

OPEN INNOVATION

In line with the open innovation approach, MaterialScience collaborates with external scientific institutions and with start-up companies and academic spin-offs. These collaborations are mainly based in Europe, the United States, China or Japan.

Our partners in Germany include RWTH Aachen University, Germany, with which we jointly operate the CAT Catalytic Center. In China we maintain a close alliance with Tongji University in particular, while in the United States we support research activities at renowned universities.

In the scientific field, we take either a leading or an advisory role in numerous publicly funded projects. We also participate in industry associations and other organizations such as the German Chemical Society (GDCh), the DECHEMA Society for Chemical Engineering and Biotechnology in Germany and the American Chemical Society. Our innovation capability is also spurred by collaborations with customers or other industry sectors, an example being the "future_bizz" corporate network.

BAYER TECHNOLOGY SERVICES

Bayer Technology Services is a major driver of innovation for the subgroups in the areas of technology development, engineering and production. All Bayer subgroups work closely with this service company worldwide on technology solutions, particularly in the fields of process technology, engineering, and the safe and efficient operation of production facilities.

Technology Services –
an important
innovation partner for
all subgroups

📄 ONLINE ANNEX: 3-5-4

Together with the subgroups, Technology Services is developing process technology, biotechnology and systems biology platforms to support the research, development and production of new products and applications – with a deliberate focus on open innovation. Development activities at the INVITE research center, a collaborative venture with Dortmund Technical University, include work on new flexible, modular production concepts. At the Joint Research Center on Computational Biomedicine, a collaboration with RWTH Aachen, computer-based models and methods for investigating key biological mechanisms are researched and developed for clinical use together with Aachen University Hospital.

6. Sustainability Management and Governance

To us, sustainability basically means future viability and, as part of corporate strategy, is integrated into everyday procedures. We underline our mission as a sustainably operating company through our commitment to the U.N. Global Compact with its internationally recognized 10 principles and to the Responsible Care™ initiative, and through our active global involvement in leading (industry) forums such as the World Business Council for Sustainable Development (WBCSD).

Responsibility for steering and aligning our Group-wide sustainability strategy lies with the Group Management Board member responsible for Human Resources, Technology and Sustainability in his function as Chief Sustainability Officer, and with the Sustainable Development (SD) Committee chaired by the Group Head of Environment & Sustainability.

ONLINE ANNEX: 3-6-1

Integration of Sustainability at Bayer

[Graphic 3.6.0-1]



¹World Business Council for Sustainable Development

The SD Committee, on which all subgroups are represented, sets targets, draws up initiatives, management systems and Group regulations, and is responsible for monitoring these aspects. In order to operationalize the Group strategy and make it measurable, we have set ambitious non-financial targets and indicators all along the value-added chain. Further information about our target program can be found in Chapter 1.3 "Targets and Performance Indicators." Internal Group regulations ensure the implementation of our sustainability principles in business operations. These principles are realized through corresponding management systems, regulations and processes at the subgroup level.

See Chapter 1.3

www.bayer.com/sustain-commitment

ONLINE ANNEX: 3-6-2

These Group regulations include the "Sustainable Development Policy," our "Human Rights Position," the "Corporate Compliance Policy," our "Supplier Code of Conduct," the "Responsible Marketing & Sales Policy," our "Directive on Process and Plant Safety," and positions, for example, on the key issues of climate, water and biodiversity. Implementation in the subgroups is enacted via appropriate management systems, regulations and processes.

