

Strategy and management

Since the very beginning, corporate responsibility has been an integral part of our corporate culture. This is reflected in both our mission statement as well our Values. Our corporate responsibility strategy allows us to address the key issues impacting our business and stakeholders, which we identify by conducting regular materiality analyses using feedback from internal and external stakeholders. Our requirements for the responsible conduct of all employees are specified in numerous guidelines, and we use management systems to help steer key action areas.



Letter from Karl-Ludwig Kley



Dear Stakeholders and Friends of Merck KGaA, Darmstadt, Germany,

The world is changing rapidly, presenting mankind with ever new challenges, among them climate change, an aging population, broad access to health, and the digitization of society. Solutions must be found for all these issues.

It has long been clear that no one single player can solve all the challenges of our times. The issues are too complex to be handled by any one group on their own, whether that be policy makers, industry, civil society, or international organizations. The only answer is for us to join forces.

We view ourselves as a partner in shaping a better future. We take responsibility. Through our technologies and products, we are making a significant contribution to solving many global issues. As a company, we strive for sustainable success, not merely to maximize short-term profit. And we know that success can only be sustainable if it is achieved responsibly.

Responsible governance is thus the compass that guides our day-to-day actions and constitutes an integral part of our Group strategy. Since 2005, we have been supporting the United Nations Global Compact and its principles, which cover human rights, labor standards, environmental protection, and anti-corruption. In 2014, we underscored our dedication to sustainable supply chains in the chemical industry by joining the *Together for Sustainability* initiative.

In order to make our corporate responsibility activities more effective, we defined three strategic spheres of activity in 2014, those being environment, health and culture.

1. We are dedicated to improving access to health and are committed to providing underserved populations with access to effective, affordable health solutions, health prevention, diagnosis, and treatment.

For instance, we have taken up the fight against the tropical disease schistosomiasis. Thanks to the praziquantel tablets we donate to the World Health Organization, 54 million children have already been treated thus far. We'll be increasing our contribution to up to 250 million tablets per year and will continue the donation until schistosomiasis has been eliminated in Africa.

In the 2014 Access to Medicine Index, we once more increased our standing, moving up to sixth place. This shows that we are on the right path, one that we will continue to follow.

2. In everything we do, we strive to minimize our negative impacts on the environment. Many of the products in our portfolio actively contribute to environmental protection and help our customers use less water, power and raw materials.

For instance, we are continually developing new formulations of liquid crystals that require less display backlighting, which significantly reduces the power consumed by electronic devices.

3. Being an innovative, high-tech company, we know that science and culture inspire one another, that they both form part of a healthy society. We promote cultural projects and education around the world in order to foster a passion for music, literature and science.

Take for example the Premio Letterario of Merck KGaA, Darmstadt, Germany, a literary award that we present once a year in Italy to writers who in particular have built bridges between science and literature. We also sponsor the Johann Heinrich Merck Award of Merck KGaA, Darmstadt, Germany for Literary Critique and Essay of Merck KGaA, Darmstadt, Germany, which is presented by the German Academy for Language and Poetry to authors who build bridges between literature and empathetic understanding. Building bridges between cultures is the focus of two literary awards that we grant in partnership with the Goethe Institut: the Kakehashi Prize of Merck Ltd. Japan, a subsidiary of Merck KGaA, Darmstadt, Germany in Japan and the Merck Tagore Award of Merck Ltd., a subsidiary of Merck KGaA, Darmstadt, Germany in India.

We will only be able to overcome the challenges of the next several decades if we – meaning policy makers, industry and society – join forces. This is the reason we're contributing the experience and expertise we have at solving global issues. The company has been taking responsibility for nearly 350 years and will continue to do so – now and in the future.

Sincerely Yours,



Karl-Ludwig Kley

Chairman of the Executive Board of Merck KGaA, Darmstadt, Germany

Values and external initiatives

Merck KGaA, Darmstadt, Germany's corporate culture is characterized by responsible conduct – whether with respect to our products, our employees, the environment, or society. Responsibility has been an integral part of our approach for nearly 350 years and is one of our six Values.

These Values – courage, achievement, responsibility, respect, integrity, and transparency – form the foundation that underlies our actions. They guide us in our daily work, defining how we interact with our customers and business partners. We view open, honest communication internally and externally as an essential trust-building element. As a global company, we strive to create added value for consumers, our market partners and the community while also helping them lead better lives.

Our Group Mission Statement, our Values and the external initiatives we support give rise to requirements for responsible corporate governance that are integrated with both our Corporate Responsibility strategy as well as our Group-wide regulations. These guidelines include our Human Rights Charter and our Code of Conduct, as well as other specific corporate principles, policies and standards. This framework guides our employees in applying these requirements in the course of their day-to-day work, thus helping them live the company's commitment to corporate responsibility.

We support the following initiatives on responsible corporate governance:

- Merck KGaA, Darmstadt, Germany has been a member of the United Nations Global Compact since 2005 and is committed to complying with the compact's principles regarding human rights, labor standards, environmental protection, and anti-corruption. Our annual progress report illustrates how we are incorporating these ten principles into our business processes.
- In 2006, we signed the Responsible Care® Global Charter adopted by the International Council of Chemical Associations (ICCA). Within the scope of this voluntary initiative as well as its offshoot, the German Responsible Care® Program guidelines, we have committed ourselves to defining standards for product responsibility, environmental protection, health, plant safety, and security that go beyond mere legal obligations. The company was among the first companies to sign the revised version of the Responsible Care® Global Charter in 2014.
- Merck KGaA, Darmstadt, Germany signed the Code of Responsible Conduct for Business in 2010. This code is the result of an initiative of German companies that aims for member companies to firmly establish measurable standards with respect to fair competition, social partnership, merit, and sustainability.
- In 2014, Merck KGaA, Darmstadt, Germany joined the Together for Sustainability network, which is dedicated to improving the supply chain with respect to environmental, compliance and social standards.
- In addition to this network, we are also a member of the Chemie³ initiative, a collaboration between the German Chemical Industry Association (VCI), the German Employers' Federation of the Chemical Industry (BAVC) and the German Mining, Chemical and Energy Industrial Union (IG BCE). The partners of this unique alliance aim to make sustainability a core part of the chemical industry's guiding principles and to jointly drive the sector's position within the German economy as a key contributor to sustainable development. The "Guidelines on sustainability in the German chemical industry" provide a framework consisting of 12 spheres of activity to promote sustainable company development, protect people and the environment, and ensure good, fair working conditions.

