strategy & management



company profile

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Part of the non-financial report

We are a vibrant science and technology company. Science is at the heart of everything we do. It drives the discoveries we make and the technologies we create. We make a positive difference in the lives of millions of people every day.

In the Healthcare business sector, we accompany people in every phase of their life and help them to shape, improve, and prolong it. We enable personalized treatments for serious illnesses and help many couples to realize their wish to have children. The digital platform and the products and services in our Life Science business sector make precision research simpler and help to speed up scientific breakthroughs. They enable quicker access to healthcare and ensure that analyses are accurate and medications are trustworthy. The developments we make in our Performance Materials business sector sit inside the technologies that are changing the way we use information and shaping our future. They make mobility safer, houses and devices more intelligent, and technologies more sustainable.

Everything we do is fueled by a belief in **science and technology as a force for good** - a belief that has driven our work since 1668, and will continue to inspire us to find

more joyful and sustainable ways to live. We are curious minds dedicated to human progress.

We hold the global rights to the "Merck" name and brand. The only exceptions are Canada and the United States. In these countries, we operate as EMD Serono in the biopharmaceutical business, as MilliporeSigma in the life science business, and as EMD Performance Materials (now EMD Electronics) in the high-tech materials business.

Apart from our three business sectors, our financial reporting presents five regions: Europe, North America, Asia-Pacific, Latin America, and the Middle East & Africa. As of December 31, 2020, we had **58,127 employees worldwide**. This compares with 57,071 employees as of December 31, 2019.

In 2020, our 221 subsidiaries with employees in 66 countries generated sales of \in 17.5 billion. Our 100 production sites are located across 21 countries.

Employees and net sales by region - 2020



Group structure

Merck KGaA, Darmstadt, Germany comprises three business sectors: Healthcare, Life Science, and Performance Materials. As of March 2021, we changed the name of the Performance Materials business sector to Electronics.

Healthcare discovers, develops, manufactures, and markets innovative pharmaceutical and biological prescription drugs to treat cancer, multiple sclerosis (MS), infertility, growth disorders, and certain cardiovascular and metabolic diseases. Healthcare operates in four franchises: Neurology and Immunology, Oncology, Fertility, and General Medicine & Endocrinology. Our R&D pipeline positions us with a clear focus on becoming a global specialty innovator in oncology, immuno-oncology, neurology, and immunology. On March 31, 2020 Merck KGaA, Darmstadt, Germany divested its allergy business Allergopharma to Dermapharm Beteiligungs GmbH, Grünwald, Germany.

In **Life Science**, with our Research Solutions, Process Solutions, and Applied Solutions business units, we are a leading worldwide supplier of tools, high-grade chemicals, and equipment for academic labs, biotech, and biopharmaceutical manufacturers, as well as the industrial sector. Research Solutions provides our academic customers with the chemicals and biological tools needed to make scientific discovery easier and faster. Process Solutions provides drug manufacturers with process development expertise and technologies, such as continuous bioprocessing. Applied Solutions offers analytical workflows and both lab connectivity and digitization solutions to empower the labs of the future. Our complete portfolio comprises more than 300,000 products, ranging from lab water systems to

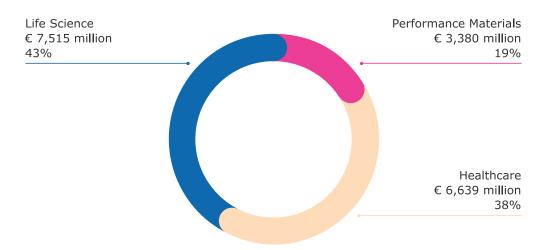
genome-editing tools, antibodies, and cell lines, as well as end-to-end bioprocessing systems to support the manufacturing needs of both emerging biotech and large pharma companies. We have and will continue to play a critical role in aiding the ongoing response to the Covid-19 pandemic, supporting our customers working on combatting the novel virus through our products, services, and expertise.

