discussing topics such as compensation, working hours, and organizational realignment. The Senior Executives Committee represents the interests of senior executives, while the Merck Euroforum represents our employees at the European level, focusing on the economic situation, employment rates and significant changes within our company.

Understanding our employees

In response to a 2016 employee survey, in 2017 we initiated a series of measures to **improve our employees' working environment**. In terms of our IT structure, we improved the performance of programs such as Skype and Outlook, updated networks and optimized IT support. Moreover, we enhanced our employee recruiting and integration processes, optimized the search function and mobile access to our Intranet, and even launched an initiative to cultivate an in-house community of scientists. To give us a

better sense of the situation within our company as a whole and to better benchmark against our competitors, all employee surveys are conducted Group-wide on an annual basis. This provides a platform for employees, leaders and executives to engage in a regular dialogue, sharing ideas and experience.

Rewarding innovative ideas

In 2017, our employees submitted approximately 2,000 suggestions for improvement via our **Germany-wide idea management program**. These ideas are expected to yield around € 4.6 million in cost savings in the first year. In exchange for their proposals, our employees received roughly € 585,000 in bonuses. This concept aims to inspire our employees to think creatively and encourage them to contribute to the continuous evolution of our procedures and processes. We reward any ideas that are successfully implemented by offering employees a bonus based on how much the suggestion improves our processes or cuts down our costs.

In addition to rewarding good suggestions, we also regularly hold a **Group-wide innovation competition called Innospire** that allows employees to submit ideas for new products, services and business models. Through this competition, we target ideas in specific areas such as biointerfaces and biosensing, enablers of precision farming, and artificial intelligence. However, we also welcome ideas outside of these target areas.

In 2017, nearly 900 ideas were submitted. We chose the top 18 proposals at the end of 2017, and teams have until May 2018 to further develop them, at which point the winners will be announced.

In addition to Innospire, we annually present the **Merck Awards** in recognition of outstanding ideas, teamwork and projects. In 2017, the Executive Board presented four teams consisting in total of 40 employees with Merck Awards in the categories of Performance, People, and Technology, along with a special CEO Award. Projects were submitted Group-wide by 70 teams from our Healthcare, Life Science and Performance Materials business sectors, as well as our Group functions. With submitters representing a variety of countries worldwide, some of the proposals even spanned multiple businesses.

Making room for ideas

Over the last several years, we have undergone a major evolution and grown through acquisitions. We are now transforming our site in Darmstadt into a global headquarters that will bolster our ability to innovate, enabling us to respond flexibly to growth while also reflecting our corporate identity. This transformation is supported in part by our ONE Global Headquarters strategic initiative.

Opening its doors in early 2018, our **new Innovation Center** (p. 29) is the heart of our global headquarters. Replacing the previous modular Innovation Center, this new facility will give our employees room to explore their creativity by joining interdisciplinary teams and collaborating on pioneering projects – all with the aim of cultivating new businesses that transcend our existing ones.

Within the walls of our Innovation Center, 15 project teams are currently pooling their creative energy in the pursuit of new ideas. We have also invited numerous external startups to take advantage of the center as part of our Accelerator program, an initiative that supports fledgling enterprises. These start-up teams take up residence at the Innovation Center for three months at a time and receive financial assistance, training and access to our experts worldwide. In 2018, we shall be expanding our Accelerator with a focus on Africa, specifically in places with a thriving or burgeoning start-up culture. In addition, we will be modifying the platform of our first offshoot in Nairobi (Kenya), and opening small satellites in Lagos (Nigeria) and Cape Town (South Africa). In March 2018, we'll be increasing the number of startups in our Darmstadt Accelerator to 12, the first time we've had this many teams in the program.

The Innovation Center creates a fertile ground for discourse, which serves to benefit not only the startups, but also our own project teams. Here, for instance, all teams are provided a "maker space" that allows them to quickly develop prototypes. They additionally receive access to our scientific library and a web-based platform that contains tutorials, useful project tips and online courses, and provides users the opportunity to share ideas and experiences.

Beyond facilitating cross-collaboration and creativity, the Innovation Center team regularly conducts events, workshops, seminars, and webinars. Through these channels, we introduce our employees to new innovation methods such as design thinking, which has generated great interest. We also hope to accelerate the exchange of innovative ideas within the company and build a Group-wide network of ambassadors for this facility.

Innovating with young scientists

Our Merck Biopharma Innovation Cup is targeted to science and business graduates, graduate students or postdoctoral researchers from around the world. This competition seeks to spark the interest of young talent in our company, while also offering a forum for new ideas. During a one-week summer camp, 30 participants learn first-hand how research and development works in the pharmaceutical industry, collaborating with current and retired Merck employees to create new, innovative project concepts. The team with the best concept receives a prize of € 20,000.

To mark our 350th anniversary in 2018, we will be hosting a larger anniversary edition of our Innovation Cup that will feature 75 talented post-graduate students and cover all three of our business sectors. All participants will also be invited to attend Curious2018-Future Insight, a conference we are launching in 2018 as part of our 350th anniversary celebrations. In 2017, the winning Innovation Cup team submitted an innovative project proposal on the role of natural killer cells (NK cells) in immuno-oncology. NK cells are lymphocytes that target both tumors and virally infected cells, killing them. Overall, more than 1,400 scientists from across the globe competed for the prize.

