

Bayer AG

ESG Investor Update

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Transcription

Speaker:

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Thank you very much for introducing today's call and also thank you to all the participants who are joining us in different time zones. Therefore, good evening, good afternoon, and good morning and I hope you have a great day wherever you are listening in today. We brought you a couple of slides today which should give you an update on the progress we've made in the last 12 months in implementing Bayer's approach to sustainability and also an update on the conversations we had with you in December of last year where we initially introduced our approach to sustainability to the investors. Next slide, please.

Before I go there, and we will have later time in the call to talk about that as well, I want to quickly also share a bit of observations related to the current pandemic. We have been very active in the course of this year since the start when the pandemic started to appear as a problem in China all the way to today in driving our response to COVID-19. For us the health and safety of our employees but also many others in our value chain have been the clear priority and we've been able to set up, like many other companies, good measures to ensure employee health.

We also, and that goes hand in hand, have been quite active in ensuring business continuity. The good news for the categories we operated in and are still operating in is that they are essential categories. So we were able, in close collaboration with regulators and other key decision-makers around the world, to ensure that our operations could continue even where it was difficult given the pandemic response of the authorities.

We also have been working on readjusting some of our capabilities in order to aid the fight against COVID-19 and we will continue to do that as well. Claus Runge is one of the people on the call today. He leads public affairs science and sustainability but also market access for the Bayer Pharmaceuticals division and, together with Claus, we have been very active to ensure that what Bayer has to offer is also activated here.

Last but not least on the humanitarian side, we of course have, both in the health space but also in the smallholder farmer space, leveraged our foundation, the engagement of our employees around the world, in order to help people who are very much in need to be supported. So all of those things have taken quite a lot of time, but they have not derailed our sustainability strategy. If at all, they have further confirmed that we are moving in the right direction and the vision "Health for all, hunger for none" is a very good guidepost also for crisis response like the one I just talked about. Next slide.

We'll cover quite a range of topics today and I hope that we reached the right level of detail for you. We have a Q&A at the end of this call. If you have more detailed questions, you know we also offered a couple of individual conversations and group conversations to dive deeper into topics, but please let us know where you need more detailed information or give us feedback where we are too much in the weeds. I hope that we strike the right balance in the information we're going to present later today. I'm not walking you through the agenda. This slide has just given an overview of the topics that we will touch on in the next couple of minutes. Next slide.

I talked about the journey which we have been undergoing. For me the September of 2019 was a very important milestone because that's when the board of management and the supervisory board of Bayer agreed on a certain approach to sustainability. We have defined how we want to do that and communicated that to you by end of last year and we also have been working on a corresponding vision that was launched both publicly but also of course to our employees in February of 2020.

Throughout the year, as you can see on this slide, we have made a couple of very important decisions. For me the most important decision is that Werner Baumann, our CEO, agreed to take on the role as chief sustainability officer and that in our strategy conference process this summer, we fully integrated sustainability topics in our long-term discussions. So those were the two, I think, very important measures. I'm going to talk more in detail about a decision that you as the investors took in April 2020 and that is to approve a new compensate scheme that would also embolden what we are trying to do in sustainability. With that, we can go to the next slide.

Throughout the last two years we have built a team that drives sustainability. Many of the team members are on the call today, so they will also be able to answer questions later on. I already spoke about Claus Runge, you can see on this picture here, but I want to introduce to you the team that we have built.

Vera Hahn has taken on the role of heading corporate sustainability. She brings very deep experience into Bayer. She has been working on sustainability in the material science space when that topic was not on everybody's mind. She also has a deep experience in the area of finance and in the area of business in general. One of the reasons why I am happy to have her on board is that she managed our business in Russia for many years, so she knows how to drive change in a complex business environment.

Daniella Foster joined us from Hilton a little bit more than a year ago now. She leads our public affairs and sustainability work in the consumer health business. She has been a leader in the sustainability space and has driven many transformations before. Of course that helps us big-time in this division, which looks at the self-care category and that category, as we all know with COVID, has become more important. The role of it has become more evident in the discussions.

Sara Boettiger has just joined us. She is now enjoying an onboarding in a work-from-home mode, but she has been a lead sustainability expert for agriculture at McKinsey, has had a long career, and will lead public affairs and sustainability for crop science.

Klaus Kunz, who is with us today, has been the architect of the sustainable intensification approach, which is the hallmark of our crop science strategy. He comes with deep knowledge, a very long career in R&D, a deep knowledge of all the inner workings of crop protection, and therefore really helps us to drive this transformation in the business.

I talked about Claus already.

Last but not least, Monika leads our corporate innovation, the social innovation part, which is really important in this space. She also leads the foundation, which is part of our line-up as well. We also have fully adjusted the focus of our foundation in the area of “Health for all, hunger for none”, and we refocused our efforts on the low and middle-income countries rather than overinvesting in the richer countries. Next slide.

We’re now going to talk about how and why we fully integrated sustainability in our strategy. I want to start with a few slides that help to overall give you a flavour of how we think about this. Since December, our strategic architecture has matured and the great collaboration we have with our strategy team is really helpful here. You can look at this picture through different lenses, but what I want to say is, if you have a vertical and horizontal view on that, on the horizontal view you’ll see that we have a vision that is clearly focusing on being a more inclusive business and that is mainly expressed through the words of all and none. You are in a very different business strategically if you are talking about health for all versus all for health. So there is a clear shift to become a more inclusive business and to tap into profit pools that normally not have been our focus.

The purpose stays the same as it was before, science for a better life. It’s for us the engine of how we want to drive this change and we are at the intersection of a lot of scientific and technology

innovations that, if we marshal them in support of sustainability, we believe that this is also a very important ingredient for a successful business. Then, last but not least, when Werner Baumann spoke about the integration of Monsanto into Bayer, he talked about the Bayer values and that the Bayer values will be foundational for how we do business. So you find those fundamentals in the life values.

