

The background features a dark blue field with several glowing, semi-transparent blue spheres of varying sizes. Inside each sphere is a smaller, solid purple sphere. Overlaid on this are large, irregular teal shapes with rounded corners. The overall aesthetic is modern and scientific.

Merck KGaA
Darmstadt, Germany

**Report on equality
and pay equity
2022**

DISCLAIMER

Publication of Merck KGaA, Darmstadt, Germany

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This version of the publication, therefore, slightly deviates from the otherwise identical versions provided outside the United States and Canada.

Report on equality and pay equity

The following report is an annex to the Combined Management Report of Merck KgaA, Darmstadt, Germany. It relates to fiscal 2022 in accordance with section 21 in conjunction with sections 25 and 22 of the German Act to Promote Transparency in Wage Structures among Men and Women (Transparency in Wage Structures Act – EntgTranspG).

(1) Measures to promote equality between women and men

Our personal and professional world is constantly changing. The same is true for the world of work. As a pioneer within our industry, we have a social responsibility not only to reflect the world around us, but also to make it a little better – especially with a view to our employees.

With this in mind, we go beyond merely focusing on gender equality. We know: The more diverse our workforce and the more inclusive the working environment in our offices, plants and virtual meetings, the better positioned we will be to address challenges and act in an economically and socially sustainable manner. We see diversity, equity and inclusion (DE&I) as our strength. It encourages progress and innovation and has a positive impact on business.

By integrating the different perspectives of our employees and appreciating their diversity, we can achieve great things together. This includes diversity in the sense of gender identity, culture, ethnic background, origin, religion, sexual orientation, nationality, socioeconomic status, marital status, language, different mental or physical capabilities, age, mentality, faith, military service, and political views.

We are committed to intensifying our efforts in the area of DE&I for the benefit of our employees, our partners, and the patients and industries we serve. We measure ourselves by the specific targets for the following areas that we have defined in our global strategy:

- Gender Equality
- Culture & Ethnic Diversity
- Inclusion

In 2022, we rolled out our updated DE&I strategy globally. We have established a network of our 18 most important countries, appointed representatives for specific topics, and developed tailored roadmaps for each country. We have also streamlined the advisory boards and working groups in the business sectors and key Group functions.

Embedding diversity within our structures

The strategic management of diversity throughout our Group is the responsibility of our Chief Diversity Officer, who reports directly to the Chair of the Executive Board, Belén Garijo. A committee with responsibility for diversity – the Diversity Council – is composed of high-ranking managers from all the business sectors and selected Group functions. It has four central tasks:

- Implementing our strategy for greater diversity.
- Evaluating and advancing proposals for increasing diversity from the different business sectors.
- The members of the committee inform their own business sectors about the work of the Diversity Council and are responsible for managing the corresponding topics in their area.
- The members of the committee act as direct points of contact for employees in their business sector.

Taking action against discrimination

We do not tolerate any kind of discrimination at our company. This is stipulated with binding effect in our Code of Conduct and our Social and Labor Standards Policy. Should employees experience harassment or discrimination in the workplace, they can report the issue via various channels. Their first points of contact are either their supervisor or our HR or Compliance teams. Alternatively, employees throughout the Group have the option of calling our Compliance Hotline anonymously. As part of our Group Compliance Case Committee, HR coordinates suspected cases relating to human resources topics.

What are we doing to promote equality between women and men?

We have made considerable progress in recent years. 36% of our leadership positions (roles 4+) are held by women, and women make up 43% of the total workforce. The proportion of women at the companies in Germany included in this report is 39%. Building on this, we are aiming to achieve gender parity in leadership positions by 2030.

Participation in industry-wide and cross-industry initiatives

We also participate in industry-wide initiatives with a view to driving forward the topic of equality. The Women's Empowerment Principles are initiated by UN Women, a United Nations entity, and the UN Global Compact network. The initiative aims to promote and empower women in the workplace. We signed up to the UN's Target Gender Equality program in 2021. This initiative helps companies to achieve equality between men and women. Our commitment to justice, fairness and tolerance in the workplace is further underlined by the fact that we signed up to the Diversity Charter in 2013 and the Equal Opportunity Charter of the German Mining, Chemical and Energy Industrial Union (IG BCE) in 2015. We undertake to do everything in our power to achieve equality between women and men at our company. In 2011, we joined the other DAX® 30 companies in signing a voluntary commitment to promoting women in leadership positions.

The "Fair Pay" dialog series was organized by the German Federal Ministry for Family Affairs, Senior Citizens, Women and Youth in cooperation with KPMG in fall 2021. As well as supporting the series as listeners, we actively participated in Dialog 02, "What challenges are involved in fair pay?", where we shared our experience of introducing and implementing the EntgTranspG at our company.

Even after the introduction of the EntgTranspG, we regularly reflect on the approach adopted at our company and strive to continuously ensure that all aspects and experiences are taken into account.

Promoting diverse talents

In order to increase diversity within our organization, we have also created a strong internal female talent pipeline, promoted more women in leadership positions, and engaged in an active search for talented female candidates externally.

We have continued our various mentoring, sponsorship and talent programs with a view to improving diversity when making internal appointments.

We also support various employee networks in a targeted manner in order to foster exchange among like-minded individuals. As well as our women's networks in Germany and other countries, we support cross-company networks that seek to promote women in the workplace. In our role as a corporate partner, we also help female employees who are interested in getting involved with the Healthcare Businesswomen's Association (HBA), a non-profit organization that furthers the development and influence of women in healthcare in a targeted manner.