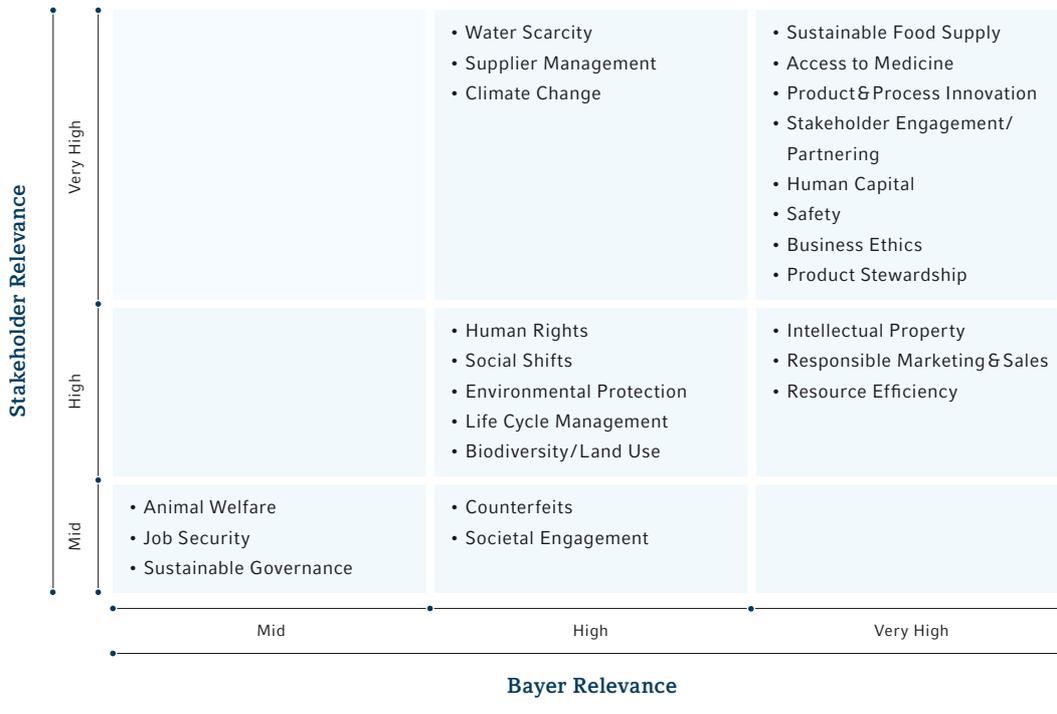
MATERIALITY ANALYSIS

We analyze and evaluate what the major stakeholders expect and require from the Group. This approach enables us to identify early on any opportunities and risks relevant to sustainability, along with key non-financial areas of activity, and to react to them.

We updated our materiality analysis during 2014. First, relevant external stakeholder sources were analyzed to identify the main non-financial issues for Bayer. The analysis was conducted with the support of an international management consultancy company to ensure neutrality in the process. The relevance to Bayer of the most important 24 issues identified in this way was evaluated in respect of sales, costs, risk and reputation by selected representatives of the Bayer holding company and the three subgroups in the form of interviews and a global online survey. Internal and external views were then entered into the following matrix for discussion and confirmation by the SD Committee. The matrix was formally accepted by Bayer’s Chief Sustainability Officer. Next year, reporting will be structured according to the new GRI G4 guidelines on the basis of the non-financial subject areas identified.

Materiality Matrix

[Graphic 3.6.1]



Definitions of these areas of activity can be found below.

📄 ONLINE ANNEX: 3-6-3

Definitions of the Major Non-Financial Areas of Activity for Bayer

[Table 3.6.0-1]