Keeping employees informed and encouraging dialogue

We keep our employees up to date and encourage exchange through a number of formats tailored to specific target groups. Take, for instance, our international collaboration platform EVA (p. 75) and our international employee magazine "pro", which is published in seven languages and is available in a digital format as well as an app. Through "pro", we reach more than 90% of our approximately 52,000 employees worldwide in their local language. Several subsidiaries also publish local editions of "pro", for example in Germany, Korea, Mexico, and Russia. In addition to these formats, a variety of newsletters is also published by our businesses.

Our collaboration platform EVA encompasses our global Intranet for all subsidiaries and business sectors and furthermore consolidates numerous collaboration applications in one central location. EVA ranks as one of the most important internal communication media – second only to e-mail – receiving approximately 1.7 million hits per month. Moreover, we publish articles on EVA and host various events to raise employee awareness of corporate responsibility issues.

Deepening employee engagement

SPARK is a global volunteer program in which our Life Science employees conduct scientific experiments with school children around the world in an effort to ignite a passion for science in the next generation. Benefitting both urban and rural schools, this initiative also gives our employees the opportunity to pass on their knowledge. You can find more information on SPARK as well as the diverse range of education projects in the community in and around our global headquarters under Community involvement (p. 114).

Good leadership



Part of the non-financial report

We think it's essential for our leaders to develop and grow so that they can address the diverse needs of their team members. Within our company, teams collaborate across sites and international boundaries. Their members bring a variety of skills, strengths and experience to the table that our leaders can leverage. We in turn support them in fulfilling their responsibilities. Since global collaboration plays an increasingly important role in the development of our next generation of leaders, our management processes fundamentally follow an international approach.

Our approach to good leadership

Our strategic **competency model** describes core competencies that should underpin the conduct of employees at all levels. Our six core competencies are Purposeful, Future-oriented, Innovative, Results-driven, Collaborative, and Empowering. In our day-to-day work, they play an important role in our success. This model provides the foundation for all development activities within our HR work – for employees, but in particular for our leaders, who act as role models and are therefore key to building employee buy-in for the competency model. In addition, the model defines the leadership culture through which we intend to grow our business.

Our competency model



We use our Performance and Potential Management Process (p. 74) to gauge the impact of our development initiatives. Furthermore, our employees also take surveys (p. 82) to rate the quality of leadership within our company.

How we facilitate good leadership

Our leaders are attuned to the needs of our diverse workforce and receive support in the form of resources and data. At the same time, they can access transparent feedback through specially developed tools to track the impact of their decisions.

Management programs

In recent years, we have initiated three programs to **enhance the skills of our people managers**. The Managerial Foundation Program imparts the basics of leadership, such as communication techniques, leadership styles, conflict management, motivation, and emotional intelligence. The Advanced Management Program covers topics such as change management, self-reflection and resilience. In addition, it teaches coaching methods that help leaders transition from their first management role to positions managing cross-functional and international teams. The third initiative is our Global Leadership Program, which focuses on competencies needed to ensure successful international collaboration. In 2017, the Managerial Foundation and Advanced Management programs were offered at several of our sites worldwide, while the Global Leadership Program was held in Germany, the United States and Dubai.

By the end of 2018, we want at least 50% of our people managers rated Role 3+ to have taken part in one of these programs. By the end of 2017, all our top 400 executives (Role 6+) had completed the Global Leadership program. Since the launch of the three programs, a total of more than 4,000 people managers have taken part.

Expanding the range of Merck University courses

Since 1999, we have partnered with top international universities to offer Merck University, a **multi-regional, modular program**. Over a period of ten months, senior executives take classes on management techniques and strategic business development. In 2017, we partnered with the U.S.-

based Stanford Graduate School of Business to offer a new module on leading innovation and digitalization, in which 23 of our executives took part. The module features an eight-week online course entitled "Innovation Process for Entrepreneurs" and also requires participants to attend classes on campus in Stanford over the course of three and a half days. To date, a total of 373 executives have completed the Merck University program.

Another initiative we've been offering our up-and-coming executives since the 1990s is our International Management Program, where participants work on an interdisciplinary project over a period of nine months. The results are then presented to the Executive Board. Moreover, we partner with universities across the globe in an effort to help our employees obtain qualifications such as an Executive MBA.

Leveraging growth market potential

In the development of our leaders, we also want to include our growth markets. In 2017, for instance, we again conducted our Growth Markets Management Program **for local leaders** in the Asia-Pacific (APAC), Latin America, and Middle East, Africa, Russia, Turkey (MEART) regions. The training covers a range of business administration topics such as marketing and financial analysis, along with content specific to our business, for instance our strategy and corporate culture. In 2017, we integrated a digital marketing module into this program for the Asia-Pacific region, similar to the program we introduced in 2013 in China and in 2016 in the Middle East and Latin America. To date, a total of 126 leaders have taken part.

We also offer other development opportunities in growth markets. In 2017, for instance, eight employees successfully completed "Afrika kommt!", a one-year scholarship offered by the German Society for International Cooperation (GIZ). This program offers training opportunities for young qualified experts and leaders from Sub-Saharan Africa. In supporting this initiative, we aim to build a pool of regional partners to encourage economic cooperation between Germany and Africa. Twelve former scholarship recipients are now working for us in various specialist and leadership positions, five of them in their home countries of Ethiopia, Ghana, Kenya, and Nigeria, and seven still in Darmstadt. In 2017, six new candidates were chosen for the sixth round of "Afrika kommt!"