

Bayer Innovation

Bayer Innovation investigates and evaluates innovative areas adjacent to the subgroups' current core activities and develops them into viable new businesses for the Bayer Group. An example is the manufacture of plant-made pharmaceuticals. In 2009 the U.S. Food and Drug Administration accepted Bayer's application for a clinical trial involving a personalized cancer vaccine for the therapy of non-Hodgkin's lymphoma. In the field of medical technology, an innovative dressing made from bioresorbable silica gel fibers for the treatment of chronic wounds is undergoing clinical testing. In the agriculture sector, novel hybrid concepts based on polymer technologies and crop protection products are under development. The full potential of these technologies is being evaluated in close cooperation with the subgroups and external partners.

Bayer Innovation develops new businesses adjacent to core activities

Triple-i: Inspiration, Ideas, Innovation

The innovation campaign entitled "Inspiration, Ideas, Innovation" is motivating Bayer employees worldwide to submit ideas for new products and thereby add to the company's innovative capability. Some of these products have already been successfully commercialized.

9. Sustainability

Sustainability is a key component of our Values and Leadership Principles. True to our mission statement "Bayer: Science For A Better Life," we aim for sustainable commercial success based on sound business models and in harmony with the needs of our employees, society and the environment. To underline this mission we have committed to international sustainability initiatives such as the U.N. Global Compact and the Responsible Care Global Charter.

Our objective is to develop innovative solutions that will help address global challenges such as providing sustainable health care, feeding a steadily growing world population, combating climate change and overcoming the scarcity of natural resources. We therefore plan to align our core businesses to sustainability criteria even more rigorously than before. In 2009 we launched the Bayer Sustainability Program, initially comprising eight lighthouse projects. Major areas of focus are our alliances for sustainable health care, innovative partnerships to improve the supply of high-quality food, and new solutions for protecting the climate and managing natural resources.



For more information on the new Bayer Sustainability Program, go to WWW.SUSTAINABILITYPROGRAM.BAYER.COM.

Oversight of the Group-wide sustainability strategy has been assigned to Group committees headed by the member of the Board of Management responsible for Innovation, Technology and Environment. As part of our "sustainability in procurement" strategy, we have compiled a code of conduct for suppliers covering ethics, employee relations, occupational health, safety, environmental protection, quality and management systems. Our suppliers are selected and evaluated on the basis of this code starting at the end of 2009.

To steer our sustainability performance, we have defined specific targets and indicators through 2010, both for the Group as a whole and for our subgroups and service companies, in five fields of activity: innovation, product stewardship, management excellence, social commitment and environmental responsibility. These are supplemented by additional goals reaching beyond 2010 in areas where we believe the need for action is greatest – such as climate protection.



The Sustainable Development Report can be found at: WWW.BAYER.COM/EN/SUSTAINABLE-DEVELOPMENT-REPORT.ASPX.

Each year we publish a Sustainable Development Report based on Application Level A+ of the Global Reporting Initiative (GRI) guidelines.

9.1 Employees

Employee Data

[Table 3.35]

	Dec. 31, 2008	Dec. 31, 2009
	FTE	FTE
Employees by region		
Europe	55,500	54,500
North America	17,000	16,300
Asia/Pacific	20,800	21,600
Latin America/Middle East/Africa	15,300	16,000
Employees by corporate function		
Production	49,100	47,800
Marketing and distribution	38,000	38,900
Research and development	12,300	12,400
General administration	9,200	9,300
Total	108,600	108,400
of which trainees	2,900	2,700
	%	%
Percentage of women in Bayer Group senior management	4.7	5.5
Number of nationalities in Bayer Group senior management	23	22
Proportion of full-time employees with contractually agreed working time not exceeding 48 hours per week	100	100
Proportion of employees with health insurance	97	95
Proportion of employees eligible for a company pension plan or company-financed retirement benefits	76	74
Proportion of employees covered by collective agreements, particularly on pay and conditions	57	56

The total number of employees with permanent or temporary contracts is reported in full-time equivalents, with part-time employees included in proportion to their contractual working hours.

