

# Report of the Supervisory Board

*Dear stockholders:*

During 2009 the Supervisory Board monitored the conduct of the company's business on a regular basis with the aid of detailed written and oral reports received from the Board of Management, and also acted in an advisory capacity. In addition, the Chairman of the Supervisory Board and the Chairman of the Board of Management maintained a constant exchange of information. In this way the Supervisory Board was kept continuously informed about the company's intended business strategy, corporate planning (including financial, investment and human resources planning), earnings performance, the state of the business and the situation in the company and the Group as a whole.

The documents relating to Board of Management decisions or actions which – by law or under the articles of incorporation or the rules of procedure – required the approval of the Supervisory Board were inspected by the Supervisory Board at its plenary meetings, sometimes after preparatory work by the committees. In certain cases the Supervisory Board gave its approval on the basis of documents circulated to its members. The Supervisory Board was involved in decisions of material importance to the company. We discussed at length the business trends described in the reports from the Board of Management and the prospects for the development of the Bayer Group as a whole, the individual organizational units and the principal affiliated companies in Germany and abroad.

Four plenary meetings of the Supervisory Board took place during 2009. In addition, two resolutions were passed outside of the meetings. One of these concerned the submission of a binding offer to acquire Athenix Corp., and the other related to an agreement with Genzyme Corp. to alter certain aspects of the existing collaboration and transfer the hematological oncology portfolio to Genzyme. No member of the Supervisory Board attended fewer than half of its meetings. All members of the Board of Management regularly attended the meetings of the Supervisory Board.

## **Principal topics discussed by the Supervisory Board**

The deliberations of the Supervisory Board focused on questions relating to the strategies and business activities of the Group as a whole and of the subgroups, as well as on personnel decisions in connection with the appointment of successors to Werner Wenning and Klaus Kühn. Other topics were discussed at each of the meetings. At the meeting held in February, the Supervisory Board dealt at length with the Bayer Group's risk management system. At its September meeting the Supervisory Board appointed Dr. Marijn E. Dekkers a member of the Board of Management effective January 1, 2010, and Chairman of the Board of Management effective October 1, 2010. It also appointed Werner Baumann to the Board of Management effective January 1, 2010 and resolved on the service contracts



of both the new Board of Management members. At the meeting in December 2009, the Supervisory Board adapted the compensation system for the members of the Board of Management to the new statutory requirements and resolved on necessary amendments to their service contracts. At the meeting in December 2009, the Board of Management presented its planning for the business operations, the finances and the asset and liability structure of the Bayer Group in the years 2010 through 2012. This meeting also discussed the new version of the German Corporate Governance Code, approved the issuance of a new declaration of compliance and resolved on amendments to the Supervisory Board's rules of procedure.

#### **Committees of the Supervisory Board**

The Supervisory Board has a Presidial Committee, an Audit Committee, a Human Resources Committee and a Nominations Committee\*.

\* The description of the responsibilities and membership of the committees, which forms part of the Report of the Supervisory Board, can be found in the Corporate Governance Report on page 88 of this Annual Report and therefore is not reproduced here.

### Work of the committees

In 2009 the Presidial Committee of the Supervisory Board resolved on two amendments to the wording of the articles of incorporation necessitated by the issuance of shares to service conversion rights under a convertible bond. The Presidial Committee was not required to convene in 2009 in its capacity as the Mediation Committee under Section 27 Paragraph 3 of the German Codetermination Act.

The Audit Committee met four times during the year, addressing in particular the company's and the Group's financial reporting, the Group's risk management system, the internal control system and corporate compliance issues. The Audit Committee also set the budget for the services of the external auditor and discussed with the auditor the main areas of the audit for the 2009 fiscal year. The auditor was present at all the meetings of the Audit Committee, reporting in detail on the audit work and the audit reviews of the interim financial statements.

