

Bayer AG

Pharmaceuticals Germany ETR:BAYN

ESG Risk Rating

29.9

Updated Apr 25, 2022

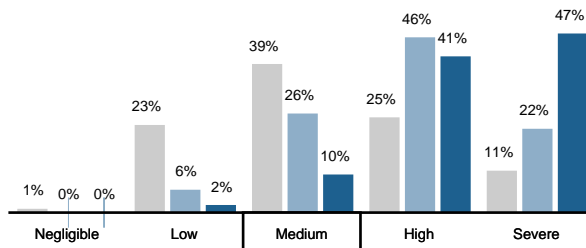
+1.3

Momentum

Medium Risk



ESG Risk Rating Distribution



ESG Risk Rating Ranking

UNIVERSE	RANK (1 st = lowest risk)	PERCENTILE (1 st = lowest risk)
Global Universe	9244/14667	63rd
Pharmaceuticals INDUSTRY	297/957	32nd
Pharmaceuticals SUBINDUSTRY	54/453	13th

Peers Table

Peers (Market cap \$42.8 - \$65.3bn)

	Exposure	Management	ESG Risk Rating
1. GSK Plc	48.2 Medium	64.9 Strong	18.9 Low
2. Takeda Pharmaceutical Co., Ltd.	49.4 Medium	53.9 Strong	24.6 Medium
3. Daiichi Sankyo Co., Ltd.	49.1 Medium	47.1 Average	27.5 Medium
4. Chugai Pharmaceutical Co., Ltd.	44.3 Medium	36.4 Average	29.3 Medium
5. Bayer AG	66.3 High	58.5 Strong	29.9 Medium

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ESG Risk Analysis

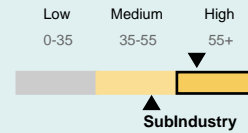
Exposure refers to the extent to which a company is exposed to different material ESG Issues. The exposure score takes into consideration subindustry and company-specific factors such as its business model.

ESG Risk Exposure

66.3 **+4.4**

High Momentum

Beta = 1.35



Bayer's ESG exposure is driven by the unique features of its business model, namely its agrochemical business. By acquiring Monsanto in July 2018, Bayer inherited certain risks typical of agrochemical companies. Therefore, Bayer not only increased its exposure to Emissions, Effluents and Waste, and Carbon Own-Operations, but it also acquired a controversy related to Monsanto's non-selective herbicide, Roundup, which has negative impacts on stakeholders and poses severe risks. This idiosyncratic issue, Social Impact of Products, which contributes 12% of Bayer's overall exposure, significantly increases legal (exponentially increasing the trend of liability lawsuits filed against Bayer), regulatory (uncertainty around glyphosate licensing in the EU) and operational risks (Roundup is estimated to account for 8% of FY2020 revenues).

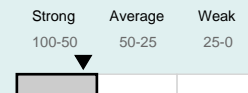
The company's overall exposure is high and is significantly above subindustry average. Carbon -Own Operations, Emissions, Effluents and Waste and Product Governance are notable material ESG issues.

Management refers to how well a company is managing its relevant ESG issues. The management score assesses the robustness of a company's ESG programs, practices, and policies.

ESG Risk Management

58.5 **+1.3**

Strong Momentum



The chairman of Bayer's board of management acts as the chief sustainability officer and the company reports that 20% of executives' Long-Term Incidents are linked to sustainability goals. Regarding its ESG issues, 51% of Bayer's production sites have been externally certified according to credible quality and safety standards, adding an extra layer of assurance to its quality management system. Bayer also has a strong programme regarding environmental management systems. Concerning Roundup, the company developed a "five-point plan" to face the remaining and future glyphosate related litigations in the US. As part of the plan, Bayer committed to substitute Glyphosate based products from the US residential market with a new version which would not include glyphosate as an active ingredients. The new formulation should be available at the beginning of 2023.

The company's overall management of material ESG issues is strong.

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Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Rating.

Issue Name	ESG Risk Exposure Score Category	ESG Risk Management Score Category	ESG Risk Rating Score Category	Contribution to ESG Risk Rating
Social Impact of Products Significant Events 	8.0 High	0.0 Weak	8.0 Severe	26.8%
Product Governance	12.5 High	76.3 Strong	4.9 Medium	16.3%
Business Ethics	6.9 Medium	47.9 Average	3.8 Low	12.6%
Corporate Governance	9.0 High	62.8 Strong	3.3 Low	11.2%
Emissions, Effluents and Waste	6.3 Medium	58.5 Strong	3.0 Low	10.0%
Human Capital	6.6 Medium	58.8 Strong	2.9 Low	9.8%
Access to Basic Services	6.6 Medium	59.4 Strong	2.7 Low	9.0%
Carbon -Own Operations	3.8 Low	73.3 Strong	1.0 Negligible	3.4%
Bribery and Corruption	6.6 Medium	100.0 Strong	0.3 Negligible	1.1%
Overall	66.3 High	58.5 Strong	29.9 Medium	100.0%

Events Overview

Identify events that may negatively impact stakeholders, the environment, or the company's operations.

