

Creating value for the future

Health care, nutrition and high-tech materials are our core competencies. In all three areas Bayer pursues a clear goal: to help people through innovative products, to provide society with high value-added and to create corporate value – for the benefit of our stockholders, our employees and the community in every country in which we operate.

Our commercial success

2007 was Bayer's most successful year yet: we generated sales of €32.4 billion with our roughly 5,000 products, and Group net income (the after-tax income attributable to the stockholders of Bayer AG) increased from €1.7 billion in 2006 to €4.7 billion (see also page 52 ff.).

Our stock

Bayer stock again developed very well in 2007, its price gaining 53.8 percent on the year. Including the dividend of €1.00 per share for fiscal 2006, paid in May 2007, the overall performance of our stock was 56.8 percent, putting Bayer in fourth place among the DAX

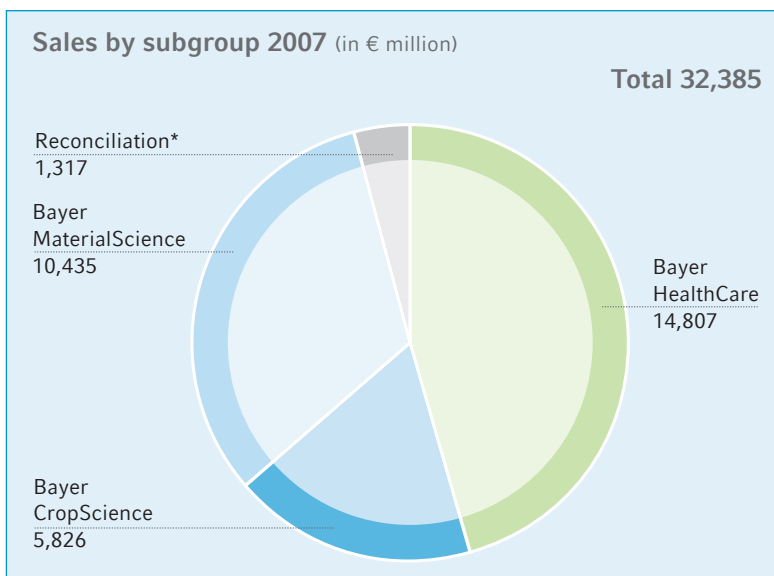
30 companies. The stockholders' equity of the Bayer Group as of December 31, 2007 was €16.8 billion, of which €16.7 billion was attributable to Bayer AG stockholders.

Our stockholder structure reflects Bayer's importance in international financial centers. According to a recent survey of the Bayer stock held by institutional investors, those based outside Germany hold 78 percent of the identified capital, including U.S.-based institutions with 47 percent and U.K. institutional investors with 11 percent. German institutions own 22 percent of the stock. Last year, our Board of Management and experts from the Investor Relations Department spoke with investors at more than 20 financial centers in the course of over 60 roadshows and investor meetings. In addition, we conduct a regular dialogue with our stockholders at the Annual Stockholders' Meetings.

Bayer shares were delisted from the New York Stock Exchange (NYSE) on September 27, 2007. Although we are therefore no longer required to comply with U.S. capital market laws and regulations, our current Annual Report still contains some information that we were previously obligated to provide under U.S. regulations.

Our acquisitions in 2007

In 2007 Bayer HealthCare acquired a production facility for biotechnological products in Emeryville, California, United States, from Novartis for €137 million. Schering has been a fully consolidated subsidiary since June 23, 2006. As of December 31, 2007, Bayer Schering GmbH held 96.3 percent of the shares of Bayer Schering Pharma AG



* not directly allocable to the subgroups, e.g. sales of the service companies

Bayer CropScience acquired the u.s. cotton seed producer Stoneville Pedigreed Seed Company, which was fully consolidated effective June 1, 2007. The provisional purchase price including ancillary acquisition costs was €232 million.

On July 1, 2007, Bayer MaterialScience completed the acquisition of the Ure-Tech Group of Taiwan, a major producer of thermoplastic polyurethanes.

Our corporate structure

Bayer was founded in Wuppertal in 1863 and has been headquartered in Leverkusen since 1912. Today, the Group comprises around 320 companies on five continents. The Bayer Group is led 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 the three subgroups: Bayer HealthCare AG, Bayer CropScience AG and Bayer MaterialScience AG. Our three service companies – Bayer Business Services GmbH, Bayer Technology Services GmbH and CURRENTA GmbH & Co. OHG (formerly Bayer Industry Services) – provide services for both internal and external customers.

