

Employees

The people working for us are crucial to our success, playing a central role in our business endeavors.

In accordance with our Values, we live a culture of inclusion and respect, seeking to hire, foster and motivate the best-suited individuals. Moreover, we are strongly committed to a diverse workforce and take pains to safeguard the health of all.

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Attractive employer

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

Owing to the ever-faster pace of technological progress, professional requirements are also increasing, which makes it crucial for us to cultivate our employees and continuously strengthen their skills. In doing so, we as an employer must also meet the growing expectations for work-life balance.

Our principles

Recruiting and retaining talent

Our goal is to attract qualified employees and retain them over the long term. We want to give each and every one the opportunity to develop professionally and personally, ultimately realizing their full potential. Skilled professionals expect competitive compensation and a healthy work-life balance. We seek and advance promising individuals within our company so that we can quickly fill open positions.

HR Global Talent and Development works on strategies to advance and promote our employees, coordinating the necessary measures. At our sites around the world, our HR staff implements these measures in collaboration with senior managers from the business sectors. In doing so, they comply with global HR guidelines and requirements, which we monitor by means of internal audits.

Digitally steering HR processes

To make our HR processes more consistent around the world, in 2012 we introduced HR Suite, an online platform accessible to all employees. This platform 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.

Providing feedback and supporting development

We regularly provide our employees feedback on their performance. The Performance and Potential Management Process ensures that, in addition to providing regular feedback on employee performance, a meeting is held once a year to evaluate employees' overall performance. Since 2015, this process has been applicable to all employees

Group-wide with a Global Grade of ten or higher, and in Germany for all non-exempt employees as well.

Supervisors and subordinates work together to define personalized objectives that reflect current strategic priorities as well as each employee's core tasks. In a separate process, they also draw up a detailed development plan. In creating their development plan, all employees can make use of the Development Advisor. Building on our competencies, this online tool provides a selection of development measures that employees can tailor to their own needs.

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 the My Learning online tool to sign up for suitable activities such as seminars and online training courses.

Finding promising talent, securing succession

We seek to identify promising individuals within the company as early as possible and put them on the path to advancement. As part of our Succession Management Process, we systematically prepare candidates for management roles, which allows us to fill vacant positions quickly and efficiently.

Attracting qualified university graduates

We work to attract the best university graduates. As part of our efforts, we partner with organizations such as 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 such as the United States or 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 at Merck KGaA, Darmstadt, Germany directly or complete one of our trainee programs. Our trainees acquire international experience in various areas of the company and take part in tailored advanced training courses.

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, we offer numerous apprenticeship positions for various professions, as well as dual vocational training programs. We are continuously investing in new technologies and integrating 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 projects.

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, as well as employee performance. In addition to competitive remuneration, we also offer attractive fringe and social benefits. Our benefits package encompasses three pillars, namely company-funded benefits including our company pension, health & well-being, and services. To meet the various needs of our workforce worldwide, we offer a variety of benefit packages designed using established steering mechanisms.

To ensure a competitive compensation structure, we regularly review our compensation policy. In doing so, we take internal factors and market requirements equally into account. In making adjustments to this policy, we involve relevant stakeholders such as employee representatives (p. 73) in the early stages of the process. Current analyses show that there are no gender-based compensation differences within the Group.

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 workers make use of more than 30 different part-time models.

In Germany and the United States, where 44% 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.

Progress

Assessing performance and identifying development opportunities

In 2016, approximately 49,000 employees took part in the Performance and Potential Management process that supervisors use to evaluate the performance of their staff. Every three years, employees can opt to be additionally assessed by select peers and external consultants. Known as 360-degree feedback, this approach helps to identify personal strengths and development opportunities. In 2016, we updated our Development Advisor, which is used to create employee development plans, adapting it to our new Competency Model.

We offer our employees around the world classroom training courses. In 2015, these courses were attended by over 4,000 participants, with 5,700 people having attended in 2016. In addition, our employees can also take a wide range of online courses and language training.

