Science For A Better Life

Bayer Annual Report 2007

Bayer: Science For A Better Life

In keeping with the mission statement "Bayer: Science For A Better Life," the three illustrated features at the front of this year's Annual Report contain impressive examples of how our drug products make people healthier, our products for agriculture help to ensure adequate food supplies, and our high-tech materials enhance people's daily lives. They also show scientists working for our company who, every day, take on the challenge of researching and developing state-of-the-art products – for better health, better nutrition and better materials. And that is what defines the fascination of Bayer.

Cover picture

Climate change also presents Bayer scientists with new challenges, for example in agriculture. With the global population steadily increasing and arable land per head declining, the demand for plant raw materials for food and feed as well as for fibers and biofuels continues to rise. That means it will be even more important in the future to safeguard harvests and increase yields. Scientists at Bayer CropScience are working in different ways to achieve this goal. One example is canola: both conventional crop protection agents and modern breeding methods, such as biotechnology, are helping to make canola plants more resistant to extreme climatic conditions – heat or drought, for example. In addition, the high-yield canola seeds developed by Bayer CropScience make a major contribution toward meeting the demand for these plants as sources of biofuels.

Our cover picture shows farmer Tony Beck (left) and Bayer CropScience employee Kyle Gross checking the quality of flowering canola plants in Australia. Read more about climate change and the new "Bayer Climate Program" on page 202.

Bayer Group Key Data

	2006	2007	Change
	€ million	€ million	%
Bayer Group			
Net sales	28,956	32,385	+11.8
EBITDA[1]	4,675	5,866	+25.5
EBITDA before special items	5,584	6,777	+21.4
EBIT[2]	2,762	3,154	+14.2
EBIT before special items	3,479	4,287	+23.2
Income before income taxes	1,980	2,234	+12.8
Net income	1,683	4,711	•
Earnings per share (€)[3]	2.22	5.84	•
Gross cash flow[4]	3,913	4,784	+22.3
Net cash flow[5]	3,928	4,281	+9.0
Capital expenditures as per segment table	1,739	1,891	+8.7
Research and development expenses	2,297	2,578	+12.2
Dividend per Bayer AG share (€)	1.00	1.35	+35.0
Bayer HealthCare			
Net external sales	11,724	14,807	+26.3
EBITDA[1]	1,947	3,065	+57.4
EBITDA before special items	2,613	3,792	+45.1
EBIT[2]	1,313	1,564	+19.1
EBIT before special items	1,715	2,492	+45.3
Gross cash flow[4]	1,720	2,389	+38.9
Net cash flow[5]	1,526	2,010	+31.7
Capital expenditures as per segment table	576	593	+3.0
Bayer CropScience			
Net external sales	5,700	5,826	+2.2
EBITDA[1]	1,166	1,204	+3.3
EBITDA before special items	1,204	1,324	+10.0
EBIT[2]	584	656	+12.3
EBIT before special items	641	786	+22.6
Gross cash flow[4]	900	961	+6.8
Net cash flow[5]	898	1,040	+15.8
Capital expenditures as per segment table	197	223	+13.2
Bayer MaterialScience			
Net external sales	10,161	10,435	+2.7
EBITDA[1]	1,499	1,542	+2.9
EBITDA before special items	1,677	1,606	−4.2
EBIT[2]	992	1,042	+5.0
EBIT before special items	1,210	1,117	−7.7
Gross cash flow[4]	1,166	1,228	+5.3
Net cash flow[5]	1,281	1,147	−10.5
Capital expenditures as per segment table	753	889	+18.1

[1] EBITDA = EBIT plus amortization of intangible assets and depreciation of property, plant and equipment. EBITDA, EBITDA before special items and EBITDA margin are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. The company considers underlying EBITDA to be a more suitable indicator of operating performance since it is not affected by depreciation, amortization, write-downs/write-backs or special items. The company also believes that this indicator gives readers a clearer picture of the results of operations and ensures greater comparability of data over time. The underlying EBITDA margin is calculated by dividing underlying EBITDA by sales.

[2] EBIT as shown in the income statement.

[3] Earnings per share as defined in IAS 33 = net income divided by the average number of shares. For details see page 139 to the financial statements. For details on core earnings per share see page 25.

[4] Gross cash flow = income from continuing operations after taxes, plus income taxes, plus/minus non-operating result, minus income taxes paid, plus depreciation, amortization and write-downs, minus write-backs, plus/minus changes in pension provisions, minus gains/plus losses on retirements of noncurrent assets, plus non-cash effects of the remeasurement of acquired assets. The change in pension provisions includes the elimination of non-cash components of the operating result. It also contains benefit payments during the year. For details see page 157.

[5] Net cash flow = cash flow from operating activities according to IAS 7.

Bayer

Bayer AG defines common values, goals and strategies for the entire Group. The subgroups and service companies operate independently, led by the management holding company. The Corporate Center supports the Group Management Board in its task of strategic leadership.

Bayer HealthCare

Bayer HealthCare is among the world's foremost innovators in the field of pharmaceutical and medical products. This subgroup's mission is to research, develop, manufacture and market innovative products that improve the health of people and animals throughout the world.

Bayer CropScience

Bayer CropScience, with its highly effective products, pioneering innovations and keen customer focus, holds global leadership positions in crop protection and non-agricultural pest control. The company also has major activities in seeds and crop plants with genetically optimized properties.

Bayer MaterialScience

Bayer MaterialScience is a renowned supplier of high-performance materials such as polycarbonates and polyurethanes, and innovative system solutions such as coatings, for a wide range of everyday uses. Products holding leading positions on the world market account for a large proportion of its sales.

Bayer Business Services

Bayer Business Services is the Bayer Group's international competence center for IT-based services. The focus of this company's offering is on integrated services in the core areas of IT infrastructure and applications, procurement and logistics, human resources and management services, and finance and accounting.

Bayer Technology Services

Bayer Technology Services is engaged in process development and in process and plant engineering, construction and optimization. As the technological backbone and a major innovation driver for the Bayer Group, this service company offers integrated solutions throughout the life cycles of facilities, processes and products.