Category (Events)

Severe (1)

Social Impact of Products

High (0)

Significant (0)

Moderate (4)

Anti-Competitive Practices

Business Ethics

Emissions, Effluents and Waste

Quality and Safety

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Events Overview

Identify events that may negatively impact stakeholders, the environment, or the company's operations.

Category (Events)

Low (6)

Access to Basic Services

Accounting and Taxation

Intellectual Property

Labour Relations

Lobbying and Public Policy

Marketing Practices

None (3)

Animal Welfare

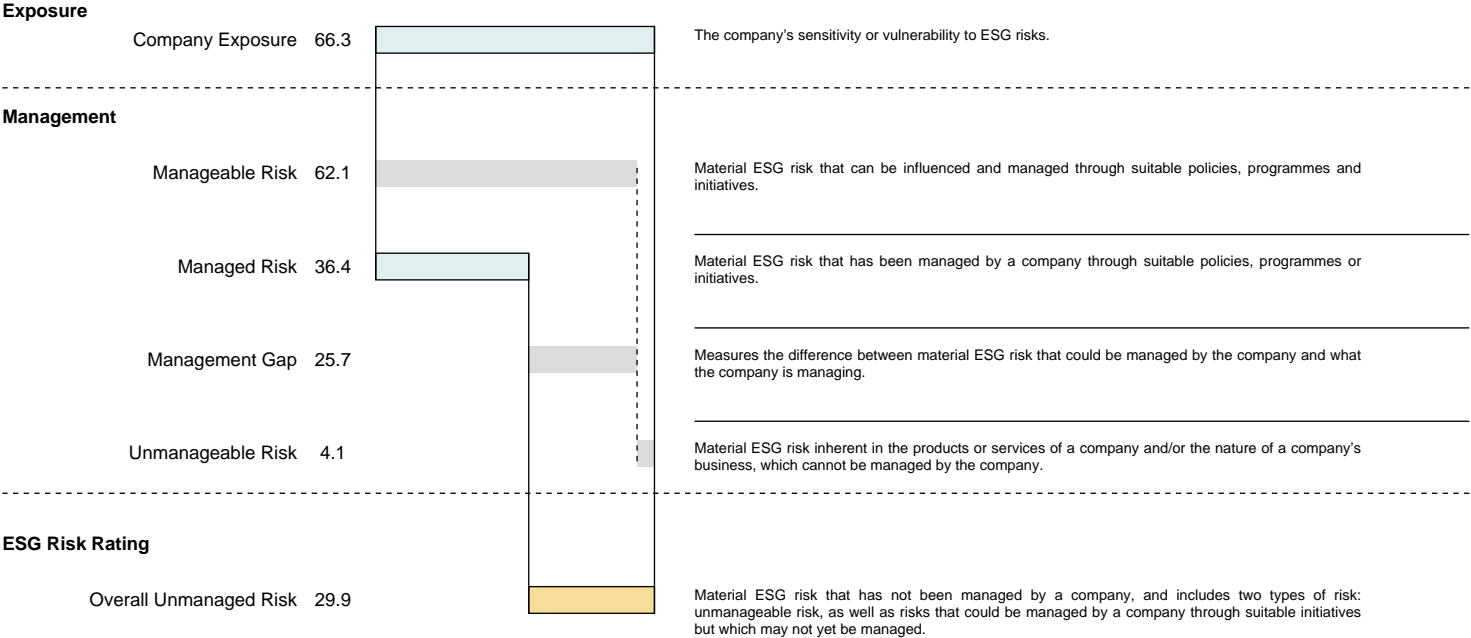
Bribery and Corruption

Energy Use and GHG Emissions

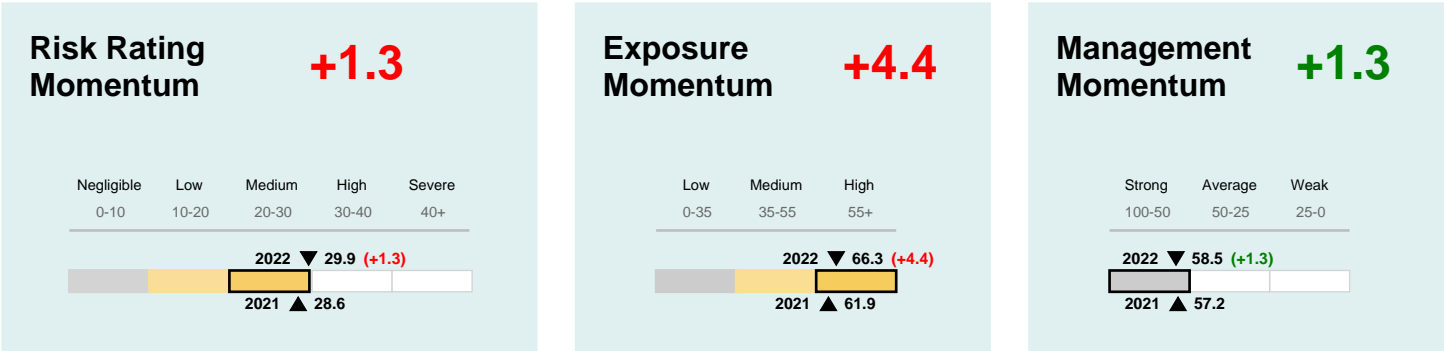
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Risk Decomposition



Momentum Details



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GLOSSARY OF TERMS

Beta (Beta, β)

A factor that assesses the degree to which a company's exposure deviates from its **subindustry's** exposure on a **material ESG issue**. It is used to derive a company-specific issue exposure score for a material ESG issue. It ranges from 0 to 10, with 0 indicating no exposure, 1 indicating the subindustry average, and 10 indicating exposure that is ten times the subindustry average.

Corporate Governance Pillar

A pillar provides a signal about a company's management of a specific Corporate Governance issue.

ESG Risk Category

Companies' **ESG Risk Rating scores** are assigned to five ESG risk categories in the **ESG Risk Rating**:

-  **Negligible risk:** enterprise value is considered to have a negligible risk of material financial impacts driven by ESG factors
-  **Low risk:** enterprise value is considered to have a low risk of material financial impacts driven by ESG factors
-  **Medium risk:** enterprise value is considered to have a medium risk of material financial impacts driven by ESG factors
-  **High risk:** enterprise value is considered to have a high risk of material financial impacts driven by ESG factors
-  **Severe risk:** enterprise value is considered to have a severe risk of material financial impacts driven by ESG factors

Note that because ESG risks materialize at an unknown time in the future and depend on a variety of unpredictable conditions, no predictions on financial or share price impacts, or on the time horizon of such impacts, are intended or implied by these risk categories.

ESG Risk Rating Score (Unmanaged Risk Score)

