

Living innovation, sustainability and values throughout the Group

Since 2004, our Mission Statement “Bayer: Science For A Better Life” has described our perspectives for the future, our strategy and our values. The values and leadership principles formulated in this Mission Statement serve as a basis for the day-to-day activities of our employees. Through dialogue with them and our external stakeholders, we aim to improve our sustainability management and align it to current challenges.

The values established in our Mission Statement include a will to succeed; a passion for our stakeholders; integrity, openness and honesty; respect for people and nature; and the sustainability of our actions. As a guideline for our corporate strategy, the Mission Statement shows our stockholders, customers and the public what they can – and should – expect from Bayer.

We have communicated to our new employees at Bayer Schering Pharma, Berlin, Germany, both our Mission Statement and the “Program for Legal Compliance and Corporate Responsibility at Bayer” (Corporate Compliance Program), a code of conduct that contains binding, Group-wide rules for our conduct in the market and toward competitors and each other (see page 30).

Our Values

A will to succeed

A passion for our stakeholders

Integrity, openness and honesty

Respect for people and nature

Sustainability of our actions

Corporate governance

Responsible corporate management (corporate governance) has had a high priority at Bayer for a very long time. The Board of Management and Supervisory Board were once again highly focused on complying with the requirements of the German Corporate Governance Code in 2006 – including in particular the new provisions introduced on June 12, 2006. As a result, we were able to publish a statement of compliance in December 2006: Bayer once again satisfies all recommendations of the Code.

In 2005 we commissioned corporate auditing firm PricewaterhouseCoopers (PwC) to review our risk management system. The report presented by PwC at the beginning of 2006 confirms that Bayer has undertaken the measures necessary to establish a suitable early warning system and that the monitoring system is suitable for identifying at an early stage developments that could endanger the existence of the company.

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- 2 Mission Statement “Bayer: Science For A Better Life”
- 3 Program for Legal Compliance and Corporate Responsibility
- 4 Corporate governance at Bayer

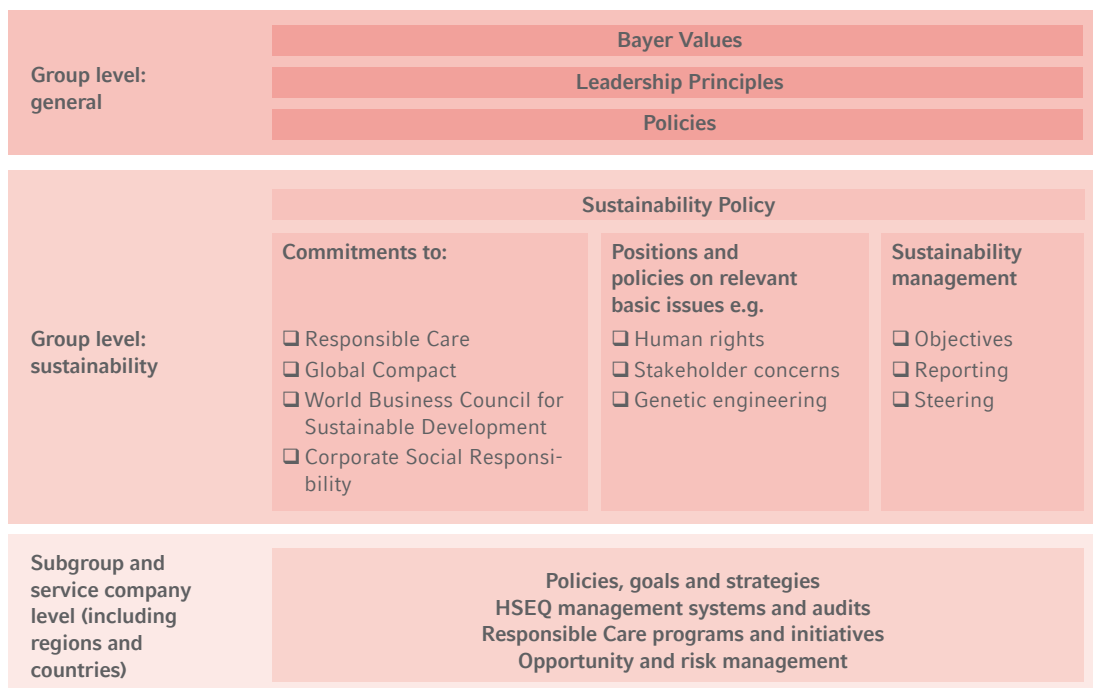
Sustainability management

Our Group-wide values, leadership principles and policies are supplemented by the Bayer Sustainable Development Policy, which lays down our sustainability strategy. The Bayer Group and its subgroups and service companies have undertaken to pursue a sustainable and value-oriented business policy, in part through their commitment to the global Responsible Care initiative of the chemical industry and to the United Nations Global Compact. We also adopted a Group-wide “Bayer Human Rights Position” in May 2007 (see page 52).