Good standing in employer rankings

Under the slogan "Make great things happen", we are positioning ourselves in the global job market as an attractive employer. This campaign highlights our strengths: we offer diverse opportunities to contribute to the development and commercialization of innovative products, as well as numerous career options in an international, motivating and state-of-the-art work environment. Through the "Make great things happen" campaign, we are also communicating our strong sense of social responsibility and commitment to work-life balance.

The success of our efforts is 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. In 2016, our Group ranked sixth in the student survey and seventh among experienced professionals.

Since 2015, we have been working on a new global employer brand. Our goal is to better distinguish ourselves from our competitors and sharpen our profile as an attractive employer in the field of science and technology.

Sparking student and graduate interest in Merck KGaA, Darmstadt, Germany

In 2016, we employed around 50 trainees, primarily in Inhouse Consulting, Finance and Production. In 2017, we plan to launch further trainee programs in Marketing, Sales and Research & Development, which will have room for 25 new trainees per year. Moreover, in the United States 12 additional trainees are expected to start their careers in Inhouse Consulting.

We offer internships to high school and college students. Through our Keeping Ties to Students program, we stay in touch with talented individuals who demonstrate especially good performance during their internship. Furthermore, every year we invite students from German and Swiss universities and tell them about career tracks and job opportunities at our company.

Impressive hiring rate and new dual vocational training programs

In 2016, a total of 576 young people were enrolled in vocational training programs at our sites in Germany. In 2015, 156 young people began their apprenticeship at Merck KGaA, Darmstadt, Germany, with 163 having started in 2016. In total, we offer apprenticeships across 23 occupations, primarily in production, laboratory work and office administration. Furthermore, 14 young adults in 2015 and 16 young adults in 2016 embarked on dual vocational training programs in the fields of business administration, business IT, process engineering (chemical engineering), and mechanical engineering. Since 2014, we have been offering permanent employment contracts to all apprentices and graduates of dual vocational training programs working in occupations for which we have long-term demand. In 2015 and 2016, the hiring rate for graduates of these programs – taking voluntary terminations into account – was over 90%.

Early career training

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 a one-year program, giving them insight into professional life and improving their chances of gaining an apprenticeship. In the 2015-2016 period, this initiative helped a total of 42 participants aged 16 to 25 get the qualifications they needed to apply for an apprenticeship. Since its launch in 2006, 167 young people have taken part in the program; 89 of them have successfully completed an apprenticeship while 55 are still undergoing training.

In October 2016, we established a similar program for refugees forced to flee their home countries. The “Integrating refugees through training” initiative is preparing 12 young people for vocational training, thereby opening the door to the German labor market. The project comprises linguistic, technical, cultural, and career-related training.

Leveraging the opportunities of digitalization

Our work is becoming increasingly digital and flexible, a development described by the term “Work 4.0”. This trend is impacting our vocational training and continuing education programs as well; we are continually integrating new technologies such as 3D printing into our curricula and trying out novel learning and innovation methods such as design

thinking. You can find more information under Innovation and digitalization (p. 26).

Our EVA platform is another example of an innovative, cutting-edge environment. EVA stands for “**E**xpertise every-where, **V**irtual teams, **A**ccess to information” and has been bringing our employees together from across the globe since 2015. It allows virtual teams to collaborate and communicate across departmental boundaries and national borders. Approximately 50,000 people in total have access to the platform, which has won a number of international awards.

Expanding flexible working models

We offer our employees in Germany and the United States various flexible and innovative working models. The working model known as mywork@Merck KGaA, Darmstadt, Germany was initially implemented in 2013 for all exempt employees at our Darmstadt and Gernsheim sites and aims to strengthen the culture of performance and trust within the company. In agreement with their teams and supervisors, employees can freely choose when and where they work. Since October 2014, non-exempt employees at these sites with positions suitable for this working model have also been eligible. In addition, we also introduced mywork@Merck KGaA, Darmstadt, Germany for Merck Accounting Solutions & Services Europe GmbH, Darmstadt, Germany, a subsidiary of Merck KGaA, Darmstadt, Germany, Merck Export GmbH, Darmstadt, Germany a subsidiary of Merck KGaA, Darmstadt, Germany, Merck Schuchardt OHG, Hohenbrunn, Germany a subsidiary of Merck KGaA, Darmstadt, Germany, Merck Versicherungsvermittlung GmbH, Darmstadt, Germany a subsidiary of Merck KGaA, Darmstadt, Germany, Merck Selbstmedikation GmbH, Darmstadt, Germany a subsidiary of Merck KGaA, Darmstadt, Germany, and Merck Chemicals GmbH, Darmstadt, Germany a subsidiary of Merck KGaA, Darmstadt, Germany. Employees and their respective line managers can best decide for themselves when and how often fixed physical presence in the office is necessary for all team members. Working hours are no longer logged or monitored. At the end of December 2016, a total of 4,507 employees were making use of this model.