On the horizontal level you see a couple of areas we focus on group-wide and then you see the three businesses we operate in. For us sustainability is a core element as to how we want to operate in those three businesses. So it's not an add-on and that's reflected in the way this is described horizontally. With that we can go to the next slide.

You have seen this slide if you were part of the conversations in December. Just as a recap for you, we made a strategic choice to focus on being an impact generator and therefore our sustainability approach has to be one where... For us, being a successful business and advancing the sustainability agenda is both interchangeable. So we are very unapologetic about the fact that we want to generate impact and at the same time also drive new business models. I will give you a couple of examples later in this presentation, but for us this is really a business and a growth opportunity. From that vantage point, it's not necessarily only about what the sustainability team does but really what Team Bayer does in order to achieve that.

This strategic choice has a couple of consequences in terms of how we govern the strategy. For example, the full integration of sustainability-related metrics in our long-term compensation is a necessary precondition to settle the pay and also the direction of the journey in the direction of being an impact generator. This was, I think, a very important decision and it has been confirmed in the course of the last 12 months that we want to move in that direction. Next slide.

I wanted to show you this slide because for me it expresses in the best possible way why we believe we can really have an impact and why Bayer as a company is probably uniquely positioned in the sustainability space. So just a few days ago on August 22, we marked the Earth Overshoot Day of 2020. The good news is, the Earth Overshoot Day was later in the year than in all the years before because this trend that we are consuming ever more resources and well more than the globe can replenish has been a bit slowed down as a result of the global slowdown and standstill related to the reaction we all were a part of to the pandemic.

But I think the real remarkable thing is that even this radical slow-down gave us less than a month in terms of less emissions or less resource needs and of course the social consequences of the slowdown is something that everybody sees in their communities and especially the poorer communities experience in a very traumatic way as we speak every day.

So what this planetary view helps us to do is to think about, what needs to happen in order to push back the date to where it was when I was born in the 1970s when we roughly used as much resources as the biocapacity of the earth would be able to replenish? It's not a perfect model, but if you look at what the initiators of the model have described as the key areas we need to act on in order to do that, Bayer is written all over that. So deforestation is highly linked to agriculture value chains, as we all know. So forest protection but also investment in reforestation and afforestation as one of our environmental science businesses is something where Bayer has both a huge responsibility but also has started to really help to turn the tide in terms of forest protection and reforestation.

We will talk about our approach for decarbonisation. It's pretty clear that if we were able to successfully decarbonise, we'd have a chance to get to a better balance. You can see here with the value of 90 days that this is still the most important measure, but I want to come to the last measure on this slide. When you look at the investment and family planning, if we were able to live up to the global goals on sustainable development and if we were able to provide access to family planning to everyone who wants that, we could also have a huge impact on addressing some of those challenges.

So what I want to say here is that the social innovation part is often not dimensionalised in the right way. Probably the most important investment in development and the most efficient investment is in an area that is clearly in the focus of our strategy. We can make current technologies more efficient and that's certainly true in agriculture and that would help a lot to reduce the environmental impact. You may have seen investments we have done in the area of vertical farming recently. The shift of food systems to rebalance plant-based and animal-based nutrients is a very important element of a rebalanced world as well.

So when you look at Bayer's role, you will see that with our scale, with our R&D budget, and with the decisions we took on our strategy, we are equipped to provide solutions and support strategies that really help us to move in a better direction with a strong focus on innovation rather than standstill. Next slide.

There is no presentation about sustainability without the logos

of the Global Goals on Sustainable Development. I don't want to walk you through all of the details. You have all seen that and heard that a lot. What I want to say, though, is that another way to look at our systemic relevance is to realise in how many areas we can have an impact at scale. In some areas we are even the decisive factor. So I believe in the area of food system change as well as in the area of access to family planning, also increasingly in the area of water, I think we are a real, systemic, and highly relevant player.

So from that vantage point, we see we have a responsibility here. We want to live up to that responsibility. We want to reduce where we are diluting efforts to achieving the Global Goals on Sustainable Development, but we also want to dial up the game where we can really provide solutions that get us to achieving those very important and, dare I say also, reaffirmed goals when I look at the global response to COVID-19. Next slide.

In January when people still came together in Davos, a lot of slides have been shown as often in Davos, but I think the global risk report of 2020 summarises also the other reasons why we focus so much on sustainability. From a risk management perspective, it's very clear that certainly for our crop science business but also generally for Bayer, the sustainability-related risks are becoming more and more evident. We have had really good discussions for us to understand our risk exposure in many of those areas and therefore I think this is just a confirmation that, apart from this being a business opportunity, it's also a very important lens to manage risk in a different way. Next slide.

So now let's go into the details after a few slides of framing how and why we're going to go about this and let's talk about the targets. This is the topic that I think is key. Gillian Tett, who leads FT's US business who is the chief editor in the US for the FT, said that accountants will be the real heroes in the sustainability debate and I think she has a point. We spend a lot of time on defining our measures and also defining on where we are today as well as how we're going to set the targets.

You can see on this slide the main topics we are working on. Of course, there are many other things that we do in our operations, but these are the ones the board of management and our team have aligned as the key topics. We have two categories here. We have honed in on four goals that will be reflected in the long-term incentivisation and we have added a couple of goals that are of huge strategic relevance in addition to that. I will walk you through all of those goals in detail in the following slides.

The important point I want to make at the start is, we will not only measure how we are doing against these goals but also make

sure that we independently audit how we're going to do that. So for us it's really important that we apply the same rigour in governance on these topics as we would do in the financial space, but we have to recognise, also comparing us with many other companies, that that is not the easiest exercise. So we spend a lot of time and a lot of brainpower on getting that as right as we could, but I want to tell you that in our book, getting this right will only accelerate the progress in this space. Next slide.