CURRENTA

CURRENTA offers services for the chemical industry including utility supply, waste management, infrastructure, safety, security, analytics and vocational training. This service company – a joint venture between Bayer and LANXESS – operates the CHEMPARK sites in Leverkusen, Dormagen and Krefeld-Uerdingen, Germany.

Working to Create Value through Innovation and Growth

Bayer is a global enterprise with core competencies in the fields of health care, nutrition and high-tech materials. Our products and services are designed to benefit people and improve their quality of life. At the same time we want to create value through innovation, growth and high earning power.

We are firmly aligned to our mission statement “Bayer: Science For A Better Life” and continue to optimize our portfolio, concentrating our activities in three high-potential, efficient subgroups with largely independent operations: HealthCare, CropScience and MaterialScience. These provide us with access to major global growth markets and are supported by our service companies.

As an inventor company, we plan to continue setting trends in research-intensive areas. Innovation is the foundation for competitiveness and growth, and thus for our company’s success in the future.

Our knowledge and our products are helping to diagnose, alleviate or cure diseases, improving the quality and adequacy of the global food supply, and contributing significantly to an active, modern lifestyle. Our expertise and innovative capability also enable us to offer solutions for protecting the climate and addressing the consequences of climate change.

We are committed to the principles of sustainable development, and to our role as a socially and ethically responsible corporate citizen. For us, there is a clear link between technical and economic expertise and corporate social responsibility. This, in turn, we define as our responsibility to work for the benefit of humankind, become socially involved and make a lasting contribution to sustainable development. At Bayer, we regard economy, ecology and social commitment as objectives of equal rank.

We seek to retain society’s confidence through performance, flexibility and open communication as we work in pursuit of our overriding goals: to steadily create corporate value and generate high value-added for the benefit of our stockholders, our employees and the community in every country in which we operate.

For better health

Multiple sclerosis
Hyun Ho Lee was diagnosed with MS in 2004. Today, thanks to modern medicines, she is well enough to get involved in a self-help organization for MS patients in Korea. In her free time she relaxes by creating art with paper.

Bayer HealthCare: Improving the quality of life for people with multiple sclerosis

Despite major progress in medicine, there are still many conditions that cannot be cured. Multiple sclerosis (MS) is one of them. There used to be no way to mitigate the effects of this nervous system disease, which commonly alternates between flare-ups and symptom-free periods. Things are different now, due in large measure to the arrival of Betaferon®/Betaseron®, an innovative drug from Bayer HealthCare. This was the first drug to reduce the frequency of MS episodes, thus improving patients' quality of life. Now the results of a new study show that early treatment can further delay the onset of disability.

The refinement of established products capable of enhancing patients' quality of life is one major focus at Bayer HealthCare. Another is the discovery of new active substances that form milestones along the road to improving the health of people and animals worldwide.

Pharmacology
Sandra Patkovic and Dr. Jürgen Heubach study gene activity patterns from patients treated with Betaferon®/Betaseron®. The scientists' goal is to identify biomarkers of successful treatment with this drug.

For better nutrition

New tomato variety
In southern Spain, Francisco Martinez Granero is cultivating a new tomato variety that meets all his requirements in terms of flavor, appearance and use options.

Bayer CropScience: Tomatoes bred the modern way – tasty and healthful

Nowadays new vegetable varieties are developed through a combination of traditional plant-breeding methods and modern genetic analysis. Bayer CropScience and its subsidiary Nunhems have used this process – known as integrated breeding – to create new varieties of tomatoes that fully meet the ever more demanding requirements of professional vegetable producers and consumers. It is an innovative breeding technique that involves great precision. Scientists first identify the genes in the genomes of tomato plants that regulate the sugar or vitamin content of the fruit, for example, and analyze this data. They then systematically cross the plants that have the most favorable profiles. It generally takes between three and five years to create a new variety in this way. Conventional breeding takes twice as long.

The result are new tomato varieties that have a more intense flavor and also contribute to a healthy diet. Nunhems is a global specialist for vegetable seeds, supplying innovative products, concepts and expertise for professional fruit and vegetable production.

Analyzing the genome
Nunhems research employee Jeanine Derks extracts parts of a plant so that its genome can be analyzed.

For better materials

Carbon nanotubes
These tiny cylinders can be used, for example, to make boats more stable while at the same time reducing their weight, so the Baltic Yacht 43 can sail even closer to the wind. Using these materials in other areas could also help save energy in the future.

Bayer MaterialScience: Nanotubes – robust and lightweight

Carbon nanotubes (Baytubes®) from Bayer MaterialScience are the basis for extremely robust and at the same time exceptionally lightweight materials. They are already firmly established in the sports sector. Nanotubes make boats faster, tennis rackets stronger and ice hockey sticks stiffer. With their exceptional properties, these minute cylinders can also contribute significantly to climate protection. Wind turbine rotor blades incorporating carbon nanotubes are far lighter and thus much more efficient.

Bayer MaterialScience can currently produce up to 60 tons of Baytubes® a year, making it one of the world's top three nanotube manufacturers. A bulk facility with an annual capacity of 3,000 metric tons is planned in the medium term. For decades, Bayer has ranked among the world's biggest producers of polymers and high-tech materials. Now its nanotubes mark another milestone in innovation.

Manufacturing Baytubes®
Production manager Dr. Ralph Weber observes the flow behavior of carbon nanotubes in the laboratory. The versatile microscopic cylinders appear as black streaks.

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Bayer's most successful year

Dear Stockholders:

2007 was the most successful year yet for Bayer AG. Our key figures were outstanding:

- Sales rose by 12 percent to €32.4 billion. Adjusted for currency and portfolio changes, business expanded by 6 percent.
- EBITDA before special items came in at €6.8 billion, improving by 21 percent from our already very strong performance in the previous year. This gave us an underlying EBITDA margin of 20.9 percent, ahead of the target we had announced for 2007.
- EBIT before special items grew by 23 percent to €4.3 billion, while EBIT after special items climbed by 14 percent to €3.2 billion.

We owe our success in the past year to the tremendous commitment displayed by all our employees, who once again demonstrated their innovative capabilities, their diligence and their customer orientation. On behalf of the entire Board of Management, I would like to thank them explicitly for their valuable contribution.