In 2016, 4.7% of our employees worldwide worked part-time, 10.6% of whom were men. We believe that with these flexible working models, we are on the right track to not only more efficient processes, but – most importantly – to greater employee satisfaction and employer appeal.

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 KGaA, Darmstadt, Germany program in Darmstadt and Gernsheim. It gives mothers and fathers on parental leave the opportunity to talk and share lessons learned while also helping them keep in touch with the company. Moreover, they can make use of the various training and networking offerings.

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 Darmstadt and Gernsheim, our largest sites in Germany (around 20.9% of our total workforce), 480 employees were on parental leave as of the end of December 2016, 37% of which were fathers. In other key countries, we go beyond the legal requirements to offer other kinds of new parent support such as extended time in the United States and Brazil, and nursing care allowances in Taiwan.

Daycare center expanded

For 49 years, our headquarters in Darmstadt has featured a daycare center for children aged 1-12. This facility is funded by the Merck family and offers 150 slots. Since 2013, we've been providing year-round care from 6:30 a.m. to 7:00 p.m. For the children of our employees in Gernsheim, five slots are available at a public daycare center.

Our Darmstadt site also offers provisional daycare services to cover times when an employee's regular childcare becomes unavailable. During school breaks in the German Federal State of Hesse, we host a variety of vacation camps focused on sports, art, research, and nature. In 2016, we increased the capacity of our vacation camp program to approximately 450 children.

Since June 2016, we have additionally been providing temporary care for sick children. For up to two days, parents throughout Germany can engage the services of a professional educator free of charge to care for their children at home.

Family and elder care: Better informed

In 2016, we revised the way in which we provide employees with information on career and family care in Germany. Twice a year, we offer our workforce family care seminars that focus on various 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 contact with nurses.

Diversity and equal opportunity

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 and sexual orientations. We believe that a diverse workforce – paired with an inclusive corporate culture – strengthens the innovative power of our Group and contributes significantly to our business success. With this in mind, we work hard to foster a culture of diversity and inclusion.

Our principles

Increasing diversity, providing opportunities

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 women in leadership positions, cultivate an international working environment and form teams with a balanced age structure. We offer our employees global development opportunities. Moreover, we are working to increase the percentage of executives from international growth markets across the Group to leverage their knowledge of local markets.

Diversity: A pillar of the company

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

1. It is responsible for implementing our strategy for greater diversity.
2. It evaluates and refines proposals to increase diversity submitted by our business sectors.
3. The council members inform their own business sectors about the work of the council and are responsible for overseeing the respective issues in their areas.
4. The members are direct points of contact for the employees in their business sector.

In order to further enhance diversity within the company, Group Human Resources (HR) has implemented a number of programs and processes. Our strategic competencies, which guide our employees and managers in their tasks, are set out

in our Competency Model. The Competency Model is a fundamental element of HR processes such as recruitment, feedback processes and training for managers. In 2016, we rolled out software that analyzes our personnel data quickly and reliably. This was the first time we have implemented such a tool, which also provides anonymized information. Select data (p. 111) are presented in this report.

Creating an inclusive work environment that promotes mutual respect is a particular focus of our human resources work. We support specific employee networks in order to foster exchange among like-minded individuals. In addition to our internal women's networks in various countries, we also partner with networks outside the company that are committed to ensuring women's advancement in the workplace.