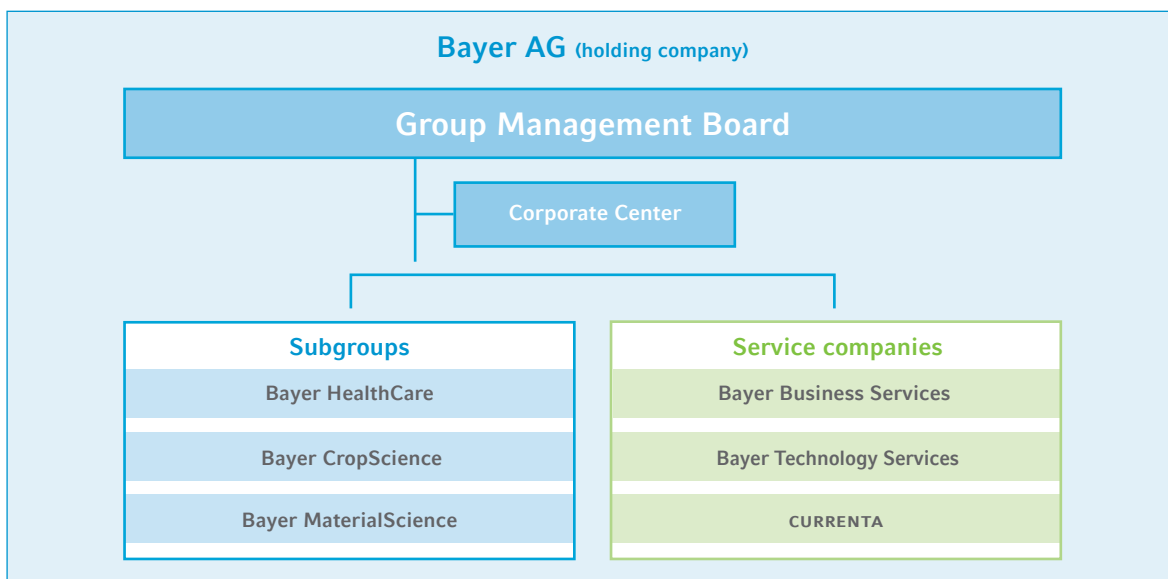
Our corporate governance

Under the German Co-Determination Act, the Supervisory Board of the holding company Bayer AG comprises 10 representatives of the stockholders and 10 representatives of the workforce. In compliance with its statutory obligations, in 2007 the Supervisory Board fulfilled its role of advising and overseeing the Board of Management. Elections to the Supervisory Board were held in 2007. Three stockholder representatives and two employee representatives did not stand for reelection and new members were therefore elected to replace them.

The ongoing development of corporate governance at Bayer and the changes enacted to the German Corporate Governance Code in June 2007 were among the central issues discussed by the Supervisory Board in 2007. In December the Board of Management and Supervisory Board renewed their declaration that Bayer AG fully complies with the recommendations of the German Corporate Governance Code.

Our principles of compensation

The compensation of the Board of Management basically comprises four components: a fixed annual sal-



ary, a short-term incentive award on a yearly basis in relation to a target amount, a long-term incentive award for a three-year period in relation to 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 fixed salary consists of two parts: a base salary and a fixed supplement. The variable bonus for 2007 is calculated partly according to the Group's EBITDA margin before special items, and partly according to the weighted average target attainment of the HealthCare, CropScience and MaterialScience subgroups. The latter is based mainly on the subgroups' target attainment measured by EBITDA before special items as well as on a qualitative appraisal in relation to the market and competitors. In addition, the variable bonus for 2007 includes a special one-time individual bonus linked to outstanding achievements in connection with the restructuring of the Bayer Group.

The compensation of the Supervisory Board is based on the provisions of the Articles of Incorporation, the current version of which was adopted by the stockholders at the Annual Stockholders' Meeting on April 29, 2005. This provides that, in addition to reimbursement of their expenses, the members of the Supervisory Board receive fixed annual remuneration of €60,000 and a variable annual remuneration component. The variable remuneration component is based on corporate performance in terms of the gross cash flow reported in the Group financial statements for the 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 €3,100,000,000, but the variable component for 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. Details of the remuneration received by individual members of the Board of Management and Supervisory Board are disclosed in our Annual Report.