I am pleased to say that all the subgroups contributed to our success last year.

Bayer HealthCare registered significant growth, thanks to the strong performance of our leading products and the acquisition of Schering, Berlin, Germany. We are more than satisfied with our progress in integrating that business, and we made considerable strides with our pharmaceutical pipeline. The other divisions of Bayer HealthCare are also developing very well, outpacing the growth in their markets.

At Bayer CropScience, business was lifted by higher prices for agricultural commodities, increased cultivation of crops for the production of biofuels and a more favorable market environment in Latin America. We further expanded our BioScience business and are now the world's second-leading supplier of cotton seed following our acquisition of the U.S. producer Stoneville.

Bayer MaterialScience maintained the positive sales trend of the previous year. Earnings, however, were held back mainly by higher raw material and energy costs. Targeting a sustainable improvement in profitability, Bayer MaterialScience has initiated a new cost structure program. It has also shored up its strategic positions in growth regions, partly by further expanding the production facilities in China.

Our success in 2007 is also evident in the dynamic performance of Bayer stock. The price of our shares rose by 57 percent on the year, considerably outpacing both the DAX and the EURO STOXX 50 and peaking above €60 for the first time.

Bayer's market capitalization rose by more than €16 billion in 2007, to over €47 billion – the highest absolute gain ever in a single year.

It goes without saying that we want you, our stockholders, to share in the solid performance of the business. The Board of Management and the Supervisory Board are therefore proposing an increase in the dividend to €1.35 per share – 35 percent more than for the previous year.

Both stockholders and management rate Bayer as a company with bright future prospects. We will do everything in our power to achieve our objectives and continue the strong performance of the past.

First, let us look ahead to 2008. We expect the global economy to go on expanding, with regional variations. We believe the strongest growth will occur in Asia and Latin America. In Europe we anticipate that economic expansion will remain robust. Uncertainty surrounds the economic trend in the United States and its possible impact on the global economy. Exchange rates also remain unpredictable.

In this environment we aim to continue growing and anticipate that we can raise Bayer Group sales by about 5 percent this year on a currency-adjusted basis. This would mean a slight nominal increase over 2007. We also expect to further increase EBITDA before special items and improve our operating margin.

Economic development in the coming years will be heavily influenced by basic trends:

- Life expectancy continues to rise, resulting in increased demand for innovative medicines and therapies.
- The global population is growing rapidly. Ever-higher crop yields must be achieved on the same amount of arable land in order to ensure sufficient food supplies.
- Last year's alarming status reports on climate change have firmly anchored the issue of climate protection, and how to tackle the effects of climate change, in the public consciousness.

Our portfolio addresses these significant challenges and fundamental trends. We therefore see excellent opportunities for the continued development of our business beyond 2008.

At Bayer HealthCare, our attractive product portfolio and well-stocked pharmaceutical research and development pipeline offer optimal perspectives for a successful future. Our cancer drug Nexavar is on track to establish itself as a standard therapy for several types of cancer. Sales of this product more than doubled in 2007. The anti-thrombosis drug Xarelto, currently in registration for a first indication, has the potential to become a "blockbuster" and achieve sales in the billion euro range.

The long-term trends and challenges in the agricultural industry offer tremendous opportunities for Bayer CropScience. For example, we are employing our innovative capability to enhance the stress tolerance of plants and thereby safeguard yields even under extreme conditions such as heat, drought or saline soil. This should help mitigate the consequences of significantly worsened growing conditions in some parts of the world and also represents a step toward tackling the effects of climate change.

In a variety of ways, the products of Bayer MaterialScience already play a key role in conserving energy and natural resources. One example is the use of our polyurethanes as insulating materials in buildings or refrigerators, which opens up the potential for considerable energy savings.

The Bayer Climate Program, unveiled in the fall of 2007, draws greater attention to our specific contribution in this area and is at the same time a pledge to work even harder in the future on innovative products and concepts for climate protection. We also intend to further improve the energy efficiency of our production processes and have set ourselves ambitious emissions targets. We plan to make €1 billion available through 2010 for climate-related R&D and projects.

For 2008 we have a capital expenditure budget of around €1.7 billion. We also plan to spend some €2.8 billion on research and development – by far the largest R&D budget of any German company in our sector. This investment is designed to support our future growth and ensure a high level of innovation.

Yet we can only remain competitive over the long term if we have highly skilled employees. After all, ideas, creativity and innovation are the main drivers of our future success.

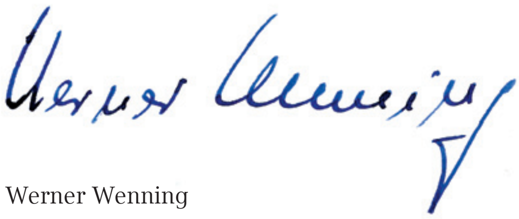
Demographic change presents large corporations with new challenges. In important disciplines such as science and engineering, good specialists and highly qualified academics are already scarce, and this shortage is likely to deepen in the future. Our competitive compensation packages, the Group's international alignment and the numerous social benefits we provide make us an attractive employer. We place great importance on the continuing professional advancement and personal development of our employees.

We are also committed to arousing the interest of school students in science and technology, providing targeted financial support to improve study conditions at schools in the communities near our sites. This forms an integral part of our activities in the field of corporate social responsibility.

We are convinced that Germany can only ensure its long-term competitiveness as an industrial base if politics, society and industry join together to invest in education and training. In 2008 we again plan to offer vocational training places to approximately 800 young people and hire about 200 university graduates in Germany.

We can look back on a very successful year – and we can look forward to exciting challenges and promising perspectives. On behalf of the Board of Management, I thank you for your trust. We will do all we can to ensure that we continue along our successful path.

Sincerely,



Werner Wenning
Chairman of the Board of Management of Bayer AG

Board of Management

Werner Wenning

Chairman of the Bayer AG Board of Management since April 2002. Born in 1946, Werner Wenning joined the company in 1966 as a commercial trainee. He held a number of positions with Bayer in Germany and abroad, serving as managing director of Bayer subsidiaries in Peru and Spain and later as Head of the Corporate Planning and Controlling Division. Wenning was appointed to the Board of Management as Chief Financial Officer in February 1997. He was President of the German Chemical Industry Association from 2005 until 2007 and is currently its Vice President.

