

# Progress Report

Implementation of the ten principles of the

UN Global Compact

Period: May 2011 to December 2012



## CEO's Declaration of continued support

We at Merck take our corporate responsibility seriously – it is an integral part of our entrepreneurial approach. Responsible conduct founded on clearly defined values is a key factor in Merck nearing its 350<sup>th</sup> anniversary. We would like to continue along this path. We are therefore reaffirming our commitment to the United Nations Global Compact, which we joined in 2005. We continue to support the ten principles established by the compact, which cover human rights, labor regulations, environmental protection, and anti-corruption.

One example of how we actively promote human rights is our commitment to access to health, which means facilitating access to medicines for people in developing countries. After all, according to Article 25 of the UN's Universal Declaration of Human Rights, medical care is a universal human right. Being a pharmaceutical, chemical and life science company, we can contribute our expertise in a particularly meaningful manner here. For example, we are collaborating with the World Health Organization (WHO) to combat the tropical disease schistosomiasis in Africa, where we aim to help eliminate the disease by donating praziquantel tablets. In 2012, we decided to expand our commitment and increase the tablet donation tenfold, from 25 million per year to 250 million per year in the medium term.

Our Praziquantel Donation Program is, however, only one of many examples of how we are implementing the principals of the Global Compact at Merck despite economically challenging times. You can find more information in the following progress report.

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## HUMAN RIGHTS

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

### Commitment, principles & goals

Our entrepreneurial approach as a conscientious, responsible company includes ethical conduct as well as a commitment to human rights and core international labor standards.

Our primary policy documents include:

- **Code of Conduct:** Our [Code of Conduct](#) explains our guiding principles for interacting with business partners, entrepreneurs, colleagues, employees, and the community. The code is a mandatory set of guidelines for all employees of the Merck Group.
- **Social Charter:** Our [Social Charter](#) supplements the Code of Conduct, containing core principles for compliance with human rights as well as the core labor standards of the International Labor Organization (ILO). The Social Charter applies across the entire Merck Group. Adherence to the Social Charter is a fundamental part of the responsibilities of the managing directors of our companies.

We also expect our suppliers to adhere to our Code of Conduct and Social Charter. As a member company of the German Federal Association for Materials Management, Purchasing and Logistics (Bundesverband der Materialwirtschaft Einkauf und Logistik e. V. - BME), Merck supports the [BME compliance initiative](#) against corruption, cartels and child labor. In order to implement the BME Code of Conduct, which contains international minimum cross-industry standards for suppliers, one of our goals is to introduce a Group-wide supplier management process.

To promote access to health, a universal human right, we intend to contribute our core competencies and create the conditions for sustainable access to high-quality, safe medicines and health solutions in developing countries as well. With this in mind, we have set the goal of combating the worm disease schistosomiasis in Africa. The project was originally scheduled to end in 2017, but Merck will now continue its efforts to fight schistosomiasis until the disease has been eliminated in Africa.

### Implementation

- **Compliance management:** The Group function Compliance is responsible for maintaining and further developing the Compliance Program, which supports adherence to statutory and company regulations, such as the Social Charter and the Code of Conduct. In the legal entities in the countries, local compliance officers are in charge of implementing compliance measures. They consult the central Group functions and receive materials for activities such as training seminars. The approximately 80 local compliance officers report regularly to the Group Compliance Officer (GCO). In turn, the GCO reports at least once a year to the Executive Board of Merck. The report focuses on the status of compliance activities, compliance risks, and severe compliance violations within the Merck Group. The Executive Board informs the supervisory bodies at least once a year

about the key compliance issues. Compliance management is continuously adapted to current requirements.

**Compliance training:** Our employees receive regular training on compliance topics via classroom and online courses. Employees at all levels of the hierarchy are familiarized with Merck's requirements with regard to the Code of Conduct. From January to December 2011 altogether around 34,500 Compliance-related e-learning courses were addressed to 19,300 employees. Around 12,400 employees got e-learning trainings on the Code of Conduct. The training plan is regularly updated and adjusted in response to new developments. In addition, further classroom trainings were addressed according to local needs.