Topic	Definition
Access to Medicine	Facilitating greater access to medical products and health care for patients in need in underserved regions, e.g. through R&D, differential pricing, capacity building, IP and collaboration
Animal Welfare	Reduced use of animals where possible, commitment to welfare of animals as part of scientific R&D process
Biodiversity / Land Use	Preserving variety and variability among living organisms and the ecological complexes in which they occur and sustainable use of biophysical or ecological properties of land
Business Ethics	Ensuring good corporate governance and compliance; incl. anti-corruption, fair taxes, transparency, responsible lobbying, ethical clinical trials and ESG ¹ -oriented executive remuneration
Climate Change	Contributing to the mitigation of and adaptation to the effects of climate change
Counterfeits	Fighting risks to patients and consumers imposed by counterfeits in the areas of health care and nutrition
Environmental Protection	Reducing the environmental impact of production and processes on water, air and soil and enhancing innovative solutions that benefit the environment
Human Capital	Developing human resources and expanding position as attractive employer; comprising training & development opportunities, remuneration, benefits, recruitment and retention programs; providing work-life balance flexibility; ensuring a sound diversity
Human Rights	Respecting and promoting human rights throughout the value chain, incl. prohibition of child labor
Intellectual Property	Safeguarding IP while providing access to products and innovations; finding the right balance between the interests of innovators and the wider public
Job Security	Global commitment to job security
Life Cycle Management	Managing a product life cycle process to prevent harmful impact on the environment, incl. upfront considerations of production, use and recycling of chemical compounds
Product & Process Innovation	Innovations that meet customer and societal needs at the same time; incl. the adaptation to changes in industrial production, influenced by the rising importance of the digital value chain and related processes
Product Stewardship	Assessing and reducing possible health and environmental risks of a product along the entire value chain; incl. REACH, endocrine disruptors, active ingredients in the environment, bee health and the responsible use of new technologies (e.g. biotechnology)
Resource Efficiency	Promoting an efficient use of natural resources (e.g. water, minerals, agricultural land) and energy; switch to renewables where possible; reducing the consumption especially of valuable/scarcely resources
Responsible Marketing & Sales	Committing to ethical sales & marketing practices for products and services based on international standards and codes of practices
Safety	Ensuring occupational, process, plant and transportation safety
Societal Engagement	Demonstrating commitment to society through social investments, donations and volunteering programs
Societal Shifts	Adapting business models to relevant societal shifts in developed as well as emerging economies, incl. addressing low-income consumers, rising middle class markets, aging societies, demographic change or new behavior patterns
Stakeholder Engagement / Partnering	Engaging and partnering with relevant stakeholders at the local, national and international levels
Supplier Management	Promoting fair and constructive relations and sustainable behavior in the supply chain, incl. performance assessments based on ESG ¹ criteria
Sustainable Food Supply	Contributing to sustainable food production, supply and availability; as well as to the quality of food supply
Sustainable Governance	Integrating environmental, social and corporate governance criteria into corporate steering, based on non-financial indicators; communication of progress
Water Scarcity	Protecting water resources and promoting efficient use, especially in water-scarce regions

¹ Environment, Social, Governance

Compared with the matrix for 2012, there are several new developments that reflect changes in priorities and perceptions among our external and internal stakeholders. Individual subjects such as water scarcity, the life cycle approach, responsible marketing and sales, stakeholder dialogue, social transformation and resource efficiency have become especially important and are therefore presented individually. Other topics have been regrouped.

STAKEHOLDER DIALOGUE AT BAYER

Bayer considers itself a part of society and of public life. Society’s acceptance and appreciation of our corporate activities are therefore essential to Bayer’s reputation and business success. Involving the different interest groups among Bayer’s stakeholders is a vital element of the company’s activities with the goal of creating better mutual understanding and trust in respect of our work and products.

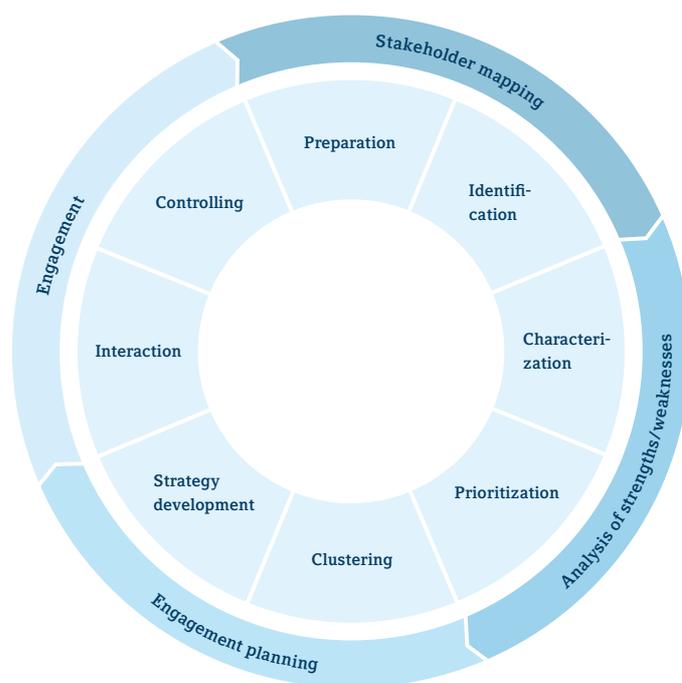
ONLINE ANNEX: 3-6-4

We believe that systematic dialogue with the stakeholders relevant to us offers a vital key to understanding their viewpoints and expectations and being able to incorporate them into our business decision-making processes as far as possible. This procedure helps us to identify social and market trends early, avoid risks, assess our contribution and thereby set focus areas for our activities.