Employee data

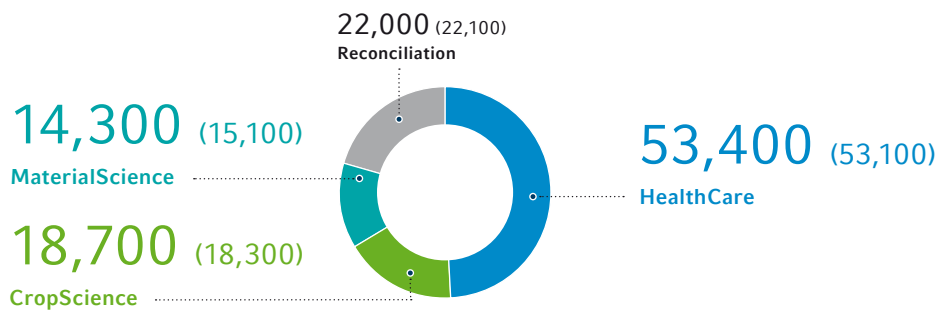
On December 31, 2009, the Bayer Group had 108,400 employees worldwide, compared with 108,600 at the end of 2008. Thus headcount remained virtually steady even in the crisis year 2009. In Germany we had 36,700 employees (2008: 37,400), who made up 33.9% of the Group workforce.

HealthCare employed 53,400 (2008: 53,100) people, CropScience 18,700 (2008: 18,300) and MaterialScience 14,300 (2008: 15,100). The remaining 22,000 (2008: 22,100) employees worked mainly for the service companies. This figure also includes the 600 (2008: 600) employees of Bayer AG.

Personnel expenses rose in 2009 by 3.8% to €7,776 million (2008: €7,491 million), mainly due to exchange-rate effects and the higher contributions to the German pension assurance association.

Employees by Region (2008 in parentheses)

[Graphic 3.14]



Sustainable human resources policy

Bayer pursues a sustainable human resources policy focusing on diversity, equality of opportunity, support for our employees’ personal and career development, and social security. Our social responsibility is reflected in the fact that 74% of our workforce has access to a corporate pension plan of some kind. Nearly all of our employees throughout the world either have statutory health insurance or access to health insurance through the company. High social standards, performance- and market-oriented compensation with numerous additional benefits, and a wide range of career development options make Bayer an attractive employer. The fluctuation rate for the Group as a whole in 2009 was 7%.

Another feature of our corporate policy is dialogue with the employee representatives in a spirit of partnership. The working conditions for more than 55% of our global workforce are set forth in collective or company agreements. A flexibility clause in the collective bargaining agreement for the chemical industry enabled MaterialScience to cushion the effects of the global economic crisis on employees in Germany. Invoking this clause, working hours and pay were temporarily reduced for the period from February through October 2009, making official short-time working unnecessary. Moreover, in December 2009, the existing agreement under which Bayer Group companies in Germany refrain from dismissing employees for operational reasons was extended to run for a further three years.

Diversity and flexibility

The members of the Bayer Group’s top management level are drawn from 22 countries. In 2009, women made up 35% percent of the global workforce.

Bayer Group Workforce Structure

[Table 3.36]

	2009
	%
Senior managers	1
Other managers	27
Skilled employees	69
Trainees	3

Bayer provides an attractive working environment for its employees by accommodating their different needs in a number of ways. Flexible worktime models allow many employees to organize their work on a largely individual basis. In November 2009 we added to our range of employee childcare services with the inauguration of a new children’s daycare center at the site in Monheim, Germany.

Employee participation
exceeds

€460 million

Employee compensation and benefits

A largely standardized system of compensation for all employee groups and their regular participation in the company's financial success have long been firm features of Bayer's human resources policy. More than €460 million is earmarked for bonus awards to employees for the year 2009 under the Group-wide short-term incentive (STI) program. The individual bonuses to be paid out in the spring of 2010 will be determined for the first time according to a new system that places greater emphasis on rewarding the personal performance of the approximately 25,000 participants.

