

Bayer again in full compliance with the German Corporate Governance Code*

Bayer has always placed great importance on responsible corporate governance and will continue to do so. Last year the company was able to renew its declaration that it is in full compliance with the recommendations of the German Corporate Governance Code.

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In 2007 the Board of Management and Supervisory Board again addressed the question of Code compliance, particularly in light of the new recommendations issued on June 14. The resulting declaration of conformity (see page 19) was published in December 2007 and posted on Bayer's website along with previous declarations.

Supervisory Board: oversight and control functions

The role of the 20-member Supervisory Board is to oversee and advise the Board of Management. Under the German Codetermination Act, half the members of the Supervisory Board are elected by the stockholders, and half by the company's employees. The Supervisory Board is directly involved in decisions on matters of fundamental importance to the company, regularly conferring with the Board of Management on the company's strategic alignment and the implementation status of the business strategy.

The Chairman of the Supervisory Board coordinates its work and presides over the meetings. Through regular discussions with the Board of Management, the Supervisory Board is kept constantly informed of business policy, corporate planning and strategy. The annual budget, the financial statements of Bayer AG and the consolidated financial statements of the Bayer Group must be submitted to the Supervisory Board to obtain its approval, which must also take the auditor's report into account. Details are provided in the Report of the Supervisory Board on page 10 ff. of this Annual Report.

The committees set up by the Supervisory Board operate in accordance with the German Stock Corporation Act and the German Corporate Governance Code. There are currently a Presidial Committee (which also serves as the Mediation Committee under the German Codetermination Act), an Audit Committee, a Human Resources Committee and a Nominations Committee. The tasks of the committees and their activities during 2007 are described in detail in the Report of the Supervisory Board (see page 10 ff.).

Compensation report

The compensation of the Supervisory Board is determined according to the relevant provisions of the Articles of Incorporation, which provisions were approved by the Annual Stockholders' Meeting on April 29, 2005. In addition to reimbursement of their expenses, each member of the Supervisory Board receives a 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 consoli-

* report pursuant to Section 3.10 of the German Corporate Governance Code

Remuneration of the Members of the Supervisory Board	Fixed Remuneration	Variable Remuneration	Total
€			
Dr. Paul Achleitner	79,356.16	39,678.08	119,034.24
Dr. Josef Ackermann	19,232.88	9,616.44	28,849.32
Andreas Becker	5,260.27	2,630.14	7,890.41
Willy Beumann	51,780.82	25,890.41	77,671.23
Dr. Clemens Börsig	40,931.51	20,465.75	61,397.26
Karl-Josef Ellrich	75,000.00	37,500.00	112,500.00
Dr.-Ing. Thomas Fischer	75,000.00	37,500.00	112,500.00
Peter Hausmann	75,000.00	37,500.00	112,500.00
Thomas Hellmuth	19,232.88	9,616.44	28,849.32
Prof. Dr.-Ing. e. h. Hans-Olaf Henkel	75,000.00	37,500.00	112,500.00
Reiner Hoffmann	60,000.00	30,000.00	90,000.00
Gregor Jüsten	19,232.88	9,616.44	28,849.32
Dr. rer. pol. Klaus Kleinfeld	60,000.00	30,000.00	90,000.00
Dr. h. c. Martin Kohlhaussen	33,657.54	16,828.77	50,486.31
John Christian Kornblum	19,232.88	9,616.44	28,849.32
André Krejčík	40,931.51	20,465.75	61,397.26
Petra Kronen	75,000.00	37,500.00	112,500.00
Dr. rer. nat. Helmut Panke	40,931.51	20,465.75	61,397.26
Hubertus Schmidt	85,684.93	42,842.47	128,527.40
Dr. Manfred Schneider	180,000.00	90,000.00	270,000.00
Dr.-Ing. Ekkehard D. Schulz	70,684.93	35,342.47	106,027.40
Dr. Klaus Sturany	61,397.26	30,698.63	92,095.89
Dipl.-Ing. Dr.-Ing. e. h. Jürgen Weber	70,232.88	35,116.44	105,349.32
Thomas de Win	130,684.93	65,342.47	196,027.40
Prof. Dr. Dr. h. c. Ernst-Ludwig Winnacker	60,000.00	30,000.00	90,000.00
Oliver Zühlke	40,931.51	20,465.75	61,397.26

dated financial statements of the Bayer Group for the respective fiscal year. The members of the Supervisory Board each 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. If changes are made to the Supervisory Board and its committees during the fiscal year, members receive remuneration on a pro-rated basis. The remuneration of the individual members of the Supervisory Board for fiscal 2007 is shown in the table. No member of the Supervisory Board received compensation or any other benefits for personally performed services such as consultancy or agency services. The company has concluded liability insurance for the members of the Supervisory Board to cover their personal liability arising from their service on the Supervisory Board.