We systematically involve our stakeholders using the Stakeholder Engagement Process. This describes how – throughout the Group and on a project-by-project basis – stakeholder groups can be identified, their expectations charted and dialogue with them steered. The engagement process requires regular review and needs to be reflected against social trends.

Stakeholder Engagement Process

[Graphic 3.6.1-1]



To ensure the long-term acceptance and appreciation of our business, we seek to link the interests of our stakeholders even more closely to our corporate strategy. It is important to approach key social and political players right from the start of a new project and to canvass their support early on and seek open dialogue. The Group has developed a guide to engaging stakeholders in strategic decision-making processes such as investment projects and launching new products. The platform that emerged from this offers tools for identifying social and political trends at an early stage and successfully incorporating them into project planning. The concept is currently being applied to various projects at Bayer, and the practical experience gathered hereby is being channeled back into further refinements.

Bayer's day-to-day stakeholder activities range from targeted dialogue at the local, national and international levels and active involvement in committees and specialist workshops, through to comprehensive information programs and participation in international initiatives and collaborations. Our stakeholder dialogue therefore includes both communication with the individual target groups and also issue-related multi-stakeholder events.

The Group also divides the stakeholders with whom it mainly interacts into four groups: partners, regulators, financial market participants and a wide variety of social interest groups. Below are some examples of the commitment Bayer has shown during 2014:

OUR PARTNERS

Customers and suppliers

Collaborative partnerships and a high level of customer satisfaction are vital for the long-term success of the Group. Each subgroup communicates with the relevant customers, has specific systems in place for measuring customer satisfaction and operates its own management systems for recording complaints. More on this topic can be found in Chapter 9 "Products, Distribution and Markets."

Sourcing products and services in differentiated markets represents a particular challenge for the procurement organizations in the subgroups. Dialogue with suppliers is very important for ensuring smooth production processes. More information can be found in Chapter 8 "Procurement and Production."

Employees

The expertise and commitment of our employees form the basis of Bayer's long-term business success. To sustain this, the Bayer Group needs modern human resource and talent management of its human resources coupled with competitive structures and processes. This includes regularly providing the workforce with up-to-date information, as well as involving employees in active and targeted dialogue. More information about internal communications can be found in Chapter 7 "Employees."

Associations, universities, scientific institutions and schools

Alongside our business activities, Bayer is also an active member of or holds leadership positions on numerous national, European and international associations and their committees, such as the Federation of German Industries (BDI; from 2015 Vice-Presidency), the German Chemical Industry Association (VCI; Presidency), the German Equities Institute (DAI; Presidency), the European Chemical Industry Council (CEFIC; membership of the Board and Executive Committee), BusinessEurope and the International Council of Chemical Associations (ICCA). Bayer also currently chairs econsense, German industry's sustainable development forum.

The subgroups are also active members of their respective industry associations. For instance, HealthCare is represented on the Executive Board of the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA); CropScience is a member of the Board of CropLife International (CLI) and its European association, the European Crop Protection Association (ECPA); and the CEO of MaterialScience is the current President of the European plastics manufacturing association PlasticsEurope.

Bayer's research and development activities are supported by an international network of collaborations with leading universities, public-sector research institutes and partner companies. More information can be found in Chapter 5 "Research, Development, Innovation."

You can find more information on Bayer's comprehensive activities in dialogue with school and university students in Chapter 13 "Social Commitment."

REGULATORS

Legislators, authorities and politicians

The framework for the company's operations is significantly determined by authorities, legislators and politicians in terms of statutory regulations and licensing, for example. The dialogues Bayer is currently pursuing with authorities and ministries at the local, national and international levels include targeted discussions with political decision-makers and active involvement in specialist workshops and cooperation projects. Our active participation in political decision-making processes is also explicitly sought here by the key players involved.