Human rights

Merck KGaA, Darmstadt, Germany is committed to upholding human rights within its sphere of influence and welcomes the "Guiding Principles for Business and Human Rights" adopted by the UN Human Rights Council in 2011. This set of principles creates a global framework for countries to fulfill their duty to protect human rights, as well as for businesses to respect them, illustrating how to do so.

Countries are obliged to establish a regulatory framework for the protection of human rights. For global companies, it is important that this be implemented across all countries in order to create uniform competitive conditions for all companies.

The duty of companies is to uphold and respect human rights; they absolutely must not violate any human rights in the course of their activities. Furthermore, companies must also act with the necessary due diligence, which includes identifying and managing risks.

In 2012, we conducted an extensive human rights risk assessment, which aimed to identify the human rights risks that arise from our activities as an international company. Based on the results of this assessment, we adopted a Group-wide Human Rights Charter at the end of 2013, which underscores our commitment to respecting and protecting human rights. This charter brings together and complements existing human rights regulations and guidelines, such as our Code of Conduct, our "Environment, Health and Safety Policy", and our "Charter on Access to Health in Developing Countries". The Human Rights Charter defines our company's expectations while increasing awareness of human rights within the company. It also allows us to more accurately assess Group-specific risks and to align our business operations with our Values.

In the course of drafting our Human Rights Charter, we asked external stakeholders for their opinion on our approach to human rights and then considered the situation from this external perspective. Among these stakeholders were business and human rights experts from various countries, trade unions, associations, and specialists in individual topics addressed in the charter.

We have informed our employees about the Human Rights Charter, but have not yet provided training on this charter.

The UN "Guiding Principles for Business and Human Rights" also require companies to perform human rights impact assessments (HRIA) to promptly identify any human rights problem areas. At the end of 2014, we conducted an HRIA in an emerging country. While we wish to further expand our strong market position in emerging economies, we are aware that these countries pose a higher risk of human rights violations. Through the HRIA, we aim to gain a better understanding of how our business operations and business relationships impact human rights, to ascertain whether the requirements of our Human Rights Charter are being fulfilled, and predict the risk of human rights violations. We furthermore wish to identify ways to prevent human rights violations.

After completing the HRIA and evaluating the results, we will check whether the findings from the assessment can be applied to other subsidiaries.

Merck KGaA, Darmstadt, Germany is a member of the German Global Compact Network within the Business & Human Rights Peer Learning Group, which aims to promote best practice sharing with regard to business and human rights.

Responsible Care®

The Responsible Care® Global Charter was adopted by the International Council of Chemical Associations (ICCA) in 2006 and is the basis for the guidelines of the German Responsible Care® Program. These two initiatives both aim to continually improve the chemical industry's track record in terms of product safety, environmental protection, health, plant safety, and security. Responsible Care® aims to achieve a level of voluntary cooperation with government bodies and other stakeholders that goes far beyond complying with statutory regulations. In 2014, Merck KGaA, Darmstadt, Germany was among the first companies to sign the revised version of the Responsible Care® Global Charter, which is currently being rolled out at an international level.

Our Responsible Care® activities are founded on internal guidelines such as our "Corporate EHS Policy" and the "EHS, Security and Quality Manual". In implementing the Responsible Care® Global Charter, we are currently focusing in particular on product safety, environmental protection and occupational safety.

Our product safety activities cover a range of measures. These include the implementation of regulatory requirements such as REACH in the EU, AEC in South Korea, TSCA in the U.S., and the worldwide GHS. We also engage in voluntary initiatives such as our Global Product Strategy and pursue sustainable product development. One example of this engagement is the life science business' Design for Sustainability program, which integrates sustainability across the product development process.

When it comes to environmental protection, we are currently focusing on climate change mitigation. We aim to cut our greenhouse gas emissions by 20% by 2020, relative to the 2006 baseline. Other key focus areas include water, wastewater and waste reduction. Process safety traditionally has high priority at the company as well.

Integrated occupational safety encompasses the prevention of workplace accidents, workplace-related illnesses and workplace-related health hazards. Our goal is to reduce the lost time injury rate to 2.5 by 2015.

Our subsidiaries are regularly audited to verify their compliance with statutory and Group-wide requirements, as well as to identify areas of improvement.

CR strategy and organization

Humanity is confronted with major global social issues such as climate change, aging populations, resource scarcity, and insufficient access to health in low- and middle-income countries.

We are aware that, as a global player, our business operations impact our environment as well as the people around us. But we believe that we can help address global

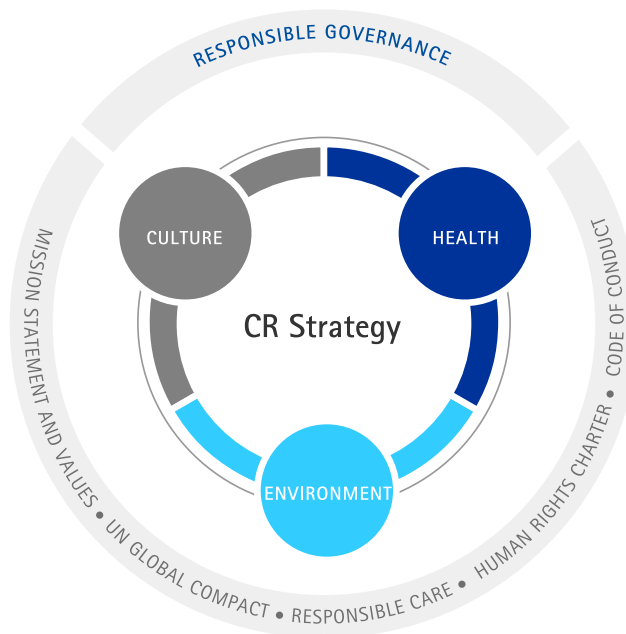
challenges through our innovative, high-caliber high-tech products for the health care, life science and performance materials sectors, as well as through responsible governance.

