

Moving into the future with innovations

Bayer is a global enterprise with core competencies in the fields of health care, nutrition and high-tech materials. As an inventor company, we set trends in research-intensive areas. Our objective is to offer products and services that benefit people and improve their quality of life. At the same time, we aim to create value through innovation, growth and high profitability – for the benefit of our stockholders, our employees and the community in every country in which we operate.

Our commercial success

In 2009, Bayer was successful in a difficult environment. We achieved the third-highest earnings level in the company's history, with EBITDA before special items amounting to €6.5 billion, and came close to achieving our ambitious goal of limiting the decline in earnings against the record 2008 level to approximately 5 percent. Moreover, the net cash flow improved by 49 percent to a record €5.4 billion. Net financial debt declined further than expected, dropping €4.5 billion to €9.7 billion. Net income in 2009 was €1.4 billion.

Our stock

In 2009, Bayer stock outperformed the DAX and EURO STOXX 50 indices for the third consecutive year, gaining 34.7 percent over the year. Including the dividend of €1.40 per share paid in May 2009, the share price performance was 39.8 percent. Bayer shares ended 2009 at €55.96, very close to their high for the year. A long-term investor who purchased Bayer shares for €10,000 five years ago and reinvested all

dividends would have seen the value of the position grow to €27,247 as of December 31, 2009. That corresponds to an average annual return of 22.2 percent.

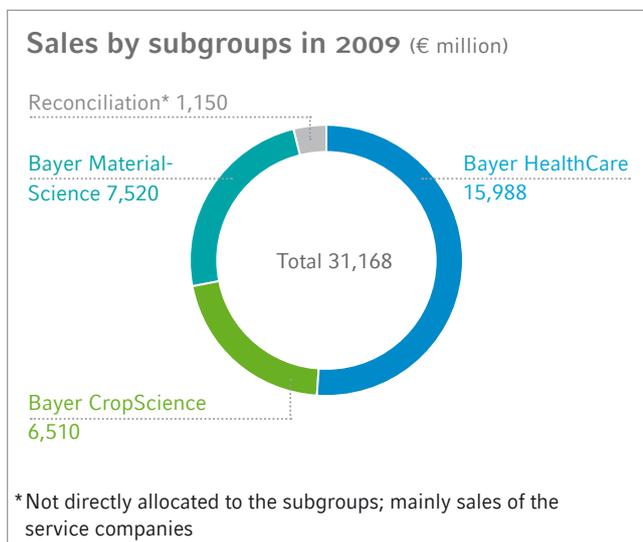
Equity was €18,951 million as of December 31, 2009, including €54 million attributable to non-controlling interests. Our stockholder structure is still very international: according to a survey of shareholdings by institutional stockholders conducted in 2009, around 28.60 percent of the identified capital is held by investors based in the United States and Canada, while 25.74 percent is held by investors based in Germany. 8.48 percent of investors are based in France, Spain, Italy and Portugal, 7.10 percent in the United Kingdom and Ireland, 4.57 percent in the Benelux countries, 4.56 percent in Austria, Switzerland and Liechtenstein, and 3.11 percent in Denmark, Finland, Norway and Sweden. All other countries together account for 0.26 percent of institutional investors. The survey covered all but 17.58 percent of the capital stock.

The Board of Management and Investor Relations Department maintain a regular dialogue with private and institutional investors, for example through the Annual Stockholders' Meeting, investors' conferences, private investment forums and roadshows. Bayer also explained its commitment to sustainability at one-on-one meetings and conferences with investors.

Following the resolution adopted at the Annual Stockholders' Meeting on May 12, 2009, Bayer AG converted its entire capital stock of 826,947,808 bearer shares into registered shares at a ratio of 1:1 in September 2009. Listing our stockholders in the share register is intended to facilitate contact with them and increase transparency.

Our acquisitions and investments in 2009

Bayer HealthCare acquired two dermatology product lines from the U.S. company SkinMedica, Inc. of Carlsbad, United States, for €43 million in 2009. Bayer CropScience acquired



Athenix Corp., United States, a privately held biotech company headquartered in Triangle Park, United States, for €286 million in 2009. In June 2009, Bayer MaterialScience acquired the remaining 10 percent of shares in Bayer Polymers (Shanghai) Co. Ltd., China, for €24 million. Our Annual Report 2009 gives an overview of the main investments and further acquisitions that were made in the period under review.