Klaus Kühn

Chief Financial Officer and responsible for the Europe region. Born in 1952, Klaus Kühn studied mathematics and physics at the Technical University of Berlin, Germany, gaining a mathematics degree in 1978. He also studied in the United States, where he obtained a Master of Business Administration. Kühn joined Bayer AG in 1998 as Head of the Finance Section, and shortly afterwards was made Head of the Group Finance Division. He was appointed to the Bayer AG Board of Management in May 2002.

Dr. Wolfgang Plischke

Responsible for Innovation, Technology and Environment and the Asia-Pacific region. Born in 1951, Wolfgang Plischke studied biology at the University of Hohenheim, Germany. After gaining his Ph.D., Plischke began his career with Bayer in 1980, first joining the subsidiary Miles. After holding a number of positions in Germany and abroad, he became Head of the Pharmaceuticals Business Group in North America in 2000, and two years later took over responsibility for the Pharmaceuticals Business Group of Bayer AG. Plischke was appointed to the Bayer AG Board of Management in March 2006. Since December 2007 Plischke has been Chairman of the German Association of Research-Based Pharmaceutical Companies.

Dr. Richard Pott

The member responsible for Strategy and Human Resources and the Americas, Africa and Middle East regions, Dr. Richard Pott is also Bayer AG's Labor Director. Born in 1953, Richard Pott studied physics at the University of Cologne, Germany, where he obtained his Ph.D. In 1984 he joined the company's Central Research Division. After holding various positions in the Corporate Staff Division he became Head of the former Specialty Products Business Group in 1999. Pott was appointed to the Bayer AG Board of Management in May 2002.

The Board of Management (from left):
Klaus Kühn, Dr. Wolfgang Plischke, Dr. Richard Pott, Werner Wenning

Report of the Supervisory Board

Dear stockholders:

During 2007 the Supervisory Board monitored the conduct of the company's business and acted in an advisory capacity. We performed these functions on the basis of detailed written and oral reports received from the Board of Management. In addition, the Chairman of the Supervisory Board and the Chairman of the Board of Management maintained a constant exchange of information and ideas. In this way the Supervisory Board was kept continuously informed about the company's intended business strategy, corporate planning (including financial, investment and human resources planning), earnings performance, the state of the business and the situation in the company and the Group as a whole.

The documents relating to Board of Management decisions or actions which – by law or under the articles of incorporation or the rules of procedure – required the approval of the Supervisory Board were inspected by the Supervisory Board at its plenary meetings, sometimes after preparatory work by the committees. In certain cases the Supervisory Board gave its approval on the basis of documents circulated to its members. The meetings of the Supervisory Board were regularly attended by the members of the Board of Management. The Supervisory Board was involved in decisions of material importance to the company. We discussed at length the business trends described in the reports from the Board of Management and the prospects for the development of the Bayer Group as a whole, the individual organizational units and the principal affiliated companies in Germany and abroad. During 2007 there were five plenary meetings of the Supervisory Board. On two occasions, decisions were made after circulation of documents to the members. These related in one case to an acquisition project and in the other to the launch of a bond issue. No member of the Supervisory Board attended fewer than half of the meetings.

Elections to the Supervisory Board

In 2007, both the stockholder and the employee representatives on the Supervisory Board were elected for a term of five years. Three stockholder representatives, including a long-serving member, and two employee representatives did not stand for re-election, and new members were elected in their places.

Principal topics discussed by the Supervisory Board

At the focus of the Supervisory Board's deliberations were questions relating to the integration of Bayer Schering Pharma AG and the strategies of the Group as a whole and the subgroups. The September meeting of the Supervisory Board devoted special attention to the alignment of pharmaceutical research in the HealthCare subgroup and the pharmaceutical product pipeline. The same meeting also received reports concerning the delisting of Bayer shares from the New York Stock Exchange and the subsequent deregistration with the U.S. Securities and Exchange Commission (SEC).

At its meetings the Supervisory Board also discussed Bayer CropScience's acquisition of the U.S. cotton seed producer Stoneville, Bayer HealthCare's purchase of the Citracal product line from the U.S. company Mission Pharmacal, and the launch of a bond issue in Japan. Court proceedings and other litigations were dealt with at several meetings.

At the meeting in December 2007, the Board of Management presented its operational, financial and balance sheet planning for the years 2008 through 2010, which was the subject of detailed discussion.

Committees of the Supervisory Board

The Supervisory Board currently has the following committees:
Presidial Committee: This comprises two stockholder representatives and two employee representatives. The Presidial Committee serves primarily as the mediation committee pursuant to the German Codetermination Act. It has the task of submitting proposals to the Supervisory Board on the appointment of members of the Board of Management if the necessary two-thirds majority is not achieved in the first vote at a plenary meeting. Certain decision-making powers relating to capital measures have also been delegated to this committee.

Audit Committee: The Audit Committee, comprising three stockholder representatives and three employee representatives, meets four times a year. Its tasks include examining the company's financial reporting along with the quarterly and annual financial statements prepared by the Board of Management. On the basis of the auditor's report on the audit of the annual financial statements, the Audit Committee submits the proposal for their confirmation by the full Supervisory Board.

The Audit Committee also oversees the company's internal control system along with the procedures used to identify, track and manage risk, and monitors compliance with laws and statutory regulations. In accordance with the amendments to the Corporate Governance Code adopted during 2007, the Audit Committee is also responsible for compliance issues and discusses new developments in this area at each of its meetings.

The company's Corporate Auditing department reports regularly to the Audit Committee, which also is responsible for the company's relationship with the external auditor. The Audit Committee prepares the awarding of the audit contract to the audit firm appointed by the Annual Stockholders' Meeting, suggests areas of focus for the audit and determines the auditor's remuneration. It also monitors the independence, qualifications, rotation and efficiency of the auditor.