Today's global megatrends present us with both risks as well as opportunities. Average life expectancy continues to increase worldwide while birth rates continue to fall, a situation that is reflected in our portfolio of health solutions such as fertility treatments and cancer research. An estimated 1.3 billion people have no access to effective and affordable health care. Through our Group-wide Access to Health strategy, we take a comprehensive approach toward addressing access barriers in low- and middle-income countries. As a market and technology leader in the global liquid crystals business, the company is driving the development of state-of-the-art displays, thereby benefiting from the digitization megatrend. In addition, we are also developing products for energy-saving lighting and photovoltaics that can help mitigate climate change and resource scarcity.

We are furthermore constantly working to minimize ethical, financial and legal risks. In our interactions with vendors and other business partners worldwide, we are dedicated to complying with statutory and ethical standards and have implemented the necessary structures and systems to do so. Our environmental management processes aim to minimize our environmental impacts, in particular at our production sites. On top of this, we offer fair and attractive working conditions for our approximately 39,000 employees.

Our Group strategy is targeted to success, but equally respects the interests of employees, customers, investors, and society. It serves as the basis for our Corporate Responsibility (CR) strategy, which we reviewed and revised in 2014. Our entire range of CR activities can be summed up under the term "responsible governance", a concept that informs our day-to-day actions. At the end of 2014 we also examined our Group strategy and selected three strategic spheres of activity in which we particularly wish to engage. Our aim is to hone the company's competitive edge while helping to sustainably secure our future.

Corporate Responsibility at Merck KGaA, Darmstadt, Germany



Health

Through our Access to Health approach, which spans all our businesses, we aim to help improve sustainable access to high-quality health solutions for underserved populations and communities in low- and middle-income countries.

Stefan Oschmann, Vice Chairman of the Executive Board, has thus dedicated his two-year presidency of the International Federation of Pharmaceutical Manufacturers & Associations (IFPMA) to accelerating access to high-quality health solutions for people in low- to middle-income countries.

Environment

A number of our innovative chemical and life science products contribute to environmental protection. We strive to continuously enhance the sustainability footprint of our products while helping our customers achieve their own sustainability goals.

[Read more in the chapter "Sustainable products" on p. 50](#)

Culture

Culture inspires people and opens up their minds to new possibilities. As a high-tech, research-based company, we therefore promote cultural initiatives worldwide and are engaged in educational projects – especially since education is key to making culture accessible.

Cultural promotion is a core element of our engagement in society. After all, culture nurtures characteristics that are essential to our business activities as a high-tech company: creativity, enthusiasm for new discoveries, and the courage to transcend boundaries. Our cultural engagement focuses on music, literature and education.

Responsible governance is the foundation of our operating business. We work to minimize ethical, financial and legal risks, thereby ensuring the company's acceptance within society. We take responsibility for our products, the environment, and people, especially for our employees and the communities in which we operate.

Our products serve people's current and future needs. To us, safety and ethics matter just as much as business success. In the manufacture of our products, we seek to impact the environment as little as possible. Safety, environmental

protection and quality management are absolutely essential to this aim. We bolster our company's ability to act by recruiting, developing and motivating talented employees. We strive to help society function better and aim to set the example for ethical conduct.

Our CR strategy is defined by the Executive Board, which also decides on CR objectives and CR reporting.

The Group-wide CR Committee steers the implementation of our corporate responsibility strategy and consists of representatives from the businesses as well as from relevant Group functions such as EQ, HR, Compliance, and Procurement. In 2013, Karl-Ludwig Kley, Executive Board Chairman, became Chairman of the CR Committee. Since January 2015, the Group function Public Affairs and Corporate Responsibility has been reporting to Executive Board Vice Chairman Stefan Oschmann. Since this time, Oschmann has also headed the CR Committee.

The CR Committee reviews the CR strategy to ensure that it covers the topics relevant to the company and that it addresses potential areas where action is needed. We strive to identify challenges promptly in order to minimize risks, but also to seize the business opportunities that arise from societal change. During the preparation of our CR reports, we engage our stakeholders and conduct materiality analyses to ensure that all the relevant topics are addressed. The committee's tasks also include defining as well as regularly reviewing goals and measures that reflect our CR strategy. The committee ensures that initiatives of the businesses, Group functions, and subsidiaries are in line with our Group-wide CR strategy. Measures adopted by the committee are incorporated into our operations by line managers as well as by interdisciplinary project teams.

The CR Committee meets three times per year. In 2013 and 2014, the meetings primarily focused on CR strategy, access to health and human rights, as well as environmental and social standards along the supply chain, and the Design for Sustainability Program.

Materiality analysis

In order to identify the material non-financial topics relevant to our stakeholders as well as to our long-term business success, we once more conducted a materiality analysis as defined in the G4 Guidelines of the Global Reporting Initiative (GRI). This

process involved identifying the important issues, prioritizing them, and validating them with our Corporate Responsibility (CR) Committee.

In the first step, we identified more than 70 current CR topics for the pharmaceutical and chemical industries. For this, we used various information sources, including our experience from previous materiality analyses and CR reports, the health care sector standards of the Sustainability Accounting Standards Board (SASB), analyses of capital market requirements, and the dialogues with various stakeholders.

