

**Report of the Board of Management to the Annual Stockholders' Meeting pursuant to Article 71, para. 1, no. 8 in conjunction with Article 186, para. 4, sentence 2 of the German Stock Corporation Act (*Aktiengesetz*)**

Article 71, para. 1, no. 8 of the German Stock Corporation Act (*Aktiengesetz*) allows stock corporations to purchase company shares representing up to 10% of the company's capital stock on the basis of an authorization from the stockholders. Agenda Item 6 contains a proposal to grant an appropriate authorization, limited to a term of 18 months. This will enable the Board of Management, in the interests of the Company and its stockholders, to purchase Company shares on the market representing up to 10% of the Company's current capital stock.

The Company shares purchased by the Company can be resold on the stock market or through a public offering to all stockholders. These possibilities ensure that the principle of equality of treatment of stockholders is respected both in the purchase and the reissue of the shares.

Furthermore, the Company may also sell the purchased Company shares off the market, without a public offering to all stockholders, provided that the price of the shares is not significantly lower than the trading price at the time of sale. This authorization makes use of the simplified exclusion of subscription rights allowed under Article 71, para. 1, no. 8 of the German Stock Corporation Act (*Aktiengesetz*) in analogous application of Article 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*). In particular, in the interests of the Company, it will be possible to offer shares of the Company to institutional investors domestically and abroad and to broaden the stockholder base. The requested authorization will allow the Company to respond quickly and flexibly to favorable stock market conditions. The interests of stockholders with regard to their assets and voting rights will be duly respected. The authorization based on Article 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) to exclude subscription rights upon the sale of the Company's own shares, including any authorizations to issue new shares or convertible bonds and excluding subscription rights under Article 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) is limited to a maximum of 10% of the Company's capital stock. For these purposes, the capital stock is defined as the capital stock existing at the time the authorization is first exercised. The maximum amount shall include otherwise issued shares subject to exclusion of subscription rights pursuant to or analogously pursuant to Article 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*). The aim of protecting stockholders from dilution is achieved by stipulating that the shares may only be sold for a price that is not significantly lower than the applicable trading price. The final selling price of the Company shares shall be determined immediately prior to the sale. The Board of Management shall endeavor – taking into account current market circumstances – to keep any discount on the trading price as low as possible.

Interested stockholders can maintain their participation quota through purchases on the market at essentially identical conditions.

The Company shall furthermore be allowed to offer its own shares for consideration in the context of company mergers or the acquisition of companies or parts of companies or interests in companies. The proposed authorization should give the Company the necessary scope to quickly and flexibly use any acquisition opportunities that arise. The proposed exclusion of subscription rights will allow this aim. When determining the valuation, the Board of Management will ensure that the interests of stockholders are duly protected. As a rule, it will base its assessment of the share value offered as consideration on the trading price of the Company shares. However, the intention is not to link the value rigidly to a trading price, particularly so as to prevent the outcome of negotiations, once achieved, from being jeopardized by fluctuations in the trading price. The Company is not planning any specific acquisitions at the present time.

Furthermore, under the provisions of paragraphs (e) and (h), the Company should be able to use its own Company shares for Stock Compensation Programs from 2000 to 2002. This option is not necessary for comparable Stock Compensation Programs from 2003 and 2004 because these programs are not geared to the issue of shares but exclusively to the payment in cash. The Employee Stock Compensation Programs launched in 2005 and 2006 are also not subject of the resolution.

The grant of stock options or subscription rights to employees and managerial employees entitling them to buy Company stock under certain conditions is one of the customary internationally recognized methods of compensation. This creates incentive to increase the value of the Company even more by outstanding work thereby promoting, in the interest of the stockholders and the Company, the performance of the Company's shares on the stock market also in comparison to other companies. At the same time, qualified employees and management will be attracted to the Bayer Group and also stay long-term with the Company. In view of this goal, the shares purchased for purposes of satisfying the Stock Compensation Programs of 2000-2002 in the event of sale may not be offered to the stockholders but only to the participants of the Stock Compensation Programs 2000-2002.

All of the material terms of the relevant Stock Compensation Programs are set forth in the proposed resolution. Therefore, only the most important provisions are outlined below:

The proposed authorization allows the Company to use its Company shares for satisfying claims of SPP Module 1 and the SIP.

The Stock Compensation Programs using the Company's own shares as proposed for Stockholders' Meeting authorization, have two or three main features which are of particular interest to the Company and its Stockholders:

The first main feature relates to the respective holding periods by which managerial and non-managerial employees are bound to the Bayer Group for the medium to long term. These holding periods are longer than those stipulated by the Stock Option Programs of other companies, in some cases significantly so.

The second main feature relates to the participant's personal investment. Only if eligible managerial and non-managerial employees invest on their own account and hence at their own risk in shares of the Company, can they participate in the Stock Compensation Programs as described above. This gives the Stock Compensation Programs particular significance and particular weight in a way that distinguishes them from many other stock compensation programs of other companies: managerial and non-managerial employees not only have the opportunity to share in the growing value of the Company through their own individual performance. They also – like the stockholders – participate in the risk by investing their own money.

Finally, the third main feature relates to the further conditions for exercising the options.

Two modules are available to participants in the SPP. While Module 2, on which it is not necessary to pass a resolution here, has features of a typical employee stock compensation program and which under Article 71, para. 1, no. 2 of the German Stock Corporation Act (*Aktiengesetz*) uses the Company's own shares, acquired on the market by the Board of Management, Module 1 goes beyond Article 71, para. 1, no. 2 of the German Stock Corporation Act (*Aktiengesetz*) and is an innovative type of employee share ownership scheme which makes the granting of further shares in the Company conditional on the employee remaining with the Bayer Group and on making a personal investment.

Participants in the SIP only receive incentive shares for tranches up to and including 2002 if the performance of the shares of the Company (based on total return) exceeds that of the Dow Jones EURO STOXX 50<sup>SM</sup> (performance index) over the reference period. The managerial employees of the Bayer Group are therefore willing to measure their performance against that of other leading listed companies in the European economic area.

The Stock Compensation Programs represent remuneration elements, which, in the interest of enhancing motivation, increase the amount of existing flexible remuneration components and should help enhance Bayer's corporate value in the long term. At the time the Incentive Shares are granted, the managerial employee

has already earned this remuneration, i.e. the shares of the Company, through his own efforts so that the shares are issued to him free of charge.

In 2006, 86,086 bonus shares under the SPP Module 1 incentive plan and 21,036 bonus shares under the SIP incentive plan were issued to employees or managerial employees.

Finally, the authorization allows the Company to redeem Company shares without a further resolution of the Stockholders' Meeting. Such authorization is also common. It allows the Company to react appropriately and flexibly in any particular capital market situation.

The Board of Management shall report on the utilization of the authorization at the next Stockholders' Meeting.

Leverkusen, March 12, 2007

Bayer Aktiengesellschaft

The Board of Management