Lobbying

In its Bayer Group Regulation "Code of Conduct for Responsible Lobbying," Bayer sets out clear and binding rules for its involvement in political matters, aiming to ensure transparency in any collaboration with the representatives of political institutions. The Group's Public and Governmental Affairs Committee is responsible for the strategic planning of Bayer's political work. This especially includes developing the company's political standpoints, as well as determining the position of the Bayer Board of Management on important political issues. In 2014 Bayer's political lobbying again focused on the acceptance of products and technologies in society, on submitting proposals for creating sustainable health care systems, on chemicals and energy policy, and on climate protection. Bayer also actively promotes the protection of intellectual property in order to be able to continue developing innovative products. More information about Bayer's political principles is available on the internet.

 www.bayer.com/en/political-principles.aspx

Our liaison offices in Berlin, Brussels, Washington, Moscow, Brasilia and Beijing are key points of contact between the Group and the political arena. Bayer actively participates in existing transparency initiatives. It publishes details of costs, employee numbers and any of the other statistics required in each country, e.g. in the transparency registers of the European Parliament or the U.S. Congress. Bayer goes way beyond the statutory requirements in doing so. For instance, the Group also publishes data for countries, e.g. in Germany, where there is no legislative requirement to publish such information. In 2014 the costs incurred at the liaison offices for human resources, material and projects totaled approximately: €1.2 million in Berlin, €2.5 million in Brussels, €5 million in Washington, €0.25 million in Moscow and €1.2 million in Brasilia.

 www.bayer.com/eu-transparency-register

 www.bayer.com/us-lobbying-disclosure

In keeping with our Group Regulation, we have committed not to make any direct donations to political parties, politicians or candidates for political office. However, some associations to which we belong make donations on their own initiative, in compliance with statutory regulations.

In the United States, a number of employees use the Bayer Corporation Political Action Committee (BayPac) to make private donations supporting candidates for congressional office. Political action committees in the United States are government-regulated, legally independent employee groups. In the United States, companies are legally prohibited from donating to political candidates directly. Consequently, such donations are not donations made by the company. The BayPac contributions are regularly reported to the U.S. Federal Election Commission and can be viewed on its website.

 www.fec.gov

FINANCIAL MARKET PARTICIPANTS

Stockholders, capital investment companies, institutional investors, banks, insurance companies and rating agencies

Intensive dialogue with the capital market is a high priority for Bayer. In its dealings with analysts, investors and rating agencies, the Group aims to contribute to achieving a fair share price and an appropriate credit rating. These efforts are focused on ensuring a comprehensive, consistent and prompt exchange of information between the company and the various members of the financial community. More information about the capital market can be found in the Chapter "Investor Information."

SOCIAL INTEREST GROUPS

Non-governmental organizations, the public, local community, competitors

Bayer is involved in a variety of projects, thematic initiatives and specialist conferences at a national and international level in order to play an active role in the common task of shaping sustainable development. Alongside exchange and cooperation with NGOs and supranational organizations, this primarily involves dialogue with the public.

Among other activities, Bayer is actively engaged in the U.N. Global Compact and its initiatives, the CEO Water Mandate and Caring for Climate, as well as the Global Compact LEAD network and local Global Compact networks. We have also acted as an organizational stakeholder in the Global Reporting Initiative (GRI) since 2004.

HealthCare is an active participant in the social dialogue addressing sustainability issues and creates forums to encourage exchange and develop viable solutions together with partners. The subgroup has supported the International Dialogue on Population and Sustainable Development conference for 10 years now in close collaboration with different governmental and non-governmental organizations. The conference is a forum for exchanging experience and formulating recommendations regarding the realization of the Millennium Development Goals, which are then made available to policy-makers in development. Education and access to family planning are two of the key themes of this dialogue.

Together with the DSW (Deutsche Stiftung Weltbevölkerung – the German Foundation for World Population), HealthCare organizes an annual parliamentary evening where experts in development cooperation and representatives from politics, foreign agencies, medical research, international NGOs and think tanks discuss issues related to development policy and population growth.