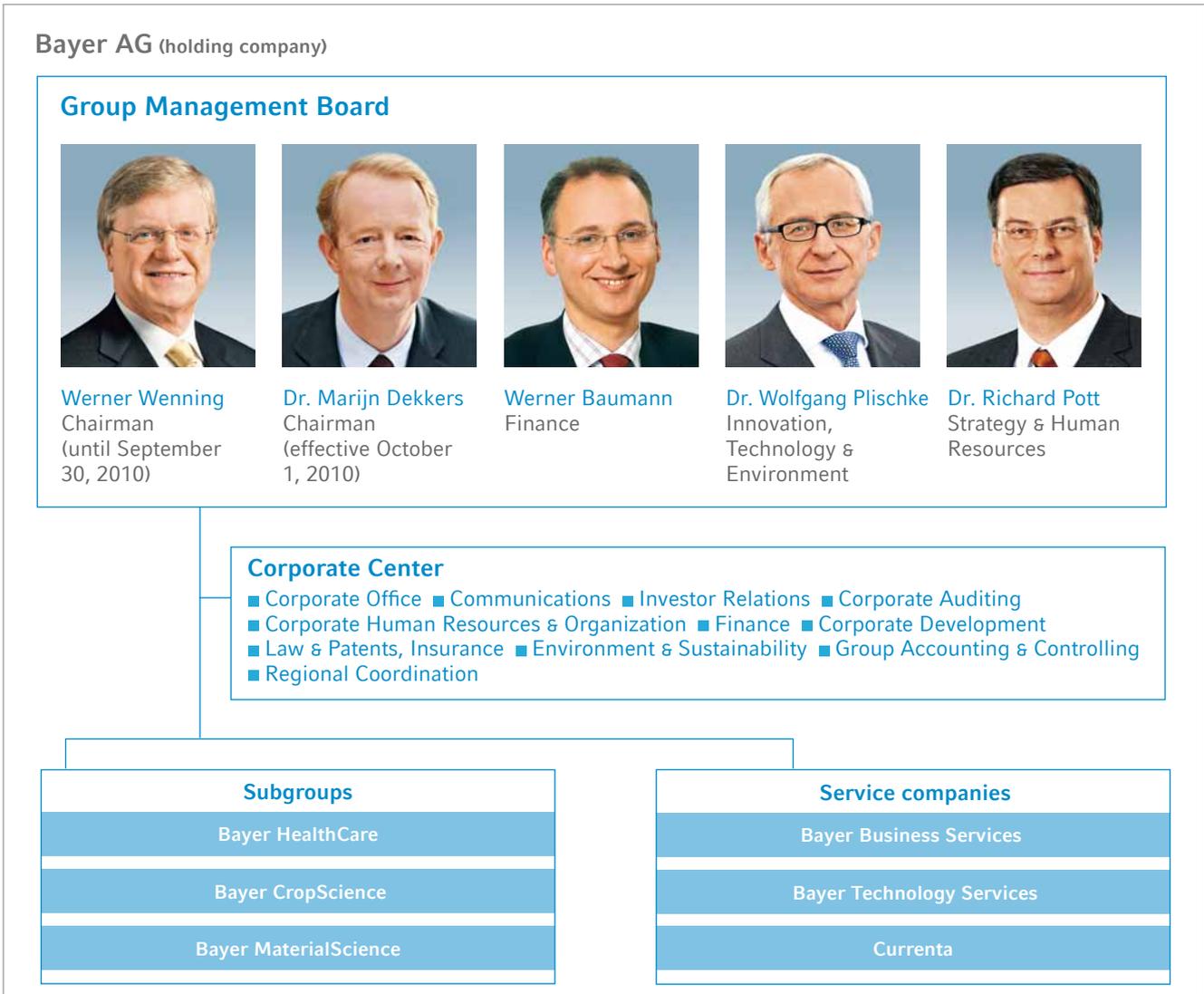
Our corporate structure

Bayer was founded in Wuppertal, Germany, in 1863 and has been headquartered in Leverkusen, Germany, since 1912. Today, the Bayer Group comprises around 300 consolidated companies on five continents. The Group is headed

by a management holding company. This sets the strategic framework for the subgroups and service companies, which operate as separate legal entities. The operational business is divided among three subgroups: Bayer HealthCare, Bayer CropScience and Bayer MaterialScience. Our three service companies – Bayer Business Services GmbH, Bayer Technology Services GmbH and Currenta GmbH & Co. OHG – provide services for both internal and external customers.