Under the umbrella of the Group-wide sustainable development strategy, objectives are established each year and coordinated between all participants. The management systems and instruments in place throughout the Group must perfectly interlock to ensure that these objectives are met. After all, consistent steering is required if opportunities are to be taken advantage of and risks avoided.

Group-wide control of this task is handled by the Bayer Corporate Sustainability Board, the most important committee for sustainability management at Group level. The Bayer Corporate Sustainability Board is made up of the members of the management boards of the subgroups responsible for research and technology and the heads of the Corporate Center departments Corporate Human Resources & Organization, Communications and Environment & Sustainability. Chaired by the Group Management Board member responsible for Innovation, Technology and Environment, this body meets regularly to jointly establish the sustainability strategy and objectives, adopt Group sustainability-related directives and decide on key initiatives such as the signing of the international climate protection campaign “Global Roundtable on Climate Change” in February 2007 and our involvement in the “3c: Combat Climate Change” initiative in January 2007 (see page 38). A cornerstone in the implementation of these decisions is the Envi-

Management of sustainability at Bayer



Sustainability management is integrated into all levels of the Bayer Group.

ronment & Sustainability Department, which cooperates closely with the sustainable development officers in the subgroups and service companies within the context of the Bayer Community Management concept: An internal Bayer Group policy governs cooperation between the various responsible parties in the subgroups and service companies through specialist committees. This ensures the optimal use of synergies within the Bayer Group and the coherent implementation of decisions.

The subgroups and service companies have established effective management systems for health, safety, environmental protection and quality (HSEQ). Also in place are systems and rules for specific requirements of individual subgroups and service companies, such as Good Manufacturing Practice (GMP) for drug products at Bayer HealthCare. Our “Health, Safety, Environmental Protection and Quality (HSEQ) Audits” Directive took effect in October 2005, according to which

the subgroups and service companies conduct HSEQ audits based on specific plans (see page 66). The holding company reserves the right to participate in selected audits and require that it be given access to audit reports.

A number of existing rules, such as the Directive on Transport Safety, were revised or replaced in the reporting period through the Community Management system. Rules governing health protection and workplace safety are particularly important, and have thus been adapted. In 2006, we also once again updated the rules concerning the storage of substances and products and process and plant safety.

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- 5 Bayer Sustainable Development Policy
- 6 Implementation of Sustainable Development at Bayer (organizational chart)

Our path to becoming a sustainable company:

	Before 2000	2000 – 2002
Strategic steps	<p>1986: “Policy guidelines for environmental protection and safety”</p> <p>1994: “Guidelines for Responsible Care in Environmental Protection and Safety” (Responsible Care initiative)</p> <p>1999: “Guidelines for Legal Compliance and Corporate Responsibility at Bayer”</p>	<p>2000: Bayer is a founding member of the U.N. Global Compact</p> <p>2001: “Guidelines for Responsible Care in Environmental Protection, Health Protection and Safety”</p>
Projects and measures	<p>1987: Launch of a DM 3 billion program to improve environmental protection</p> <p>1987: Launch of a continuing education program on environmental protection and occupational safety</p> <p>1995: Launch of the Agrovida program to improve the living and working conditions of rural laborers in Brazil</p>	<p>2000: Registration of all production sites in the Bayer Site Information System BaySIS® introduced in 1999 to determine HSE key performance indicators</p>
External evaluations	<p>1999: Bayer stock included for the first time in the Dow Jones Sustainability Index (DJSI) and the Store-brand Principle Funds</p>	<p>2001: Bayer stock included for the first time in the FTSE4 Good Global 100 and in the ASPI Eurozone Index</p>

Supplier management

The Bayer Group’s annual purchasing volume currently amounts to about €13 billion, which is distributed among approximately 40,000 suppliers. The roughly 1,000 employees of our global Procurement Community also evaluate supplier offers according to minimum standards as regards social, employee-related and ecological aspects as our Policy from 2005 stipulates.