Performance Materials is advancing digital living. Our main focus is on the electronics market with our materials and solutions changing the way we generate, access, store, process, and display information. In addition, our highly specialized, application-driven Surface Solutions business makes life more colorful. Together with our customers, we are discovering the next generation of high-tech materials and solutions. With strong growth trends such as 5G and Big Data, and new applications such as autonomous driving and Internet of Things (IoT), we have set the course for future growth.

The business sector consists of three business units: Semiconductor Solutions, Display Solutions and Surface Solutions. We offer innovative solutions especially for the electronics industry - for microchips and displays - and for surfaces of every kind.

With the completion of the Intermolecular and Versum Materials acquisitions, we achieved two major milestones to transform Performance Materials into a strong solutions provider and leading player in the electronic materials market. Effective March 4, 2021, we changed the name of the Performance Materials business sector to Electronics. The new name is the visible result of the strategic realignment conducted over the past several years.

Net sales by business sector - 2020



Governance

Based in Darmstadt, Germany, our company operates in the legal form of a corporation with general partners (Kommanditgesellschaft auf Aktien – KGaA). The general partner E. Merck KG, Darmstadt, Germany holds around 70% of the total capital of Merck KGaA, Darmstadt, Germany (equity interest); the shareholders hold the remainder, which is divided into shares (share capital). Our shares have been included in the DAX® 30, the blue-chip index of the Deutsche Börse, since 2007. In September 2008, our company was added to the FTSE4Good Index, a sustainability index that assesses the social, ecological and ethical conduct of companies.

Group strategy

Over the past years, Merck KGaA, Darmstadt, Germany has grown significantly through a series of strategic moves that have enabled us to develop into a vibrant science and technology company. We have systematically and continuously strengthened and focused our portfolio of innovative science and technology throughout our business sectors.

With our Group strategy, we want to become the vibrant science and technology company. By 2022, we aim to have strong, innovative science- and technology-focused business sectors with leadership positions in our areas. We want

to be a top-tier company in relation to our peers in terms of sales growth and margin, and we aim to continue to deliver sustainable returns to our owners.

We are now in the growth and expansion phase of our strategy and are well on track. Following the Versum Materials acquisition in 2019, we are giving priority to organic growth while rapidly lowering our debt and pursuing a sustainable culture of cost consciousness until 2022. We do not rule out making large transformative deals, yet in light of our strong business portfolio, it is more likely that we will complement our businesses through a number of small to medium-sized acquisitions after 2022.

To achieve our strategic ambition of becoming the vibrant science and technology company, we focus on our three Group-wide priorities: Performance, People, and Technology. Additionally, we are embedding the topic of sustainability into our Group strategy as an essential component. Through our business activities, we want to be economically successful and create value for society. At the same time, we endeavor to avoid generating subsequent costs for society.

You can find more information on our company strategy in our Annual Report 2020. Details on the sustainability strategy can be found there and here in the report.

sustainability strategy

Part of the non-financial report

The global community is facing numerous challenges that also affect our company and to which we are seeking answers. These challenges range from climate impact mitigation, resource scarcity, a growing global population and demographic change through to insufficient access to medicines for people in low- and middle-income countries. We are helping to find solutions to these issues and are continually working to sustainably shape technological progress for tomorrow. At the same time, we are working to become more resilient to potential risks.

Our approach: sustainable progress

Our ambition is to leverage science and technology to achieve lasting progress for mankind. For us, sustainable entrepreneurship and profitable growth go hand in hand. We can ensure our own future competitiveness only by creating value for society.

Responsible action is an integral part of our company culture. This also includes respecting the interests of our employees, customers and investors, as well as the community. For more than 350 years and across many generations, our company has been shaped and guided by strong values. Values that promote sustainability have always had a high priority – across all businesses.

Our innovative, top-quality products help us to resolve global challenges while securing our financial performance at the same time.