- **Supplier management:** In 2012, we continued to incorporate the requirements of our Code of Conduct and Social Charter into our general terms and conditions for the companies of the Merck Group, completing the process for the majority of the legal entities. We have furthermore started using supplier self-assessment questionnaires to document our suppliers' commitment to environmental and social standards. The Group standard "Sustainability Audits in Supply Chain", implemented in 2012, regulates audits aimed at evaluating working conditions at key suppliers of the Merck Group, as well as the suppliers' impact on the environment and community.
- **Human Rights Risk Assessment:** In 2012, Merck conducted its first-ever Group-wide human rights risk assessment based on the [Organizational Capacity Assessment Instrument \(OCAI\)](#). It aimed to systematically examine and evaluate the effects of Merck's business operations on human rights and the potential risks, as well as to determine the next steps to be taken.
- **Promoting access to health care in developing countries:** Through our programs and our charter on Access to Medicines in Developing Countries (ratified in 2011), we strive to lead and collaborate with others to improve global access to medicine. The charter covers the following topics: product pricing, intellectual property, research & development for neglected tropical diseases (NTDs), anti-counterfeiting as well as pharmaceutical product donations and philanthropy. However, in order to establish a wider ranging and robust access to medicines policy, we have established a dedicated Access to Health (A2H) group. This group brings together all relevant departments of the company to design and implement policies and initiatives that address the particular needs of those in developing countries; it reports to the President of Merck Serono, a member of the Merck Executive Board.  
An important component of our Access to Medicine activities is our lighthouse project, the Merck Praziquantel Donation Program. Through this initiative, we have been supporting the World Health Organization since 2007 in the fight against schistosomiasis in Africa, a widespread tropical worm disease. Since the program was launched, around 110 million tablets containing the active ingredient praziquantel have been donated, with more than 28 million children having been treated. In 2012, we decided to increase the number of tablets donated tenfold, from 25 million per year to 250 million per year in the medium term.

In 2012, our commitment to access to medicines was ranked eighth in the [Access to Medicine Index](#) that ranks pharma companies' access to medicine activities.

## Gauging the results

- **Compliance audits:** In cooperation with Internal Auditing, the Compliance Office regularly reviews the implementation of Group-wide compliance measures at the subsidiaries within the scope of internal audits. The audits focus on the local compliance structure, the compliance measures taken, as well as the existence of corresponding compliance guidelines and processes. In addition, the sites are reviewed for violations of the Code of Conduct and of the Social Charter. In 2011, 26 sites in 26 countries were audited specifically on Social Charter topics. The sites were selected based on a preceding risk analysis and the resulting country prioritization.
- **Central speak-up line for compliance violations:** All employees are called upon to report compliance violations to their supervisor, Legal, HR or other relevant departments. A central reporting system (speak-up line) has been set up, meaning employees can report compliance violations by telephone or via a web-based application, anonymously if desired. Employees can report suspected violations in their respective native language. The reports received are individually reviewed by the GCO. If a compliance violation exists, corresponding corrective action is taken based on concrete action plans. If necessary, disciplinary measures are taken. These range from a simple warning up to the dismissal of the employee who violated a compliance rule. In 2011, 29 compliance-related reports were received via the speak-up line or other communication channels. In five cases, the accusation of a violation of our rules of conduct was confirmed. These cases were investigated and reported, and proper action plans were implemented and monitored by Group Compliance. Merck takes such misconduct very seriously and takes appropriate action, including dismissals in line with the applicable laws.
- **Supplier audits:** To assess our suppliers' adherence to social, environmental, and workplace safety standards, a total of 36 supplier audits were conducted in 2011 and 2012. While these revealed no critical issues, they did indicate various significant issues that will be addressed in collaboration with the suppliers according to agreed upon action plans. The suppliers audited were selected on the basis of a risk analysis.
- **Evaluation of the Merck Praziquantel Donation Program:** In 2011, around 25 million tablets were donated, and more than seven million children were treated.

## LABOR STANDARDS

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labor;

Principle 5: the effective abolition of child labor; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

### Commitment, principles & goals

Our entrepreneurial approach as a conscientious, responsible company includes ethical conduct as well as a commitment to human rights and core international labor standards.

The Social Charter listed under Principles 1 and 2 is the primary policy document on compliance with core labor standards both within the Merck Group and for our suppliers.

Since 1995, the Group-wide [EHS Policy](#) (Principles and Strategies for Health, Safety and the Environment) has been the governing document with regard to the topic of occupational health and safety. This policy is applied at Merck Group sites through internal guidelines as well as directives on compliant behavior. The contents of our guidelines are based on the Responsible Care Global Charter, which was instituted by the international chemicals industry.

A major goal is the reduction of workplace accidents to an LTIR (lost time injury rate) of 2.5 by 2015.

Because we believe that workforce diversity promotes team performance and contributes to the company's entrepreneurial success, we promote employee diversity throughout the entire Merck Group. We have thus set the goal of increasing the percentage of women in management positions (global grade 14+ according to the Global Grading System as per [Towers Watson](#)) to 25%-30% by 2016.

