

Our sustainability management

Bayer is committed to the concept of sustainable development: Economic, ecological and social matters are goals of equal rank in our corporate policy. To implement this balance worldwide, we have developed effective steering mechanisms and defined specific goals by which we measure ourselves. Our sustainability management is based on long-term values and clear policy guidelines that are valid for all parts of the company.

Sustainability as a strategy for success

In economically difficult times, it is more important than ever to increase the value of the company in harmony with social needs and goals. Bayer's sustainability concept is consistently aligned to this goal: With its products Bayer wants to help effectively address societal megatrends and challenges such as climate change, inadequate global health care or the scarcity of water and food. We also consistently align our own business processes to sustainable development criteria along the entire value chain. Through our social responsibility, furthermore, we also contribute to improving living conditions in the communities in which our sites are located and supporting the future prospects of others.

In order to be able to act in a goal-oriented manner in this environment, we must identify social trends and needs at an early stage. Our sustainability concept is therefore based on close, sustained dialogue with our stakeholders and society at large. In this way, we not only minimize our business risks, we can also work together with these dialogue partners to identify opportunities and fields of action, and thus lastingly enhance our company's competitiveness and ability to thrive in the future.

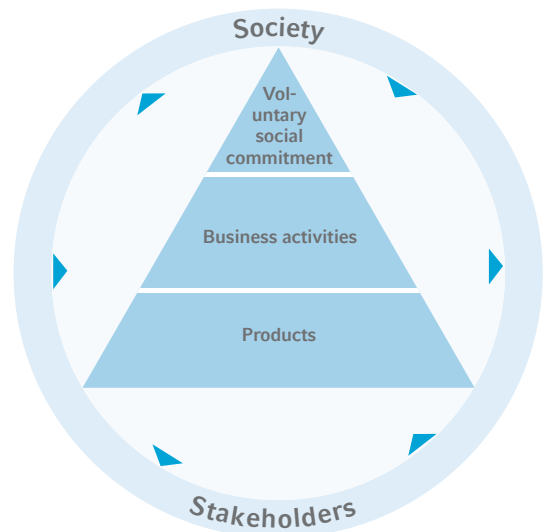
Our mission statement and values

Sustainable business means allowing oneself to be guided by long-term values. That's why sustainability is a key element of our values and leadership principles, which include a will to succeed and a passion for our employees, business partners, stockholders and society. Other values spelled out in our mission statement "Bayer: Science For A Better Life" include integrity, openness and honesty; respect for people and nature;

and sustainability of our actions. Our mission statement is supplemented by the Bayer Sustainable Development Policy, our positions on human rights and working conditions, our Corporate Compliance Policy, our commitments to the global Responsible Care initiative of the

The Bayer sustainability concept

Successful sustainable development in balance with social needs and goals



Bayer is a member of society that makes important contributions through products, business activities and a voluntary social commitment. Social trends, needs and objectives for their part influence our activities on these three levels, however.

chemical industry and the 10 principles of the United Nations Global Compact.

Group-wide directives as a framework of action

On this basis, we develop Group-wide directives that provide a clear framework of action for all parts of the company. The implementation of these directives is supported in all subgroups and service companies by efficient management systems for health, safety, environmental protection and quality (HSEQ), for example (see page 51). In addition, the subgroups enact systems and standards that address their specific requirements. The steering of opportunities and risks – our risk management – is also an integral part of the Group-wide corporate governance system.

In 2008 we revised our Corporate Compliance Policy, which now emphasizes the theme of sustainability more intensively than before. Its implementation is based on specific organizational structures within the company. In Germany, each Group management company has a Compliance Committee; worldwide there is at least one Compliance Officer and often a local Compliance Committee in each country in which we operate. The reports from the countries are com-

piled in an annual Activity Report produced by the individual subgroups and service companies. In this way, our Corporate Compliance System supports, for example, the observation of our position on human rights and working conditions. What’s more, the Corporate Auditing Department regularly verifies adherence to the policy (see page 59).

On January 1, 2009, furthermore, a Group-wide code of conduct for responsible lobbying went into effect that binds all lobbyists and consultants of the company to clearly identify themselves as such and to represent the company’s business interests (see page 60).

