



Joint Contract Report

**of the Board of Management of
Bayer Aktiengesellschaft, Leverkusen (“Bayer”),
and
the Managing Directors of
Fünfte Bayer VV GmbH, Leverkusen (“Fünfte Bayer VV”),
on the Domination and Profit and Loss Transfer Agreement
between
Bayer and Fünfte Bayer VV**

pursuant to § 293a German Stock Corporations Act (Aktiengesetz, “AktG”) analogous

In order to inform its shareholders and prepare the resolution for the Annual Stockholders’ Meeting of Bayer and Fünfte Bayer VV, the Board of Management of Bayer and the Managing Directors of Fünfte Bayer VV are submitting the following joint report on the Domination and Profit and Loss Transfer Agreement between Bayer and Fünfte Bayer VV:

1. Conclusion of the Agreement; Effective Date

The Domination and Profit and Loss Transfer Agreement between Bayer and Fünfte Bayer VV was concluded on 26 February 2008. It will be submitted for approval in accordance with § 293 AktG respectively in corresponding utilization of § 293 AktG to the Annual Stockholders’ Meeting of Bayer on 25 April 2008 and to the general shareholders meeting of Fünfte Bayer VV on 26 February 2008. The Agreement also requires registration in the commercial register for Fünfte Bayer VV in order to take effect.

2. Parties to the Agreement

Bayer is a German stock corporation (Aktiengesellschaft) registered in the commercial register at the Local Court (Amtsgericht) Cologne under HRB 48248 with its registered office in Leverkusen. The fiscal year of Bayer corresponds to the calendar year. The purpose of the business, according to the articles of association of the Company, is the production, distribution as well as other industrial activities and providing services in the fields of health

care, agriculture, polymers and chemistry. Bayer is the group parent company of the Bayer Group. The Bayer Group conducts its operative business in three main divisions, Bayer HealthCare, Bayer CropScience and Bayer MaterialScience. These divisions are supported by three service companies.

Fünfte Bayer VV was established on 15 January 2008 and was registered in the commercial register of the Local Court Cologne on 29 January 2008 under HRB 62308. The share capital is € 25,000.00. The purpose of the company is the administration of its own assets. The company is entitled to engage in all transactions which are related to the purpose of the company or directly or indirectly are appropriate for serving the purpose. The company can establish, acquire or participate in other businesses. If Fünfte Bayer VV becomes operational in the future, the purpose of the business will be adjusted accordingly.

3. Explanation about the Domination and Profit and Loss Transfer Agreement

The Domination and Profit and Loss Transfer Agreement has the following material content:

Fünfte Bayer VV as the subordinate company places the management of its company under the control of Bayer as the controlling company. Bayer is entitled to issue instructions to the management of Fünfte Bayer VV with regard to the management of the company. This right to issue instructions does not change the fact that Fünfte Bayer VV will continue to be a legally independent company with its own corporate bodies. Accordingly, the Managing Directors of Fünfte Bayer VV remains responsible for the management and representation of the company. To the extent that no instructions are issued, the Managing Directors of Fünfte Bayer VV can and must manage the company on its own responsibility.

The scope of the right to issue instructions is determined in accordance with § 308 AktG. The Managing Directors of Fünfte Bayer VV are required to comply with permissible instructions. According to § 308 AktG, instructions can also be issued which are detrimental to Fünfte Bayer VV if they serve the interests of Bayer or the companies affiliated in the group with Bayer and Fünfte Bayer VV. The Managing Directors, however, do not have to comply with any prohibited instructions, for example, instructions which would violate mandatory legal provisions or provisions in the articles of association of Fünfte Bayer VV.

Any instruction must be issued in writing. In accordance with the requirements of § 299 AktG, no instruction to amend the Agreement, maintain it or terminate it can be issued. The right

of instruction can only be exercised after the Agreement takes effect and not retroactively.

Fünfte Bayer VV undertakes to transfer its entire profit to Bayer. Subject to establishing or dissolving reserves, the annual profit which would arise without the requirement to transfer profit, as reduced by any loss carry forward from the previous year, must be transferred. Fünfte Bayer VV can place amounts from the annual profit in other profit reserves with the consent of Bayer if this is permissible under commercial law and if there are commercial reasons for this based on a reasonable analysis. During the term of the Agreement, other profit reserves must be dissolved at the request of Bayer and must be transferred as profit or to offset any annual loss. This provision corresponds to the restrictions on transferring profits set forth in § 301 AktG.