In 2006, a cross-organizational-unit supplier survey process was initiated (see page 22), which is currently focusing on suppliers from the non-OECD countries. There we have begun surveying 143 selected suppliers about the basic principles of their sustainability strategy. These suppliers represent about 80 percent of our purchasing volume in the non-OECD countries, with the Bayer CropScience subgroup procuring many of these goods.

In addition to this cross-organizational-unit evaluation system, Bayer CropScience, for example, launched a supplier qualification project in China in 2005 that has since been introduced throughout that subgroup’s daily operations. Through this, Bayer CropScience checks which of its suppliers have acceptable HSEQ standards, and suppliers obtain feedback on their performance, suggestions for improvement and offers of training. Also in China, Bayer MaterialScience has established a team to closely check transport and distribution safety.

[www](#)

- 7 Procurement Community
- 8 Additional information on the projects of Bayer CropScience and Bayer MaterialScience in China

2003 – 2004	2005 – 2006	By 2010
<p>2003: Development of a strategy for sustainable agriculture</p> <p>2004: Formulation of a Mission Statement, Values and Leadership Principles for the Bayer Group</p>	<p>2005: Directive on Health, Safety, Environment and Quality (HSEQ) Audits</p> <p>2006: Sustainable Development Policy</p>	<ul style="list-style-type: none"> • Further systematic configuration of our sustainable development policy, e.g. on the topic of human rights • Further development of our sustainability strategy including climate change strategy
<p>2003: Definition of key performance indicators for Health, Safety and Environment (HSE) to steer our HSE performance</p> <p>2004: Sustainability Committees anchored in the Bayer Group organization, first meeting of the Corporate Sustainability Board</p> <p>2004: Organizational stakeholder in the Global Reporting Initiative</p>	<p>2005: Launch of systematic initiatives to reduce child labor in India including incentives, sanctions and the creation of educational opportunities</p> <p>2006: Launch of the Group-wide innovation initiative “Triple-i”</p>	<ul style="list-style-type: none"> • Implementation of Bayer’s new stance on genetic engineering • Extension of systematic dialogue and stakeholder engagement • Implementation of the aim formulated in Johannesburg to achieve globally unified classification and labeling of substances and preparations • Continuation of initiatives for sustainable management in the supply chain
	<p>2005: Inclusion for the first time in the Climate Leadership Index of the Carbon Disclosure Project</p> <p>2005: Bayer presented with the Low Carbon Leaders Award by the climate protection organization “The Climate Group”</p> <p>2006: German Environmental Reporting Award 2006 for the best sustainability report in Germany</p>	<ul style="list-style-type: none"> • Continual improvement in strategy, initiatives, performance and reporting with the aim of achieving recognition among our stakeholders

Stakeholder dialogue

In addition to the continuous exchange of ideas with our employees, we aim to expand and systematize dialogue with investors, customers, government representatives, non-governmental organizations (NGOs) and consumer associations in the coming years. After all, not only does their opinion of our activities have an increasingly significant impact on our business success, through dialogue with these stakeholders we also hope to gain insight into how to further increase our contribution to sustainable development and thus reduce risks.

By learning to understand what drives our stakeholders, we gain insight into the justification and urgency of their demands, as well as their ability to influence our company. In this way we prioritize stakeholder demands and use them in the definition of our fields of action. In this connection, we

orient our decisions to short- and long-term business interests – including our reputation.