Sustainability check: “Sustainability Value Balance”

Societal megatrends such as population growth or climate change require detailed analysis to determine their importance for our portfolio and our activities. That’s why Bayer joined forces with a renowned institute for future research to develop a tool that helps us to more closely align our activities to the challenges posed by these trends: the “Sustainability Value Balance” tool. With the help of this tool, Bayer will regularly evaluate the global megatrends and how they

Sustainability management at Bayer

Community Board for Sustainable Development

Chairman: Dr. Wolfgang Plischke

Member of the Group Management Board responsible for Innovation, Technology & Environment

Members

One Management Board member per subgroup; Managing Directors of Bayer Technology Services and Bayer Business Services; Heads of Corporate Human Resources & Organization, Communications, Investor Relations, Law & Patents, Corporate Office, Environment & Sustainability



Community Council for Sustainable Development

Chairman: Dr. Wolfgang Große Entrup
Head of Environment & Sustainability

The Bayer Community Board for Sustainable Development (CB SD) is responsible for steering our sustainability strategy throughout the Bayer Group. Based on the Group-wide sustainability strategy, this body each year defines goals, determines the corresponding Group directives and monitors the implementation of these measures. The CB SD is supported and advised by our Community Council for Sustainable Development (CC SD), which succeeds the previous Sustainable Development Planning Group. Both bodies were restaffed in 2008.

The Chairman of the CC SD works together closely with the sustainability officers in the subgroups and service companies. The CC SD also regularly confers with other Group bodies, such as the Community Council for Health, Safety, Environment & Quality (CC HSEQ) and the Community Council for Politics, which is responsible for the alignment and prioritization of political activities at Bayer. The global organization is supplemented by bodies at the regional and subgroup levels. Group-wide cooperation is defined by our Sustainable Development (SD) Policy.



relate to its own product portfolio. In other words, we analyze exactly how the megatrends relate to our business and how we as a company can help society to master the risks associated with them. To this end, we assess our products, processes and projects using

uniform sustainability criteria in order to identify the areas in which we can have the greatest impact through our innovation capability. With this in mind, pilot projects are being conducted, one of which was completed by Bayer CropScience in 2008.

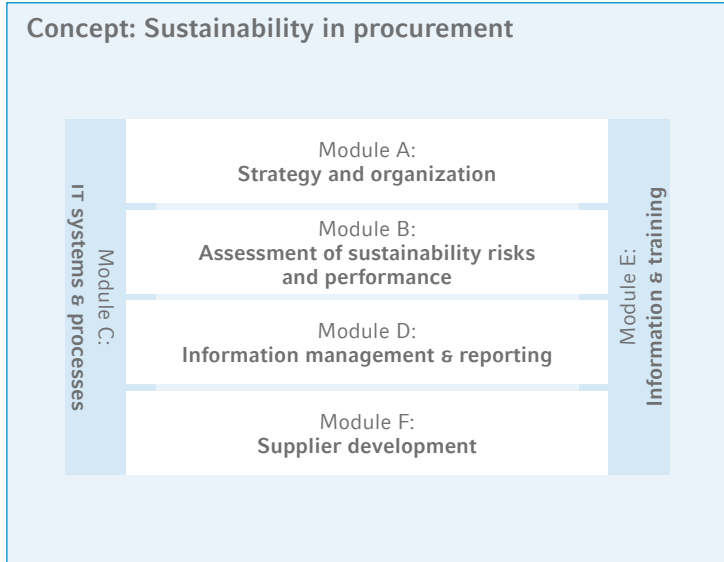
Step-by-step development of sustainability in the company



Sustainable procurement management

We expect our business partners to mirror in their conduct our commitment to sustainability and corporate compliance. Bayer’s procurement guideline clearly supports the principles of the UN Global Compact, our values and leadership principles and Bayer’s position on human rights and working conditions. To ensure that our purchasing activities are in line with the Group’s sustainability strategy, the spokesman for the Procurement Community has also since 2008 been a fixed member of the Community Council for Sustainable Development.