Our corporate governance

Under the German Codetermination Act, the Supervisory Board of Bayer AG comprises 10 representatives of the stockholders and 10 representatives of the workforce. In compliance with statutory obligations, the Supervisory



Board fulfilled its role of advising and continuously overseeing the Board of Management in 2009. Key elements of the Supervisory Board's work in 2009 were the ongoing development of corporate governance at Bayer, the amendments to the German Corporate Governance Code in June 2009 and revised legislation on the appropriateness of the compensation of members of management boards. In December 2009, the Board of Management and Supervisory Board renewed their declaration that Bayer AG had fully complied with the recommendations of the German Corporate Governance Code and would continue to do so in the future, with one temporary exception (see Annual Report 2009 on page 88).

Our compensation policy

The compensation of the Board of Management basically comprises four components: a fixed annual salary, a short-term incentive award on a yearly basis based on a target amount, a long-term incentive award for a three-year period based on a target amount, and a company pension plan conferring pension entitlements that increase with years of service. Remuneration in kind and other benefits are also provided, such as the use of a company car for private purposes or reimbursement of the cost of health screening examinations. The short-term incentive award for 2009 is calculated partly on the Group's EBITDA margin before special items, and partly on the weighted average target attainment of the HealthCare, CropScience and MaterialScience subgroups. The target attainment of the subgroups is measured chiefly in terms of their EBITDA before special items. A qualitative appraisal in relation to the market and competitors is also taken into account.

The compensation system for the Board of Management was already aligned to sustainability and complied with the recommendations of the German Corporate Governance Code. It also met many of the demands made by the new legislation on the appropriateness of the compensation of members of management boards, which was passed in August 2009. In December 2009, the Supervisory Board resolved on adjustments to ensure that the compensation of Bayer's Board of Management continues to comply fully with the requirements of the new legislation and the recommendations of the German Corporate Governance Code. These are described in detail on page 72.

The remuneration of the Supervisory Board is based on the relevant provisions of the Articles of Incorporation, which were last amended by a resolution of the Annual Stockholders' Meeting on April 29, 2005. This provides that, in

addition to reimbursement of their expenses, each member of Bayer's Supervisory Board receives fixed and variable remuneration. The fixed annual remuneration is €60,000, while the variable component is based on corporate performance measured by the gross cash flow reported in the consolidated financial statements of the Bayer Group for the respective fiscal year. The members of the Supervisory Board receive €2,000 for every €50,000,000 or part thereof by which the gross cash flow exceeds €3.1 billion, but the total variable remuneration of each member may not exceed €30,000. In accordance with the provisions of the German Corporate Governance Code, additional remuneration is paid to the Chairman and Vice Chairman of the Supervisory Board and for chairing and membership of committees. The Chairman of the Supervisory Board receives three times the basic remuneration, while the Vice Chairman receives one-and-a-half times the basic remuneration. Members of the Supervisory Board who are also members of a committee receive an additional one quarter of the amount, with those chairing a committee receiving a further quarter. However, no member of the Supervisory Board may receive total remuneration exceeding three times the basic remuneration. It has been agreed that no additional remuneration shall be paid for membership of the Nominations Committee. If changes are made to the Supervisory Board and its committees during the fiscal year, members receive remuneration on a pro-rated basis. Details of remuneration received by individual members of the Board of Management and Supervisory Board are disclosed in our Annual Report.

Sustainability criteria as a performance yardstick

We have started to link the variable remuneration of Bayer executives directly to success in the sustainability arena by including sustainability criteria in their annual personal performance objectives. Our aim is to ensure a close link between sustainability targets and variable compensation components throughout the Group.

Our global workforce

Bayer's success is based on the day-to-day commitment of our 108,400 employees around the world (2008: 108,600). Around 34 percent (2008: 34 percent) of them work at our sites in Germany. Globally, around 72 percent of our employees (2008: 74 percent) are in countries that belong to the Organisation for Economic Co-operation and Development (OECD). Almost 28 percent (2008: 26 percent) work in a total of 43 non-OECD countries. The largest of these is China, where we have around 7,435 employees, followed by India (3,688) and Brazil (3,370).

The Bayer Group

The Bayer Group is a global enterprise with companies all over the world. The map shows some of our most important locations.