In order to link the variable remuneration of Bayer executives directly to success in the sustainability arena, we have also started to include sustainability criteria in their annual personal performance targets. 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 daily commitment of our 106,200 employees around the world, 36.8 percent of whom work at our sites in Germany. Globally, 76.5 percent of our employees are in countries that belong to the Organisation for Economic Co-operation and Development (OECD). Some 23.5 percent (24,874 employees) work in a total of 43 non-OECD countries. The largest of these is China, where we have 5,582 employees, followed by Brazil (3,072) and India (3,000).

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The Bayer Group

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



The Bayer Group in figures

	North America	Latin America/ Africa/ Middle East	Europe	Asia-Pacific	Total
Sales (in € million)	8,161	4,660	14,353	5,211	32,385
Employees	16,800	14,300	56,200	18,900	106,200
R&D spending (in € million)	581	35	1,836	126	2,578
Number of consolidated companies	47	51	168	60	326

Bayer HealthCare
Medical products for patients worldwide



Arthur Higgins,
 Chairman of the
 Executive
 Committee of Bayer
 HealthCare AG

As a company in the health care industry, we invest in medical innovations for the benefit of patients. We firmly believe that our products should be available to all people who need them. That is why we are engaged in various partnerships with social initiatives, state institutions and other companies devoted to improving global access to medicines. Our research is also focused on forthcoming challenges in the provision of health care, such as new therapeutic needs resulting from an aging society. Our business conduct is at all times governed by our responsibility to mankind, animals and the environment throughout the entire life cycle of our products. As such, we tackle environmental issues that are specific to the health care business, are involved in climate protection and have introduced ethical marketing standards.

Headquarters: Leverkusen (Germany)

Headcount: 51,500 (2007),
 51,400 (2006)

Sites: in over 120 countries

Sales: €14.8 billion (2007),
 €11.7 billion (2006)

Specific directives: Voluntary commitment to health, safety, environment and quality, 2004

Management systems: Management systems for health, safety and environmental matters are in place in all sites worldwide. Our drug products are manufactured and monitored in accordance with the quality norms of GMP (Good Manufacturing Practice). Our research and development work is conducted in accordance with the principles of GLP (Good Laboratory Practice) and GCP (Good Clinical Practice). Internal implementation of codes of ethical conduct which have been accepted by pharmaceutical industry associations.
Website: www.bayerhealthcare.com

Bayer CropScience
Innovation for sustainable agriculture



Prof. Friedrich
 Berschauer,
 Chairman of the
 Board of Manage-
 ment of Bayer
 CropScience AG

In view of the growing global population and climate change, sustainable agriculture can only be achieved by using the available land with maximum efficiency. Our crop protection products and processes make a contribution to this, as does our work in seed and crop biotechnology. We are also active in the field of pest control agents for non-agricultural applications.

Modern, efficient agriculture needs innovations. As a future-oriented technology provider, we are meeting the challenge of searching for new solutions – a process that is frequently preceded by a research and development phase that can take up to 10 years.

We actively seek an open dialogue with our stakeholders to ensure that we can jointly shape the path to sustainable agriculture. Our conduct is governed by our principle of acting in the interest of the environment, social justice and healthy economic growth at all times.

Headquarters: Monheim (Germany)

Headcount: 17,800 (2007),
 17,900 (2006)

Sites: in over 120 countries

Sales: €5.8 billion (2007),
 €5.7 billion (2006)

Specific directives: Voluntary commitment to quality, health, safety and environmental protection (QHSE), 2002; policy guidelines and key requirements for responsible product stewardship, 2004

Management systems: All sites worldwide have in place an integrated management system for quality, health protection, safety and the environment that is subject to continual further development.

Website: www.bayercropscience.com

Bayer MaterialScience
High-quality materials for climate protection



Patrick Thomas,
 Chairman of the
 Board of Manage-
 ment of Bayer
 MaterialScience AG

Bayer MaterialScience has a tremendous potential to reconcile growth and sustainable development. Our energy-saving products offer innovative solutions for climate protection, for example rigid polyurethane foams for the thermal insulation of buildings, district heating systems and heating pipes. Our materials also help to save valuable energy when used to insulate refrigerators and freezers and in the construction of lightweight vehicles. Bayer MaterialScience also makes important contributions to environmental protection in the form of polycarbonate and thermoplastic polyurethane components for photovoltaic modules and raw materials for low-solvent and solvent-free coatings and adhesives. Bayer MaterialScience is constantly looking for innovative solutions and ecologically compatible applications for existing products. In addition, we want to increase the energy efficiency of our own production processes, which we have already improved considerably during recent years, still further – and we have made a commitment to this in the Bayer Climate Program.