Human Resources Committee: On this committee, too, there is parity of representation between stockholders and employees. It consists of the Chairman of the Supervisory Board, one other stockholder representative and two employee representatives. The Human Resources Committee prepares the personnel decisions to be made by the Supervisory Board. In particular, it concludes service contracts with the members of the Board of Management on behalf of the Supervisory Board. It also discusses the long-term succession planning for the Board of Management.

Nominations Committee: At the September meeting of the Supervisory Board, a Nominations Committee was established in line with the recommendation in the German Corporate Governance Code of June 2007 to carry out preparatory work when an election of stockholder representatives to the Supervisory Board is to be held. It suggests suitable candidates for the Supervisory Board to propose to the Annual Stockholders' Meeting for election. The Nominations Committee comprises the Chairman of the Supervisory Board and the other stockholder representative on the Presidial Committee.

The **Bayer Schering Pharma AG Acquisition Project Committee** was dissolved in September 2007 as it had completed the tasks entrusted to it.

Work of the committees

The Presidial Committee of the Supervisory Board was not required to convene in 2007 in its capacity as the Mediation Committee under Section 27 Paragraph 3 of the German Codetermination Act, nor did it need to resolve on any other matters.

The Audit Committee met four times during the year, concerning itself in particular with the company’s and the Group’s financial reporting. Other areas of focus were the Group’s risk management system, the internal control system and compliance issues. The Audit Committee also set the budget for the services of the external auditor and discussed with the auditor the main areas of the audit for the 2007 fiscal year. The auditor was present at all the meetings of the Audit Committee, reporting in detail on the audit work and the auditor’s review of the interim financial statements.

The Human Resources Committee convened on two occasions. It dealt mainly with matters relating to the remuneration of the Board of Management and questions relating to the pensions of former members of the Board of Management.

The previously formed Bayer Schering Pharma AG Acquisition Project Committee, dissolved in September 2007, and the newly formed Nominations Committee did not convene in 2007.

The meetings and decisions of the committees were prepared on the basis of reports and other information provided by the Board of Management, whose members regularly attended the committee meetings. Reports on the committee meetings were presented at the plenary meetings of the Supervisory Board.

Corporate Governance

The Supervisory Board dealt with the ongoing development of corporate governance at Bayer, taking into account the amendments made to the German Corporate Governance Code in June 2007. In December 2007 the Board of Management and the Supervisory Board issued a new Declaration of Conformity, which is also reproduced in the Corporate Governance chapter of this Annual Report.

Financial statements and audits

The financial statements and management report of Bayer AG were drawn up according to the requirements of the German Commercial Code, while the consolidated financial statements and management report of the Bayer Group were prepared according to the principles of the International Financial Reporting Standards (IFRS). The financial statements of Bayer AG, the consolidated financial statements of the Bayer Group, the management report of Bayer AG and the management report of the Bayer Group have been examined by the auditor, PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Essen. The conduct of the audit is explained in the auditor's report. The auditor finds that Bayer has complied with the requirements of the German Commercial Code and the International Financial Reporting Standards, respectively, and issues an unqualified opinion on the financial statements of Bayer AG and the consolidated financial statements of the Bayer Group. The financial statements and management report of Bayer AG, the consolidated financial statements and management report of the Bayer Group, and the audit reports were submitted to all members of the Supervisory Board. They were discussed in detail by the Audit Committee and at a plenary meeting of the Supervisory Board. The auditor submitted a report on both occasions and was present during the discussions.

We examined the financial statements and management report of Bayer AG, the proposal for distribution of the profit, and the consolidated financial statements and management report of the Bayer Group. We found no objections, thus we concur with the result of the audit. We have approved the financial statements of Bayer AG and the consolidated financial statements of the Bayer Group prepared by the Board of Management. The financial statements of Bayer AG are thus confirmed. We are in agreement with the management reports of Bayer AG and the Bayer Group and, in particular, with the assessment of the future development of the enterprise. We also concur with the dividend policy and the decisions concerning earnings retention by the company. We assent to the proposal for distribution of the profit, which provides for payment of a dividend of €1.35 per share.

The Supervisory Board would like to thank the Board of Management and all employees for their dedication and hard work in 2007.

Leverkusen, February 2008
For the Supervisory Board

Dr. Manfred Schneider
Chairman

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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> Bayer Group
> Corporate Governance

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 Krejcik	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 Schmoldt	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 muliplier 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.

www.investor.bayer.com
> Events
> Calendar

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:

Wenning

Kühn

For the Supervisory Board:

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.

Outstanding performance by Bayer stock

In 2007 Bayer stock continued the positive trend of recent years, with an overall performance of nearly 57 percent, making it one of the strongest winners in the DAX 30. The Board of Management and the Supervisory Board propose that the dividend be raised to €1.35 per share.

German equity market firm despite international turbulence
The German stock index DAX stayed very firm in 2007 despite the turbulent market environment. Apart from a brief dip in February 2007 – caused by weak U.S. economic data and fears that the Chinese equity market could be overheating – the DAX rose 21 percent in the first half of the year to around 8,000 points. In the summer, the subprime crisis in the United States unsettled investors and caused shares prices to drop in Germany as well. However, the DAX subsequently rallied in response to the generally favorable business climate and good corporate results, finishing the year at 8,067 points, up 22.3 percent from the end of 2006.