Let me start with carbon. Of course, when you look at the carbon emissions, what you have almost in every business is that most of the carbon emissions of businesses are outside of their own operations. So basically the framework that the Science Based Targets Initiative uses and many others use is to look at scope one and two, which are your direct emissions, to look at scope three, which is your supply chain, but also your extended value chain.

In the Bayer case, the overall impact our extended value chain has is quite huge on the back of the envelope. If you look at agriculture as a sector or food systems as a sector, you easily are part of a value chain that is that of a big country, like India for example, on the back of an envelope. When you go into our immediate scope one and two, you realise that the emissions are still very high but much more manageable. Usually the lowest value is within your own factory gates and that's why we decided to focus our immediate commitment on both scope one and two and scope three.

I will talk in a second also about what we're going to do in the value chain. You see it on the slide already, but with regard to the scope of the Science Based Targets Initiative, we have aligned on an approach and we have set the targets that are related to scope one, two, and three that will also be the foundation for the incentivisation of the board of management. Next slide.

On this slide I have a bit of a comparison of the different decarbonisation approaches. So, you basically have some companies that commit to carbon-neutral growth and therefore it's forward-looking to invest in business models that do not require additional carbon emissions. Then you have companies who take carbon emissions out of their supply chain. We have decided to be amongst the quite small number of businesses that live up to the 1.5-degree target standard that the Science Based Targets Initiative has defined. Therefore, our target will be a 42% absolute reduction in carbon emissions with regard to our scope one and two emissions and then an additional roughly 12.5% reduction, 12.3% to be precise, in the area of scope three.

The reason why this is important is, you can see there many

companies out there who go even further. You probably read about Microsoft's announcement to completely invert all their carbon emissions throughout their life cycle. Google has made a similar announcement and also reported success already in that space. So, I think that a lot of the tech companies have been even more aggressive than we are, but we believe that what we are doing here is right on the curve that also the UN expects from us.

Bayer will also be part of this business ambition for 1.5 degrees Celsius that looks at the 2050 target. So, we will ultimately continue the journey of reducing carbon emissions, but the first step of being confident today to say that we will reach a minus-42 reduction of our emissions and we will offset the additional 58% of today's emissions. It's, in our book, the right way and the prudent way to go about this. Next slide.

This slide describes a bit how we're going to do that. Of course, the absolute reduction is a combination of reducing our emissions and renewable energy. Then I already talked about the additional offsetting measures. We believe that in a mix of capex and opex this will overall cost us up to 700 million until 2030. That is to say that the capex investments of course have a return on investment. So in our book, we see a trend of higher energy prices focusing on green energy and reduction of emissions. Innovating our processes will ultimately pay off.

With regard to the offsetting, we ironically hope that the offsetting is more at the higher end than at the lower end, and I will talk about this later in a bit, because one of the business models that we are investing in is a business model that helps farmers to benefit from inserting carbon emissions of third parties, companies like Bayer who make commitments like the one you see on this slide.

Now, in the scope three, we have to now reconnect with our suppliers to draft the path in which we can demonstrate the 12.3% reduction I referred to earlier. Some of those reductions will be a result of inherited action. For example, countries that may focus on renewable energies where we have a lot of suppliers, but we will also initiate quite a lot of initiatives to achieve all of that. In total, this is quite a significant contribution to decarbonisation, but it's also a slide that drives my optimism.

Having looked into this long and hard, I believe that decarbonisation is much easier than many people think. So in the light of announcements like the EU Commission's announcement on their 2030 carbon reduction targets, I can say from the years of intensive work that this is doable and this should be done within frameworks like the Science Based Targets Initiative that make

initiatives of companies comparable. Obviously, the bulk of our emissions reductions will be in the crop science business because the crop science business is also, at least when it comes to our scope one and two, the main area where decarbonisation happens. So, Klaus Kunz and his team and of course the group-wide teams are working very closely to make that happen. Next slide.

I've already talked about the business ambition for 1.5 degrees. So if you think about what happens after 2030, I believe that the UN is now setting the standard and the standard will be that companies need to reduce their gross emissions to as much as possible and the rest of it needs to be offset. So, we will further have to work in our business innovation on how we deliver crop protection, other services, and products in the ways that reduce carbon emission.

So, it requires quite a lot of more thinking, but we believe that we will learn a lot in the next ten years to then address the following 20 years. So given our thinking on carbon reduction to this point, I am quite optimistic that we'll get good solutions here that allow us to live up to the business ambition that the UN and many countries including the European Union have set for 2050. Next slide.

Now I go to the three targets that are on the left-hand side of the initial slide, which are more in the area of social innovation, but of course getting them right has also a strong sustainability effect on the environmental side of things. What you will see on the following slides is the result of us looking at how many farmers we reach today and what we need to do in order to get to the next place. That's going to be true for all the three targets.

We have done really intensive work to understand how many smallholder farmers we reach and our market in the smallholder space, compared to our market in the more advanced farmings and larger farms, is of course relatively small. Today we reach around 42 million smallholder farmers. We believe that we can reach 100 million farmers only if we add to our commercial forecast also big leaps and those big leaps are very much linked to providing access to better inputs for farmers, providing access to education for creating partnerships, for really driving digital solutions and many other things.

One of the things that drives our optimism, though, is that we have started a couple of pilots and we looked at what's possible. Based on those results, we believe that those big leaps are possible. So what we're going to do is measure our progress between now and 2030 and set, in the course of this year, targets for 2024 so that the duration of the long-term incentives is also

aligned with a clear target. All of that target-setting and measuring will be fully aligned with our external auditors, so it will be auditable and therefore all transparent for you going forward. Next slide.

I already referred to a couple of things we are doing and I also talked about that we make a bit of progress with our pilots. I think the strongest progress we have made under the leadership of D Narain in India and the ingredients of the progress are great partnerships, a very strong focus on women because the majority of smallholder farmers are female, and a focus that doesn't only focus on inputs or increasing yield but really looks at food systems in a very different way.