In 2008 the Bayer Procurement Community further optimized the strategy for implementing sustainability in purchasing. To this end, a code of conduct detailing basic standards of sustainability among other aspects was compiled for suppliers to improve their awareness of the issue of sustainability. The code, which will be implemented step by step from mid 2009, also provides the basis for systematic supplier evaluation and development. The implementation of the corresponding measures as well as our information management and sustainability reporting will be supported by IT systems and processes. By informing and training our purchasing employees we ensure that our sustainability strategy becomes anchored in day-to-day purchasing practice all over the world.



Where deviations from our standards are observed, the Procurement Community examines how the supplier involved can be supported in complying with them more effectively. The concept behind this strategy is illustrated in the modules A–F shown in the figure above.

- 2003 – 2005
 - 2003: Development of a strategy for sustainable agriculture
 - 2004: Formulation of a mission statement, values and leadership principles for the Bayer Group
 - 2005: Directive on Health, Safety, Environment and Quality (HSEQ) Audits
- 2003 – 2005
 - 2003: Definition of key performance indicators for health, safety and environment (HSE)
 - 2004: Sustainability Committees anchored in the Bayer Group organization
 - 2004: Organizational stakeholder in the Global Reporting Initiative
 - 2005: Launch of systematic initiatives to reduce child labor in India
- 2005
 - 2005: Inclusion for the first time in the Climate Leadership Index of the Carbon Disclosure Project
 - 2005: Bayer presented with the Low Carbon Leaders Award by the climate protection organization “The Climate Group”

REACH implementation

The E.U. chemicals policy REACH has been in effect since June 1, 2007. As prescribed by REACH, Bayer had pre-registered more than 1,000 substances with the European Chemicals Agency (ECHA) in Helsinki by December 1, 2008. Thus we fulfilled the central requirement for continuing to work with these substances in the future. We also worked closely with our suppliers in this respect to ensure supply security. The next step is now to compile registration dossiers for the substances required in particularly large amounts. For the registration of these substances, which must be completed by 2010, Bayer strives to form consortia with its competitors to promote the exchange of data and avoid the need for additional animal studies.

Our Sustainability Program

Our Sustainability Program is a key steering tool for the implementation of our sustainability strategy. It comprises the specific sustainability goals of

the Bayer Group, all subgroups and service companies, and the measures defined for the achievement of these goals. The program focuses on five fields of activity: innovation, product stewardship, excellence in corporate management, social responsibility and responsibility for the environment.

The implementation of the measures is monitored by the management boards and management teams of the various subgroups and service companies, as well as by our SD committees. A detailed overview of the current status of the program and of our individual target achievement can be found on page 104. We consistently align our sustainability management to new challenges. Where necessary we set new goals, as demonstrated by our climate goals for 2020. Our current Group Sustainability Program 2006+ will run over a period of five years. We are currently working on a realigned program for the period after 2010.