Safety and ethics matter just as much to us as business success. We mitigate ethical, economic and social risks as far as possible. We strive to keep our impact on the environment as low as possible, which is why safe production techniques, high environmental standards and strict quality management are a matter of course to us. Furthermore, we aim to strengthen our company by recruiting,

developing and motivating talented employees. We want to set an example for ethical conduct.

We closely monitor new global trends and challenges. In order to clearly understand the complex nature of the expected changes, we make use of the so-called scenario technique, for example, which enables us to identify and incorporate aspects of strategic relevance. We also participate in dialogues and initiatives, share lessons learned and best practices with other organizations in our industry and assess media and news coverage. This allows us to minimize risks while also leveraging new business opportunities.

Defining a clear strategic direction

The rapidly growing challenges relating to society and the environment require a clear perspective for the coming years. That is why we are embedding the topic of sustainability into our Group strategy as an essential component. In 2020, we formulated new, strategic sustainability goals, which build on what we have achieved in recent years. Through our business activities, we want to be economically successful and create value for society. At the same time, we endeavor to avoid generating subsequent costs for society.

Our sustainability strategy



In order to firmly embed sustainability into our company, we have defined seven focus areas, within which we are currently implementing numerous initiatives and projects and will continue to do so in the future. We use various internal key figures to record and evaluate progress. Additionally, the company is planning to also link the long-term **variable compensation** of the Executive Board from 2022 onward with the progress made toward achieving the company's sustainability goals.

In order to assess the sustainability of our products, technologies and business activities, we have developed Sustainable Business Value (SBV), a tool that enables us to evaluate the positive and negative **impacts of our activities** on society along our entire value chain. In addition to ESG (Environmental, Social, Governance) parameters, SBV also incorporates economic and ethical aspects as well as digitalization and the benefit of the product itself. This gives rise to a monetary value that quantifies the societal benefits a product offers, for example, which helps us drive sustainability across our business operations and position ourselves for future success.

How we steer sustainability

Our Executive Board, which has overarching responsibility for our sustainability strategy, has approved our three strategic goals.

The Group Corporate Sustainability unit, which is responsible for crafting and shaping the sustainability strategy, regularly informs the Executive Board about the progress made and the need for action. This unit is also part of our Group Corporate Affairs function, which reports to the Chairman of the Executive Board. Group Corporate Sustainability is also responsible for the outcomes of the

Corporate Sustainability Council. Having a broader scope of tasks, the Corporate Sustainability Council replaced the previous Corporate Responsibility Committee. As was the case with the previous committee, the new council consists of representatives from our business sectors and from key Group functions, such as Procurement, HR and Environment. However, in the future, its composition will reflect regional aspects to a greater extent and include council members from the regions. The Corporate Sustainability Committee, which steers and monitors the implementation of the sustainability strategy, recommends corresponding initiatives to the Executive Board. The council uses the results of our regularly conducted materiality analyses and the comparison with the individual business strategies to adjust the sustainability strategy throughout the Group. In addition, it ensures that the initiatives of our various business sectors, Group functions and subsidiaries align with our Group-wide Sustainability strategy. The measures adopted by the Corporate Sustainability Council are implemented by our line managers as well as by interdisciplinary project teams.

In 2020, the Corporate Responsibility Committee met twice via video conference. The central topics were, firstly, the development of the new sustainability strategy, secondly, the Sustainable Business Value method to measure the effectiveness of sustainability activities and thirdly, the development of new climate impact mitigation goals. The participants also discussed supply chain legislation, human rights and animal welfare. In 2021, the new Corporate Sustainability Council will meet and thus replace the Corporate Responsibility Committee on the operating side as well.

sustainable pevelopment goals

The United Nations (UN) 2030 Agenda is a global plan to promote sustainable peace and prosperity and to protect our planet. Since 2016, countries and organizations have been working to implement this agenda with its 17 Sustainable Development Goals (SDGs). Our goal is for our business activities to create shared value that is both measurable and makes a recognizable contribution. In this context, we rely on the power of science and technology – with responsibility for the well-being of mankind.