To some extent the COVID crisis helps to accelerate this focus. So we feel that there is even more attention, not less attention, to driving resilience of those communities and driving resilience is the underlying, uniting element of the smallholder strategy. We also hope that we will win over more partners in development finance because their goals in the smallholder space and our goals are very aligned. That is something we are actively talking about and we've made some progress in that space as well. Next slide.

On the environmental side on agriculture, I want to talk about the two KPIs we have defined that you saw on the initial slide as well. Those two KPIs are crucially important. We know that agriculture is a major contributor to climate change, but we also have seen that we can reduce greenhouse gases quite dramatically. The work we have done was looking at how much is possible in the space of reducing emissions through further no-till farming, through better crop rotation, through introducing rice that can be planted in dry conditions and not in paddies, through cover crops and all of this.

So what our scientists and our data pools and also what we learn from our digital business model tell us is, a carbon-reduction agriculture is absolutely possible at a large scale and given that the soil is one of the key drivers here is also of huge impact globally. So we feel very emboldened from what we have learned in the last year that we can reduce carbon emissions quite significantly and we focus on both crops and countries with the highest potential.

I already mentioned that we, in addition to that, also have launched the carbon initiative, which seeks to partner with farmers and others to generate opportunities for farmers to sell carbon credits, i.e. to insert carbon emissions of others. So there is a path into a net-positive agriculture when it comes to carbon emissions and there are business opportunities.

What we learned is that apart from the economic activities, digital is key for those initiatives so that the costs of confirming that carbon is actually removed from the atmosphere are not prohibitive for those business models. So digital is key here. Sensors both in the soil as well as our data pools in Climate Corp and other digital initiatives indicate that we can create a model where the focus is on rewarding the farmer for what they are doing and not on rewarding the system that controls that.

The second topic is equally exciting, the reduction of the overall environmental impact of crop protection. We are by far leading with our innovation budget in crop science and one of the big challenges in the debate about reduction of pesticides is often that the discussion is very volume-based and very abstract. We see that challenge currently in the discussions in the European Union.

Our teams, and Klaus, who is on the call today, can give you much more detail about that, have worked on a model that allows us to identify what the environmental impact of crop protection looks like and we are focusing currently on those chemicals in our portfolio that have the highest impact and how we can replace them through innovation or sometimes just through discontinuing them so that we really reduce the environmental impact and therefore make a more significant contribution to protecting biodiversity.

I said in a slide very early on that those who abstractly criticise the crop protection industry don't take into account how much food would actually rot on the fields, how big the food losses would be without crop protection and without the innovation we have in this space, but I believe we can only win this argument in the public debate and therefore improve also the overall market valuation of the crop protection category if we come up with a data-driven solution to reducing the impact in the areas societies are concerned about. Next slide.

In the area of pharmaceuticals, we focus on the topic of family planning. I already indicated that initially last year we decided to focus on that because there was a lot of pull from many organisations, people asking us that they would like to have more products from the Bayer side and better support in the space. As we looked closer at the data, we realised that the sustainability impact of family planning is probably the biggest out there. I believe that the topic of family planning deserves the pole position in the SDG discussion.

That's what we are working against. On the one hand we have a target to provide access to 100 million women in low and middle-income countries to modern contraception. We currently

reach roughly 38 million and our goal is a combination of adding additional products and partnering on social innovation to reach the target. The global gap is roughly 200 to 230 million women. So we hope with us making this bold move, we also attract others to chime in. Generally speaking, the more we drive awareness of this topic, the more we drive political intentionality behind closing the gap, the better. If we don't get there, many of the sustainability targets will be out of reach by 2030 or out of reach in its totality.

We also have made a very strong commitment over the year that focuses on Bayer even more on women's health. You've seen some of the announcements of new investments. I also want to say that we invest in long-term innovation, for example, non-hormonal contraceptive technologies, that might even help us to achieve this target in the future, but overall I'm very happy to see that women's health has become a stronger focus in the overall Bayer pharmaceutical strategy. With the majority of smallholder farmers being women, access to health for those women is one of those elements that helps us both in the crop space as well as in the pharmaceutical space. Next slide.

One of those initiatives that will help us to get to the 100 million target in addition to us investing in additional supply is described on this slide. So the partnership with the John Hopkins University, of course partners like the Gates Foundation are involved in this as well, will help us to especially target social innovations in cities. So how can we improve family planning and reproductive health in those geographies and in the cities? That is something we have been working on for quite a while. There is a link to the challenge initiative. I recommend for you to have a look at it. We believe that the impact of this programme will be quite significant. So we in the past have been solely focused on supplying product. We are now more and more part of the orchestra that drives the overall family planning discussion. Next slide.

The additional target in the pharmaceuticals division is about access to health. The shift from all for health to health for all means that we need to look harder at how we can reach 100 million people in low and middle-income countries with pharmaceutical products that we currently, from a priority perspective, sell in the better-off countries, so to speak. Claus has really brought to life these two very important roles he has to drive sustainability and to be our steward for market access and has looked at a very convoluted pricing strategy and has streamlined it in a way that on the one hand increases our opportunity to offer life-saving medicines to people who currently don't have access to medicine. I think post-COVID it's clear for everybody that half of the world doesn't really have access to many of the products we take

for granted.

At the same time, we are of course also carefully watching that this good deed doesn't get punished by influencing, for example, reference price systems and diluting our profit pools in other parts of the world. So it's not an easy approach, but we believe after having done some catch-up and some pilots that these 100 million people in low and middle-income countries will benefit from the access to medicine. It will also be a good business for Bayer. This combination, I think, is very much in line with what we try to achieve with our sustainability strategy. We want to generate additional growth and profit to what we are doing here, but we want to do it with the eyes open on those in the world that are currently very excluded from access to health. Next slide.