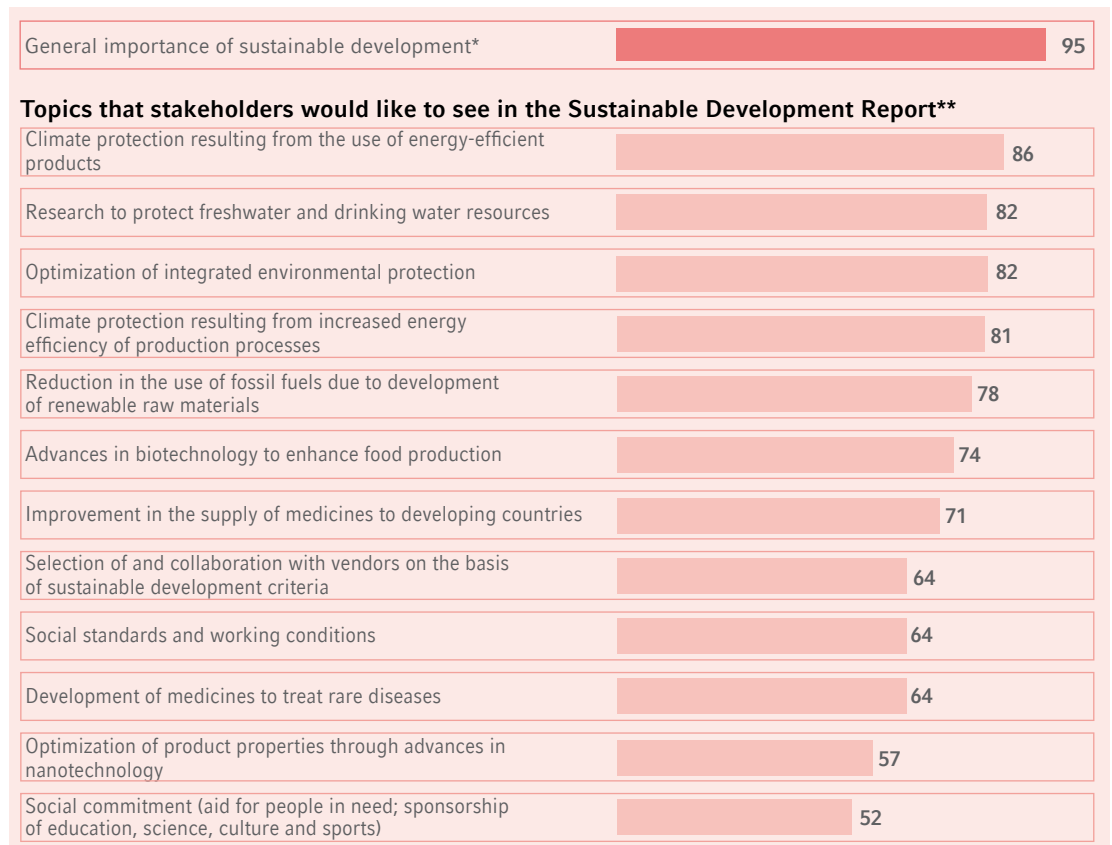
We also enter into dialogue with our stockholders each year at our Annual Stockholders' Meeting, where each stockholder is authorized to speak or make counterproposals.

Stakeholder survey:

Tremendous interest in climate protection

To further improve our sustainability management, we carried out an online survey on the topic of sustainability in the spring of 2007 that provided us with important information concerning the demands placed by our stakeholders on reporting by the company. The global project addressed the entire spectrum of social groups. In cooperation with Globalpark GmbH, we surveyed representatives of non-governmental organizations, unions,

Results of the stakeholder survey



* Percentage of answers with ratings 4 or 5, with scale ranging from "1 = unimportant" to "5 = very important"

** Percentage of answers with ratings 4 or 5, with scale ranging from "1 = should not be covered" to "5 = should be covered very widely"

authorities and media, along with employees, analysts, investors, customers, suppliers, consultants, scientists and politicians. The results of this study highlight the tremendous interest that our stakeholder groups show in this issue.

95 percent of those surveyed generally consider sustainable development in the chemical and pharmaceutical industry to be important or very important. Overall, the readers are in favor of reporting on the specified topics. In the stakeholders' opinion, there should be a primary focus on the issues of climate protection, freshwater and drinking water conservation and the improvement of environmental protection in production. More than half of those surveyed would like to see reporting focusing heavily or very heavily on the topic of corporate social responsibility.

Three quarters of those surveyed were familiar with the Bayer Sustainable Development Report. The readers pay close attention to the content, as more than two thirds said they read many of the articles in detail. With respect to the Sustainable Development Report's layout, the readers prefer a compact, concise presentation with graphics and short texts.

Stakeholder dialogue:

Group-wide policy planned

As we announced in the Sustainable Development Report 2005 (page 19), we have since begun implementing a Group-wide "Stakeholder Dialogue Directive." In this connection we received key input from the stakeholder survey. We plan to publish this document in 2007.