Complementing our extensive range of benefits in many countries are a variety of stock participation programs that enable employees to purchase Bayer stock at a discount, giving them a further opportunity to share in the company's economic success. Since 2005 we have offered senior and middle managers throughout the Group uniform stock-based compensation programs known as "Aspire" that are based on ambitious earnings targets and – in the case of Group Leadership Circle members – require an appropriate personal investment in Bayer stock.

Vocational training and recruiting

Vocational training and advancing the talents of prospective young employees are crucial to the company's future viability in view of demographic change and an anticipated shortage of skilled employees in many areas. Bayer therefore upholds its traditionally strong commitment in the area of vocational training. At our German sites alone, more than 900 young people again entered the vocational training programs offered in 2009 to prepare for careers in more than 20 occupations. They included 156 youngsters who were first given preparatory courses to improve basic skills. We also offer systematic vocational training in numerous other countries. For example, 16 young people entered our dual training programs in Mexico, 30 in Argentina and 35 in China.

Employees by Age Group in %

[Graphic 3.15]

Age in years	%
< 20	1
20-29	15
30-39	30
40-49	32
50-59	20
> 60	2

Bayer aims to gain the interest of talented students through the diverse career opportunities it offers, and attract them to the company at an early stage. In 2009 Bayer Group companies once again awarded more than 1,230 challenging occupational internships to students of various disciplines worldwide. Our company's student support activities helped us to recruit some 5,000 academics to Bayer companies as technical or managerial employees in 2009. China accounted for the largest number of newly hired employees with an academic background, at about 1,500, followed by the United States with 965 and India with 525.

Continuing education and knowledge retention

The average age of our employees worldwide in 2009 was 41. Central to our strategy for addressing demographic change is continuing education for employees in all age groups. In 2009 we spent more than €60 million in Germany alone to advance our employees' occupational skills and help them meet changing requirements. Supported by our activities in occupational health management, the continuing education we provide is instrumental in retaining experienced employees for as long as possible and keeping their skills at a high level.

Realigning the human resources function

In 2009 Bayer continued the global realignment of its human resources (HR) function by way of the "Transforming Human Resources" project. The aim of this reorganization is to increase the value the HR function contributes to the business and enhance the quality and efficiency of HR processes throughout the Group. With the transformation in Germany successfully completed at the beginning of 2009, the country organizations in Spain, Belgium, Mexico and Brazil implemented the new operating model during the year.

9.2 Environment, Climate Protection and Safety

Key Performance Indicators

[Table 3.37]

Category	Key Performance Indicators Health, safety and environment	2008	2009
Health and Safety	Industrial injuries to Bayer employees resulting in at least one day's absence (number of injuries per million hours worked)	2.2	2.0
	Reportable industrial injuries to Bayer employees (number of injuries per million hours worked)	3.6	3.1
	Major environmental incidents	9	13
	Transportation incidents	10	10
Emissions	Direct greenhouse gas emissions (CO ₂ equivalents in million metric tons)*	5.09	4.57
	Indirect greenhouse gas emissions (CO ₂ equivalents in million metric tons)*	3.57	3.53
	Volatile organic compounds (VOC) (thousand metric tons/year)	3.16	2.59
	Total phosphorus in waste water (thousand metric tons/year)	0.78	0.74
	Total nitrogen in waste water (thousand metric tons/year)	0.67	0.63
Waste	Total organic carbon (TOC) (thousand metric tons/year)	1.59	1.34
	Hazardous waste generated (million metric tons/year)	0.37	0.38
Use of resources	Hazardous waste landfilled (million metric tons/year)	0.08	0.09
	Water use (million m ³ /day)	1.20	1.11
	Energy use (petajoules [10 ¹⁵ joules]/year)	82.79	77.33

2008 figures restated

* as per Greenhouse Gas Protocol

Environmental protection, safety and product stewardship

Bayer has long placed great importance on protecting the environment and conserving natural resources. We are constantly on the lookout for solutions that promote growth cost-effectively without further depleting natural resources or producing more emissions or waste. We are committed to leveraging our expertise in technology, process optimization and product innovation to protect nature, the environment and the climate. For example, Bayer is developing a method that holistically analyzes, and determines ways to minimize, the consumption of resources such as energy, water and raw materials. This resource efficiency check – based on the "Bayer Climate Check" – is currently being tested in pilot projects.