In the area of consumer health, we again have one of the 100 million targets. Heiko Schipper and his team, I think, really started to redefine what the self-care category is even before we were confronted with COVID. We see more and more that the self-care category is much more strategic and much more relevant and there is no place where you see it more than in underserved communities. This is the only target where we have decided not only to focus on low and middle-income countries, and the reason being that there are many countries around the world, and the one I am speaking from today to you is one of them, the US, where a lot of people don't have access to health. With self-care we believe that we can make quite a difference here.

It's very interesting. You saw the three numbers, 42 million, 38 million, and here 41 million people we reach in those categories. They all sound similar, but that is more coincidence that that happened but also an expression that we didn't have a good inclusive growth strategy in the past. So what we want to do here again it's kind of an 80-20, we want to drive access driven growth and then we want to, in addition to that, help to drive access to health through strategic partnerships. These could be in many areas.

I think there are quite a few therapeutic areas we should focus on. We had just finished with the work of the foundation a programme to develop heart health standards in Ghana and when you look at that programme and you look at the recommendation, you realise how important this category is. We are also critically important in the area of micronutrients. That's another pandemic nobody talks about and the lack of access to micronutrients is really a pandemic because it reaches many people around the world at all ages and also at all income levels.

So the two ends of the bookshelf for Bayer. Consumer health in the space is on the one hand, an investment we recently

announced in Care/Of, which is a digitally driven, highly personalised offering for improving your micronutrient access, and on the other hand with the work of the sustainability here we reach the people that don't have good access to nutritionals at all. So we are really all in in tackling this micronutrient challenge that is well known, like a threat of pandemics was well known, but the actions are not in line with what we, in this case the world, knows about that. Next slide.

On the next slide I want to talk a bit about the partnership approach. So again, in the past I think Bayer has been working more technically on partnerships. Often we have been asked to be part of something. The big shift that is led by Daniella here, and she has done it before in the hospitality industry, is for us to be kind of a spider in the web, the centre of those partnerships, and what you see here in the area of micronutrients is the design as to how we want to give an additional push to that discussion. So there is similarity to the family planning conversation. All the way back to President George W Bush when he was president, the World Food Programme addressed the micronutrient challenge for the first time, but really the concerted effort in that space hasn't reached scale.

So our ambition here is the 360-partnership approach on the one hand and to really create a more powerful consortium. As a leader in nutritionals, we believe we are very well positioned because we already have strong relationships with many of the suppliers and, on the back of that, we are now broadening into many other areas and trying to create a strong coalition. That in combination with what we will invest will really improve the access to micronutrients for people who currently don't have the means or the knowledge or both to stay healthy through balanced diet and the access to micronutrients that they can't get through the diet in their daily realities. Next slide.

I talked about the value creation topic earlier with a couple of examples. On this slide, we have just put a few on there, both in the area of access to medicine, the new carbon capture model in the area of agriculture, our work on patient access programmes in countries like India, also in the smallholder space. One of the very important things is, as we drive the resilience of smallholders, they are able to purchase Ag input products. If we do that in a way that gives them access to technology that further drives their resilience, we believe that this becomes a self-fulfilling prophecy and a mutually reinforcing opportunity.

I also want to share one example of the approval of a Chagas treatment very recently. We were asked by the FDA to focus on that because, as a result of immigration, Chagas became a bigger problem in communities in the US as well. We have invested

in that and in return we got a priority voucher from the FDA. So this looks like a classic CSR initiative, but the way the programme was designed gives us the opportunity to skip the line on one of our pharma innovations when it comes to seeking future FDA approval and that has a huge value to us given the innovations we are working on. So the very important message here is, we want to generate additional sales and profit through our focus on sustainability and we have enough examples collected over the last 12 months that drives my confidence that we can do that at a scale that is visible even for a big company like Bayer. Next slide.

The last chapter is really about the governance topic, so if you will, the G in ESG that is focusing on the sustainability-related topics. I'll walk you through a couple of those governance measures we took in the last 12 months.

I already talked about the integration of sustainability measures in the remuneration of the Board of Management and this is a decision you took as our shareholders during our last AGM, which was an online AGM, and I'm very glad that we were able to help changing the legislation and regulation to make that happen, but during the AGM you also got to vote on this long-term incentive scheme.

What we heard from you in consulting with you in the course of the last year is that 20% is like the upper limit of what the share of ESG targets should be in an overall long-term incentive programme. This is what we have reflected here. So if you look at the ESG targets, the way we will suggest to our supervisory board to split that is that 10% or half of the ESG targets will be related to decarbonisation and the other 10% will be related to the three 100 million targets. That's going to be the basis of our suggestion.

The targets are currently being defined and the normal process is that by, I would say, November we will have more clarity on exactly what our 2024 targets will be, but what you have seen in this presentation already is that we have established baselines, we have established what constitutes progress, and we have introduced an external auditing muscle to this that will allow us to define the target in a way that will be very transparent to you. So that's our attempt to not only talk about sustainability and normatively kind of postulate that we want to drive sustainability but also reward our leadership in this space.

Of course, the Board of Management is one thing. The second topic we are working on together with also our works council and many others involved is to similarly integrate sustainability in the incentive schemes of the employees at Bayer. So both will

happen simultaneously and we will have news on that in terms of finalisation before year end. Generally speaking, there will be short-term incentive elements in sustainability that come on top of that. So this is really only the long-term incentive part of it and we hope that this is a model that also many other companies are following both in terms of the amount as well as in terms of the auditability of your target setting, which of course also means you have to have highly quantitative targets rather than more qualitative targets in your scheme. Next slide.