Step-by-step development of sustainability in the company

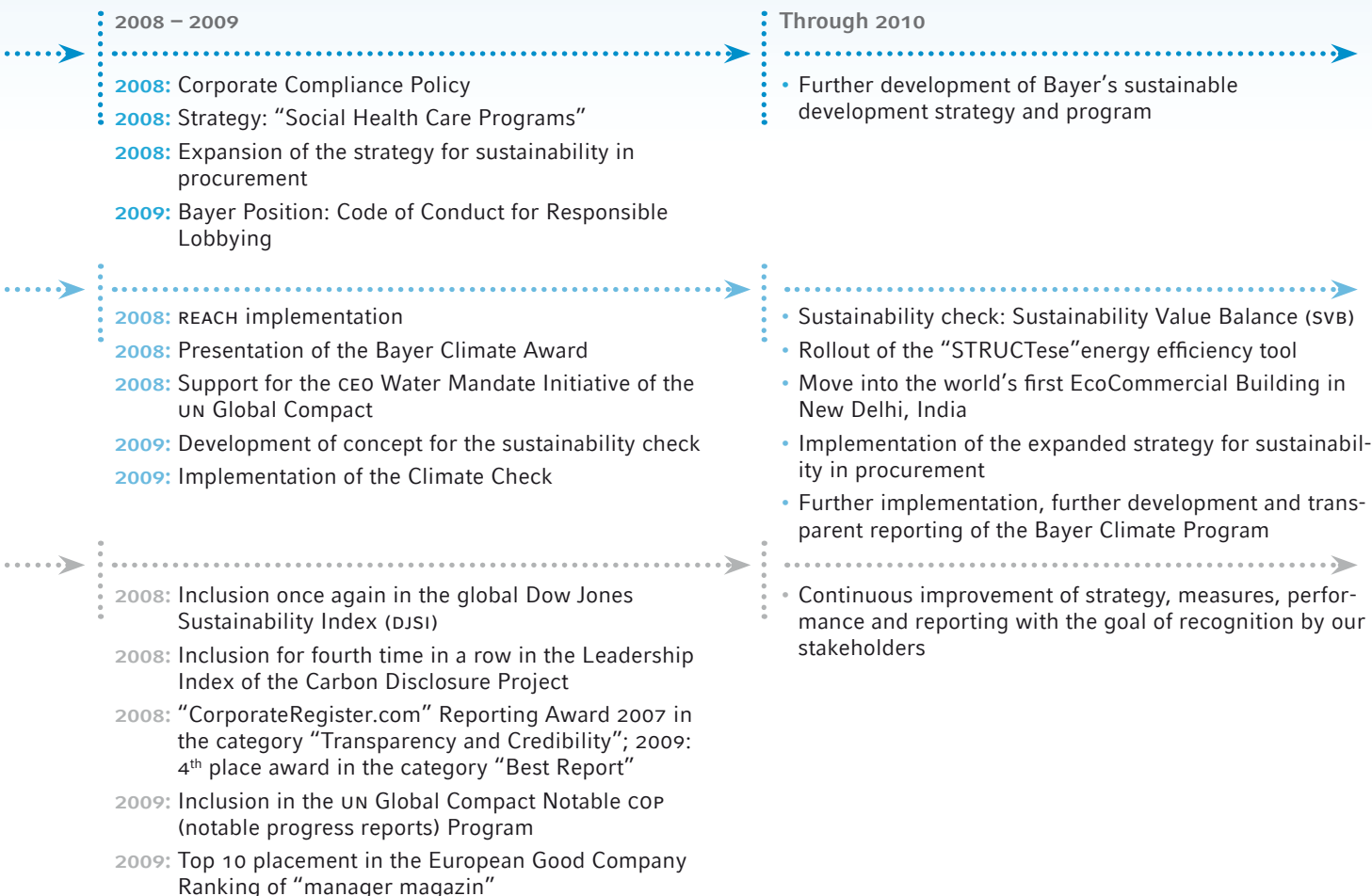


Key Bayer Group sustainable development goals through 2010 (unless described otherwise)

- **Therapeutic proteins**
Development of patient-specific medicines by 2015 through the expression of therapeutic proteins from tobacco plants (plant-made pharmaceuticals).
- **Cancer therapy**
Expansion of the scope of application for the cancer drug Nexavar® to include the indications liver, lung and breast cancer.
- **Energy-efficient production process**
Optimization of a production process for monomeric diisocyanate with the goal of reducing energy consumption by about 15 percent.
- **Occupational safety**
Reduction in the incidence of industrial injuries with lost working days to less than two per million hours worked.
- **Emissions into water**
Reduction in the discharge of total organic carbon (TOC) and nitrogen into receiving waters by 10 percent per metric ton of sales product.
- **Emissions into air**
Reduction in voc (volatile organic compounds) emissions by 30 percent per ton of sales product.
- **Climate protection**
Restriction of global greenhouse gas emissions (metric tons CO₂ equivalents) to the 2007 level through 2020 despite an increase in production. See page 86 for detailed figures for the individual subgroups.
- **Protection of the ozone layer**
Adherence to a maximum threshold of less than 20 metric tons of ODS (ozone-depleting substances) emissions per year (CFC-11 equivalents).
- **Waste**
Reduction in the volume of waste requiring special supervision (hazardous waste) to less than 2.5 percent per metric ton of sales product.

- WWW**
- 9 Mission statement
 - 10 Bayer Sustainable Development Policy
 - 11 Corporate Compliance Policy
 - 12 REACH
 - 13 Fit for REACH

Details of the sustainability program can be found on page 104 ff.



Interview with Dr. Wolfgang Plischke

“Sustainability is driven by innovations”

Dr. Plischke, Bayer is committed to sustainable development. The issues involved are of a long-term nature. Is there a danger, given the current financial and economic crisis, that companies will postpone essential investments?