Our contribution at a glance

In 2020, we set ourselves new, strategic sustainability goals and embedded them into the overall strategy of our company. Among other things, we analyzed how we can actively contribute to the sustainable development of society and achieve the Sustainable Development Goals. The analysis showed that we have the strongest positive impact on five SDGs through our entrepreneurial actions. Further information can be found under Sustainability strategy.

We summarize our contribution as follows:

SDG 3 - Good health and well-being

With our products, we create a positive impact on the health and quality of life of people around the world. Through technological and scientific innovations, we are also helping to improve the health of underserved populations in low- and middle-income countries.

SDG 8 - Decent work and economic growth

We see it as our responsibility to respect human rights both within our company and along our supply chain. That is why we are dedicated to upholding appropriate and fair labor and social standards. We want to drive sustainable economic growth through progressive resource efficiency.

SDG 9 – Industry, innovation and infrastructure

We use our expertise in science and technology to make our products, processes and infrastructure sustainable. In addi-

tion, we want to promote the work of scientists worldwide with our innovations and support programs.

SDG 12 – Responsible consumption and production

We use resources efficiently and reduce waste and emissions. We pay attention to this in our product development and in our manufacturing activities. We also help our customers to manufacture their products more sustainably and efficiently and to achieve their own sustainability goals.

SDG 17 - Partnerships for the goals

We need strong partners in order to drive sustainable development within our company and beyond and to better meet societal challenges. We therefore collaborate with a wide array of organizations, companies, federations, and networks.

Through our sustainability strategy, we help **to solve challenges globally**, and not only within these five SDGs. Our management approaches and projects also support **SDG 4** (Quality education), **SDG 5** (Gender equality) – supplemented by diversity and inclusion, **SDG 6** (Clean water and sanitation), **SDG 7** (Affordable and clean energy), and **SDG 13** (Climate action).

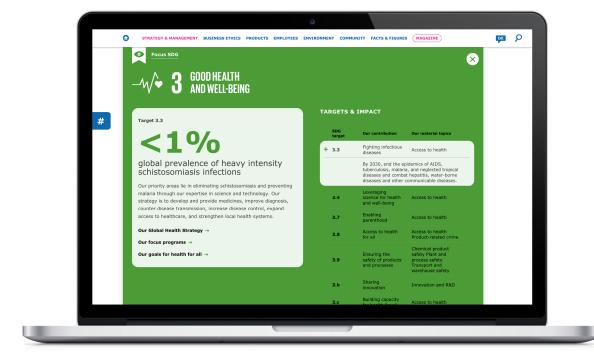
More detailed information on our quantitative and qualitative contributions to the SDGs is summarized in an **interactive tool**.

Our contribution in detail

In our online report, we offer an interactive tool to visualize how we contribute to the SDGs in qualitative and quantitative terms.



Clicking on one of the highlighted SDGs provides further information for each of the targets on how we specifically support them through our management approaches, initiatives and projects.



stakeholder dialogue

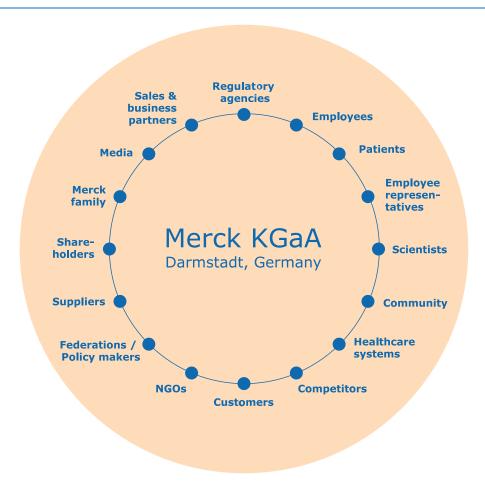
Our business activities converge with the interests of many people, which is why engaging with our various stakeholders is particularly important to us. Through this dialogue, we communicate our decisions and actions transparently in order to secure our social license to operate. We aim to unite divergent interests as far as possible, as well as build and sustain trust.