We are committed to introduce a sustainability council. This council has started its work. It took a bit longer as a result of COVID to get to where we want to, but our first sessions under Werner Baumann's leadership have been very promising. The line-up is of course quite diverse. We have expertise from different geographies around the world. We have people who are more in the area of inclusive growth and how to work with low and middle-income country communities. We have also experts in the area of sustainable finance in here. So we have a broad mix. We introduced that council early on.

For me the key role this council has is to help Werner Baumann to both even see further in the future but also to drive the full integration of sustainability in the business strategies. And one of the elements that is in scope for this sustainability council which is a bit different than in most other companies we compared us to is our R&D investment. So our innovation strategy is also something this council will look at. Of course, all the targets I talked about will be reviewed, the progress will be reviewed, and you will hear independently from the council with regard to what they think is working and not working in terms of Bayer's approach to sustainability. Next slide.

We introduced the Bayer Societal Engagement Principle to clarify what the Bayer values would be. This is a code of conduct that changes the way we engage with key stakeholders. You are one of those key stakeholders in this engagement principle, but when you look at our work on creating transparency in our scientific networks, when you look at how we approach public policy stakeholders, what the limitations to lobbying and influencing strategies are, when you look at the different forms of dialogue we seek through civil society organisations also with a view to seek common ground rather than controversies that don't move things forward, this is all integrated in those principles.

They have been approved by the end of last year and of course they help me to drive the right behaviours across the organisation. We probably will never be perfect, but I think with the base principles we made a decisive step change in terms of how we engage with the public compared to what you historically have

learned about Bayer also in some of the litigations. Next slide.

We are integrating sustainability across the board. I already talked about the strategic planning. So it's really important that the strategy team and the sustainability team work very closely together. I already mentioned the risk management topic. The slide that I shared with you from the World Economic Forum is something that I also see reflected in many of your communications. So obviously you are concerned about the risks of your investment portfolio in the same way we are concerned about our business, but I want to spend a few minutes on the M&A process.

The M&A process is both. On the one hand, our acquisitions have positioned Bayer now in such a systemic, relevant position, but on the other hand, through our acquisitions, we also acquired quite a few problems in the area of reputation, sustainability, business conduct, and so on. We are fully integrated in all the relevant M&A processes to ensure that going forward there is a stronger voice for these concerns. The recent acquisitions that we have communicated, small and big, are ones where we have a say.

Of course, generally you will see a stronger focus on both mergers and acquisitions and already a strong focus on our investment fund Leaps by Bayer in the area of sustainability. So the sweet spot of sustainability on the one side and innovative business on the other side is one where we will continue to pay a strong focus, but in the process, in the due diligence, conduct and sustainability have now a much different focus and of course that's a learning you would expect that we had based on the experience we collected in recent months. Next slide.

Last but not least, I want to share a bit of the external view on Bayer including some of the data of the Bayer reputation. The first one is one you know probably better than we do. We of course follow all the ESG rating agencies in the same way you do. One of the challenges we have here is that in some areas we are worried about the inconsistency of the different rating agencies and the way they look at things. So what we would like to see is a stronger convergence on the rating agency side and we would also like to have a different dialogue about some of the standards of the rating.

I'll give you one example. From looking at all the data, I cannot accept that one of the raters believes that GMO per se is bad. This is something... Neither the EAT-Lancet Commission on the Future of Food, which published a report in January of 2019 nor even the Papal Academy of Sciences of the Vatican sees it that way, but there is still this underlying, I want to say, more moody,

more reputation-driven view of some of the sustainability topics that is a challenge. So, I generally believe that we have to make sure that we live on the same planet, we look at the same problems, that the rating agencies are not completely divergent. We have those conversations. We also have started to publish where we disagree with them.

On the ranking side, I believe this convergence is now about to happen. There was a really encouraging announcement just this week and I can only encourage that the different ranking and reporting standards converge to a place that allows us to better understand what the expectations are and you to invest much less time in just comparing results and rather focus more on how this business transformation is really happening. So, we are looking at both and of course my personal KPIs are very much revolving around internally working on improving our ratings both in terms of what we are doing in sustainability as well as how we are perceived by the public. Next slide.

This is a slide that I want to share with you. It's one datapoint out of Bayer's global brand ranking. We will, going forward, be more transparent about our global brand ranking results, but the reason why I wanted to show you this slide... This is data which is representative. It's a high-quality survey that we are doing for many years that is from spring of this year. And what we see here is that the topic of social and environmental responsibility is now only second in the eyes of the people in almost every country to the view on economic success. So that was very encouraging for us because it further confirms that a strategy that seeks to combine the sustainability topic and the business direction and strategy topic is the way to go also in the eyes of people around the world and certainly we heard those signals from you as well.

I want to say that overall we have made progress in the Bayer reputation quite significantly compared to 2019 and also not only as much as the categories we are operating in. So we have done a lot of triangulation. I think overall Bayer's reputation has improved. The reason why it has improved is, I think, partially the shift in our litigation strategy in 2019, partially the focus on our sustainability strategy, and partially in the area I'm talking about here, the overall effect of COVID and the understanding of larger parts of the world's population that we can't just talk about all of the challenges that I touched on today, that we really have to act.

So we feel quite good about the improvements, but we also know that in order to further strengthen our reputation, we have to continue on our journey to reduce the controversies we are

confronted with. That's why the dialogue with people who are criticising us is so critical and such a critical element of our public affairs and communication and stakeholder engagement strategy. Next slide.

This is the slide that should summarise what I shared with you in the course of the last hour. Basically you see the areas that we believe have been the most relevant areas where we have been moving to deliver against our committee, but I don't want to walk you through all of them. I'd much rather leave the time for discussion with you. As I said earlier, and we can go to the next slide, I have a couple of my team members with me today. So during the Q&A, I also, wherever its suitable, will ask my colleagues to join in and I want to thank you for spending this hour with me. Thank you very much for your attention and I look forward to your questions.