Headquarters: Leverkusen (Germany)

Headcount: 15,400 (2007),
 14,900 (2006)

Sites: in over 55 countries

Sales: €10.4 billion (2007),
 €10.2 billion (2006)

Specific directives: Voluntary commitment to health, safety, environment and quality, 2004

Management systems: Building on the principles of the Responsible Care Global Charter, Bayer MaterialScience has established an integrated management system for all aspects of health, safety, environment and quality (HSEQ).

Website: www.bayermaterialscience.com

Bayer Business Services

Competence center for IT-based services



Dr. Andreas Resch,
Chairman of the
Executive Board
of Bayer Business
Services GmbH

Bayer Business Services is the Bayer Group's international competence center for the provision of IT-based services. With our IT services, integrated solutions for business processes and specialist services for research, administration and corporate management, we make a key contribution to climate protection and sustainable development both at Bayer and at our customers' companies. When it comes to IT, Bayer Business Services focuses on "green IT" to save energy and cut emissions. For example, we reduce the power consumption of data centers and IT equipment, establish video conference systems to cut the number of business trips that have to be made by air, rail and road, and apply climate-friendly criteria in configuring Bayer's fleet of vehicles.

Headquarters: Leverkusen (Germany)

Headcount: 4,588 (2007), 4,400 (2006) (both figures exclude local services and trainee pool)

Sites: in over 50 countries

Specific directives: Voluntary commitment to Responsible Care by Bayer Business Services, 2003

Management systems: HSEQ management system for health, safety, environment and quality

Website: www.bayerbbs.com

Bayer Technology Services

Technological backbone of the Group



Achim Noack, Man-
aging Director of
Bayer Technology
Services GmbH

Bayer Technology Services is the Bayer Group's global technological backbone and innovation motor 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.

Working in cooperation with Bayer MaterialScience, we are currently designing the first "EcoCommercial Building," a ground-breaking zero-emissions office building in India. In 2007, we developed the Bayer Climate Check. This analysis instrument provides detailed information about all emissions caused by individual production processes and enables a prioritization of measures to exploit all reduction potentials. This instrument has been certified by the German inspection agency TÜV Süd and is implemented throughout the Group as part of the Bayer Climate Program. It is also offered externally.

Headquarters: Leverkusen (Germany)

Headcount: 2,400 (2007), 2,200 (2006)

Sites: Belgium, Germany, India, Mexico, P.R. China, Switzerland, United States

Specific directives: Health, safety, environment and quality policy in BTS

Management systems: HSEQ management system for health, safety, environment and quality

Website: www.bayertechnology.com

CURRENTA

Chemical park operator with three sites



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

CURRENTA offers services in the chemical and technical sector. These include utilities, waste management, infrastructural services, safety and security, analytics and training. This service company, a joint venture between Bayer and LANXESS, is the operator of CHEMPARK with sites in Leverkusen, Dormagen and Krefeld-Uerdingen, Germany. CURRENTA is both the service provider and manager of CHEMPARK. Our mission is to combine commercial success with Responsible Care. We optimize our processes with the goal of maintaining the highest degree of safety and conserving natural resources, in so doing backing the expertise and know-how of our employees, for example through the CURRENTA Climate Protection Program A+++. By increasing efficiency in the generation of energy and by reducing our energy consumption we not only protect the climate. Our use of efficient technologies and processes also offers considerable potential for making savings. We thereby make a contribution to improving environmental protection and competitiveness in Germany as a whole.

Headquarters: Leverkusen (Germany)

Headcount: 6,000 (2007), 6,600 (2006) (both figures excluding trainees)

Sites: Leverkusen, Dormagen, Krefeld-Uerdingen (all Germany)

Specific directives: Policy on health protection, safety, environmental protection and quality, 2004; voluntary commitment to Responsible Care of Bayer Industry Services, 2003

Management systems: An integrated management system for health protection, safety, environmental protection and quality has been introduced. This system is continually optimized.

Website: www.currenta.com