Dialogue at various levels

Our key stakeholders include our employees, customers and business partners, patients, the Merck family as the majority owner of the company, shareholders, and our suppliers. We engage in a continuous dialogue with our

stakeholders. We use this exchange to identify important trends and developments in society and in our business areas – and to take them into account when shaping our responsible entrepreneurship.

Our stakeholders



We regularly conduct a systematic materiality analysis, which gives us indications of **stakeholder expectations**. In this way, we identify the economic, social and environmental issues that are important to our stakeholders – and thus also to us.

We have established guidelines and principles for interaction with certain stakeholders. The focus is always on acting in accordance with the rules. For example, we have defined internal policies and review processes for patient relationships as well as interactions with healthcare stakeholders and business partnerships.

We communicate regularly with our stakeholders through a variety of channels. For instance, we conduct stakeholder surveys or organize topic-specific dialogues at regional, national and international level. We also participate in discussions and informational forums as well as through our advocacy work and industry coalitions. Here are some examples of the dialogue formats used:

Employees

Employee engagement surveys

- Understanding our employees
- Our approach to preventing accidents and promoting health

Intranet "EVA"

Keeping employees informed and encouraging dialogue

Germany-wide ideation program

Encouraging and rewarding ideas

Career fairs

Our approach to attracting and retaining talent

Patients

Patient Advisory Boards (PAB) to engage patient organizations in our clinical research

Close dialogue with patients and advocacy groups

Member of various initiatives on the quality and efficiency of clinical trials

Close dialogue with patients and advocacy groups

Employee representatives

Involvement of local employee representatives in company decisions

- How we engage our employees
- Performance-based pay

Scientists

Bioethics Advisory Panel of Merck KGaA, Darmstadt, Germany; Digital Ethics Advisory Panel

Digital Ethics Advisory Panel

Communities

Discussion and information forums for residents in the vicinity of our sites

Roundtables and informational forums

Healthcare systems

Event series

- Alliances for better access to health
- Discussions at a global level

Collaboration with health authorities and other stakeholders

Alliances for better access to health

NGOs

Network meetings

Discussions at a global level

Collaborations

Focus programs

Associations / Politics

Collaboration in working groups

- Alliance for Integrity
- Advocacy groups and industry coalitions

Suppliers

Supplier surveys

• Secure: How we are moving towards zero deforestation

Dialogue events

- Discussions at a global level
- Access delivery mentorship

Shareholders

Annual General Meeting

Investor relations

Events for investors

Capital market days

Public authorities

Subject-specific cooperation

- Group-wide anti-counterfeiting network
- Monitoring drug safety

Further information on stakeholder dialogues can be found in the individual report chapters.

Roundtables and informational forums

We hold roundtable discussions and informational forums for local residents at our major sites. Since 1994, we have been holding an annual public planning forum in Darmstadt to discuss the development of our site with members of the city council, local authorities and the community.

Involvement in initiatives

We collaborate with an array of civic organizations such as the Goethe-Institut and the World Environment Center (WEC). We also participate in other initiatives that share our commitment to responsible corporate conduct, such as Chemie³ and Responsible Care[®].

Advocacy groups and industry coalitions

We actively participate in the **political process** and advocate our positions and views by engaging policy makers in a direct dialogue as well as through our work with industry coalitions. Major national and international industry associations in which we are members and hold positions are:

- German Federation of Chemical Employers' Associations (BAVC)
- Confederation of German Employers' Associations (BDA)

- European Federation of Pharmaceutical Industries and Associations, (EFPIA)
- International Federation of Pharmaceutical Manufacturers & Associations (IFPMA)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- German Chemical Industry Association (VCI)
- European Chemical Industry Council (Cefic)
- German Association of Research-based Pharmaceutical Manufacturers e.V. (vfa)

Political donations

We do not donate to political parties or related organizations, holders of public office or candidates for such office, nor do we offer them any other financial value. Contributions in the context of political dialogue and information exchange must always **comply with the applicable laws**. This approach is stipulated in our internal guidelines. In the United States, political action committees (PACs) have been set up through which our employees can donate money to support political candidates and organizations. These are not donations made by our company, but rather contributions made by employees. The contributions donated are reported to the U.S. Federal Election Commission and are fully disclosed.

materiality analysis

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Part of the non-financial report

To understand which social, economic and environmental issues matter most to our stakeholders and to our long-term business success, we conduct an annual materiality analysis. This also enables us to meet the applicable reporting requirements of the Global Reporting Initiative (GRI) and the German CSR Directive Implementation Act.