There may well be a risk of this – but not at Bayer. We are committed to setting an example. Despite the difficult situation at present, we will be investing a record sum of €2.9 billion in research and development this year, for example, because we are convinced that sustainability is driven by innovations. Cutting back in this area would amount to thinking and planning in the short term. We are also committed to climate protection and are systematically pressing ahead with the Bayer Climate Program that we initiated in 2007. We intend to invest a total of €1 billion in this program by 2010.

How can companies' climate protection activities be supported on a political level?

There is an urgent need for effective regulations to significantly reduce greenhouse gas emissions on a global level. What is called for in this context is a strategic alliance between politicians and business. The international climate conference in Copenhagen at the end of the year must set the tone in this respect.

What contribution can companies make in such an alliance?

There are a number of possibilities. A study on the costs of climate protection presented by management consultants McKinsey in Brussels in January 2009 indicated that emissions could be cut by over a third between 1990 and 2030 at a cost of less than one percent of global GDP. The majority of this reduction can be achieved through technical measures that already make economic sense because the necessary investments are financed by the resultant savings made on energy costs. For example, better insulation and vehicles with improved fuel economy can significantly boost energy efficiency. Clearly, politicians need to work with companies because only they have the necessary technical know-how. This presents many companies with excellent opportunities and creates a win-win situation.

Can Bayer benefit too?

Of course! Under our Bayer Climate Program, for example, we are currently analyzing our sites worldwide to identify new potential for cutting emissions, and ways of realizing this potential, and achieving our ambitious emissions targets. We expect the optimization of our processes to result in a reduction in greenhouse gas emissions of around 10 percent across the Group as a whole. In addition to benefiting the climate, this will also cut costs and make our sites even more competitive. Improving our own energy efficiency is just one aspect, though. Just as important are our innovative products that help reduce emissions around the globe. Examples include our insulating materials and our high-quality materials to help lower energy consumption in automotive engineering.

In your view, what are the other key spheres of activity involved in sustainable development besides climate protection?

The growing world population and the increasing demand for food are major concerns. According to estimates by the Food and Agriculture Organization (FAO) of the United Nations, the global population will exceed nine billion in 2050. Agricultural production would need to double to ensure all these people were fed. Given that the amount of land available for cultivation cannot be increased, the figures clearly show that this will only be possible using the latest crop protection products and innovative seeds as part of a sustainable agricultural policy. We are obtaining promising results in both these areas.

In addition to boosting crop yields, the increasing shortage of water is also becoming an issue in the sustainability debate.

That's true. Water is a growing problem, but the issues vary enormously from region to region. In Germany, for example, water quality is the major concern. Bayer was very quick to develop and utilize effective wastewater treatment technology, which is also used to treat municipal wastewater. In many parts of the world, however, there is a shortage of clean



Dr. Wolfgang Plischke, member of the Board of Management of Bayer AG responsible for Innovation, Technology and Environment and for the Asia/Pacific region

drinking water. All too often in these regions, disproportionately large amounts of water are used for irrigation. Around the globe, 70 percent of the water drawn from freshwater sources is used in agriculture. We are therefore carrying out research into seeds and developing methods of cultivation that require less water. In addition, we made a public commitment to help find solutions with other partners by signing the UN Global Compact initiative's CEO Water Mandate in 2008. In this area, too, Bayer is looking to utilize its many years of expertise and its innovative strength to develop sustainable solutions for global water protection and efficient water management. The Global Exploration Fund that we have set up with National Geographic to finance research projects also serves this purpose.

The health of a great many people is threatened by factors besides hunger and thirst. Developing countries in particular are affected by poor access to medical care. How is Bayer tackling this problem?

We are endeavoring to improve the access of emerging markets and developing countries to our medicines so that as many people as possible benefit from Bayer innovations. We have recently developed our Social Health Care Program to pool our existing measures. This program involves aspects such as improved access to innovative medicines to treat oncological and hematological diseases. It also focuses on treating infectious tropical diseases and on boosting women's health and family planning worldwide.

You have referred to a whole host of major global challenges. Can you sum up by providing an assessment of how these challenges can be overcome?