Bayer is required to assume the losses in accordance with § 302 AktG. Accordingly, Bayer is required to offset any annual loss incurred during the term of the Agreement to the extent that this loss is not offset by using amounts from other profit reserves which were established during the term of the Agreement. Pursuant to § 302 para. 3 AktG, Fünfte Bayer VV can waive or settle the claim to have losses offset only three years after the date on which the termination of the Agreement in the commercial register has been published.

The Agreement takes effect upon registration in the commercial register at the registered office of Fünfte Bayer VV and applies retroactively for the period commencing with the fiscal year in which the Registration occurs, except for the right to issue instructions. The Agreement can be terminated with normal notice of termination effective at the end of a calendar year upon giving six months notice, but for the first time as of the end of the fiscal year which ends at least five years after the beginning of the fiscal year in which the Agreement took effect. If the Agreement is not terminated, it will extend automatically by one fiscal year each, subject to the same notice period. In addition, the Agreement can be terminated for just cause (wichtiger Grund) without compliance with any notice period. This applies especially for Bayer in the event that Bayer no longer is the majority shareholder in Fünfte Bayer VV.

In order to ensure the recognition as a consolidated tax unity (steuerliche Organschaft), the Agreement must be concluded for a period of at least five calendar years. In order for the tax advantages of consolidation to be able to be used commencing with the year of registration, the Parties have agreed on the above described retroactive effect of the Agreement.

The Domination and Profit and Loss Transfer Agreement does not provide for any guaranteed dividends or any compensation payments for minority shareholders because Bayer is the sole shareholder in Fünfte Bayer VV.

Since Bayer holds all of the shares in Fünfte Bayer VV, no examination of the Domination and Profit and Loss Transfer Agreement by an expert examiner (contract auditor) is required under § 293b para. 1 AktG, and no report on any examination must be prepared under § 293e AktG.

4. Economic Importance and Purpose of the Domination and Profit and Loss Transfer Agreement

The Domination and Profit and Loss Transfer Agreement serves the purpose of establishing a consolidated tax unity for corporate income tax purposes between Bayer and Fünfte Bayer VV under § 14 German Corporate Income Tax Act (Körperschaftsteuergesetz, "KStG"). In addition, the Agreement is intended to establish a consolidated tax unity for purposes of trade tax (Gewerbsteuer) between Bayer and Fünfte Bayer VV pursuant to § 2 para. 2 German Trade Tax Act (Gewerbsteuergesetz, "GewStG"). Therefore, the Agreement contains the standard provisions for any domination and profit and loss transfer agreement concluded to establish a consolidated tax unity within a corporate group.

The consolidated tax unity for corporate income tax purposes and trade tax results in consolidated taxation of Fünfte Bayer VV (the consolidated entity) and Bayer (the superior entity). This enables profits and losses to be offset against each other. For purposes of trade tax, Fünfte Bayer VV, as the consolidated entity, constitutes a business establishment (Betriebsstätte) of the superior entity Bayer. Trade tax is only incurred by Bayer as the superior entity.

The profit and loss transfer agreement, therefore, enables the profits and losses of Fünfte Bayer VV to be taken into account in an optimum manner for tax purposes in the context of a consolidated tax unity for corporate income tax and trade tax. The profit and loss transfer agreement also serves to optimize the ability to deduct financing costs and expenses for purposes of taxation in connection with the management of the participation.

In addition, the domination agreement is required in order to ensure the unified management of Fünfte Bayer VV and its integration in the Bayer Group. The domination agreement ensures for this purpose that Bayer can issue instructions to the Managing Directors of

Fünfte Bayer VV under this corporate group agreement with regard to the management of the company.

5. Alternatives to the Conclusion of the Domination and Profit and Loss Transfer Agreement

There was no economically reasonable alternative to concluding the Domination and Profit and Loss Transfer Agreement between Bayer and Fünfte Bayer VV with which the above described goals could have been realized in the same manner or better. In particular, the conclusion of other types of corporate groups agreements within the meaning of § 292 AktG (agreement on the lease of a business in the form of a “Pacht”, agreement on transferring operations, agreement on profit pooling or partial profit and loss transfer agreement) or a management control agreement could not achieve any consolidated taxation between Bayer and Fünfte Bayer VV.

Leverkusen, 26 February 2008
Bayer Aktiengesellschaft

The Board of Management

Leverkusen, 26 February 2008
Fünfte Bayer VV GmbH

The Managing Directors