Material issues updated and validated

Conducting materiality assessments helps us define and verify key topics for our sustainability management and for the contents of our report. We conducted our last comprehensive analysis in 2018, which reflected the requirements and expectations that our stakeholders place on us. In 2019 and 2020, we built on this approach and extended the analysis to include even more stakeholders and impact factors. In 2020, the materiality analysis therefore included:

- Relevant regulations
- Goals and positions of our competitors
- Requirements imposed by investor ratings

- Expectations that non-governmental organizations (NGOs) express towards the chemical and pharmaceutical industries
- The relevance of sustainability topics to our economic environment
- Media resonance
- Issues that are relevant to our clients' industries (new in 2020)
- Issues that matter to our employees (new in 2020).

The analysis also includes the ways in which our industries, value chain and sites impact sustainable development.

Materiality process



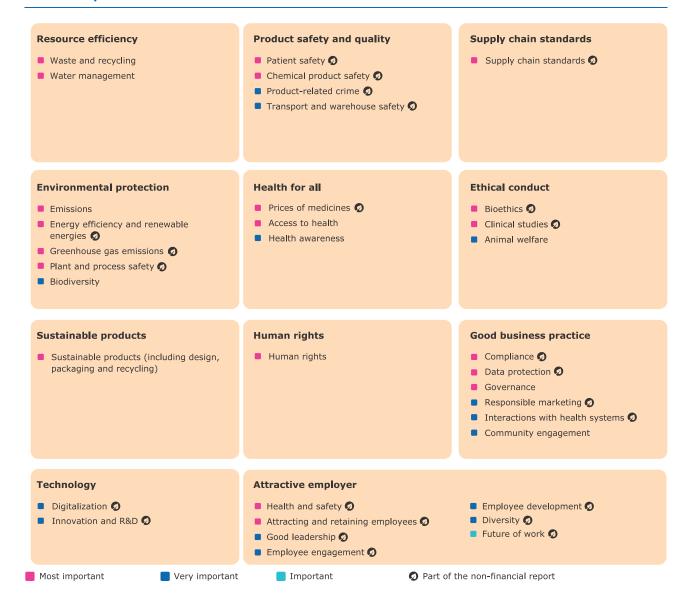
Results of the update

The 35 topics identified as being significant to our sustainability management and reporting did not change relative to the 2019 analysis. The results changed minimally because **employees and client industries** were incorporated into

the analysis, but this impacted neither the reporting framework nor the contents.

We disclose information on our tax governance for the first time in this report. This topic has not yet been defined as one of our material topics, but we expect it to gain more relevance for our reporting audience in the future.

Material topics



Strategy & management

Topics for the non-financial report

The German CSR Directive Implementation Act obliges us to review the **double materiality** of topics according to section 289c (3) of the German Commercial Code. The principle of double materiality requires companies to disclose non-financial information when the following two criteria are met: Firstly, the information is necessary to understand the company's business performance, business results and financial situation and secondly, the information makes it possible to understand how the company's business activities affect non-financial aspects.

In 2020, we again reviewed the double materiality of the identified topics. We extended the review methodology and evaluated the following factors:

- Significant impact on expenses and income
- Significant impact on cash flow
- Impact on reputation
- Regulatory requirements
- Impact on the business model/future business areas/ R&D.