Operator Ladies and gentlemen, at this time we will begin the question and answer session. If you have a question, please press the star followed by the one on your telephone. If you wish to cancel your request, please press the star followed by the two. If you are using speaker equipment today, please lift the handset before making your selections. One moment for the first question, please. The first question comes from the line of Joel Jackson with BMO Capital Markets. Please go ahead.

Joel Jackson Hi. Good afternoon. I have two questions. I'll ask them one by one. So my first question is, you talk about having a goal of reducing crop protection impact on the environment by 30% by 2030. Can you talk about your methodology to measure the environmental impact of crop protection chemicals and what are some of the near-term examples of the levers here to reach this target?

Matthias Berninger Joel, I can do that, but I know somebody who can be even better at that and that is Klaus. Please go ahead, Klaus.

Klaus Kunz Yes. Thank you very much and thanks for asking that question. We take a little pride in the fact that we manage in a real, very nice collaboration, I would call it a co-development with many universities, to flesh out a model to measure environmental impact which I think is much better than anything which was out there so far. It's taking into account the properties of active ingredients. It's taking into account the application scenario, the volumes, the cropping system, and the country and it gives us the opportunity to zoom in to a given crop in a given country and to see which of the pesticides applied in that crop country really contribute to a high impact.

So it covers a large range of inputs. Actually we submit dossiers

of 50,000 to 100,000 pages and it boils this down but in a way which maintains the accuracy of the information into a number, which gives you an idea, but it's the impact of an individual substance contributing to the overall impact of pesticides in that given crop. It helps us also to understand, in which crops is the impact actually particularly high? So we still have countries where we have a lot of generic active ingredients, old active ingredients, which have come with a much higher impact, particularly old insecticides.

It gives you also an idea that some molecules which are used at high volumes, especially herbicides and especially a particular herbicide, actually have a very low environmental impact compared to other molecules applied in the same crop and country. So if I would like to share one highlight from our first zooming in to all those crops and countries, it's the fact that if you look into corn in the US and if you look at how we have seen, based on that measure, the contribution of active ingredients to the overall environmental impact, the molecule which contributes by far the highest volume, which is glyphosate, does almost not contribute to the overall environmental impact. That's an interesting outcome. I think for us it's extremely important to say that that measure and that methodology was developed by a University of Copenhagen in the lead and others, so really not by the industry but by externals who have a very critical look on pesticides.

And maybe the other thing I would like to mention is that we have not finalised the analysis, but we are almost close to say that already in our R&D operations, particularly in research when we look for new molecules, we have already implemented criteria which almost perfectly match with that environmental impact target reduction. So we feel that the portfolio we have and the technologies which we have, which will also include digital precision application, seeds and traits technologies, biologics as alternatives to chemical crop protection... The combination of those portfolios will help us to achieve this 30%. Did that answer...

Joel Jackson

That's helpful. Excuse me. Sorry.

Matthias Berninger

No. I just wanted to ask if that was a sufficient answer.

Joel Jackson

Yes. It was sufficient. Thank you. So my second question would be, so you have the sustainability council that you've launched a few weeks ago. So what should we expect as the first actions of the sustainability council? If we look a year out, three years out, five years out, what would be success or lack of success from that council in your mind and how will we judge it and how will you communicate to investors?

Matthias Berninger

For me the biggest success would be if our innovation strategy

is in full service of the sustainability-related needs of the Group so that we don't just look at it as our status quo but also as our future. The second success is that you will see that the inclusion of sustainability in our operations runs deep in the organisation so that the council stimulates the right conversations with the leaders and the leadership teams to drive this transformation, which is a transformation for Bayer. The third thing is, they all have very specific expertise in certain areas, so to really leverage that expertise.

So as an example, Carolyn Miles, who for many years led Save the Children... She has been working on the health situation of women and girls for a very long time. Having somebody like her helping us to better understand that there is a difference between good intentions and doing good, i.e. to really design our programmes in a way that works... This is, on a very technical level, what we would also see in our programmes.

The most important thing this council does is, it brings everybody together so the different divisions and all the players in the place can break through silos. So they make connections that we sometimes don't see even though we are a highly matrixed organisation. That would be a few. I also want them to step on our feet if we move out of the territory of impact generation, for example, into Corporate Social Responsibility. So if what we are doing is not living up to our strategic intent, I hope and I believe the council will make that pretty clear. The days where council members are voted off the island because they criticise the company are also over, I think, generally in business but most certainly in Bayer.

Joel Jackson

Thank you very much.

Matthias Berninger

You're very welcome.

Operator

The next question comes from the line of Frank Wagemans with Achmea Investment Management. Please go ahead.

Frank Wagemans

Hello. Good afternoon. First of all, many thanks for the very clear presentation. It's very good to see that you are stepping up efforts and taking the next steps. I have one specific question in regards to pricing and access. You focus on an equitable pricing approach, but also we see sector-wide that it's getting more common that it's being practiced although there's often one thing lacking and that's transparency. So how do you aim to be also transparent to shareholders, stakeholders worldwide, that you actually implement such an equitable pricing approach? Thank you.

Matthias Berninger

Thank you for the question. If you are okay with that, I would ask the Claus with a C to answer that question.

Claus Runge

Yes. Thank you, Matthias, and thank you, Frank, for the question. So it's a very relevant one. As you rightfully say, there's a broader movement within the pharmaceutical business to broaden access by means of applying equitable pricing approaches. One indicator that helps, let's say, increasing transparency around the activities taken by pharma companies is the Access to Medicine Index. On this one, rightfully Bayer was mentioned as being not at the forefront of this movement, but we will definitely catch up with the activities that we've implemented this year and we're sharing the progress we have made and continue to make on a regular basis with the ones who host the Access to Medicines assessments and make it transparent to them.