## Implementation

- The Social Charter has been applied within Merck through the **compliance management** and the internal **compliance training** stated under Principles 1 and 2. Our suppliers are subject to the **supplier management** described there.
- **Raw materials tracking and education program:** We identified weak areas in the course of a study on the supply chain of mica, one of our pigment raw materials. In response to this, we have developed a system with which we ensure compliance with the principles of the Social Charter as well as eliminate the possibility of child labor. A tracking system for the mica has been established to ensure that the mica supplied to Merck is exclusively sourced from mines and is not of "uncontrolled" origin. It is checked by Merck on a monthly basis. We are also helping to improve the child-labor situation in India by working in parallel efforts to improve the social and living situation of families in the mica region, such as establishing educational and health programs that provide alternatives to collecting mica as a means of support. Merck is collaborating with expert partners to further implement this strategy locally in India.
- **EHS management:** Workplace health and safety in the Merck Group is an integral part of our Environmental, Health & Safety (EHS) management. Bernd Reckmann, member of the Executive Board, bears ultimate responsibility for environmental, health, and safety matters. The Group function Environment Health Safety Security Quality (EQ) is responsible Group-wide for overseeing these topics, and the operational units at the Merck sites are in charge of implementing measures. Employees and supervisors are further sensitized to potential accident risks and hazards through training seminars and other activities such as competitions. In addition to this, Merck's safety culture is further reinforced by rewarding good performance at individual sites (such as the Safety Excellence Award for zero workplace accidents) and by the exchange of best practices at regional EHS forums.  
Throughout the Merck Group, we also implement preventive workplace health and safety measures for our employees. Ergonomic evaluation of the workplace is one of the tasks of our central EHS Management organization. Other measures are

managed and implemented locally. These include fitness activities, information on healthy nutrition, and early detection of diseases such as diabetes or cancer.

- **Diversity Management:** In 2011, we created the position of Chief Diversity Officer (CDO) in order to promote employee diversity. Furthermore, the Diversity Council was formed with representatives from all divisions and functions. This council further develops diversity strategies, promotes their implementation and assesses their progress. Workshops on employee diversity have been held for Group Human Resources employees. Furthermore, the "WoMentoring" Program that ran for one year has been launched in 2011 in order to advance female employees who have the potential for management positions.

- **Gauging the results**

- In order to monitor and assess adherence to the Social Charter both within the Merck Group as well as at our suppliers, we conduct the **audits** mentioned under Principles 1 and 2; we have furthermore implemented a **speak-up line** for employees to report compliance violations. In addition to this, we annually gather key figures and publish them on the [Merck corporate website](#).
- **EHS audits and data management:** Workplace health and safety is an important task of Environment, Health & Safety (EHS) management. EHS audits are conducted annually within the Merck Group to assess compliance with specific regulatory requirements, standards, and business requirements. Data on workplace health and safety are gathered on a monthly basis, evaluated and published on the Merck intranet. In 2011, the lost time injury rate (LTIR - the number of workplace accidents resulting in missed work per 1 million man-hours) was 2.0. No workplace deaths were recorded. The internal Safety Excellence Award, which recognizes sites with no workplace accidents, was presented to 29 sites within the Merck Group.
- **Workforce diversity:** In 2011, the percentage of woman in management positions rose to 23%. We therefore think we are on the right path to our goal of 25% women in management positions by 2016. Furthermore, of the 51 newly appointed top management positions, eight were filled with women and 16 with non-German employees.
- **Audits of the mica supply chain:** An audit system, including unannounced audits by Merck and third parties, has been developed to ensure that the mines and processors are socially compliant. Identified deficiencies have been documented in audit reports, and corrective measures aimed at improving the deficits are being implemented.



## ENVIRONMENTAL PROTECTION

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

### Commitment, principles & goals

Merck is committed to conserving natural resources as well as vigilantly protecting the environment. Our responsibility to protect the environment derives from the Merck Values and our corporate strategy. Adherence to Merck's corporate values is a key component of the Merck Code of Conduct, which was described under Principles 1 and 2.

The policy document for operational environmental protection is the EHS Policy described under Principles 3, 4, 5, and 6 (page 5).

We aim to continually improve our performance as well as to use energy, water and materials economically and efficiently. In addition to this, we want to boost our energy efficiency in order to reduce CO<sub>2</sub> emissions, thus contributing to global climate protection. We have set a goal of reducing direct and indirect greenhouse gas emissions (Scope 1 and 2) by 20% by 2020 (relative to 2006 levels). In 2012 and 2013, Merck invests EUR 10 million in measures to save energy and reduce greenhouse gas emissions.

For the production of eco-friendly products, the Performance Materials division has implemented the Green Product Policy for liquid crystals products. Through this policy, we have committed ourselves to complying with all international and country-specific laws and regulations (REACH, RoHS) and also with voluntary bans on substances as well as self-imposed restrictions of certain industries or individual customers, such as the Halogen-Free Policy.