In my opinion, the majority of the problems referred to can be solved by providing access to innovative products and technologies. For each of these areas, there also needs to be political input to encourage technology and information transfer in emerging markets and developing countries. In addition, it is important for patents and trademark rights to be protected. This is particularly true for companies carrying out research such as Bayer, since these rights provide the platform for our investments in research and development. In order to reduce greenhouse gas emissions, we need a globally level playing field for emissions trading with a standardized pricing structure for CO₂. Until global emissions trading exists, emissions allowances should be issued free of charge to companies in global competition to avoid unfair competition within the E.U.

One final question. The Bayer Group's Sustainability Program sets targets to be reached by 2010. What will happen after this?

The issue of sustainability will remain a key focal point for us and we will ensure the strategic development of our Sustainability Program over the coming year. This will include setting new targets to reflect current developments and incorporate our expertise in as targeted a way as possible. As a result, we will be focusing our commitment to sustainability even more sharply on our core business and on global megatrends.

In dialogue with our stakeholders

Sustainable solutions can only be developed if all societal groups work together. That's why Bayer specifically seeks dialogue at the local, national and international levels with representatives from politics, industry and society.

This includes our partners – employees, customers and suppliers – as well as our investors. Of equal importance to Bayer are public interests – those of our direct neighbors at our sites and of non-governmental organizations (NGOs), politicians and the general public. After all, Bayer operates within a scope of activity that is heavily influenced by scientific institutions and public administration bodies, as well as by legislation.

Close cooperation with these stakeholders creates value-added for all involved, as their suggestions influence our planning and decisions. At the same time, such cooperation gives us access to platforms on which we can openly communicate our viewpoints and receive important impulses for innovation.

Identification of major sustainability issues

We take the needs of our stakeholders seriously and strive to contribute to solving the pressing issues of our time – based on our values and in harmony with internal and external directives and laws. At the same time, we are charged with doing business efficiently, achieving economic success and increasing the long-term value of our company. We therefore select focus areas of our sustainability management and our reporting according to the following criteria:

- In which areas are the challenges currently the greatest?
- Where does our company harbor particular responsibility?
- What areas are highly relevant to our business?
- Where can we make a particularly substantial contribution to sustainable development?

Differentiated approach

The goal of our stakeholder dialogue is to jointly develop innovative solutions for sustainable development. In this connection, it is important to take a differentiated view of the

| Examples of stakeholder dialogue in 2008 with various stakeholder groups | |
|---|---|
| Employees <ul style="list-style-type: none"> ■ Employee surveys (see page 66) ■ Development and signing of a code of ethics between the social partners of the chemical industry: the German Chemical Industry Employers' Association (BAVC) and the German Mining, Chemical and Energy Industrial Union (IG BCE) in the framework of the so-called "Wittenberg Process" | Customers <ul style="list-style-type: none"> ■ Dialogue on HSE issues including the declaration of substances ■ Symposium on polyurethanes in Leverkusen, Germany ■ Participation in the field days of the German Agricultural Society |
| Suppliers <ul style="list-style-type: none"> ■ Supplier dialogue and presentation of a Sustainability Award for outstanding sustainability performance by Bayer suppliers in India ■ Constructive dialogue with our suppliers to safeguard REACH preregistrations, thereby promoting long-term business relationships, ensuring delivery security for our customers | Public-private partnerships <ul style="list-style-type: none"> ■ Collaborations with the WHO (Chagas' disease, African sleeping sickness) ■ TB Alliance (tuberculosis) ■ Gates Foundation (malaria) ■ Launch of the "Food Chain Partnership" program in Mexico |
| International initiatives <ul style="list-style-type: none"> ■ UN Global Compact, UN Global Compact "Caring for Climate" and "CEO Water Mandate" ■ Participation in the Global Roundtable on Climate Change (GROCC) ■ Cooperation with the United Nations Environment Programme (UNEP) ■ Cooperation with the U.S. Agency for International Development (USAID), the UN Population Fund (UNFPA) and the International Planned Parenthood Federation (IPPF) (e.g. reproductive health) ■ Organizational stakeholder in the Global Reporting Initiative (GRI) | Science and research <ul style="list-style-type: none"> ■ Sponsorship of the Volatile Organic Chemicals Control and Management Conference in Beijing, China ■ Forums and conferences participated in by industry and governmental organizations, in cooperation with the Chanzhou Coatings Research Institute, China ■ University professorships in the fields of medicine, pharmacy and chemistry ■ Strategic alliances with universities in Cologne, Germany and Singapore ■ Lectures and discussions at BayKomm on sustainable development, with visiting student groups from Germany and abroad |