Commitment to fair and equitable pay

Our commitment to fair pay is an important aspect of our DE&I strategy. To create transparency and identify the underlying causes, we conducted an analysis of pay equity in 2021 with a focus on gender-specific discrepancies. In this first step, we analyzed our ten most important countries (including Germany), which

account for around 80% of our entire workforce. This served to further improve our transparency by making salary data publicly accessible for the first time. The adjusted (unexplained) pay gap was determined as being less than 1.5% in favor of men. This represents a good starting point for continuing to monitor our salary data and taking corresponding measures as required, including enabling our managers to make fair and impartial decisions on pay as they already do.

Work-life balance

We are aware of the importance of a healthy work-life balance and the need for flexible working models. Accordingly, we have taken the opportunity to reconsider our working habits – including the question of when, where and how we work – in order to create a working environment that is as appealing and productive as possible. In this context, we completed the introduction of our flexible work policy in 2022. 38 countries now apply a corresponding model that is tailored to their local requirements and legislation. We offer our employees in Germany various flexible and innovative working models.

In 2022, we realized several initiatives aimed at improving our support for parents and caregivers in our workforce. Irrespective of whether our employees are primary or secondary caregivers, we provide extensive options for them to plan their first year with their child. The support we provide is consistent with local laws and provisions and our policies on global benefits.

We firmly believe that we are on the right track with our flexible working models – not only in terms of making our processes more efficient, but especially as a means of improving employee satisfaction and making us a more attractive employer.

Support for mothers and fathers

We want to make it easier for our employees to return to work following parental leave. In 2016, we launched a program for parents at our Darmstadt and Gernsheim sites. This gives mothers and fathers on parental leave the chance to talk and interact, as well as helping them to keep in touch with the company. They can also make use of our various training and networking opportunities.

Childcare

Our headquarters in Darmstadt has its own dedicated daycare center for children between the ages of twelve months and school age. It is funded by the Merck family (Merck'scher Kindertagesstätten-Verein e.V., Darmstadt, Germany) and offers up to 200 places. We also have reserved places at a public daycare center in Gernsheim for our employees' children.

Information on nursing and care

We offer our employees in Germany seminars on different aspects of nursing and care on a twice-yearly basis. An external partner advises on all related issues and provides support for finding the right solutions for the individual. In Darmstadt, our company health insurance fund also arranges contacts with nursing staff.

(2) Measures to achieve pay equity

As a company subject to collective agreements, Merck KGaA, Darmstadt, Germany, applies the provisions of the federal collective wage agreement of the German Mining, Chemical and Energy Industrial Union (IG BCE). Under the collective agreement, employees are allocated to pay categories in accordance with the work they perform and are remunerated accordingly. Remuneration is based on the applicable payment tables in the local collective wage agreement. Allocation to pay categories is based solely on the work performed and the requirements of the role. There is no differentiation based on gender. The same activity is remunerated with the same pay irrespective of gender, meaning that the collective agreement provides a structure for non-discriminatory remuneration. The co-determination rights of the works council are assured with respect to allocation and reallocation to pay categories.

Positions not covered by collective agreements are evaluated on the basis of a standardized global job grading system that forms the basis for our worldwide job architecture. The worldwide job architecture is documented in a global job catalog that reflects the diversity of our various areas of activity, job families, job profiles and their requirements. When allocating our employees using the job catalog, we take particular account of criteria such as the requirements of the respective position, the level of responsibility, and the necessary skills and knowledge. The co-determination rights of the works council are also assured in this respect.

The job architecture and role level provide the framework for our remuneration systems for employees who are not covered by collective agreements. Base salary ranges for each role level are developed in line with market requirements and the internal salary structure and serve as the basis for salary determination and increase. Salaries for employees not covered by collective agreements are reviewed once yearly. The most recent review took place in the first quarter of 2022. With regard to salary review, the individual increases within the scope of the merit budget were defined on the basis of standardized, transparent criteria, such as the employee's individual performance, the evaluation of the position, and the external and internal benchmarks. The structure of variable pay is also based on the role level. Different options of bonus potential are defined for each role level.

The objective of our variable remuneration is to reward individual performance and collective achievement. As a metric for collective achievement, we define scorecards comprising three different key performance indicators (KPIs) that reflect our priorities as a company. Since 2019, our "People" KPI has pursued the goal of increasing and promoting the percentage of women in leadership positions.

Our remuneration systems are based on neutral and transparent criteria, do not differentiate based on gender, and are enshrined in company agreements.

The regular pay analyses that we conduct at a global level have not identified any systematic differences in the remuneration of women and men. If this changes, we will take corresponding action as a company. We also train our managers in order to ensure fair pay.

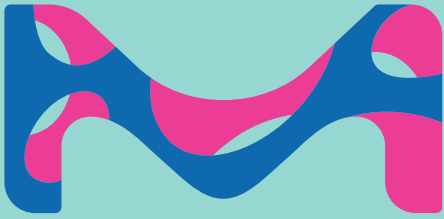
In addition to the companies mentioned in item 3, we naturally also satisfy the right of information for employees of companies with more than 200 employees as set out in section 12 EntgTranspG.

(3) Average number of employees in 2016 and 2022

Average number of employees in 2016 and 2022

	Merck KGaA, Darmstadt, Germany Total (2016)		Merck KGaA, Darmstadt, Germany, Merck Healthcare KgaA, a subsidiary of Merck KGaA, Darmstadt, Germany, Merck Surface Solutions GmbH, a subsidiary of Merck KGaA, Darmstadt, Germany, (2022)*	
Total	9,744	100%	13,301	100%
Women	3,457	35%	5,187	39%
thereof: full-time	2,486	72%	3,777	73%
thereof: part-time	971	28%	1,410	27%
Men	6,287	65%	8,114	61%
thereof: full-time	6,175	98%	7,834	97%
thereof: part-time	112	2%	280	3%

* This report encompasses our companies in Germany with more than 500 employees (in accordance with section 21 EntgTranspG).



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