Legislation on the disclosure of the compensation paid to members of the Board of Management specifies where this disclosure is to be made, what information is to be included, and that the compensation of each member is to be disclosed separately. Accordingly, the compensation of the Board of Management is presented and published in standardized form in a compensation report contained within the management report of Bayer AG

and the Bayer Group. To avoid dual presentation of the data, this Corporate Governance Report explicitly adopts, and makes reference to, the presentation in the management report of Bayer AG and the Bayer Group (see page 77 f.). This also applies to the description of stock option programs for the Board of Management (see page 77 f.) and employees (see Note [26] to the consolidated financial statements).

Personal liability in place of a deductible

The company meets the recommendation in the German Corporate Governance Code regarding deductibles for any Directors' & Officers' (D&O) liability insurance by obtaining personal declarations from each member of the Board of Management and Supervisory Board to the effect that, should they cause damage to the company or third parties through gross negligence (as defined by German law) in the performance of their duties, they undertake to pay for such damage up to the equivalent of half their total annual remuneration for the year in which such damage occurs. The members of the Supervisory Board undertake to pay for such damage, if caused by them, up to the equivalent of the variable portion of their respective annual remuneration as Supervisory Board members for the relevant year. There is no insurance coverage for intentional breach of duty.

Disclosure of securities transactions by members of the Supervisory Board and Board of Management

To comply with Section 15 a of the German Securities Trading Act, members of the Board of Management and Supervisory Board and their close relatives are required to disclose all transactions involving the purchase or sale of Bayer AG securities where such transactions total €5,000 or more in a calendar year. Bayer publishes details of such transactions immediately on its website and also notifies the German Financial Supervisory Authority accordingly.

Bayer AG reports the following acquisition transaction in 2007:

Name

Dr. Wolfgang Plischke, Member of the Board of Management

Date/Place	Security/Right	ISIN	Transaction	Price/Currency	Quantity	Total transaction value
March 29, 2007 Xetra	Shares	DE0005752000	Purchase	€47.70	5,300	€252,810.00
January 10, 2007 Over-the-counter (due May 23, 2008)	PROTECT Discount Stock Certificates* (underlying instrument: stock)	Derivative: DE000SCL57K9 (underlying instrument: DE0005752000)	Purchase	€40.12	350	€14,042.00

* strike price €27.50; price multiplier 1

Information filed with the company by members of the Board of Management and Supervisory Board shows that, on the closing date for the financial statements, their total holdings of Bayer AG stock or related financial instruments were equivalent to less than one percent of the issued stock.

Systematic monitoring of all business activities

Bayer has a control system in place enabling it to identify any business or financial risks at an early stage and take appropriate action to manage them. This control system is designed to ensure timely and accurate accounting for all business processes and the constant availability of reliable data on the company's financial position.

When acquisitions are made, we aim to bring the acquired units' internal control systems into line with those of the Bayer Group as quickly as possible.

However, the control and risk management system cannot provide absolute protection against losses arising from business risks or fraudulent actions.

Corporate Compliance Program

Our corporate activity is governed by national and local laws and statutes that place a range of obligations on the Bayer Group and its employees throughout the world. Bayer manages its business responsibly in compliance with the statutory and regulatory requirements of the countries in which it operates.

The Board of Management has also issued guidelines to support legal compliance. These are summarized in the "Program for Legal Compliance and Corporate Responsibility at Bayer" (Corporate Compliance Program), which contains binding rules on complying with international trade law, adhering to the principle of fair competition and concluding contracts with business partners on fair terms.

To avoid conflicts of interest, every employee is required to separate corporate and private interests. The program also lays down clear rules for employee integrity toward the company and the responsible handling of insider information.

Compliance committees have been established for Bayer AG, the Bayer HealthCare, Bayer CropScience and Bayer MaterialScience subgroups and the service companies Bayer Business Services, Bayer Technology Services and CURRENTA (which operated as Bayer Industry Services in 2007). Each Compliance Committee includes at least one legal counsel.

The role of these committees is to initiate systematic, business-specific training programs and oversee their implementation in line with the Corporate Compliance Program. They are also responsible for investigating any suspected violations of the Corporate Compliance Program and, if necessary, taking remedial action. All Compliance Committees report at least once a year to a coordination committee chaired by the Chief Financial Officer on any violations notified to them, the investigations carried out and their outcomes, and any remedial or disciplinary action taken. They also report on the systematic training programs initiated and their implementation. The Group Compliance Officer and the Head of Corporate Auditing regularly report to the Audit Committee of the Supervisory Board on any compliance violations.