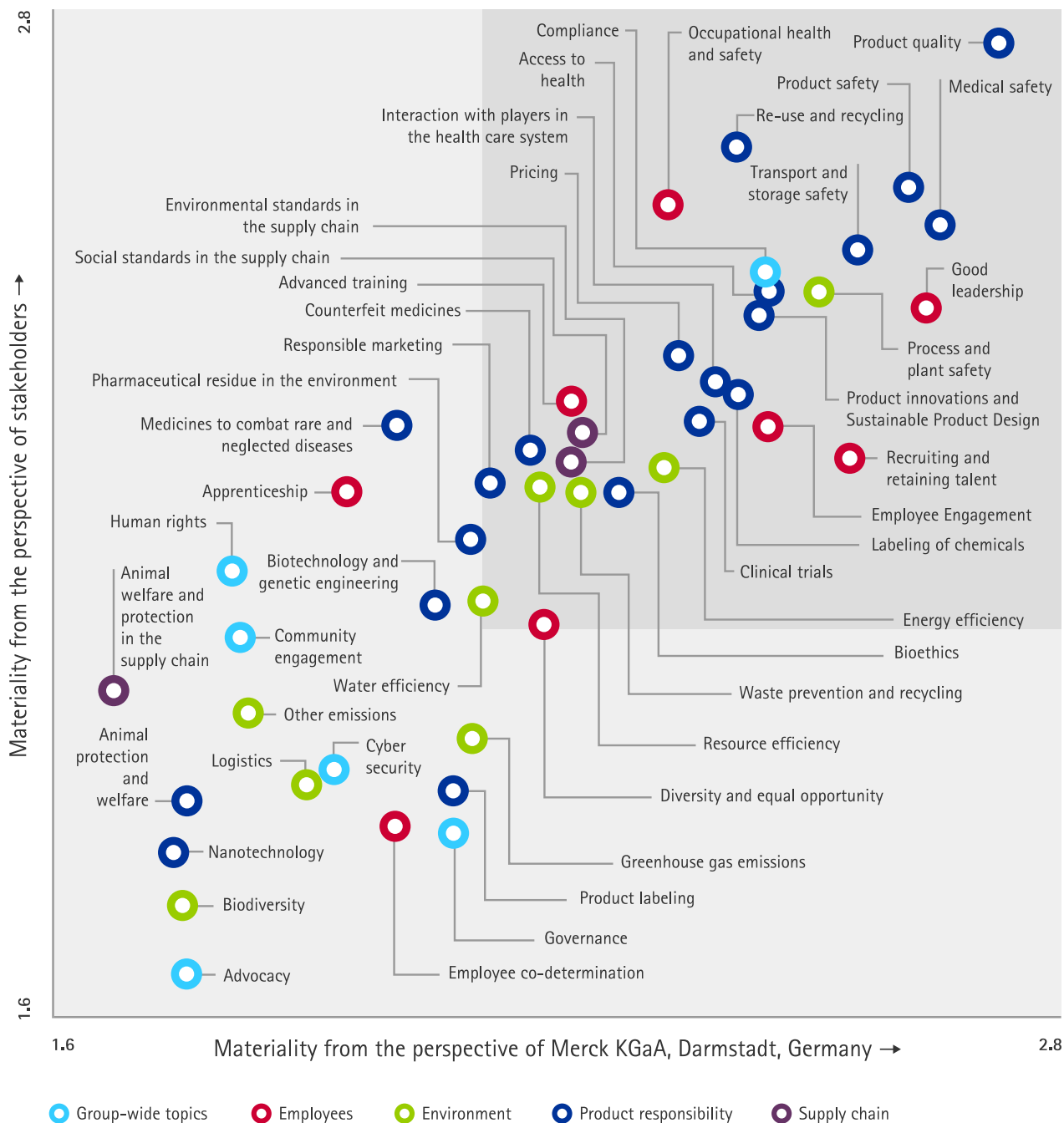
We discussed the options internally and narrowed it down to 46 issues, which became the focus of an online international survey conducted on some of our stakeholders. We asked participants to rank how relevant the 46 topics are to Merck KGaA, Darmstadt, Germany, as well as to rate the company's performance with regard to them. Around 120 people from across 30 countries took part in the survey; two-thirds were internal stakeholders and one-third were external stakeholders. Among them were rating agencies, suppliers, scientists, researchers, and employees involved in corporate responsibility, as well as representatives from the political arena, non-governmental organizations, and federations. In assessing the results, we gave equal consideration to the responses of all stakeholders.

In particular, participants rated product responsibility as being especially important, and they overwhelmingly rated Merck KGaA, Darmstadt, Germany's performance in this area as good to very good. Combined with other analysis results, the stakeholders' responses showed us what they think of our CR performance, as well as which aspects they consider relevant to us. The stakeholders' responses were also utilized in our 2014 Materiality Analysis.

During a materiality workshop, representatives from the CR Committee validated the top-ranked issues, discussed the strengths and weaknesses of the management system the company uses to steer topics, and identified areas that we need to address. This resulted in 27 issues that are material to Merck KGaA, Darmstadt, Germany, which are also the focus of this CR Report. These coincide for the most part with topics that we identified in previous materiality analyses. This report describes our management approach to these 27 issues of particular importance to our stakeholders and company, and provides details on measures, achievements, challenges, and goals for some of them.

The results of the materiality analysis are presented in the 2014 materiality matrix.

Materiality matrix



Because our stakeholders expect transparent reporting on more than just these 27 topics, our report includes other topics as well, which will be re-assessed in future materiality analyses.

The following table shows where topics identified as material are relevant along the value chain: upstream in our supply chain, in the course of our activities, or downstream, i.e. customers and patients.

The table furthermore indicates to which of Merck KGaA, Darmstadt, Germany's businesses and external stakeholders the topic applies. The topics are linked to the respective chapters in this report.