Taking action against discrimination

As stipulated in our Code of Conduct, we do not tolerate 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. Alleged cases fall under the purview of Group Compliance and are handled by the Compliance 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 worldwide.

Supporting industry-wide initiatives

In an effort to promote further diversity, we also support industry-wide initiatives. By adopting the German "Charta der Vielfalt" (Diversity Charter) in 2013 and signing the Equal Opportunity Charter of the German Mining, Chemical and Energy Industrial Union (IG BCE) in 2015, we underscored our commitment to fairness and tolerance in the workplace, promising to do everything in our power to achieve gender equality within the company. In 2011, we joined other DAX® 30 companies in signing a declaration committing to advance women in leadership roles.

Women in leadership roles: Requirements and objectives

In 2011, we set the strategic goal of increasing the percentage of management positions held by women to 25%-30%, a target we reached in 2016. Group-wide, women currently occupy 28.8% of leadership roles. The figures are steadily increasing across the company as a whole, but not consistently across business units, Group functions and hierarchical levels. Our target for 2021 is to maintain a 30% representation of women on the managerial level, and we working to further increase the percentage in senior management positions and business units where women are still

underrepresented. To achieve this objective, we plan to form special teams that will be responsible for developing goals and measures at departmental level to help us move female candidates into positions in different areas and hierarchies.

In addition to working towards our own goals, the German Law on Equal Participation of Women and Men in Leadership Positions in the Public and Private Sector has been in effect in Germany since September 30, 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.

Progress

Global Diversity Days

We seek to raise awareness among our workforce for diversity and inclusion. In 2015, for instance, we expanded our Diversity Day from one day a year to a whole month. Every year in September, we now place diversity center stage. In September 2016, we organized a range of activities around the world under the banner of "The Power of WE – The Power of Diversity". Overall, employees from 17 countries across six continents took part in a number of events. The members of the Diversity Council also supported the campaign by holding online events that saw participation from more than 580 employees Group-wide.

Networks to bolster diversity

Our company is 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 because it gives them the opportunity to attend various seminars and conferences in Darmstadt (Germany), Lyon (France) or Boston, MA (USA), as well as to take part in mentoring programs. In autumn 2016, some of our employees participated in the HBA's European conference in Leiden (Netherlands) as well as its annual conference in St. Louis, MO (USA). Furthermore, two of our female employees are board members of HBA Europe.

Through our Rainbow Network for homosexual, bisexual and transsexual employees, we supported Christopher Street Day 2016 in Frankfurt and Darmstadt, Germany. As well as taking part, we were the official corporate sponsor of the event in Darmstadt. In 2016, the Rainbow Network was also launched in the United States.

The 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.

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 for 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, in 2016 we held the first round of workshops with network representatives.

Successful international collaboration

Our company is becoming increasingly international. We currently employ people from a total of 129 nations, 23.1% of whom are German citizens. Our managerial staff (Global Grade 14+) includes representatives of 70 nationalities. In the 2015-2016 period, 65% of management positions were held by non-German employees. At the end of 2016, 17% of our employees were working outside their home countries, versus 6% in 2014.

To best facilitate this international collaboration, we offer intercultural seminars for all employees and are also increasing the availability of company documents in English. We support employees posted to other countries through language courses and international networks to help them settle more quickly into their new country. For instance, around 200 expatriate employees are members of the International Community, which gets together regularly in Darmstadt.

No cases of discrimination

In 2015 and 2016, no suspected cases of discrimination were reported via the SpeakUp Line or other channels.

On the path to equality

Consisting of 37.5% women (6 out of 16 members), our Supervisory Board already meets the stipulations of the new German legislation on the women's 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, in 2015 we set an initial goal of maintaining the then figure of 21% at both levels until the end of 2016. In late 2016, women numbered 16% on the first management level and 24% on the second, which means the target defined for the first management level was not met. Here, the lower representation of women was mainly attributable to personnel changes made to the Executive Board itself and the resulting changes to the first management level. Organizational changes (transfer of two female executives abroad) and fluctuation (one female executive employee left the company) also had an impact on the number and percentage of women at this management level. By contrast, owing to the successful recruitment and promotion of women employees, we exceeded our target of 21% for the second management level by reaching 24% female representation. This development creates a strong basis for future appointments to the first management level. Our new targets for these two management levels are to increase the ratio of women on the first level to 21% and on the second level to 26% by the end of 2021.