To ensure uniformly high health, safety, environmental protection and quality standards, Bayer has established HSEQ management systems in all subgroups and service companies that are aligned to recognized international standards. In 2009, 87% of Bayer sites had an audited HSE

management system in place. The audits were performed according to an internal Bayer standard. Almost 40% of our production sites have been externally audited in line with international standards such as ISO 14001, EMAS or OHSAS 18001. The respective quality management systems are adapted to industry-specific quality standards.

We improved nearly all of our key performance indicators in 2009. The industrial injury rate again declined, almost reaching our target of <2.0. Emissions of volatile organic compounds (VOC), phosphorus, nitrogen and total organic carbon (TOC) also declined. Resource input decreased in 2009 due to lower production volume. Optimization of our data collection systems for energy input led to a reduction compared with the figure published in the Annual Report 2008 from 88.5 to 82.8 petajoules per year.

Group regulations
on occupational health
and safety

In 2009 there was an increase in the number of environmental incidents, including minor emissions reported in line with a voluntary internal commitment. Unfortunately, even our extensive safety precautions and training procedures cannot entirely prevent environmental incidents or traffic accidents. Any such events are carefully analyzed and evaluated so that steps can be taken to prevent a recurrence. As part of the ongoing development of our commitment in the field of occupational health and safety, we implemented a new Group regulation on transportation safety in 2009 and updated the Group regulations on occupational safety, occupational health, and process and plant safety.

For Bayer, sustainability also means systematically avoiding potential risks in the manufacture, application or disposal of our products. Product safety and compatibility therefore have top priority across all our fields of activity in all the countries where we operate. We examine all Bayer products and monitor them with regard to any potential health, safety, environment or quality (HSEQ) risks arising from their use in applications known to us, right along the value chain.

REACH:
compliance
on schedule

We are committed to product stewardship and also support the objectives of the E.U. chemicals policy (REACH), which are to ensure the safety of everyone who comes into contact with chemical products throughout their life cycles and to further improve consumer safety and environmental protection. Bayer had already pre-registered 817 substances with the European Chemicals Agency (ECHA) by the end of 2009 as required under the E.U. regulation. By the end of November 2010 we will now compile the necessary registration dossiers for substances that we use in particularly large quantities. For many of these substances, Bayer has formed registration consortia with competitors in order to share data and avert the need for additional animal studies.

Climate protection

The Bayer Climate Program, announced in 2007, addresses one of the great global challenges: climate change. It forms a cornerstone of the new Bayer Sustainability Program. The aim of the Bayer Climate Program is to find ways to protect the climate and address the consequences of climate change. In 2009 Bayer was named the world's best company in the Carbon Disclosure Leadership Index, honoring our transparent reporting on climate strategy and greenhouse gas emissions.

Improving energy efficiency is a major factor in reducing our own greenhouse gas emissions. We use the Bayer Climate Check as an analysis tool to identify CO₂ emission reduction potential at our production facilities. By mid-2010 we plan to assess more than 140 facilities and buildings that currently account for over 85% of production-related CO₂ emissions. The analysis results so far point to an energy reduction potential of 10% by 2013 relative to 2008 in the production facilities of our subgroups and service companies. The identified reduction potential is being realized through a systematic energy efficiency program that is intended to reduce our greenhouse gas emissions by 350,000 tons per year. Process innovations are another focus of our efforts to reduce greenhouse gas emissions, one example being an innovative, climate-friendly chlorine production process developed jointly by Bayer and its partners that uses some 30% less energy. In the future we aim to market this technology outside of Bayer as well as using it in our own facilities.