The Bayer Group in 2009 in figures (values for previous year in brackets)

	North America	Latin America/ Africa/ Middle East	Europe	Asia/Pacific	Total
Sales (€ million)	7,705 (8,026)	4,783 (4,958)	12,968 (14,549)	5,712 (5,385)	31,168 (32,918)
Employees	16,300 (17,000)	16,000 (15,300)	54,500 (55,500)	21,600 (20,800)	108,400 (108,600)
R+D expenditures (€ million)	507 (459)	28 (36)	2,080 (2,014)	131 (144)	2,746 (2,653)
No. of fully consolidated companies	44 (45)	45 (46)	156 (167)	57 (58)	302 (316)

Bayer HealthCare

Dr. Marijn Dekkers,
Chairman of the Executive
Committee (until August
14, 2010)* of
Bayer HealthCare

Bayer CropScience

Professor
Friedrich Berschauer,
Chairman of the Board
of Management (until
September 30, 2010)*
of Bayer CropScience
AG

Bayer MaterialScience

Patrick Thomas,
Chairman of the Board
of Management of
Bayer MaterialScience AG

Strong partnerships for global health care

As a health care company, our role is to develop innovative medicines and medical equipment and bring these products to market. This task is closely linked to our commitment to achieving improved access to health care and medical care worldwide. Our business objectives require us to live up to our social responsibility.

To this end we invest continuously in the development and optimization of products which benefit people and society worldwide and improve the quality of life. Our research and development activities focus on serious and chronic diseases.

We are also involved in public-private partnerships with non-governmental organizations, government organizations and other companies committed to the global improvement of health care provision. Our main focus is on global family planning programs, the control of neglected diseases, and access to innovative medicines.

We are also committed to breaking down barriers which block access to innovative medicines by people in developing countries. Our business conduct is at all times governed by our responsibility to people, animals and the environment.

Innovations to meet the global demand for food

Agriculture is facing some major challenges. The world's population is growing relentlessly. At the same time, the growing demand for food is colliding with the restraints imposed by limited arable land and harvests at the mercy of climate change. The productivity of plants must be improved in order to ensure a sustainable supply of food worldwide.

As one of the leading companies in crop protection, seeds and plant traits, we believe that we have an obligation to work towards this goal. Every day, our technological expertise, our business skills and, not least, our products make an important contribution to achieving sustainable development. Research and development activities pursued on our own and with cooperation partners enable us to develop solutions which can safeguard and boost yields.

Sustainable agriculture can only be achieved on the basis of functioning ecosystems. The preservation of biodiversity is therefore one of our deeply rooted objectives. In many regions, particularly in Latin America and Asia, we also contribute to social and economic development by supporting local agriculture. The Food Chain Partnerships project organized by Bayer CropScience, for example, helps fruit and vegetable farmers to grow and market their produce.

High-tech materials for increased energy efficiency

Our innovative materials offer efficient solutions to effectively counteract the increase in global energy consumption. The ecological focus of our sustainable development strategy is just one aspect. Sustainability is also firmly anchored in the safety, financial performance, product development and process engineering segments of our business. The success of our company is based primarily on our people. Their happiness, protection and safety are the top priorities for us. We take our responsibility to society and to all our stakeholders very seriously. To ensure the company's sustainability, we need to deliver an impressive financial performance, and this is another cornerstone of our sustainability strategy.

We intend to play a leading role in reducing the environmental impact of our industry. Our particular focus is on reducing energy consumption and carbon dioxide emissions through innovative products and new, future-oriented applications in process engineering and development. These are projects that will benefit people both today and in the future.

We provide innovative materials for zero-emission houses as part of the Eco-Commercial Building Program. This program shows how we are actively putting climate protection into practice.

Headquarters: Leverkusen, Germany

Headcount: 53,400 (2009) 53,100 (2008)

Sales: €16.0 billion (2009),
€15.4 billion (2008)

Sites: in over 120 countries

Specific directives: Voluntary commitment to Responsible Care, 2003; Sustainable Development Strategy, 2009; CMS (Compliance Management System) Basic Policy Statements, 2009

Website: www.bayerhealthcare.com

Headquarters: Monheim, Germany

Headcount: 18,700 (2009), 18,300 (2008)

Sales: €6.5 billion (2009),
€6.4 billion (2008)

Sites: in over 120 countries

Specific directives: Voluntary commitment to quality, health, safety and environmental protection (QHSE), 2009; Product Stewardship Policy 2009

Website: www.bayercropscience.com

Headquarters: Leverkusen, Germany

Headcount: 14,300 (2009), 15,100 (2008)

Sales: €7.5 billion (2009),
€9.7 billion (2008)

Sites: in over 55 countries

Specific directives: Voluntary commitment to health, safety, environment and quality, revised version 2008

Website: www.bayermaterialscience.com

* effective August 15, 2010
Dr. Jörg Reinhardt

* effective October 1, 2010 Sandra E. Peterson

Bayer Business Services



Daniel Hartert,
Chairman of the
Executive Board
of Bayer Business
Services GmbH

Services for a sustainable future

Bayer Business Services is the Bayer Group's international competence center for IT and business services. We focus on offering services in the core areas of IT infrastructure and applications, procurement and logistics, human resources and management services, and finance and accounting. Our innovative solutions make business processes faster, simpler and more cost-efficient. In this way we make an important contribution to sustainable development at Bayer.