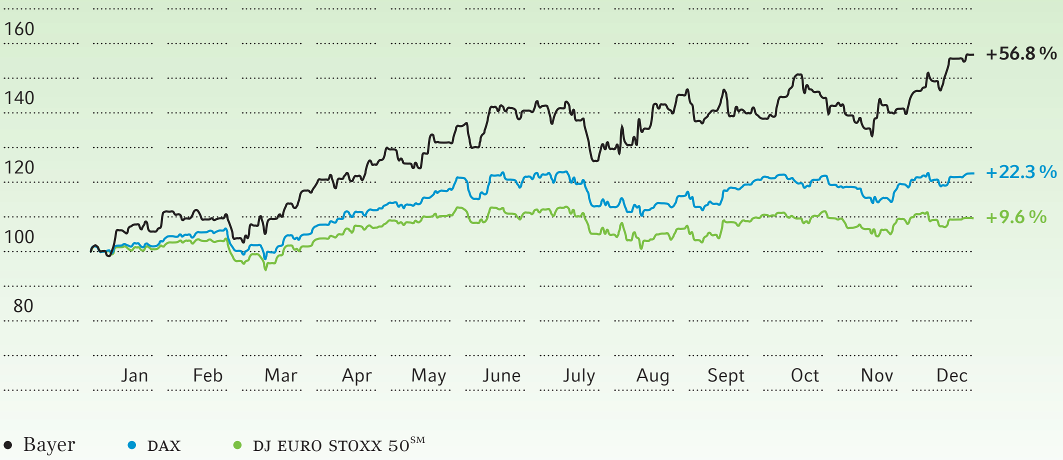
Bayer stock achieves a performance of nearly 57 percent
Bayer stock again developed very well in 2007, its price gaining 53.8 percent on the year. The €1.00 per share dividend paid in May 2007 brings the overall performance to 56.8 percent, putting Bayer in fourth place among DAX 30 stocks.

This outstanding performance was chiefly attributable to Bayer's solid operational development. The share price was also boosted by a mainly positive corporate news flow, especially regarding the continuing successful development of two products in our pharmaceutical pipeline: Nexavar® (cancer) and Xarelto® (thrombosis). Further upside impetus came from the announcement that target margins for the Bayer HealthCare subgroup had been raised, partly in light of the successful integration of Schering.

At the beginning of 2008, Bayer stock, too, was caught up in the effects on the stock market of the subprime and banking crisis, losing 12 percent by February 19 (the DAX declined by 13 percent in the same period).

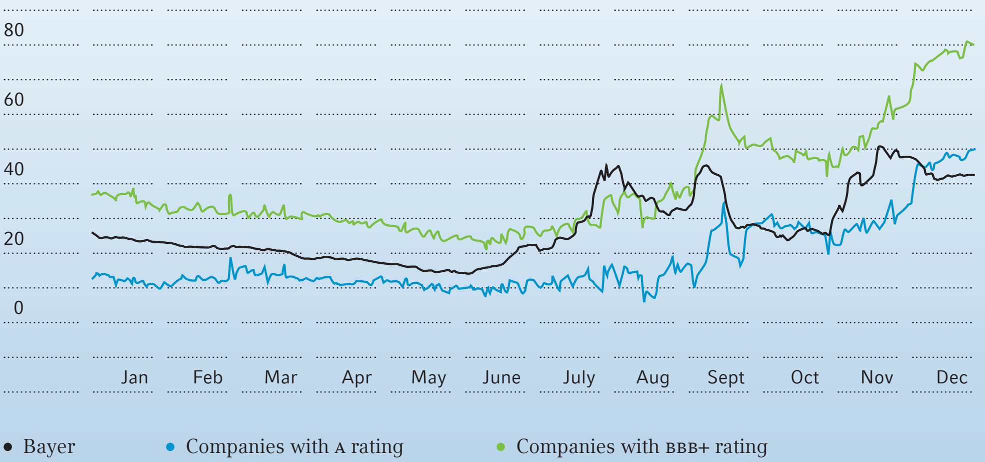
Performance of Bayer Stock in 2007

(indexed; 100 = closing price on December 31, 2006)



Rates for five-year credit default swaps (CDS) 2007

in basis points (source: Bloomberg)



Bayer Stock Data		2006	2007
Earnings per share	€	2.22	5.84
Core earnings per share [1]	€	2.99	3.80
Cash flow per share	€	5.12	6.26
Equity per share	€	16.81	22.01
Dividend per share	€	1.00	1.35
Year-end price [2]	€	40.66	62.53
High for the year [2]	€	40.92	62.53
Low for the year [2]	€	30.56	40.20
Total dividend payment	€ million	764	1,032
Shares entitled to the dividend (Dec. 31)	million	764.34	764.34
Market capitalization (Dec. 31)	€ billion	31.1	47.8
Average daily trading volume	million	5.6	5.7
Price/EPS [2]		18.3	10.7
Price/core EPS [1 2]		13.6	16.5
Price/cash flow [2]		7.9	10.0
Dividend yield	%	2.5	2.2

2006 figures restated
[1] For details on the calculation of core earnings per share, see page 25.
[2] XETRA closing prices (source: Bloomberg)

A long-term investor who purchased Bayer shares for €10,000 five years ago (i.e. on January 1, 2003) and reinvested all dividends would have seen the value of the position grow to €37,846 as of December 31, 2007, giving an average annual return of 30.5 percent.

Comparative Performance of Bayer stock

Average annual performance (assuming reinvestment of dividends)	1 year 2007	3 years 2005–2007	5 years 2003–2007
%			
Bayer	56.8	42.0	30.5
DAX	22.3	23.8	22.8
DJ EURO STOXX 50℠	9.6	17.2	15.8

Bayer stock delisted from the New York Stock Exchange

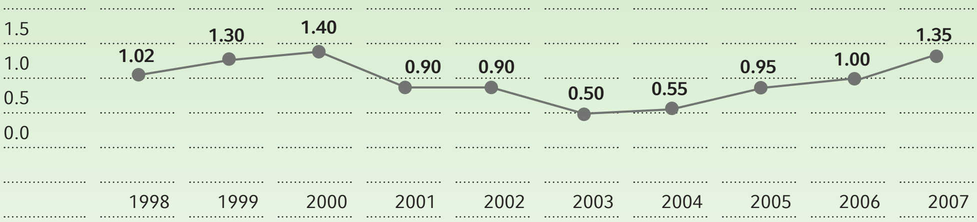
Bayer's American Depositary Shares (ADS) were delisted from the New York Stock Exchange on September 27, 2007. Since then, they have been traded in the U.S. over-the-counter market (ticker symbol BAYRY). Deregistration with the U.S. Securities and Exchange Commission (SEC) took effect at the end of December 2007, ending Bayer's reporting obligations to the SEC.