I can say it because it's also mentioned in the slide deck that Matthias has shared with you just a minute ago that the roll-out of this approach has been pretty successful. We've mentioned here that a number of our core products are now enjoying a higher pricing flexibility in low and middle-income countries. So for the first time we are able to gain reimbursement or partial reimbursement for some of our products in countries like Senegal, Kenya, India, etc. Secondly, we also report progress on patient affordability programmes where we have massive inclusion for some of our programmes in the cardiovascular space, for example, in India with tens of thousands of patients potentially gaining access and thereby helping us to create inclusive growth.

So coming back to your point, we have the Access to Medicines Index as being one means of being transparent. We share the progress on many of those programmes on social media, etc. It is in the nature of things that disclosure of net prices is very difficult given that we also have to acknowledge that many countries apply referencing rules that undermine their ability to pay by referencing poorer countries, but we have measures in place to safeguard this kind of information. Thank you,

Frank Wagemans

Yes. Thank you.

Operator

The next question comes from the line of Laura Bosch with Robeco. Please go ahead.

Laura Bosch

Hi. Good afternoon. This is Laura Bosch from Robeco. First of all, thank you very much for the presentation and giving us such a comprehensive update. I have a question regarding the updated vision of the company of "Health for all and hunger for none" and your clear commitment to SDG2 of zero hunger. So we heard about the great work that you've done in terms of aiming to reach out to 100 million smallholder farmers in low and middle-income countries, but I have a more fundamental question. So how did you link this ambition with your overall business

strategy in terms of expanding Bayer's presence in terms of your crop protection business in these low and middle-income countries where food security still is a prevalent issue? Thank you.

Matthias Berninger

Laura, thank you for the question. Perhaps I'll take a first step at it. So generally speaking, those smallholder farmers are the backbone of the nutrition and the food supply for the people living in the low and middle-income countries. They may be small in size, but their impact is huge. Also, generally speaking, smallholder farmers are very successful businessmen because they literally are able to get something out of nothing. We have been much more focused on those farmers, both on understanding them as well as helping them in recent months. A very visible example was our engagement in fighting the locust challenge in East Africa. There's another big challenge, the fall armyworm, on the African continent that literally kind of takes food off the plate as we speak. So we will be much more hyper-aware when it comes to the challenges for smallholder farmers.

A big one is certainly how to deal with changing environmental patterns like rainfall and extreme weather events while also, in the locust case, climate-related insect pests that they have to deal with. For us it's crucial that we try to help them as much as we can, which includes access to the best seeds possible both in the raw crop space as well as in the vegetable space. The team is trying to look at all kinds of options here and wherever we don't see an immediate ability of the business to help, we have the Bayer Foundation that invested also heavily in helping smallholder farmers during COVID to help driving those changes.

Lastly, on the engagement side, there will be the UN Food Systems conference next year and that's one where we hope that both the business community as well as the NGO Community can start to work together more effectively because currently we are fighting over a lot of topics rather than agreeing on the ones that we both know smallholder farmers and their communities need. We need to look beyond economic aspects. So health is a crucial one and women's health is the winning proposition to support smallholder farming resiliency.

Operator

If you would like to ask a question at this time, please press star followed by one on your touchtone telephone. The final question comes from the line of Claire Richards with Church of England Pensions Board. Please go ahead.

Clare Richards

Hello. As others have said, thank you very much for an informative presentation. It's interesting in particular to see the level of Bayer's climate ambition and to consider the achievement of that in a competitive, cost-effective way will be dependent in no small

part on the wider regulatory environment. Matching that together with the commitments that Bayer has put in place on transparency and building trust with stakeholders, I wonder if you could say a little bit about what your plans might be to undertake a review of the company's climate policy positions, which at the moment are expressed in quite a high-level way, to review those and also to look at how those align with those of the industry and associations of which Bayer is a member? So that question is about the political lobbying specifically around climate issues but also perhaps more broadly.

Matthias Berninger

Claire, thank you for the questions. Generally speaking, what I find very difficult is that part of the business community that provides lip service to the Paris agreement but then isn't able to live up to the content of the Paris agreement in their own immediate supply chain, let alone in their own broader value chain. So we are pushing very hard both in the trade associations but also in conversations with other businesses, peer companies, and beyond to basically put your money where your mouth is when it comes to climate change. And therefore also there's clear alignment with the vanguard in this conversation, so with the few companies that really commit to the 1.5-degree target.

So that's how we want to express our position on climate. No matter whether it's climate or the area of crop protection Klaus talked about or also some other practices related to health, we will be very clear and we are very clear in trade associations where people try to rally around the lowest common denominator. So in our conversations with the large trade associations where we have influence, we make pretty clear that we don't support dilutive activities which don't go in the right direction and that is true for the US but also for those in Europe.

At the same time, we will be very transparent also with political stakeholders and NGOs that the solution of decarbonisation leading to deindustrialisation will not help anybody. That's what we have learned out of COVID. Even the radical standstill doesn't get us to where we need to get to. We need to have a climate where innovation is actually not only tolerated but actively sought after and that's the part that also needs to be in the conversation. So we strengthen, especially on the trade association side, those forces who work on how to get there rather than on trying to find a problem to every solution.

We will be more transparent on our trade associations going forward, but very honestly, for me the focus was that the Bayer position to be in line with Paris and to radically decarbonise our value chain first needed to be established in the business. I think

very often we focus on all kinds of papers and websites. For me, changing the business here was more important than getting every public statement in line with that. I think it's pretty clear where we are in terms of supporting quite transformative climate action.

Operator Excuse me, Matthias. There are no further questions at this time. Please continue with any points you wish to raise.

Matthias Berninger I think the only point I can raise is to thank you for participating for such a long time in this call. I know you all have very busy days as well. Emma, many thanks for moderating today's call. I wish you all not only a wonderful rest of your day but also that you stay safe and healthy because my prediction is that the next couple of months will be quite challenging in many parts of the world or remain quite challenging in places like where I live. So please take good care of yourselves and have a wonderful day.

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