The company's final score in the **ESG Risk Rating**; it applies the concept of **risk decomposition** to derive the level of **unmanaged risk** for a company.

Event Category

Sustainalytics categorizes events that have resulted in negative ESG impacts into five event categories: Category 1 (low impact); Category 2 (moderate impact); Category 3 (significant impact); Category 4 (high impact); and Category 5 (severe impact).

Event Indicator

An indicator that provides a signal about a potential failure of management through involvement in controversies.

Excess Exposure

The difference between the company's **exposure** and its **subindustry** exposure.

Exposure

A company or **subindustry's** sensitivity or vulnerability to ESG risks.

Idiosyncratic Issue

An issue that was not deemed material at the **subindustry** level during the **consultation process** but becomes a **material ESG issue** for a company based on the occurrence of a Category 4 or 5 event.

Manageable Risk

Material ESG risk that can be influenced and managed through suitable policies, programmes and initiatives.

Managed Risk

Material ESG Risk that has been managed by a company through suitable policies, programmes and initiatives.

Management

A company's handling of ESG risks.

Management Gap

Refers to the difference between what a company has managed and what a company could possibly manage. It indicates how far the company's performance is from best practice.

Management Indicator

An indicator that provides a signal about a company's management of an ESG issue through policies, programmes or quantitative performance.

Material ESG Issue

A core building block of the **ESG Risk Rating**. An ESG issue is considered to be material within the rating if it is likely to have a significant effect on the enterprise value of a typical company within a given **subindustry**.

Subindustry

Subindustries are defined as part of Sustainalytics' own classification system.

Unmanageable Risk

Material ESG Risk inherent from the intrinsic nature of the products or services of a company and/or the nature of a company's business, which cannot be managed by the company if the company continues to offer the same type of products or services and remains in the same line of business.

Unmanaged Risk

Material ESG risk that has not been managed by a company, and includes two types of risk: **unmanageable risk**, as well as risks that could be managed by a company through suitable initiatives, but which may not yet be managed (**management gap**).

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