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|---|--|
| <p>NGOs</p> <ul style="list-style-type: none"> ■ Cooperation with the Indian-based Naandi Foundation in the efforts to eliminate child labor ■ Projects with the German Foundation for World Population (DSW) ■ 7th International Dialogue on Population and Sustainable Development (in cooperation with Bayer) | <p>Schools</p> <ul style="list-style-type: none"> ■ “Baylab” school laboratories in Leverkusen, Monheim, Berlin and Wuppertal, Germany ■ Bayer education program “Making Science Make Sense” – since 2008, 11 countries have taken part in this initiative |
| <p>Politics and society</p> <ul style="list-style-type: none"> ■ Participation in the “NanoDialog” between the German government and industry ■ “Brainstorming for Berlin” dialogue series ■ Discussions with neighbors, public authorities and elected officials on topics such as the CO pipeline ■ Discussions with representatives of the European Commission and European Parliament on topics such as the new E. U. crop protection policy ■ Participation in the EPAA (European Partnership on Alternative Approaches to Animal Testing) | <p>(Industry) associations</p> <ul style="list-style-type: none"> ■ Member of the Board of Trustees of EONSENSE ■ Chair of the European Federation of Pharmaceutical Industries and Associations (EFPIA) ■ Chair of the German Association of Research-Based Pharmaceutical Companies (VFA) ■ Participation in numerous national, European and international associations, including the Federation of German Industries (BDI), the German Chemical Industry Association (VCI), the American Council on Chemistry (ACC), the European Crop Protection Association (ECPA) and the European Chemical Industry Council (CEFIC) |

issues and interests. After all, the perspectives of the various stakeholder groups and the regional framework conditions for possible solutions often vary widely.

To enable the stakeholders to discuss challenges within their proper context and develop case-specific solutions, Bayer has integrated its stakeholder dialogue into its various functions, organizational units and regions. The large number of initiatives, committees, specialist workshops and information campaigns at the Group level and in the subgroups and service companies reflects the diversity of our business. Our stakeholder activities range from cooperation with local NGOs to participation in international sustainable development initiatives.

The table contains examples of activities that the Bayer Group and its individual subgroups and service companies implemented in 2008 within the scope of Bayer’s stakeholder dialogue. Due to the large number of different measures, the table illustrates only a small sample of our stakeholder activities.

Regular stakeholder surveys

Creating transparency with regard to our business, and our sustainable development activities and challenges is a basic principle of our stakeholder dialogue. This is grounded in the Bayer Sustainable Development Report, which is supplemented by the Internet site and the Management Report section of our Annual Report. We offer special reports and specialist publications on themes that are a current focus of public interest. In 2008, for example, Bayer AG brochures provided compact and vivid information on climate change,

and the company addressed the public’s questions about the planned CO pipeline at the site in Leverkusen, Germany through the Internet page www.pipeline.bayer.de (in German only) and a special brochure.

We regularly examine whether our reporting satisfies the information needs of our stakeholders. At the beginning of 2008, for example, we asked some 200 stakeholders of importance to Bayer (NGOs, associations, government agencies, analysts, customers, suppliers, politicians) by telephone which important themes of the future they believed we should address in connection with sustainable development, as well as their opinion of our reporting. In this survey, our stakeholders confirmed the themes that Bayer had identified as crucial to its sustainability management: climate change and the global water and drinking water problems. Other themes of importance to our stakeholders include environmental protection, human rights, sustainable health care and the question of how sustainable development can be anchored in business decisions.

With respect to dialogue, they prefer the exchange of viewpoints in smaller, theme-oriented groups, rather than major podium discussions or Internet forums.

This year again, we invite our stakeholders to evaluate our reporting and our sustainable development activities. At www.survey.sustainability.bayer.com they can share with us their opinion on this year’s Sustainable Development Report and formulate their expectations as regards future sustainable development activities at Bayer.