Material topics	Relevance along the value chain					Material for the following stakeholders
	Upstream activities	Internal activities by business sector			Downstream activities	
		Healthcare	Life Science	Performance Materials		
Group-wide topics						
Compliance on p. 33	✓	✓	✓	✓	✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Product responsibility						
Medicines to combat rare and neglected diseases on p. 61		✓			✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Counterfeit medicines on p. 121		✓			✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Bioethics on p. 68		✓	✓		✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Disposal and recycling of chemicals, single-use products and other products on p. 113			✓	✓	✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Interaction with players in the health industry on p. 78		✓			✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Labeling of chemicals on p. 43			✓	✓	✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers

Table continued

Material topics	Relevance along the value chain					Material for the following stakeholders
	Upstream activities	Internal activities by business sector			Downstream activities	
		Healthcare	Life Science	Performance Materials		
Clinical trials on p. 70	✓	✓				Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Pricing on p. 63		✓			✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Product innovations and sustainable product design on p. 50		✓	✓	✓	✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Product quality on p. 41		✓	✓	✓	✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Product safety on p. 41		✓	✓	✓	✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Transport and storage safety on p. 79	✓	✓	✓	✓	✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Drug safety on p. 41		✓			✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Access to health on p. 58		✓			✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Employees						
Employee engagement on p. 100		✓	✓	✓		Customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Occupational health & safety on p. 102		✓	✓	✓		Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers

Table continued

Material topics	Relevance along the value chain					Material for the following stakeholders
	Upstream activities	Internal activities by business sector			Downstream activities	
		Healthcare	Life Science	Performance Materials		
Good leadership on p. 91		✓	✓	✓		Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Recruiting and retaining talent on p. 95		✓	✓	✓		Customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Diversity and equal opportunity on p. 92		✓	✓	✓		Capital market community, customers, suppliers / service providers, policy makers, business associations, scientists and researchers
Advanced training and continuing education on p. 95		✓	✓	✓		Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Environment						
Waste prevention and recycling on p. 113		✓	✓	✓	✓	Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Energy efficiency on p. 109		✓	✓	✓		Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Process and plant safety on p. 108		✓	✓	✓		Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Greenhouse gas emissions on p. 109		✓	✓	✓		Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Supply chain						
Social standards in the supply chain on p. 85	✓					Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers
Environmental standards in the supply chain on p. 85	✓					Capital market community, customers, suppliers / service providers, NGOs / civil society, policy makers, business associations, scientists and researchers

Guidelines and management systems

We have specified our requirements for the responsible conduct of all employees in numerous guidelines in order to ensure that they all know the relevant rules and apply them in the workplace.

Our Group-wide guideline system contains all company policies and explains which ones apply to which parts of the company. They range from the charters and principles in effect for the entire company, to specific standards and procedures that apply to either our sectors and businesses or our individual sites.

Such documents include our Code of Conduct, our "Human Rights Charter" and our "Charter on Access to Health in Developing Countries".

Examples of internal policies include: the Group-wide "Corporate EHS Policy", which establishes the framework for principles, strategies and organizational structures for environment, health and safety; our "Animal Welfare Policy", which describes the treatment of laboratory

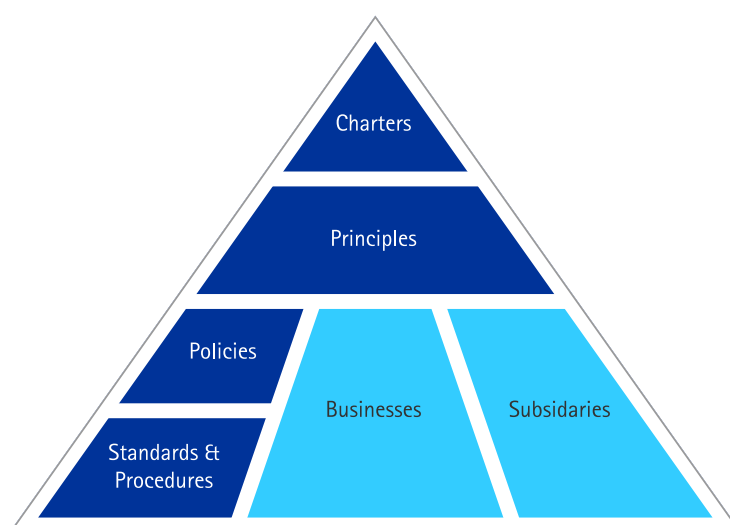
animals throughout the company; and our "Corporate Security Policy", which stipulates procedures to protect the company's intellectual and material assets.

In addition, we also have numerous business-specific policies, such as the biopharmaceuticals business' "Interactions with Patients and Patient Organizations", as well as our "Safety Policy" for chemical products. Through this safety policy, we have established global processes for defining, driving and implementing product safety and have created the necessary management structures to do so.

Our standards take the provisions from charters, principles and policies and translate them into concrete terms for employees in charge of operational processes.

The guidelines are kept up-to-date by the relevant departments and are available on the intranet. Managers are responsible for implementing them in their respective areas of responsibility. We educate and train our employees on the guidelines that pertain to them. In this way, we ensure that they are familiar with both the overarching rules from the charters and principles, as well as the concrete specifications that affect their individual range of activities.

Group-wide guideline system



The guideline system is an integral part of our management systems, which are used to define and steer goals, actions and responsibilities in key action areas. Our management systems are based on standards such as the internationally recognized ISO 9001 for quality management, GxP guidelines for good working practices in the pharmaceutical industry, and ISO 14001 for environmental management. Our ISO 14001 environmental management system and ISO 9001 quality management systems are certified at regular intervals by an independent auditing firm. Merck KGaA, Darmstadt, Germany holds group certificates for its quality and environmental management systems.

Compliance

Responsible entrepreneurship means first and foremost legally compliant conduct. All of Merck KGaA, Darmstadt, Germany's activities have to comply with statutory rules and regulations worldwide. Violations might not only entail legal prosecution, but could also seriously harm the company's corporate reputation, meaning its standing as a business partner or employer. Therefore, compliance with statutory rules and regulations has top priority for us. Compliance for our company also means acting in accordance with the ethical principles defined in the Merck KGaA, Darmstadt, Germany Values. We strive to do "good" business, which means operating profitably while still meeting high ethical standards.