Substantial 35 percent dividend increase to €1.35 per share

To allow stockholders to benefit appropriately from the success of the business in 2007, the Board of Management and Supervisory Board will propose to the Annual Stockholders' Meeting that the dividend be raised by 35 percent to €1.35 per share, resulting in a total dividend payment of €1,032 million and a payout ratio of 36 percent calculated on core earnings per share (see page 25). The target payout ratio of 30 to 40 percent has thus been achieved. The dividend yield calculated on the share price of €62.53 at year end 2007 amounts to 2.2 percent.

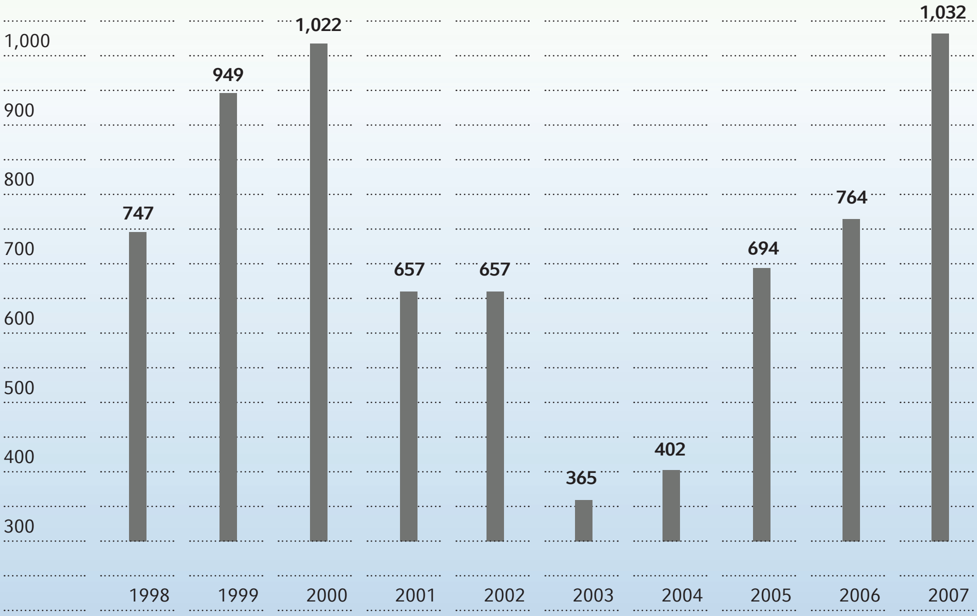
Dividends per share

€



Total dividend payment

€ million



Successful bond placements – credit margins better than benchmark indices

In the first half of 2007 Bayer offered further investment opportunities under its EMTN program. In April 2007, €200 million in four-year fixed-rate notes and €300 million in three-year floating-rate notes were issued. In June 2007 Bayer launched three separate bond issues for Japanese investors with a total size of 55 billion yen (approximately €334 million) in Japan. A list of the bonds issued by Bayer can be found in Note [27] to the consolidated financial statements.

As the credit default swaps (CDS) graphic on page 21 shows, the U.S. subprime crisis also affected credit markets in the second half of 2007. CDS are tradable insurance contracts used to hedge against default of a borrower. The market price of CDS depends on the underlying credit risk and thus helps to determine the credit margin when raising debt.

In the first half of 2007, Bayer's five-year CDS traded in line with Bayer's credit rating within the indices for single A and BBB+ rated issuers, while in the second half margins rose in the wake of the U.S. subprime crisis. Bayer's CDS, however, did not rise as fast as the two indices, reflecting an improvement in relative creditworthiness. In December Bayer's CDS in fact traded below the index for single A rated companies.

Broader stockholder structure

A recent survey of the stock held by institutional investors shows foreign institutions holding 78 percent of the capital covered by the survey. Of the identified capital, 47 percent is held by U.S.-based institutions, 22 percent by institutions in Germany and 11 percent by those in the United Kingdom. The large proportion of foreign investors reflects the significance of Bayer stock on the international financial markets.

Stepping up the dialogue with investors

Last year, in the course of over 60 road shows and investor conferences, the Board of Management and the Investor Relations department spoke with investors in more than 20 financial centers and responded to their questions.

A highlight of our communications activities was the HealthCare Investor Day in Leverkusen in June 2007, which gave investors and analysts an opportunity to discuss Bayer's HealthCare strategy in detail. The main topics addressed were the growth perspectives for the HealthCare business, the integration of the Bayer and Schering pharmaceutical R&D pipelines, and developments in the Consumer Health business.

Last year the capital markets displayed increasing interest in sustainability issues such as corporate social responsibility, the responsible use of resources, and corporate governance. Bayer maintains an open and transparent dialogue on these issues.

Top ranking in the chemicals sector

In a survey published by the Institutional Investor Research Group (IIRG), analysts and portfolio managers ranked Bayer's investor relations work among the best in the chemicals sector. This survey assessed the quality of capital market communications by more than 1,500 European companies in 32 sectors.

Calculation of core earnings per share

Earnings per share according to IFRS are affected by the purchase price allocation for Schering, Berlin, Germany, and other special factors. To enhance comparability, we also determine core net income from continuing operations after elimination of the amortization of intangible assets, asset write-downs (including any impairment losses), special items in EBITDA, one-time income/losses from investments in affiliated companies (such as divestment gains or write-downs) including the related tax effects, and one-time tax income or expense.

The €0.9 billion in one-time non-cash tax income received in the third quarter of 2007 in connection with the German corporate tax reform represents a special tax effect and is therefore eliminated.

The calculation of earnings per share in accordance with IFRS is explained in Note [16] to the consolidated financial statements. Adjusted core net income, core earnings per share, core EBIT and price/core EPS ratio and are not defined in the International Financial Reporting Standards. Therefore they should be regarded as supplementary information rather than stand-alone indicators.