Stakeholder engagement:

Broadly based solutions

Stakeholder engagement at different levels is an integral part of Bayer CropScience's business approach. Bayer CropScience is committed to an open dialogue with stakeholders, consults with them and cooperates in multi-stakeholder initiatives, including public-private partnership projects (PPPs) to develop locally adapted solutions for agriculture, for example. In 2006, Bayer CropScience organized the scientific forum "Science and Society" on the topic "Caring for Future Needs." More than 100 lead-

ing scientists and representatives from different stakeholder groups participated in the discussions. These focused on global challenges such as climate change and population growth, and their resulting impact on natural resources.

An internal Bayer CropScience Policy on stakeholder engagement was drafted in 2006 with the help of all the regions. It is expected to be more widely communicated in 2007.

Participation in associations: Learning from one another

An important opinion-leading role is played by organizations – be they national, European and international industry associations or conventional non-governmental organizations. As a leading company in its industry sector, Bayer participates in numerous industry associations. We are also active in the Global Reporting Initiative (GRI). In October 2004, we became the first German company in our sector to join the GRI as an "Organizational Stakeholder," thus contributing our experience to the international discussion concerning the future of corporate sustainability reporting. Furthermore, Bayer participates intensively in the exchange of ideas between Global Compact members.

We are very pleased that the new U.N. Secretary-General Ban Ki-Moon is continuing this initiative of his predecessor Kofi Annan. We supported the establishment of the "Foundation for the Global Compact" in April 2006 with a donation. We eagerly await the announced publication of the "Business Guide to Partnering with NGOs," which we hope will provide us with further incentives for our stakeholder directive.

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- 9 Bayer CropScience forum on the topic "Science and Society: Caring for Future Needs"
- 10 Membership of associations

Focus on procurement:

Managing sustainability criteria

Bayer is one of the major purchasers of raw materials, goods and services in the world market today. This is why procurement plays a central role in the company's sustainability policy. The internal risk management processes undergo continual development and are designed to ensure that suppliers meet high social and ecological standards.



“Procurement plays a central role in a company’s sustainability policy.”

Professor Christopher Jahns from the European Business School (EBS) in Oestrich-Winkel

Bayer purchases 500,000 raw materials, products and services from 40,000 companies in 80 countries around the world. In 2006, the purchasing volume amounted to some €13 billion. These figures illustrate the key role procurement plays in the Group-wide sustainability policy. Professor Christopher Jahns from the European Business School (EBS) in Oestrich-Winkel, Germany, points out the importance of procurement for a company's value contribution, and believes that this contribution must be safeguarded accordingly. “This includes meeting specific requirements that include minimum social and ecological standards,” explains Jahns, Professor for purchasing, logistics and supply chain management. “A violation of these minimum requirements can have adverse effects on reliability of supply and on the image of the procurement department.” In addition, concrete requests come from customers to manage procurement according to sustainability criteria.

This is why Bayer takes great care when selecting its suppliers. Clear principles control cooperation with suppliers throughout the entire Group. “We expect suppliers to support the principles of our ‘Program for Legal Compliance and Corporate Responsibility’ and that they operate their business accordingly,” explains Dr. Udo Murek, spokesman for the Group-wide “Bayer Procurement Com-

munity.” “Our publication ‘Requirements for suppliers’ lets prospective business partners know that internationally recognized, ethical principles regarding human rights, working conditions, environmental protection and the fight against corruption must be upheld in areas that come under the Group's sphere of influence,” he adds.

Bayer also takes further precautions. The Bayer Procurement Community has launched a systematic cross-divisional procedure in which suppliers are questioned about the basic principles of their sustainability policy. Almost 95 percent of Bayer's purchasing volume derives from countries that are members of the Organization for Economic Cooperation and Development (OECD). “In the first step, we assume that these suppliers meet the minimum ecological and social standards,” explains Murek. “It is more difficult to establish whether suppliers from non-OECD countries with greater social and political risks meet these high standards. That is why we have started our survey with them.”

To ensure that suppliers indeed operate in accordance with Bayer's principles, the Supplier Relationship Management System (SUPREME) was introduced in spring 2003. “SUPREME allows Bayer to assess suppliers according to social commitment and ecological activities as well as to aspects of price and quality,” says Murek.