Globally mandatory guidelines

The Merck KGaA, Darmstadt, Germany Code of Conduct is a compulsory set of rules for the company's entire workforce. Our employees have been provided with a copy of the Code of Conduct, and new employees are handed 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 acting ethically – not only in their interactions with one another, but also outside the company. Our Human Rights Charter supplements the Code of Conduct with global human rights principles, such as the core labor standards

of the International Labour Organization (ILO). In July 2014, we furthermore adopted a new anti-corruption guideline for the Group.

We expect our business partners worldwide to adhere to our guidelines and principles as well. While Supplier Management ensures that suppliers conduct their business according to the rules and regulations, Global Business Partner Risk Management handles the relationships with distribution-related associates such as distributors and wholesalers.

Group Compliance oversaw the integration of AZ Electronic Materials (AZ), which was acquired in 2014, and trained AZ employees on compliance as well as on our compliance guidelines. Since January 2015, AZ employees have been fully integrated into Merck KGaA, Darmstadt, Germany's compliance measures.

Our Compliance organization

Through our compliance organization, we ensure adherence to statutory regulations as well as to the company's own internal rules and regulations. The Compliance Group function, which features a Group Compliance Officer and other specialists, is responsible for maintaining and enhancing the compliance program. At our subsidiaries, local and regional compliance officers are responsible for implementing the compliance measures. Besides expanding the global Compliance organization, we have also appointed a Compliance Officer for the life science business and one for our Healthcare business sector. This will augment the compliance expertise available when entering new business fields and ensure that our businesses comply with statutes and regulations. The approximately 60 Compliance Officers worldwide fall under the Group Compliance Officer. Group Compliance provides them with guidance as well as training documents, along with other support. They report regularly to the Group Compliance Officer, who in turn reports to the Executive Board at least once a year, updating the Board on compliance activities, compliance risks and serious compliance violations. The Executive Board updates the company's supervisory bodies at least once a year on the key compliance issues.

Selecting business partners

Merck KGaA, Darmstadt, Germany applies a risk-oriented approach to the selection of sales-related business partners such as distributors, agents, and wholesalers. In essence, the greater we estimate the risk to be with regard to a certain country, region, type of service, etc., the closer and more carefully we examine the company before doing business with them. For risk assessments, we use tools such as the Corruption Perception Index (CPI) maintained by Transparency International, as well as background information from various databases. We also take into account whether the business partner in question has a compliance program.

Our "Global Business Partner Risk Management Guideline" governs the selection process for business partners as well as the system-based documentation of relevant information and the evaluation thereof. Through this comprehensive process, we are both minimizing our risk as well as taking into account the modified requirements resulting from new anti-corruption legislation such as the UK Bribery Act.

This Group-wide mandatory guideline stipulates eight principles that must be taken into account when selecting new business partners and that also apply to existing business relationships. For instance, the policy stipulates that the company shall only do business with partners who comply with all applicable laws, who do not engage in bribery, who adhere to environmental, health and safety guidelines, and who refuse to tolerate discrimination. Furthermore, we require them to demonstrate a commitment to internationally recognized human rights and labor standards, as well as to the compliance standards defined in our Code of Conduct.

Business partners must accept and adhere to these principles if they wish to enter into a business relationship with Merck KGaA, Darmstadt, Germany. We also conduct such audits on existing business partners, usually when it's time to renew a contract.

If the audits come up with red flags, we may reject potential business partners or terminate the relationship. However, our business associates are frequently willing to modify their structures and processes to meet our

stringent compliance requirements. Since implementing the process in 2013, more than 1,000 business partners have already undergone this audit.

Compliance audits

The Internal Auditing Group function regularly reviews compliance-relevant matters at our facilities. Their audits focus on the existence and quality of compliance guidelines, processes and structures. In addition, Internal Auditing also checks our sites for violations of our Code of Conduct and reviews workplace aspects of the Human Rights Charter. The topic of corruption is also part of our standard audit program. Altogether, 30 audits were conducted in 2013 to check for corruption, with 36 in 2014.

On top of this, 27 sites across 22 countries were audited on workplace aspects of the Human Rights Charter in 2013, and 32 sites across 28 countries were audited in 2014. The audits found no violations.

Compliance training

We place a high priority on regular compliance training, which is provided as classroom and online courses. Employees of all levels, as well as independent contractors and supervised workers such as temps, are trained on topics related to the Code of Conduct such as corruption, competition law and conflicts of interest.

In 2013 and 2014, we used our e-learning system to train 29,360 people on our Code of Conduct, educating them on the consequences of compliance violations. This training also taught ways to avoid compliance violations.

In 2013 and 2014, a total of 40,188 people took 117,509 online courses on a variety of compliance topics. A large portion of these classes focused on corruption. In 2013 and 2014, we trained 31,687 people on how to prevent corruption.

Several courses on special topics are offered specifically for employees above a certain Global Grade, such as the course on competition law that was rolled out in 2014. In addition to online courses, numerous classroom courses on compliance are held worldwide in order to provide employees with effective training on local issues in particular.

We review and revise training plans regularly, adapting them to new developments. For instance, in 2014 we developed online courses to accompany the implementation of our new anti-corruption guidelines. Since 2013, we have been training employees, especially those in distribution, on our expanded business partner selection process as well as our "Global Business Partner Risk Management Guideline". Due to the significance and complexity of the subject, this training is generally offered as a classroom course.

SpeakUp Line

All employees are called upon to report compliance violations to their supervisor, Legal, HR, or other relevant departments. Employees can also report violations via the SpeakUp Line central reporting system, doing so in their respective national language. Available as a telephone hotline or a web-based application, they can report the incident free of charge and anonymously from anywhere in the world. In addition to our employees, business partners who have undergone the Business Partner Risk Management Process can also report misconduct via the SpeakUp Line.

The reports received are reviewed by the Group Compliance Officer and submitted to the Compliance Committee, who will then coordinate the necessary investigation into the matter. This committee consists of senior representatives from Internal Auditing, Compliance, Group Security, Data Security, and Human Resources. They monitor the handling of reported cases and initiate appropriate corrective measures as needed. Disciplinary actions are also taken, when necessary, against employees who have violated a compliance rule. These actions may range from a simple warning up to dismissal of the employee, depending on the severity of the violation.