Addressing demographic change

Another issue we're addressing is demographic change. We expect the average age of our workforce to continue rising in the coming years. In Germany, we are responding to this trend with various initiatives including our health management program (p. 70). Within this program, for instance, we are adapting workplaces to the needs of older people. In 2015 we developed new shift models and introduced preventive health measures for shift workers. Moreover, at our site in Darmstadt we offer special courses for employees over the age of 40, such as the seminar "Staying on the ball – Learning at 40+". In 2015, we took another step toward sensitizing our employees to the limits of their own physical and mental resources by participating in a research project focusing on mindfulness jointly run by the Kalapa Leadership Academy and Coburg University of Applied Sciences.

Using our new personnel data evaluation software, we intend to analyze the age structure of our workforce in the United States and Asia and subsequently adapt our local initiatives to address demographic change.

Health and safety

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. In the world of office work, issues such as stress prevention, nutrition and mobility are especially commonplace. We focus our efforts on prevention to help our employees mitigate temporary or long-term health problems.

Our principles

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 aim to make health management a greater part of our corporate culture and leadership.

Occupational health and safety: An organizational cornerstone

Our Environment, Health and Safety Policy details our approach to occupational health and safety. This policy is an integral part of our Environment, Health, Safety (EHS) management system, which is aligned with standards such as OHSAS 18001. Since 2015, we've been undergoing an external certification process for OHSAS 18001.

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

Systematic data collection and clear rules of conduct

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.

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.

Health management: A pillar of our corporate culture

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 various countries. Our individual sites are responsible for performing local workplace risk assessments and hazard analyses.

In addition to this policy, our health management system in Germany also helps weave health awareness into our corporate culture. Strategy, focal areas and initiatives are developed by an interdisciplinary steering committee. Topics include health fundamentals, good leadership and tailored health programs such as health prevention for shift workers.

Defining bylaws

At our sites in Germany, we work in partnership with employee representatives to craft bylaws on occupational health and safety. These bylaws define processes such as health counseling, which helps our managers promptly identify health risks and psychological stress in their employees.

Progress

Safety certification expanded, accident rates reduced

By the end of 2016, all Performance Materials production sites had been certified to the international standard OHSAS 18001. The certification process helps us pinpoint weak areas, identify opportunities for improvement, and implement suitable measures.

The lost time injury rate (LTIR) is the indicator used to assess the success of our 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. In 2010, we set the goal of reducing our lost time injury rate to 2.5 by 2015 – in 2015 we far surpassed this objective by achieving an LTIR of 1.5. But this is not enough for us. In our view, nothing is worth an accident. We therefore made our next goal even more ambitious: to sustainably lower our LTIR even further by 2020. By 2016, we'd already reached this objective with an LTIR of 1.3. The majority of incidents resulting in lost time were slips, trips and falls, accidents involving the operation of machinery, and car accidents on business trips.

Despite our efforts, there were unfortunately two work-related accidents resulting in fatalities in 2015. In the United States, one employee died in a car accident, while in Germany, one worker was fatally injured during a mishap involving a forklift. There were no fatal incidents in 2016.

BeSafe! program rolled out worldwide

Through our BeSafe! program, we are working to raise employee awareness of occupational safety. We have now incorporated all production and warehouse sites into the program. Since the completion of the acquisition, Sigma-Aldrich facilities have also started implementing BeSafe!. In October 2016, we successfully held events at four sites in the United States, the first time for our operations in that country.

In 2016, we conducted initiatives, campaigns, and awareness efforts across the Group as part of the BeSafe! program. For instance, several subsidiaries in Latin America 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 total, 61 out of 91 facilities received this award in 2016, with 41 out of 61 production sites having received it in 2015. On January 29, 2016, the workforce at our U.S. site in Branchburg, New Jersey achieved a major milestone of one million man-hours worked without a single reportable accident.