We are working on three initiatives – EcoFleet, Business Travel and Green IT – as part of the Bayer Climate Program. Under the EcoFleet initiative, we are looking to cut the CO₂ emissions of Bayer company vehicles by 20 percent between 2007 and 2012. Through the introduction of innovative high-definition video conferencing systems, the Business Travel initiative is providing carbon-dioxide-cutting alternatives to business trips. And through Green IT we aim to reduce the energy consumption of our three data centers by 20 percent between 2009 and 2012.

By introducing a new screen saver, which we installed in 2009 on all 85,000 PC and laptop workstations around the world supported by Bayer Business Services, and by changing PCs and laptops over to energy-saving settings we shall enable up to three million kilowatt hours of energy to be saved every year. That corresponds to a reduction of up to 1,700 metric tons of carbon dioxide.

Headquarters: Leverkusen, Germany
Headcount: 5,600 (2009), 5,500 (2008)
Sites: in over 70 countries
Specific directives: Voluntary commitment to Responsible Care by Bayer Business Services, 2003
Website: www.bayerbbs.com

Bayer Technology Services



Dr. Dirk Van Meirvenne,
Managing Director
(effective June 1, 2010)*
of Bayer Technology
Services GmbH

Innovative environmental protection worldwide

Bayer Technology Services is the Bayer Group's global technological backbone and a key innovation driver for the development, planning, construction and optimization of processes and plants.

Bayer Technology Services is involved in ensuring that Group-wide ecological and social responsibilities are met globally. This includes implementing international standards at all sites, as well as developing processes and planning and constructing plants in line with the latest technology.

We have, for example, developed the Bayer Climate Check, which provides detailed statistical data on all emissions caused by individual production processes. This instrument enables the prioritization of measures aimed at maximizing the potential for reducing emissions, and was successfully introduced at more than 100 production plants in 2009 as part of the Bayer Climate Program. On the basis of the good results achieved to date, a further 40 Bayer plants will be analyzed using this method by mid-2010, and the technology will also be offered to external companies.

Another example is BayOpX®, the Bayer Technology Services Operational Excellence Program, which is designed to identify further optimization potential, for example in raw materials consumption or plant availability.

Headquarters: Leverkusen, Germany
Headcount: 2,600 (2009), 2,600 (2008)
Sites: Belgium, Germany, India, Mexico, P.R. China, Switzerland, Singapore, United States, United Arab Emirates
Specific directives: Health, safety, environment and quality policy in BTS
Website: www.bayertechnology.com

Currenta



Dr. Klaus Schäfer,
Chairman of the
Executive Board of
Currenta GmbH & Co.
OHG

Energy-efficient chemical park operator

Currenta offers services for the chemical industry, including utility supply, waste management, infrastructure, safety and security, analytics and vocational training. This service company – a joint venture between Bayer and Lanxess – operates the CHEMPARK sites in Leverkusen, Dormagen and Krefeld-Uerdingen, Germany.

As the manager of CHEMPARK, we offer attractive conditions for production, thereby maintaining the competitiveness of our sites. We focus on rigorously optimizing technologies and processes and on the implementation of our climate protection program A++, with the aim of increasing the energy and commercial efficiency of our facilities and at the same time conserving natural resources. Occupational safety has a top priority at Currenta, which is why we launched our "Working together to improve safety" initiative in 2009. Through this we are endeavoring to further reduce the injury figures and establish a sustainable safety culture in the company. Another key area of our commitment is staff development and training. Our focus here is on our company health management system, age-appropriate workplace ergonomics, strengthening the leadership culture in the company, broadening staff qualification as part of a lifelong learning process and a future-oriented recruitment policy.

Headquarters: Leverkusen, Germany
Headcount: 5,400 (2009), 5,500 (2008) (both figures excluding trainees)
Sites: Leverkusen, Dormagen, Krefeld-Uerdingen (all Germany)
Specific directives: Voluntary commitment to Responsible Care of Bayer Industry Services, 2003; Policy on health protection, safety, environmental protection and quality, 2004
Website: www.currenta.com

* until May 31, 2010 Achim Noack