On top of the SpeakUp Line, we have also set up a central advice hotline within the Group Compliance Office. Our employees can call this number to get advice on ethical and compliant conduct.

The number of compliance-relevant reports as well as the number of actual compliance violations have remained for the most part unchanged over the last several years. Via the SpeakUp Line and other channels, we received

a total of 22 compliance-related reports in 2013 that resulted in an investigation, with 26 such reports in 2014. We confirmed nine cases of compliance violations in 2013 and eleven in 2014. The majority of these violations resulted from the misconduct of individual employees and represented minor, isolated incidents that led to commensurate disciplinary action. During the 2013-2014 period, six cases total entailed managerial employees who were involved in improper business practices, or had knowledge thereof. These cases mostly dealt with improper distribution and marketing methods to boost sales, as well as inappropriate interactions with medical professionals. In all cases, disciplinary action was taken against the managers responsible for the infractions.

Outlook

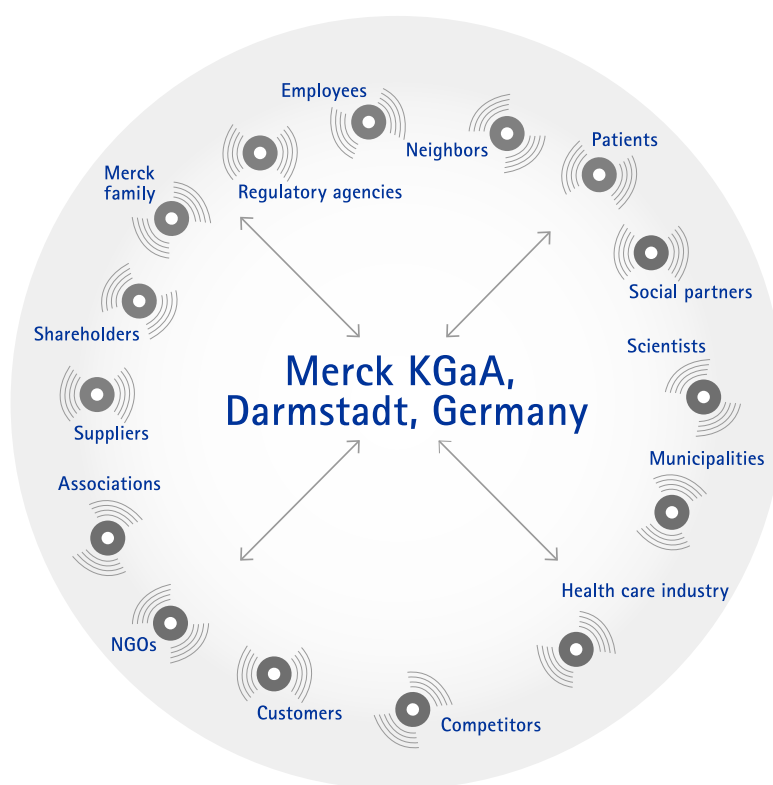
The importance of compliance in business processes will continue to grow, especially in the pharmaceutical industry. For Europe, the transparency initiative of the European Federation of Pharmaceutical Industries and Associations (EFPIA) stipulates that, effective 2016, companies will have to publish all donations made to physicians that are not connected to research. Our Compliance organization has worked with the relevant businesses to implement measures that satisfy this disclosure obligation. This includes the creation of an internal guideline that stipulates the approval process and documentation requirements for donations made to physicians.

Stakeholder dialogue

Our business operations intersect the interests of many people, which makes continuous engagement with our stakeholders absolutely essential. We particularly engage with those people and groups who are impacted by our decisions and activities – or who help determine them. Our stakeholders include employees, customers, business partners, the Merck family, investors, regulatory agencies, associations, neighbors in the vicinity of our sites, and non-governmental organizations (NGOs). Our stakeholder

engagement takes many forms, such as stakeholder surveys, issue-specific dialogues, informational forums, round table discussions, industry coalitions, and advocacy work. This exchange enables us to demonstrate how we live our Values, as well as to illustrate the corporate responsibility (CR) strategy we pursue. It also provides us an opportunity to express our appreciation for our stakeholders. We strive to sustain and build trust and – wherever possible – harmonize divergent interests. Our top priority is to ensure the company's acceptance within society.

Our stakeholders



Stakeholder surveys

We regularly survey our employees, customers, business partners, and other relevant stakeholder groups about the CR issues they consider to be important to Merck KGaA, Darmstadt, Germany now and in the future, asking them to assess our performance on these priority issues. We also wish to know the questions our stakeholders have regarding corporate responsibility at the company so that we can address them in our CR Report. Most recently, we conducted such a survey on our stakeholders in 2014 in conjunction with the materiality analysis for our 2014 CR Report, involving around 120 stakeholders from across 30 countries.

Issue-specific dialogues

In the course of our business activities, we deal with a wide range of issues and interface with various communities. In the process, our departments usually interact directly with stakeholders. Depending on the subject and whether the issue is of local, national or international relevance, this may take the form of workshops and seminars, or even roundtables held at major conventions. Beyond this, Merck KGaA, Darmstadt, Germany is also involved in industry networks and participates in professional conferences.

For instance, in September 2014, Merck KGaA, Darmstadt, Germany partnered with the German Chemical Industry Association (VCI), the German Mining, Chemical and Energy Industrial Union (IG BCE) and the German Employers' Federation of the Chemical Industry (BAVC) to host a conference in Darmstadt (Germany) entitled "Deutschland braucht Chemie. Nachhaltigkeit – Voraussetzung für Wachstum und Wohlstand?" (Germany needs chemistry. Sustainability – a prerequisite for growth and prosperity?). Attended by more than 700 people, this sustainability conference was held as part of the "DA stimmt die Chemie" event series, a collaboration between the company and the Technical University of Darmstadt that is taking place from September 2014 to June 2015. In July 2014, we organized an expert workshop with representatives from the worlds of politics, business and society to prepare for the conference, which focused on the chemical sector's contribution to sustainable development. In addition to this, participants also

discussed the definition of a company's responsibility for its products, as well as the balance between ecology, economy and social responsibility.