### Implementation

- Environmental protection has been implemented in our production processes through the **EHS management** described under Principles 3, 4, 5, and 6 (page 5).
- **EDISON program for climate protection and energy efficiency:** We have consolidated our activities for climate protection and energy efficiency into the EDISON program for energy efficiency and climate protection. Under this program, energy audits are conducted at various sites and energy saving processes implemented. With the EDISON program, which consists of around 200 individual projects, Merck aims to save around 64 kt of CO<sub>2</sub> per year.
- **Product safety management:** With the Merck Group Policy Product Safety Chemicals, we have established Group-wide processes for the definition, management, and implementation of product safety, along with the corresponding management structures. The Group Product Safety Committee is the highest-level committee for all issues pertaining to the product safety of our chemicals. It focuses on topics such as global policies and standards for hazard/risk assessment, projects related to group product safety, and voluntary activities related to product safety (e.g. GPS).

- **Product development:** When developing innovative chemical products, Merck addresses the diverse environmental and social challenges of a globalized world. Merck supplies specialty chemicals that play a key role in helping our customers conserve energy and resources, enabling them to help protect the climate and the environment.

**With the Green<sup>3</sup> concept**, the Performance Materials division offers its customers a comprehensive package for liquid crystal products. We are developing innovative, eco-friendly materials for energy-efficient displays. We also help our customers create eco-friendly production processes and support them in producing more eco-friendly LC displays. For example, we have developed eco-efficient and WEEE-compliant (EU Waste Electrical and Electronic Equipment Directive) recycling processes for used LCDs. An integral part of this concept is our Green Product Policy, under which we commit ourselves to complying with all international and country-specific laws and regulations (REACH, RoHS); we also comply with voluntary bans on substances and self-imposed restrictions of certain industries or individual customers, such as the halogen-free policy. At the same time, our voluntary safety policy bans the use of acutely toxic, mutagenic or otherwise hazardous substances that remain in the end product. In 2011, the Green<sup>3</sup> concept was expanded to the cosmetics business within Performance Materials.

**At Merck Millipore** the “**Design for Sustainability**” program focuses on studying the effects of products on people and the environment throughout the entire product life cycle, as well as on identifying potential for optimization. The program includes: product evaluations in each business unit according to a detailed assessment and scorecard to measure our product performance; training and awareness communications for our engineers, designers and product managers to continue building our knowledge capacity internally; support to our customers as a partner and resource in devising sustainable solutions.

An overview of innovative products from Merck can be found at our [website](#).

### Gauging the results

- **EHS audits:** The previously mentioned internal EHS audits are utilized to scrutinize compliance within the Merck Group with the specific regulatory requirements, standards, and business requirements for corporate environmental protection. Furthermore, our group certificate for our environmental management system in line with ISO 14001 was confirmed in the course of the annual audit. In addition to this, our suppliers' adherence to environmental standards is scrutinized in the supplier audits described under Principles 1 and 2.
- **EHS data management:** The Group-wide EHS data management system is used to regularly collect environmentally relevant data at the individual sites and relay it to the EQ Group function. In 2011, Merck emitted a total of 521 metric tons of CO<sub>2</sub>. This represents a year-over-year reduction of nearly 7%, and almost 4.6% compared to 2006 levels.



## ANTICORRUPTION

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

### Commitment, principles & goals

Merck does not tolerate bribery, extortion or corruption. We are expressly committed to fighting bribery, extortion and corruption across the globe.

The primary policy document for this topic is the Code of Conduct mentioned under Principles 1 and 2.

### Implementation

The Social Charter and Code of Conduct have been applied within Merck through the **compliance management** and the internal **compliance training** described under Principles 1 and 2. Our suppliers are subject to the **supplier management** that is likewise mentioned there.

### Gauging the results

In order to monitor and assess adherence to the Code of Conduct and Social Charter both within the Merck Group as well as at our suppliers, we conduct the audits mentioned under Principles 1 and 2; we have furthermore implemented a speak-up line for employees to report compliance violations.

In 2011, 28 internal audits were carried out specifically to check for corruption.

### Further information:

This document only contains the Merck Group's key 2011 figures that are relevant for the progress report on the UN Global Compact in terms of corporate responsibility. Data from previous years can be found on the [Merck corporate website](#).

Merck is a global pharmaceutical and chemical company with total revenues of EUR 10.3 billion in 2011, a history that began in 1668, and a future shaped by approximately 40,000 employees in 67 countries. Its success is characterized by innovations from entrepreneurial employees. Merck's operating activities come under the umbrella of Merck KGaA, in which the Merck family holds an approximately 70% interest and free shareholders own the remaining approximately 30%. In 1917 the U.S. subsidiary Merck & Co. was expropriated and has been an independent company ever since.