

California Transparency in Supply Chains Act



The California Transparency in Supply Chains Act (the “Act”) requires large retailers and manufacturers doing business in California to disclose on their websites their “efforts to eradicate slavery and human trafficking from [their] direct supply chain for tangible goods offered for sale”. The Act applies to any company doing business in the State of California that has annual worldwide gross receipts of more than \$100 million dollars (U.S.) and that identifies itself as a retail seller or manufacturer on its California tax return.

Merck prides itself on acting ethically, fairly and with integrity, including recognizing and respecting human rights. We embody that attitude in our company [Code of Conduct \(Our Values & Standards\)](#) and in our [Public Policy Statement on Human Rights](#).

Our expectations of suppliers are described in our [Business Partner Code of Conduct \(BPCC\)](#), which is based on our Code of Conduct, as well as The Pharmaceutical Supply Chain Initiative's (PSCI) Pharmaceutical Industry Principles and the 10 Principles of the United Nations Global Compact.

We use our BPCC to inform our suppliers of our expectation, among other things, that their workforce is treated with dignity and respect and does not include any forced (or involuntary) laborers or child laborers, and that all workers are provided with a safe and healthy working environment.

The labor and human rights section of our company's BPCC states that our business partners shall not (i) use any form of forced or involuntary labor, including bonded labor, prison labor or indentured labor; or (ii) engage in or support any form of slavery or human trafficking.

In December 2015, we reviewed and updated our BPCC (Edition II) to include additional provisions around human trafficking and slavery, including employment (recruitment) practices, employee disclosures (contracts) and housing standards.

The following information summarizes efforts that our company is undertaking to address the risks of slavery and human trafficking in its supply chain:

VERIFICATION

As of May 2015, prior to contracting, all new direct suppliers (as well as selected indirect and research suppliers in certain geographies) were required to complete and return a Supplier Self-Assessment Questionnaire (SAQ) for Ethics & Compliance.

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Our SAQ presents suppliers with a series of labor & human rights questions covering a range of subject areas, including Freely Chosen Employment, Child Labor & Young Workers, Employment Practices, Employee Disclosures, Fair Treatment, Wages, Benefits & Working Hours, Freedom of Association and Privacy. Supplier's responses to the SAQ are used to judge whether or not they have programs and/or procedures in place to address potential risks for labor and human rights, including those related to slavery and human trafficking. The results of verification are used to inform our supplier selection and risk management processes. We do not currently use a third-party to conduct verifications on our behalf.

AUDITING

In August 2015, using a risk-based approach, we instituted a formal audit program to evaluate supplier compliance with our company's standards for labor and human rights. Several third party audit firms were engaged to perform independent audits at a limited number of direct supplier's facilities. These facilities were located in countries identified as high risk for labor and human rights. Generally, audits were conducted over a 2-day period and comprised of interviews and a review of relevant documentation. All suppliers selected to receive a labor and human rights audit were provided with advanced notification. In total, 89 supplier facilities were audited in 2015, 2016 and 2017. Our supplier audit program for labor and human rights is still evolving. We intend to perform additional audits during the course of 2018.

CERTIFICATION

Through our contracts and agreements, we endeavor to obtain written commitment from our direct suppliers that they will respect and abide by the standards set forth in our BPCC. In addition, before contracting with any new direct supplier, we seek to understand the potential risks presented by each supplier, by asking them to complete and return our Self-Assessment Questionnaire (SAQ) for Ethics and Compliance. We do not currently require our direct suppliers to provide any additional certifications.

INTERNAL ACCOUNTABILITY

At our company, all employees are responsible for 1) adhering to the values and standards set forth in our own Code of Conduct 2) complying with all relevant company policies and 3) for raising concerns if they are uncertain as to whether or not standards are being met. Employees can raise concerns to their supervisor, Human Resources, Compliance, Legal or the Office of Ethics, through our company's AdviceLine. We investigate all reported allegations of misconduct. Violations of our company's Code of Conduct or policies may result in a variety of corrective actions and in some cases may result in disciplinary action up to and including termination of employment.

TRAINING

All of our employees receive training on our company Code of Conduct (Our Values & Standards). We have established a series of compliance training courses that support our Code of Conduct, which must be taken by all employees each

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year. Staff involved in procurement and supplier management activities receive additional training on our Business Partner Code of Conduct (BPCC) to ensure awareness and understanding of our company's expectations for suppliers, including those that relate to labor and human rights. Supplemental training on how to evaluate, escalate and mitigate potential supplier risks for labor and human rights is also provided to those that have responsibility for supplier selection and management.

Revised: July 2018

Forward-Looking Statement

This statement of Merck & Co., Kenilworth, NJ, USA (the "company") includes "forward-looking statements" within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. These statements are based upon the current beliefs and expectations of the company's management and are subject to significant risks and uncertainties. If underlying assumptions prove inaccurate or risks or uncertainties materialize, actual results may differ materially from those set forth in the forward-looking statements.

Risks and uncertainties include but are not limited to, general industry conditions and competition; general economic factors, including interest rate and currency exchange rate fluctuations; the impact of pharmaceutical industry regulation and health care legislation in the United States and internationally; global trends toward health care cost containment; technological advances, new products and patents attained by competitors; challenges inherent in new product development, including obtaining regulatory approval; the company's ability to accurately predict future market conditions; manufacturing difficulties or delays; financial instability of international economies and sovereign risk; dependence on the effectiveness of the company's patents and other protections for innovative products; and the exposure to litigation, including patent litigation, and/or regulatory actions.

The company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in the company's 2016 Annual Report on Form 10-K and the company's other filings with the Securities and Exchange Commission (SEC) available at the SEC's Internet site (www.sec.gov).