Furthermore in the 2013-2014 period, we also hosted Access Dialogues to engage industry representatives, international organizations, and other stakeholders on the topic of access to health. These dialogues focused on access to health innovations, the protection of intellectual property, and challenges posed by the supply chain in developing countries. Within our Capacity Advancement Program, more than 200 dialogue events have been held since 2012, which seeks to raise the profile of diabetes in Africa and Asia through education and support for the health systems there.

In October 2014, more than 100 health experts from Africa attended the company's Africa Luminary in Darmstadt. This conference focused on advancing medical capacities in the fields of diabetes, oncology and infertility, as well as optimizing supply chain integrity, pharmacovigilance, and the fight against counterfeit medicines. During 2013 and 2014, we also participated in various conferences on schistosomiasis and malaria, part of our commitment to fight neglected tropical diseases. Among these were the Harvard Symposium on Malaria and Tuberculosis in November 2014 as well as the eleventh Malaria Meeting in November 2013 in Aachen (Germany), which gave rise to a new partnership with Saint George's University in the United Kingdom.

The life science business discusses sustainable business strategies within the Sustainability Stakeholder Advisory Group (SSAG). In 2014, the life science business conducted a global customer service and usage survey; it held a stakeholder meeting with suppliers, distributors, customers, non-governmental organizations, and scientists in order to get their feedback on our sustainability strategy, as well as on the sustainability criteria that govern our products. We took this feedback and used it to define new criteria for our Design for Sustainability Program, integrating these criteria with our product development process. The new criteria included product recyclability and the availability of a recycling program.

Discussion and information forums

At our major sites, we have set up discussion and information forums for local residents. Through the public planning forum held annually at our headquarters in Darmstadt since 1994, we aim to provide residents with the opportunity to obtain information and discuss our development at the site. During the 2013-2014 period, we provided information particularly on our "Fit for 2018" transformation and growth program, as well as new developments resulting from our ONE Global Headquarters initiative in Darmstadt. We also discussed landfill remediation, groundwater issues, the daycare center, and visitor parking area remodeling, along with energy, communication and crisis management.

In expanding our biotech production facilities in Corsier-sur-Vevey, Switzerland, we initiated a dialogue with NGOs and local authorities to ensure the greatest possible transparency during the entire project life cycle, from planning to completion. For the project, the company committed to applying high environmental and safety standards that exceed statutory requirements. Even after completing construction, we will continue to hold this annual meeting, which enables us to engage stakeholders in regular discussions as well as to verify that the stipulated measures are being properly implemented. In 2014, the meeting focused on the status of landscaping activities and updates to the mobility plan, as well as our water balance and water release performance.

Industry interest groups and advocacy work

We actively participate in the political process and advocate our views by engaging policy makers in a direct dialogue as well as by engaging in advocacy work.

Below are several examples of major national and international industry associations in which we are members and hold positions:

- The German Chemical Industry Association e.V. (VCI)
- The European Chemical Industry Council (CEFIC)
- The German Association of Research-based Pharmaceutical Manufacturers e.V. (vfa)

- The European Federation of Pharmaceutical Industries and Associations (EFPIA)
- The International Federation of Pharmaceutical Manufacturers & Associations (IFPMA)

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

Karl-Ludwig Kley, Chairman of the Executive Board:

- Federation of German Industry (BDI), Vice President
- German Chemical Industry Association e.V. (VCI), Vice President

Stefan Oschmann, Vice Chairman of the Executive Board:

- International Federation of Pharmaceutical Manufacturers & Associations (IFPMA), President
- European Federation of Pharmaceutical Industries and Associations (EFPIA), Vice President
- Paul Ehrlich-Stiftung, Member of the Board of Trustees

Belén Garijo, Member of the Executive Board, CEO Healthcare:

- PhRMA (Pharmaceutical Research and Manufacturers of America), Member of the Board

Kai Beckmann, Member of the Executive Board:

- Federal Employers' Association for the German Chemical Industry e.V. (BAVC), Member of the Board
- Employers' Association for the Chemical and Related Industries in the State of Hesse e.V. (HessenChemie), Member of the Board
- Darmstadt Rhein Main Neckar Chamber of Industry and Commerce (IHK), Member of the Board
- Fraunhofer Institute for Computer Graphics Research (IGD), Member of the Advisory Board

Bernd Reckmann, Member of the Executive Board, CEO Chemicals:

- German Chemical Industry Association (VCI), Chairman of the Hessian Chapter

- Technology and Environment Committee of the German Chemical Industry Association e.V. (VCI), Chairman
- German Association of Biotechnology Industries (DIB), Member of the Board
- Board of Trustees of the Chemical Industry Fund (FCI) within the German Chemical Industry Association (VCI), Member of the Board

Within the Chemie³ and Responsible Care[®] initiatives, Merck KGaA, Darmstadt, Germany is also working in particular to develop and implement sustainability standards in the pharmaceutical and chemical industries. On top of this, the company is active in numerous socially engaged organizations, such as the Goethe Institute, the Remembrance, Responsibility and Future Foundation, and the World Environment Center (WEC). We also participate in initiatives and projects whose other participants share our standards of entrepreneurial conduct. For instance, we support the "Code of Responsible Conduct for Business".

Merck KGaA, Darmstadt, Germany does not make financial contributions to holders of or candidates for political office, political parties or related organizations. This is stipulated in our Code of Conduct. In the United States, EMD Political Action Committees (PACs) have been set up as a conduit for our employees to make donations in support of political candidates and organizations. These are not donations from the company, but rather from individual employees. The contributions donated are reported to the U.S. Federal Election Commission and are fully disclosed.