

Report of the Board of Management pursuant to Article 203, para. 2, sentence 2 in conjunction with Article 186, para. 4, sentence 2 of the German Stock Corporation Act (*Aktiengesetz*)

Generally, in the event that the Authorized Capital II is exercised, we want to grant our stockholders subscription rights, but would like to have the option of excluding such rights in one particular case, namely pursuant to Article 203, para. 1, sentence 1, Article 203, para. 2 and Article 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*):

This possibility serves the interest of the Company in reaching the best possible issue price when issuing new stock. The statutory option provided in Article 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) puts the Board of Management, with approval of the Supervisory Board, in a position to respond quickly and flexibly as well economically to current favorable market opportunities. In so doing, a best possible increase in equity will be attained which is in the interests of the Company and all stockholders. By waiving the time-consuming and costly procedure of subscription rights, the equity needs arising from short-term market opportunities may be quickly covered and new domestic and foreign stockholders won over. This option of increasing capital under optimum conditions and at a nominal expense to subscription rights is particularly important for the Company because it allows it to react quickly and with flexibility to market opportunities in new and fast-changing markets and to cover any equity needs arising therefrom on a short-term basis.

Stock issued under exclusion of subscription rights pursuant to Article 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) may not exceed 10% of the capital stock, neither at the time that the authorization takes effect nor at the time the authorization is exercised. In calculating this limit, Company stock sold during the term authorized for excluding subscription rights pursuant to Article 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) will be included. Further included in calculating this limit are those stocks which were or are to be issued in satisfaction of bonds having conversion rights or attached warrants or obligatory conversion rights if the bonds were issued during the term of this authorization under exclusion of subscription rights in analogous application of Article 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*). These conditions take into account the interests of the stockholders with respect to the protection against the dilution of their stockholdings in compliance with the respective statutory provisions.

The issue price and thus the funds flowing to the Company for the new stock will orient itself to the market price of already floating stock and will not significantly fall

short of the market price, the price expected to be not less than 3% but in no case less than 5% compared to the current market price.

In view of the fact that all stock issued in the past by the Company is admitted for trade in the official markets of the German stock exchanges and that they are widely held, stockholders desiring to maintain their percentage of stockholding may purchase additional stock of the Company on the stock market without any problem in cases where the Authorized Capital II under exclusion of subscription rights pursuant to Article 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) is utilized. In calendar year 2006 more than 1.4 billion non-par stock of the Company were traded on German stock exchanges equaling almost double the total number of Company stock.

Generally it is therefore ensured that in keeping within the statutory parameters of Article 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*), stockholder capital interests as well as stockholder voting rights are reasonably preserved in the event that Authorized Capital II is utilized under exclusion of subscription rights. Taking all of these circumstances into account, the authorization to exclude subscription rights subject to the above restrictions is necessary, suitable, reasonable and demanded by the interests of the Company.

Leverkusen, March 12, 2007

Bayer Aktiengesellschaft

The Board of Management