All Bayer employees are required to immediately report any violations of the Corporate Compliance Program. A telephone hotline to a law firm has been set up to allow this to be done anonymously.

In August 2007 the Group Management Board initiated an internal communications campaign calling on all managers, compliance officers and communications functions worldwide to remind their employees of the rules contained in the Corporate Compliance Program and focus on preventing and combating corruption.

Common values and leadership principles

The mission statement published in 2004 supplements the Corporate Compliance Program and sets out the principles underlying Bayer's corporate strategy. It outlines our corporate philosophy and the framework for our business activity to stockholders, customers, employees and the general public. Common values and leadership principles are considered essential for all employees in their daily work. The values include a will to succeed; a passion for our stakeholders; integrity, openness and honesty; respect for people and nature; and the sustainability of our actions. The assessment of managers' performance on the basis of defined leadership principles helps to ensure adherence to these values throughout the enterprise.

Detailed reporting

To maximize transparency, we provide regular and timely information on the company's position and significant changes in business activities for stockholders, financial analysts, stockholders' associations, the media and the general public. Bayer complies with the recommendations of the Corporate Governance Code by publishing reports on business trends, earnings, the Group's financial position and risks four times a year.

In compliance with the new legislation that came into force in 2007, the members of the company's Board of Management provide an assurance that, to the best of their knowledge, the annual financial statements and management report of Bayer AG and the consolidated financial statements and management report of the Bayer Group provide a true and fair view of the company's situation.

The annual consolidated financial statements of the Bayer Group are published within 90 days following the end of the fiscal year. During the fiscal year, stockholders and other interested parties are kept informed about the company's performance through the half-year financial report and additional interim reports as of the end of the first and third quarters.

Bayer also provides information at news conferences and analysts' meetings. Bayer also uses the Internet as a platform for timely disclosure of information, including details of the dates of major publications and events, such as the annual and interim reports or the Annual Stockholders' Meeting.

In line with the principle of fair disclosure, we provide the same information to all stockholders and other principal target groups. All significant new facts are disclosed immediately. Stockholders also have immediate access to the information that Bayer publishes locally in compliance with the stock market regulations of various countries.

In addition to our regular reporting, we issue ad-hoc statements on developments that otherwise might not become publicly known but have the potential to materially affect the price of Bayer stock.

Delisting of Bayer stock from the New York Stock Exchange

In 2007, Bayer stock was delisted from the New York Stock Exchange and its registration with the U.S. Securities and Exchange Commission (SEC) was terminated. For 2007, Bayer is thus no longer required to meet formal reporting requirements under U.S. capital market regulations or SEC rules, nor does it have to establish and implement the internal control system for financial reporting required under Section 404 of the Sarbanes-Oxley Act (SOX). Bayer is nevertheless upholding a high level of transparency in its financial reporting. For example, parts of the report that Bayer was previously required to submit annually on Form 20-F to comply with SEC rules are now included in the management report.

Further, although the provisions of Section 404 SOX are no longer applicable, the management has directed that appropriate and effective internal control systems remain in place at the companies included in the consolidated financial statements to ensure proper corporate reporting that meets legal requirements. The functionality and reliability of this global system of controls is continuously monitored by our Corporate Auditing and other departments.

Declaration by the Board of Management and the Supervisory Board of Bayer AG

concerning the German Corporate Governance Code (June 14, 2007 version) pursuant to Article 161 of the German Stock Corporation Act *

Under Article 161 of the German Stock Corporation Act, the Board of Management and the Supervisory Board of Bayer AG are required to issue an annual declaration that the company has been, and is, in compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette (Bundesanzeiger), or to advise of any recommendations that have not been, or are not being, applied. The declaration pursuant to Article 161 of the Stock Corporation Act shall be available to shareholders at all times. An annual declaration was last issued in December 2006.

With respect to the past, the following declaration refers to the June 12, 2006 version of the Code. With respect to present and future corporate governance practices at Bayer AG, the following declaration refers to the recommendations in the June 14, 2007 version of the Code.

The Board of Management and the Supervisory Board of Bayer AG hereby declare that the company is in compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette and has been in compliance since issuance of the last declaration of conformity in December 2006.

Leverkusen, December 2007
For the Board of Management:

For the Supervisory Board:

Wenning

Kühn

Dr. Schneider

* This is an English translation of a German document. The German document is the official and controlling version, and this English translation in no event modifies, interprets or limits the official German version.