Solvent for production purification processes replaced

In 2015, we replaced tetrahydrofuran (THF) with non-hazardous substances for most of the purification processes at our organic production plants in Darmstadt. THF is a solvent suspected to be carcinogenic. Through this measure, we save nearly € 700,000 per year.

Increasing safety through global best practice sharing

Our EHS managers attend regional and international conferences in an effort to share best practices and lessons learned. In 2015, our Group-wide conference took place in Darmstadt and was attended by 70 employees. In 2016, we also held forums in Taoyuan (Taiwan), with 35 participants, and in Cork (Ireland), with 41 participants. These meetings focused on safe logistics, waste treatment and the integration of Sigma-Aldrich sites. In autumn 2015 and 2016 we

hosted the fifth and sixth EHS Best Practice Sharing Meetings in Bari (Italy), which were attended by representatives from business, industrial associations and academic institutions. Moreover, in 2015 and 2016, we conducted safety training in Darmstadt and Gernsheim for 53 managers from 19 countries.

Expanding health management

As part of our EHS management activities, we implemented two new Group-wide processes in 2015. Our Travel Health & Medical Advisory Service assists employees who spend a lot of time abroad, providing them with advice on vaccinations and hygiene risks. Our Physical Ability Test and Health Preservation ensure that all employees meet the health requirements for their particular tasks. This test helps us implement targeted intervention as necessary.

At our Darmstadt and Gernsheim sites, our Health Management unit conducts numerous campaigns and programs to promote the health of our workforce. In summer 2016, 3,682 employees took part in the Global Corporate Challenge (GCC) hosted by the employee engagement firm Virgin Pulse. Seven-person teams used pedometers to track their step count over a period of 100 days. The result? Altogether, participants walked the equivalent of 67 times around the world. By the end of the GCC, 84% of participants were walking 10,000 steps or more per day, versus 29% before the challenge. Besides being motivated to exercise more than usual, everyone furthermore benefited from practical tips on nutrition and stress management. We also offer our employees services such as our fitness program, which provides them with up to € 195 per year towards health prevention classes. We furthermore offer a company athletics program that currently features 25 different sports.

We analyze the ergonomics of individual workstations and then implement relevant occupational health measures. In our liquid crystal production facilities, for instance, we have made technical improvements such as drum lifters. Our workers have also received training on ergonomics in the workplace. Our Life Science employees in the United States have access to the Early Symptom Intervention and Prevention Program (ESI), which provides training and teaches about workplace ergonomics.

Employee engagement

As a science and technology company, we are always looking for new solutions and working to evolve. 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 our company processes. Candid feedback from our employees helps show us where we have room for further improvement.

Our principles

Engaging employees

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 bolster employee engagement, we have set clear goals and defined the steps necessary to accomplishing them.

Rewarding innovative ideas

We seek to inspire our employees to think creatively. At our Darmstadt site, all workers are encouraged to submit suggestions for improvements within the company. 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 business models. In contrast to our conventional idea management process, Innospire specifies the topic on which employee proposals should focus. Furthermore, we annually present the Merck KGaA, Darmstadt, Germany Awards in recognition of outstanding ideas, teamwork and projects.

Innovating with young scientists

Our Merck KGaA, Darmstadt, Germany Biopharma Innovation Cup is targeted to recent graduates from around the world in an effort to spark the interest of young talent in our company, while also offering a forum for new ideas. We select 30 participants from a pool of applicants spanning the globe. During a one-week summer camp, they learn first-hand how research and development works in the pharmaceutical industry, collaborating with retired Merck KGaA, Darmstadt, Germany employees to create new, innovative concepts. The team with the best concept receives a prize of € 20,000.

Making room for ideas

Over the last several years, our company has undergone a major evolution and grown through acquisitions. We are 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. To this end, we launched our strategic ONE Global Headquarters initiative in 2013.

The heart of our redesigned global headquarters is our new Innovation Center (p. 27), scheduled for completion in 2017. In 2015, we opened a modular Innovation Center to give our employees room to explore their creativity by joining interdisciplinary teams and collaborating on pioneering projects.