Bayer also provides solutions for climate protection. With energy consumption in buildings accounting for nearly 20% of greenhouse gas emissions worldwide, the purpose of the “EcoCommercial Building” lighthouse project for zero- and low-emissions structures, launched two years ago, is to help reduce these emissions. This project has been developed into a comprehensive program to bring together all the partners along the value chain, so that integrated and sustainable design concepts can be developed for commercial and public building projects.

The Bayer Climate Program also adopts other approaches, including measures such as the “ECO Fleet” program to reduce emissions caused by company cars, the use of new telecommunications technology to reduce business travel, and the improvement of energy efficiency in the IT environment.

Bayer bases its reporting of greenhouse gas emissions on the international standard of the Greenhouse Gas (GHG) Protocol. The company aims to hold total emissions to 2007 levels through 2020 despite growth in production. In 2009, direct greenhouse gas emissions fell by 10.2%, mainly as a result of process improvements and the general economic situation. Energy-related indirect greenhouse gas emissions fell by only 1.1%, mainly because of much less favorable conversion factors for the German electricity mix. The total of direct and indirect greenhouse gas emissions was down by 6.5% because of lower overall production volume, especially at MaterialScience.

The 2008 figure for direct greenhouse gas emissions published in the Annual Report 2008 rose from 4.0 to 5.1 million tons CO₂ equivalent, partly because we acquired a nitric acid facility in the United States in 2009 that had to be included retrospectively in line with the GHG Protocol.

Each Bayer subgroup has set its own ambitious climate goals for the period from 2005 through 2020. To track our target achievement more transparently, we publish detailed information on emission levels in our Sustainable Development Report.

9.3 Social Responsibility

Corporate social responsibility (CSR) forms an integral part of Bayer’s philosophy and strategy as a business enterprise. The company regards itself as part of society and therefore considers it its duty to behave as a responsible corporate citizen. Bayer’s CSR commitment is exemplified by numerous projects in many parts of the world, some of which the company has been organizing or supporting for years. In 2009 the Bayer Group provided funding of some €44 million for these activities, focusing on the fields of education and research, environment and nature, health and social needs, and sports and culture. Bayer’s diverse activities in the area of sports and culture accounted for about half of CSR spending, followed by expenditures to promote health, education and environmental protection. We continuously develop the scope of our projects and/or extend them to additional countries.

We firmly believe that a sustainable CSR commitment in these areas can make an important contribution to the viability of society while at the same time improving the conditions for our business activity and promoting our economic success in the long term.



Detailed information can be found at
WWW.CLIMATE.BAYER.COM and
WWW.SUSTAINABILITY2008.BAYER.COM

€44 million

for social projects

Education and research

Bayer traditionally places great importance on support for education and research. As an inventor company, we are particularly dependent on recruiting people with excellent scientific skills.

Support for talented young researchers and leading scientists

In 2009 the Bayer Science & Education Foundation provided financial support for outstanding scientists, high-achieving university students and dedicated school students. It also sponsored innovative teaching programs in schools. The €50,000 Hansen Family Award in 2009 went to Professor Patrick Cramer for his research into the molecular mechanisms of gene transcription, which may help in discovering new disease therapies and improving biotechnological processes. In 2009 the Foundation also presented the newly established "Bayer Early Excellence in Science Award" to three young scientists, who received €10,000 each. The recipients were Dr. Jürgen Groll of RWTH Aachen University, Germany, for the "Materials" field, Dr. Noriyuki Nishimura from the University of California, San Diego, United States, in the "Biology" category, and Dr. Tobias Ritter of Harvard University in Cambridge, Massachusetts, United States, for "Chemicals."