CropScience wishes to bolster social discourse addressing the advantages of science and innovation in agriculture and to expand discussion with the public on the potential and challenges for current-day agriculture. One example is the new “Farming’s Future Dialogues” online discussion forum for agricultural issues. A new training program has the primary goal of teaching young people in particular more about food and agriculture. It includes visits to CropScience facilities so people can see for themselves how contemporary sustainable agriculture looks in practice, as well as offering scholarships and running a program for fostering the exchange of ideas about the future of agriculture. Further information about the program is available at www.ag-education.bayer.com.

 www.ag-education.bayer.com

The communities surrounding Bayer’s sites play a key role in our stakeholder dialogue. The Group is working at all sites on being recognized as a reliable partner and attractive employer that is aware of its social responsibility. For example, the involvement of the local community plays a decisive role in the success of any investment projects.

 www.bayer.com/tdi-project

As part of a project at the Dormagen site in Germany lasting several years, MaterialScience opened a new world-scale plant for the production of the chemical toluene diisocyanate (TDI) at the end of 2014. The company pursued an active information policy from the very early stages of planning at the end of 2008 onward. In accordance with our stakeholder guideline, MaterialScience sought open dialogue with relevant stakeholders, including environmental groups, politicians, residents, citizens’ groups and media representatives. The company issued regular progress reports for this project and set up its own website offering detailed information about the construction plans.

 www.pipeline.bayer.de

The company has long pursued an intensive information policy regarding its planned carbon monoxide pipeline between its Dormagen and Krefeld-Uerdingen facilities in Germany. As well as regular media updates, the exchange of information and dialogue with the local community play an important role. Some residents living nearby lodged a complaint against the project, which has delayed the commissioning of the pipeline. In its decision of August 2014 the Higher Administrative Court in Münster expressed no fundamental objections to the design of the pipeline in terms of safety and route. The court saw the need for further clarification regarding the constitutionality of the Pipeline Act that the project is subject to. It therefore decided to stay the proceedings and petition the Federal Constitutional Court in Karlsruhe. The dialogue forum initiated by MaterialScience to discuss the

carbon monoxide supply line also convened on several occasions throughout 2014. Contingencies were drawn up, including together with medics and other experts, to better secure the basic supply in case of any carbon monoxide disruption in North Rhine-Westphalia.

CropScience also regularly uses forums, print media and personal discussions with citizens' initiatives, representatives of the church communities and the regional press to keep its neighbors continually informed, for instance at the Dormagen, Frankfurt-Hoechst and Knapsack sites in Germany. Stakeholder dialogue is also performed at sites in other countries such as in Muskegon and Institute in the United States and Hangzhou in China.

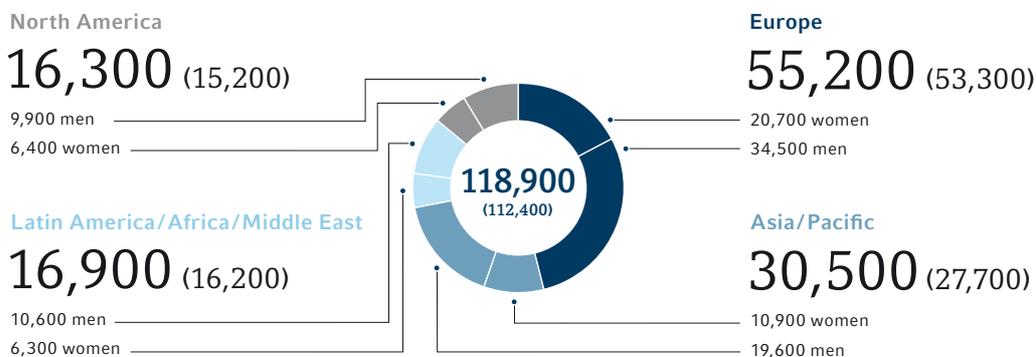
Local dialogue at the Lower Rhine sites in Germany (Dormagen, Krefeld-Uerdingen and Leverkusen) is supported by the Currenta neighborhood offices.

7. Employees

Our business success is largely attributable to the knowledge, skills and commitment of our employees. It is their ability to innovate and their willingness to embrace continuous development that drive our position as a world-class innovation company. This is clearly reflected in our new employer branding: "Passion to innovate | Power to change," which shows what the Bayer Group expects of its employees and what it can offer them. It translates Bayer's mission statement "Science For A Better Life" into the world of work. Following introduction in China, Brazil, Germany and the United States, it will be in use worldwide by the end of 2015.

Employees by Region and Gender 2014

[Graphic 3.7.1]



2013 figures restated and in parentheses; as of 2014 interns are no longer accounted for in the data; values rounded to the nearest hundred