Keeping employees informed and encouraging discourse

We keep our employees up to date and encourage discourse through a number of formats tailored to specific target groups. Take, for instance, our international collaboration platform EVA and our international employee magazine "pro". This magazine is published in seven languages and is available in a digital format as well as via an app. Through "pro", we reach more than 90% of our approximately 50,000 employees worldwide in their local language. Several subsidiaries also publish local editions of "pro", for example in Germany, Korea, the Netherlands, and Russia. In addition to these formats, a variety of newsletters are also published by our businesses. Moreover, we publish articles on EVA and host various events to raise employee awareness of corporate responsibility issues.

Understanding our workforce

We seek to understand the needs of the people who work for us and therefore regularly conduct employee surveys. Engagement and Inclusion, a unit within our HR organization, creates and oversees these questionnaires. The results show us ways we can improve. After each survey, we plan improvements that are managed by the relevant units.

At the beginning of 2016, we revised our approach to employee surveys and had implemented the changes by the end of the year. To give us a better sense of the situation within the company as a whole and to better benchmark against our competitors, we will be conducting all future surveys across the entire Group.

Guaranteeing co-determination

We regularly include employee representatives in our decision-making processes. Within Germany, 14 of our subsidiaries have employee representation. Local works councils as well as an overall Group works council represent the interests of our workforce, discussing topics such as compensation, working hours, and organizational realignment. The Senior Executives Committee represents the interests of senior management, while the Euroforum represents our employees at the European level, focusing on the economic situation, employment rates and significant changes within our company.

Progress

Rewarding employee ideas

In 2016, our employees used our idea management program to submit approximately 2,300 suggestions for improvement, with 3,200 having been submitted in 2015. These ideas led to savings of approximately € 3.4 million in 2016 and approximately € 1.7 million in 2015. In recognition of their contributions, our employees received bonuses totaling € 0.7 million in each year.

In the 2015-2016 period, we reached out to our employees through our Innospire innovation program and asked them for proposals on new materials, systems and business models across 12 categories. This resulted in the submission of 680 proposals, more than twice as many as in 2014. Eight suggestions were transformed into actual business plans, four of which are currently being implemented.

Recognizing innovation

The team that won the 2016 Merck KGaA, Darmstadt, Germany Biopharma Innovation Cup proposed an innovative approach to controlling the transmission of schistosomiasis. Overall, more than 900 scientists from across 53 countries competed for this renowned honor.

Presented every year, the Merck KGaA, Darmstadt, Germany Awards recognize outstanding employee ideas. In 2016, prizes were presented in the categories of Innovation, Change, Customer Focus, and Employee Development. In total, 55 teams and individuals competed for the awards. The project "Fertility technologies" won in the Innovation category.

Turning ideas into innovations

In 2015, the first group of project teams took up residence in our modular Innovation Center in Darmstadt, which is serving as a prototype for the future Innovation Center. Within the facility's walls, ten internal project teams are currently developing their ideas. We have also invited numerous external startups to take advantage of the center as part of the Merck KGaA, Darmstadt, Germany Accelerator program, an initiative that supports fledgling enterprises. The startup teams move into the Innovation Center for three

months at a time and receive financial assistance, training and access to our experts worldwide. The resulting exchange of ideas and best practices benefits not only the startups, but also our own teams.

The Innovation Center regularly conducts events, workshops, seminars, and webinars. Through these channels, we introduce our employees to new innovation methods such as design thinking. There is already a great deal of interest in this initiative. We also hope to accelerate the exchange of innovative ideas within the company and build a Group-wide network of innovation ambassadors. Furthermore, we plan to expand the scope of our Accelerator program, with a focus on locations with a thriving or burgeoning start-up culture. The first offshoot of this program took root in 2015 in Nairobi (Kenya).

Testing new forms of collaboration

In 2015, we launched our new collaboration platform EVA, which encompasses our global intranet for all subsidiaries and business sectors and furthermore consolidates numerous collaboration applications in one central location. According to an employee survey, EVA ranks as one of the most important internal communication media – second only to e-mail – receiving approximately 1.3 million hits from across 64 countries per month.