This year, for the first time, the topics of "Supply chain standards", "Energy efficiency and renewable energies" and "Greenhouse gas emissions" reached the double materiality threshold and are therefore included in the non-financial report. Topics that were included in the non-financial report in 2019 are also included this year. Topics that fall within the scope of the double materiality definition are marked in the materiality matrix and linked to the respective chapters in this report.

Material issues in our value chain

The following table shows where our material issues fall within the value chain: upstream in our supply chain, in the course of activities within our own business sectors or downstream with our customers and patients. Moreover, we listed the issues to show the breakdown of materiality by stakeholder groups.



Sustainability Report 2020 of Merck KGaA, Darmstadt, Germany Strategy & management

Good business practice

Compliance	✓	✓	✓	✓	✓				
Material for:	Competitors, employees, health systems, Merck family, NGOs, regulatory agencies, sales and business partners, shareholders, supplier								
Responsible marketing		✓	✓	✓	✓				
Material for:	Customers, federations and policy makers, health systems, media, patients, sales and business partners								
Community engagement		✓	✓	✓	✓				
Material for:	Communities, employees, media, Merck family, NGOs								
Interactions with health systems		✓			✓				
Material for:	Federations and policy makers, health systems, NGOs, patients, regulatory agencies								
Governance	✓	✓	✓	✓	✓				
Material for:	Customers, employees, employee representatives, Merck family, regulatory agencies, sales and business partners, shareholders, suppliers								
Data protection	✓	✓	✓	✓	✓				
Material for:	Customers, employees, employee representatives, patients, sales and business partners, suppliers								
Health for all									
Access to health		✓	✓		✓				
Material for:	Health systems, me	Health systems, media, NGOs, patients, sales and business partners							
Prices of medicines		✓			✓				
Material for:	Health systems, media, Merck family, NGOs, patients, sales and business partners, shareholders								
Health awareness		✓			✓				
Material for:	Communities, comp	Communities, competitors, health systems, media, NGOs, patients, sales and business partners							

Sustainability Report 2020 of Merck KGaA, Darmstadt, Germany Strategy & management

Supply chain standards

Material for:

Supply chain standards Material for: Competitors, customers, federations and policy makers, media, Merck family, NGOs, shareholders, suppliers Human rights **Human rights** Material for: Communities, customers, employees, federations and policy makers, media, NGOs, suppliers Sustainable products Sustainable product design Material for: Customers, scientists Attractive employer **Diversity** Material for: Employees, employee representatives, media, Merck family Recruiting and retaining employees Material for: Competitors, employees, employee representatives, Merck family, shareholders **Employee development** Material for: Employees, employee representatives **Good leadership** Employees, employee representatives Material for: **Employee engagement** Material for: Employees, employee representatives **Health and safety** Material for: Employees, employee representatives, regulatory agencies **Future of work**

Employees, employee representatives

Sustainability Report 2020 of Merck KGaA, Darmstadt, Germany Strategy & management

Technology

Innovation and R&D	✓	✓	✓	✓	✓			
Material for:	Customers, health systems, Merck family, patients, scientists, shareholders							
Digitalization	✓	✓	✓	✓	✓			
Material for:	Customers, patients, scientists, sales and business partners							
Resource efficiency								
Waste and recycling		✓	✓	✓	✓			
Material for:	Communities, customers, NGOs, regulatory agencies							
Water management		✓	✓	✓	~			
Material for:	Communities, NGOs, regulatory agencies							
Environmental protection								
Energy efficiency and renewable energy		✓	✓	✓	✓			
Material for:	Customers, federations and policy makers, NGOs							
Greenhouse gas emissions	✓	✓	✓	✓	✓			
Material for:	Customers, federations and policy makers, media, NGOs, regulatory agencies, suppliers							
Plant and process safety		✓	✓	~				
Material for:	Employees, media, Merck family, regulatory agencies, shareholders							
Biodiversity		✓	✓	✓				
Material for:	Federations and policy makers, NGOs, regulatory agencies							
Emissions		y	y	y				
Material for:	Federations and policy makers, NGOs, regulatory agencies							