The Bayer Science & Education Foundation granted scholarships totaling €151,000 in 2009 to 34 gifted and ambitious students to assist them with specific study projects in the fields of natural sciences and medicine. The Foundation also provided a total of some €491,000 in funding for 51 new programs at schools and other educational institutions in communities near our sites to help make science education more innovative and attractive. Under the Bayer Climate Program, it also awarded seven scholarships in 2009 to school students participating in an international sustainability seminar in Pittsburgh, Pennsylvania, United States. In 2009 Brazil joined the list of countries participating in Bayer's educational program "Making Science Make Sense," which means schoolchildren in 12 countries are now benefiting from the commitment of Bayer employees who volunteer their time in schools and elsewhere to demonstrate experiments that illustrate the fascination and the benefits of science.

Environment and nature

Protecting the environment and nature has long been of major importance to Bayer. As a company with international production operations, we consider the judicious use of natural resources to be an important part of our social responsibility, along with environmental protection and nature conservation. In 2009 Bayer ceremonially presented Professor Eberhard Jochem of the Fraunhofer Institute for Systems and Innovation Research in Karlsruhe, Germany, with the inaugural Bayer Climate Award for his achievements in the field of energy efficiency. This accolade – the first international award for fundamental research in the climate sciences – will now be presented every two years by the Bayer Science & Education Foundation under the Bayer Climate Program.

In 2009 Bayer and the United Nations Environment Programme (UNEP) again organized about a dozen environmental projects for children and young people as part of their global partnership for environmental education. These activities centered on the International Children's and Youth Conference on the Environment in Daejeon, South Korea, which was attended by 600 participants from some 100 countries. Thanks to particularly strong interest from China, the annual children's painting competition run jointly by Bayer and UNEP received a record 2.4 million entries from 89 countries. Also within the scope of this partnership, Bayer organized the interdisciplinary scientific forum "Eco-Minds" in Auckland, New Zealand, in which students from nine countries in the Asia/Pacific region participated.

Involving young people in environmental protection

Bayer's "Young Environmental Envoys" program was expanded to include Chile, now the 19th participating country. In 2009 Bayer provided total funding of €1.2 million for projects implemented under the UNEP partnership.

Bayer launched a special environmental protection program in China entitled "Seeding for Green." Through this program, the company supports young people who are committed to environmental protection with the aim of boosting environmental awareness among the population. The program includes an environmental media award and a children's book about global warming.

Health and social needs

Bayer displays an active commitment to improving social conditions and health care in many regions of the world with the dual aim of promoting social stability in the communities near its sites and helping to solve global health challenges.

In 2009 the company agreed to provide the World Health Organization (WHO) with 400,000 tablets of its active ingredient nifurtimox annually free of charge, the objective being to develop a new therapy to tackle African sleeping sickness.

In addition we launched a unique project in Uganda in cooperation with the German Foundation for World Population (DSW) as part of our family planning program. A special "Youth Truck" is employed to reach out directly to teenagers to provide them with information on basic matters of sexual and health education and contraception. The program also involves parents and teachers. In addition, we are collaborating with organizations such as the United States Agency for International Development (USAID) and the United Nations Population Fund (UNFPA) to make contraceptives available free of charge to women who require them.

The Bayer Cares Foundation supported 42 charitable projects in the vicinities of the company's sites in Germany – and for the first time also in Latin America – with total funding of about €104,000. In this way the foundation rewarded employee and citizen volunteerism as a central feature of an active community.

In 2009 the Foundation initiated the Aspirin Social Prize to promote innovative support and consultation projects in the health care field in Germany. With this prize the Bayer Cares Foundation aims to honor specific efforts, bring social work in the health care sector to the attention of a wider public and strengthen social innovation in this area. The prize is worth €30,000 and will be awarded annually starting in 2010.

Sports and culture

Bayer has sponsored sports for over 100 years. This commitment is based on support for a wide variety of clubs in the areas of recreational, youth and disabled sports.

Bayer has also served as a patron of the arts for more than a century. The extensive program of events organized by Bayer Arts & Culture and our support for a range of clubs and societies make a significant contribution to cultural life and enhance the attractiveness of our corporate locations.

10. Events After the Reporting Period

Since January 1, 2010, no events of special significance have occurred that we expect to have a material impact on the financial position or results of operations of the Bayer Group.