Globally harmonized employee engagement survey

Between December 2013 and June 2015, we conducted an Organizational Health Index (OHI) survey in all business units and Group functions, using the results to identify strategic focus topics and devise initiatives. In 2016 we continued our efforts to embed these topics more deeply into the organization. In November 2016, we conducted a global employee survey in 23 languages. Approximately 42,500 employees (83%) took part. A measure of employee engagement, our company-wide score was 60%, a level comparable to other companies in the chemical and pharmaceutical industries. As of early 2017, we will be working with the results across the company.

Sparkling young interest in science

Launched in 2016, the SPARK Global Volunteer Program (p. 100) offers our Life Science employees an opportunity to make a difference in the community by igniting a passion for science in the next generation.

Through our efforts to promote scientific education and research, we hope to have a positive impact on the local community. Beyond school programs, we are also supporting causes such as the San Diego Festival of Science & Engineering in San Diego, CA (USA) and the Royal Society of Chemistry in Bangalore (India).

In the vicinity of our global headquarters in Darmstadt, we support a wide array of educational initiatives such as "Jugend forscht", a state-level science competition for students that we host every year.

Good leadership

Within our company, teams collaborate across sites and international boundaries. Team members bring a variety of skills, strengths and experience to the table, creating great potential that can be leveraged by management. Our management processes fundamentally follow an international approach. Global collaboration is also playing an increasingly important role in the development of our next generation of managers.

Our principles

Strategic competency model

Our strategic competency model describes core competencies on which employees of all levels should base their conduct. Our competency model was revised in 2015 and

now more clearly defines the leadership culture through which we will grow our business. Our six core competencies are purposeful, future-oriented, innovative, results-driven, collaborative, and empowering. In our day-to-day work, these core competencies play an important role in our success. Our competency model provides the foundation for all development activities within our HR work – for employees, but also for our managers, who act as role models and are therefore key to building employee buy-in for the competency model.

Our competency model



Management program

We have instituted three programs to enhance the leadership skills of our managers. Our goal is for at least 50% of our senior managers and promising Global Grade 14+ employees to have participated in one of the programs by the end of 2018. We always adapt the programs to the particular needs of various countries.

We use our Performance and Potential Management Process (p. 64) to gauge the impact of these development initiatives. Furthermore, our employees also take surveys (p. 72) to rate the quality of leadership within our company.

Progress

We have three programs in place to develop our managers. The Managerial Foundation and Advanced Management programs were both launched in 2013, while the Global Leadership program was established in 2016 based on the results of an evaluation of our leadership and business model. The Global Leadership Program teaches our managers how to think and act with a global focus so as to ensure successful international collaboration. Within two years, we intend for all top 400 managers (Global Grade 16+) to have completed this program. Since the introduction of these initiatives, approximately 2,400 managers have taken part in total.

Expanding talent development Group-wide

Since 1999, we've been working in partnership with top international universities to offer a multiregional and modular program. Over a period of ten months, participants complete classes on management techniques and unique features of growth markets. To date, 373 senior managers

have taken part. Since the 1990s, our up-and-coming managers have also had the opportunity to complete the International Management Program, where participants work on an interdisciplinary project over a period of six months. The results are presented to the Executive Board. Moreover, we also 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 training of our managers, we also offer opportunities for employees in growth markets. In 2015, for instance, we launched our Growth Markets Management Program for local managers in India and Latin America. Over a period of up to two years, this training covers business administration topics such as marketing and financial analysis, along with content specific to our business such as our strategy and corporate culture. We launched similar programs in China in 2013, and in the Middle East, Latin America and Asia-Pacific in 2016. To date, **235** managers have taken part.

Furthermore, in 2015-2016 three of our employees successfully completed "Afrika kommt!", a one-year scholarship program offered by the German Society for International Cooperation (GIZ). This program aims to help specialists and managers from Sub-Saharan Africa obtain qualifications, thereby building a pool of regional partners for German industry. Five former scholarship recipients now work for us, two of them in their home countries of Ghana and Nigeria and the remaining three still in Darmstadt. In 2016, eight new candidates were chosen for the fifth round of "Afrika kommt!"