The meetings of the Audit Committee also dealt with a number of other topics. At the February meeting, it discussed the risk report, the risk management system, legal risks and corporate compliance. At this meeting it also submitted a recommendation to the full Supervisory Board concerning the resolution to be put before the Annual Stockholders' Meeting on the appointment of the auditor of the financial statements. A focus of the April meeting was on the report of the Compliance Officer. At its October meeting, the Audit Committee deliberated on the most recent changes to the International Financial Reporting Standards (IFRS) and their consequences for the Bayer Group.

The Human Resources Committee convened on three occasions and also passed one resolution after the relevant documents had been circulated to its members. The subjects of the meetings and of this resolution passed outside of the meetings were predominantly matters concerning the compensation of the Board of Management. At its meeting in September, the Human Resources Committee also discussed the departure of Werner Wenning and Klaus Kühn, which will become effective during 2010, and the planned appointment of two new members, Dr. Marijn E. Dekkers and Werner Baumann. Recommendations concerning the related resolutions were submitted to the full Supervisory Board. At its December meeting, the Human Resources Committee addressed in detail the consequences of the newly enacted German Law on the Appropriateness of Management Board Compensation. It recommended that the Supervisory Board adapt the compensation system for the members of the Board of Management and make the necessary amendments to their service contracts.

On one occasion in 2009, in accordance with its responsibilities, the Nominations Committee discussed possible candidates for future election to the Bayer AG Supervisory Board as representatives of the stockholders.

The meetings and decisions of the committees were prepared on the basis of reports and other information provided by the Board of Management. Members of the Board of Management regularly attended the committee meetings. Reports on the committee meetings were presented at the plenary meetings of the Supervisory Board.

## Corporate governance

The Supervisory Board dealt with the ongoing development of corporate governance at Bayer, taking into account the amendments made to the German Corporate Governance Code in June 2009. At its meeting in December, the Supervisory Board amended its own rules of procedure in line with the new recommendations of the Code and the new statutory requirements. In December 2009 the Board of Management and the Supervisory Board issued a new declaration of compliance, which is also reproduced in the Corporate Governance Report on page 88 of this Annual Report.

## Financial statements and audits

The financial statements of Bayer AG were prepared according to the requirements of the German Commercial Code and Stock Corporations Act. The consolidated financial statements of the Bayer Group were prepared according to the German Commercial Code and the International Financial Reporting Standards (IFRS). The combined management report was prepared according to the German Commercial Code. The auditor, PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Essen, has audited the financial statements of Bayer AG, the consolidated financial statements of the Bayer Group and the combined management report. The conduct of the audit is explained in the auditor's reports. The auditor finds that Bayer has complied, as appropriate, with the German Commercial Code, the German Stock Corporations Act and/or the International Financial Reporting Standards endorsed by the European Union, and issues an unqualified opinion on the financial statements of Bayer AG and the consolidated financial statements of the Bayer Group. The financial statements of Bayer AG, the consolidated financial statements of the Bayer Group, the combined management report and the audit reports were submitted to all members of the Supervisory Board. They were discussed in detail by the Audit Committee and at a plenary meeting of the Supervisory Board. The auditor submitted a report on both occasions and was present during the discussions.

We examined the financial statements of Bayer AG, the proposal for distribution of the profit, the consolidated financial statements of the Bayer Group and the combined management report. We found no objections, thus we concur with the result of the audit. We have approved the financial statements of Bayer AG and the consolidated financial statements of the Bayer Group prepared by the Board of Management. The financial statements of Bayer AG are thus confirmed. We are in agreement with the combined management report and, in particular, with the assessment of the future development of the enterprise. We also concur with the dividend policy and the decisions concerning earnings retention by the company. We assent to the proposal for distribution of the profit, which provides for payment of a dividend of €1.40 per share.

The Supervisory Board would like to thank the Board of Management and all employees for their dedication and hard work in 2009.

Leverkusen, February 2010  
For the Supervisory Board



DR. MANFRED SCHNEIDER  
Chairman