Managing purchasing risks professionally

Professor Jahns believes that this type of system is “essential to make sure that all suppliers meet the minimum standards.” He helps companies such as Bayer to identify all their supply risks and, if necessary, introduce measures to safeguard their standards. “One of the biggest challenges in this respect is to convince companies of the importance of supply risk management in the first place,” explains Jahns. He is aware that as long as there are no problems that damage the company’s image, most believe that their suppliers’ commitments are sufficient. However, Jahns is convinced that a separate supply risk management system would pay off in the long term.

Checking suppliers

The Bayer Group has already realized the expediency of introducing a supply risk management system. So that each subgroup does not have to develop its own supplier management system, the Global Community Support staff division of Bayer Business Services assumes this function for the entire Group. “When short-listing suppliers, purchasing agents must determine whether the company that wants to do business with us is committed to sustainability as we understand it,” explains Udo Murek. “If this is not the case, we usually exclude the supplier from the remaining selection process.” Criteria which we consider totally unacceptable are child labor and forced labor since they contradict our values and our Human Rights Position (see page 52).

Bayer assesses particularly important strategic suppliers approximately every three years. The aim is to establish long-term partnerships. “Before terminating an agreement with a supplier whose services are considered inadequate in the area of sustainability, we check ways in which they could improve the situation,” states Murek. “This is already a concrete component of our communications with our suppliers.” Projects by the Bayer CropScience and Bayer MaterialScience subgroups to qualify suppliers and monitor transport and distribution safety are already in place in China (see page 19). A consistent approach to suppliers and customized programs can make an important contribution to reducing child labor, even in a dif-

ficult social environment, as the programs that Bayer CropScience has undertaken with Indian cotton seed smallholders illustrate (see page 55 et seq.).

Further developing supply risk management

Risk management in the Group’s procurement departments is to be revised by 2010 as part of the “Procurement Roadmap 2010.” The roadmap will focus on whether all the supply risks have been identified, whether the safeguards are working properly, and whether Procurement’s contribution to the Group’s social and ecological objectives has to be defined more precisely. At the same time, Murek believes it is important to take cooperation with suppliers to a new level, for example by involving them in development discussions and conducting internal and external audits. Bayer aims to develop its strategies in cooperation with external partners, including the European Business School’s Supply Management Institute headed by Professor Jahns and other industrial companies.

Jahns believes that a procurement department that champions this topic could play a pioneering role: “Supply risk management has not yet been established in most companies.” Bayer has already solved an important conflict of objectives that Jahns is familiar with from many other companies – in cases of doubt when procurement departments are faced with the question of whether they should choose the company offering the cheaper product or the one that complies with ethical principles, they can now make their decision based on clear in-house specifications. “Bayer places greater value on company principles relating to sustainability than on short-term profit,” says Murek.



“SUPREME allows Bayer to assess suppliers according to social commitment and ecological activities as well as to aspects of price and quality.”

Dr. Udo Murek, spokesman for the Group-wide purchasing organization, the “Bayer Procurement Community”

Bayer Management Board member Dr. Wolfgang Plischke on climate protection and other sustainability projects:

Responsible action at all levels



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

Dr. Plischke, the issue of sustainable development is playing an increasingly important role in public debate. What particular tasks do you see for your company and for society in this connection?

We are confronted with a wide range of demands. In the current situation in particular, however, our society is faced with a major challenge – I'm talking about climate change, which will undoubtedly be the dominant ecological problem worldwide in the long term. Bayer has maintained an intensive commitment to climate protection in the past in the context of its sustainable development strategy. Nonetheless, it is essential that we contribute our expertise as an inventor company and problem-solver to work even more strongly in this area in the future. Against this background, we have established the Bayer Climate Challenge Program, which will definitely result in further innovative and economic approaches.

When do you expect to see the first results here?

I anticipate that specific findings and proposals will be presented by this fall. They will most likely involve further efficiency improvement for our processes – but I expect that they will also identify opportunities for more strongly linking successful sustainability management to our business.

What role do innovation and technology play in this connection?

A very important role. Just look at our innovative products such as thermal insulation materials in buildings and refrigeration appliances, as well as

lightweight materials in cars. Here we see considerable further development potential for a significant contribution to energy savings and resource conservation.

These examples involve Bayer MaterialScience. Do the other subgroups also offer products that will help to protect our climate in the long term?

I can give you a number of examples. For instance, products from Bayer CropScience play an outstanding role in the cultivation of many crops that are used as renewable and thus climate-friendly raw materials for a new generation of fuels: bio-fuels. In addition, our InVigor® canola seed is an ideal candidate for producing biodiesel because of its very high yields and the composition of its oil. These are merely two of many examples where climate protection plays a major part.

Environmental scientists are becoming increasingly concerned about the global water crisis, which will become more and more acute as a consequence of climate change. Are you active in this area?

Yes, and in different ways. First, we are constantly searching for means of further reducing water consumption in our production processes. And secondly, our research can also help – for example through the genetically engineered production of seed for stress-tolerant plants that require less water or can more easily cope with high temperatures. And we are also participating in the search for solutions to the global water problem beyond our own research activities.

What efforts are you specifically referring to?

I'm talking about our partnership with National Geographic, with whom we are jointly promoting innovative ideas to conserve drinking water via the Global Exploration Fund. Out of a total of 94 projects submitted, we selected nine research projects for financial support. Together with our partner, we are making available a sum of €250,000 for this purpose.

The Bayer Foundations too for a long time have played an important role in connection with the issue of support for science. Why were two new foundations recently established?

With the Bayer Science & Education Foundation and the Bayer Cares Foundation, we aim to intensify our support for education and science, as well as for social programs, and to pool our previous foundation activities. Through the Bayer Cares Foundation, we have established a special program to support charity work – particularly by our employees – in the communities where our production sites are located. The Bayer Science & Education Foundation supports school curricula and vocational training in the focus areas of science and medicine through scholarships and endowed professorships. This foundation also supports scientific symposia and important school projects at the Bayer sites.

Bayer has also been supporting scientific education outside of its foundations. Will this change?

Absolutely not, especially in light of the fact that we are very successful in this area. One example is our international "Making Science Make Sense" program. Several thousand Bayer employees in the United States volunteer their time to visit schools and demonstrate to the children how exciting science can be. Similar programs exist in Japan, the United Kingdom, Ireland and, since 2006, France as well, among other countries. In the United States we have been honored on several occasions for this initiative. In Germany, Bayer for many years has supported a prominent youth research competition. We also offer school classes the opportunity to supplement their science curricula with practical experience in laboratories specially equipped for this purpose. We plan to further expand these activities.

With a further Bayer Group initiative – "Triple-i" – you aim to strengthen the innovative capability of the company as a whole. The goal here is to use the creativity of Bayer's employees around the world for the development of new business ideas. Have you been successful in this endeavor?

Absolutely. We are very satisfied with the extremely high level of participation. More than 2,200 ideas have been submitted in the just over one year since the initiative was launched. This response underscores how well our employees are accepting the initiative. With their inspiration and ideas, they support the innovation capability of the enterprise as a whole. And since this initiative has been so successful, we will maintain it. We are planning to organize special Triple-i events and intensify our interaction with those submitting ideas.

In closing, let's talk about the numerous joint projects you organize with the United Nations Environment Programme UNEP. The focus in recent years has been on the Young Environmental Envoys and the children's painting competition in particular. Are there new activities that are especially important to you?

All of our projects are important to me, but I'd like to talk about two of them in particular. We are already looking forward to welcoming about 200 young people from more than 100 countries to Leverkusen at the end of August for a UNEP youth environmental summit. I also consider the current "Plant for the Planet: The Billion Tree Campaign" initiative of our partner UNEP to be very special. UNEP aims to plant one billion trees in 2007. Bayer will support this goal with several hundred thousand trees.

Why do you consider this initiative to be so special?

On the one hand, the planting of a tree has symbolic, life-giving meaning; on the other, it is also highly relevant to climate protection. Through this initiative, we are upholding our responsibility as a good corporate citizen. We are addressing the current challenges, and particularly climate change, as a sustainably operating and innovative company – with a view to the creation of value-added both for the company and for society at large.



Award.

Regardless of whether cell death is caused by old age or injury, stem cells are on hand as a spare parts store for most organs. They help the body replace damaged tissue and dead cells, as stem cells have the ability to continue to divide and to reproduce all the cells of an organ. This property also makes them a source of hope to me in developing new therapeutic approaches for brain injuries. I am delighted my work has received recognition in the form of the Hansen Family Award.

PROFESSOR MAGDALENA GÖTZ

Director of the Research Center for Environment and Health at the Institute for Stem Cell Research, Neuherberg, Germany; Chair of the Institute of Physiology at Ludwig-Maximilians University, Munich, Germany; received the Hansen Family Award in 2007.