Calculation of Core EBIT and Core Earnings per Share	2006	2007
€ million		
EBIT as per income statement	**2,762**	**3,154**
Amortization and write-downs of intangible assets	734	1,463
Write-downs of property, plant and equipment	107	118
Special items (other than write-downs)	909	911
Core EBIT	**4,512**	**5,646**
Non-operating result (as per income statement)	(782)	(920)
One-time income / losses from investments in affiliated companies	(236)	-
Income taxes (as per income statement)	(454)	72
One-time tax income	(203)	(870)
Tax adjustment	(531)	(887)
Income after taxes attributable to minority interest (as per income statement)	(12)	(5)
Core net income from continuing operations	**2,294**	**3,036**
Financing expenses for the mandatory convertible bond, net of tax effects	72	98
Adjusted core net income	**2,366**	**3,134**
Shares		
Weighted average number of issued ordinary shares	**746,456,988**	**764,341,920**
Potential shares to be issued upon conversion of the mandatory convertible bond	45,300,595	59,565,383
Adjusted weighted average total number of issued and potential ordinary shares	**791,757,583**	**823,907,303**
Core earnings per share from continuing operations (€)	**2.99**	**3.80**

2006 figures restated

2007: A very successful year for Bayer

Operational targets exceeded

- Sales grow 11.8 percent to €32.4 billion
- EBITDA before special items advances 21.4 percent to €6.8 billion
- EBIT before special items climbs 23.2 percent to €4.3 billion
- Divestments boost net income to €4.7 billion
- Dividend to be raised to €1.35
- Further earnings increase expected for 2008

Overview of Sales, Earnings and Financial Position

Full year 2007

The Bayer Group had a very successful **year** in **2007**. We again achieved a year-on-year improvement in the key indicators of operating performance and exceeded our earnings targets.

Sales gained 11.8 percent to €32,385 million (2006: €28,956 million). In the previous year the acquired business of Schering AG, Berlin, Germany, was only included on a pro-rated basis from June 23, 2006. Adjusted for currency and portfolio effects, Group sales rose by 6.1 percent, with HealthCare up 7.3 percent, CropScience 5.6 percent and MaterialScience 6.2 percent from the prior year.

Change in sales	2006	**2007**
%		
Volume	+4.6	+5.6
Price	+0.5	+0.5
Currency	−0.2	−3.6
Portfolio	+12.3	+9.3

Bayer Group Quarterly Sales

€ million

		Domestic	Foreign	Total
Q1	2006	1,115	5,676	6,791
	2007	1,301	7,034	**8,335**
Q2	2006	1,060	5,676	6,736
	2007	1,199	7,018	**8,217**
Q3	2006	1,183	6,276	7,459
	2007	1,190	6,603	**7,793**
Q4	2006	1,167	6,803	7,970
	2007	1,125	6,915	**8,040**

Domestic Foreign

2006 figures restated

HealthCare Quarterly Sales

€ million

Q1	2006	2,203
	2007	**3,610**
Q2	2006	2,257
	2007	**3,717**
Q3	2006	3,482
	2007	**3,680**
Q4	2006	3,782
	2007	**3,800**

2006 figures restated

CropScience Quarterly Sales

€ million

Q1	2006	1,771
	2007	**1,786**
Q2	2006	1,578
	2007	**1,562**
Q3	2006	1,049
	2007	**1,157**
Q4	2006	1,302
	2007	**1,321**

MaterialScience Quarterly Sales

€ million

Q1	2006	2,486
	2007	**2,608**
Q2	2006	2,547
	2007	**2,623**
Q3	2006	2,596
	2007	**2,625**
Q4	2006	2,532
	2007	**2,579**

2006 figures restated

EBITDA before special items climbed by 21.4 percent to an all-time high of €6,777 million (2006: €5,584 million). We thus achieved an underlying EBITDA margin of 20.9 percent, exceeding our target margin for 2007. HealthCare saw EBITDA before special items climb by 45.1 percent to €3,792 million (2006: €2,613 million). This was attributable to the gratifying business performance of all divisions, the inclusion of the Schering business for the full year 2007 and the synergies already realized from its integration. CropScience posted underlying EBITDA of €1,324 million (2006: €1,204 million). This growth in earnings was mainly due to higher volumes and cost savings, which more than offset the impact of adverse currency shifts on margins. EBITDA before special items of Bayer MaterialScience amounted to €1,606 million, which was below the prior-year level of €1,677 million. Here, significant price increases for petrochemical raw materials and energies were largely offset by higher volumes and selling prices.

Bayer Group EBIT before special items also reached a record level, advancing 23.2 percent from the prior year to €4,287 million (2006: €3,479 million). EBIT in 2007 was diminished by net special charges of €1,133 million, against €717 million in the previous year. Of the 2007 figure, HealthCare accounted for €928 million, CropScience for €130 million and MaterialScience for €75 million. Special charges of €683 million (2006: €273 million) related to the integration of Schering AG, €172 million (2006: €224 million) to our ongoing restructuring, €152 million (2006: €60 million) to impairments of intangible assets and €139 million (2006: €172 million) to litigation. Bayer Group EBIT moved ahead 14.2 percent to €3,154 million (2006: €2,762 million).

After a non-operating result of minus €920 million (2006: minus €782 million), income before income taxes came in at €2,234 million (2006: €1,980 million). The non-operating result contained net interest expense of €701 million (2006: €728 million) and a €69 million loss (2006: €207 million income) from investments in affiliated companies. Included in the prior year figure is a €236 million gain from the sale of our interest in GE Bayer Silicones.

In 2007 we recorded net tax income of €72 million after a one-time, non-cash positive tax effect of €912 million arising in connection with the corporate tax reform in Germany. Without this one-time effect, tax expense in 2007 amounted to €840 million (2006: €454 million).

Income from continuing operations after taxes rose to €2,306 million (2006: €1,526 million), while after-tax income from discontinued operations totaled €2,410 million (2006: €169 million), mainly as a result of gains from the divestitures of the diagnostics business, H.C. Starck and Wolff Walsrode.

After minority stockholders' interest, net income of the Bayer Group improved to €4,711 million (2006: 1,683 million). Earnings per share came to €5.84 (2006: €2.22).

Bayer Group Quarterly EBITDA Before Special Items

€ million

Q1	2006	1,564
	2007	**1,990**
Q2	2006	1,303
	2007	**1,806**
Q3	2006	1,459
	2007	**1,559**
Q4	2006	1,258
	2007	**1,422**

2006 figures restated

HealthCare Quarterly EBITDA Before Special Items

€ million

Q1	2006	465
	2007	**948**
Q2	2006	470
	2007	**969**
Q3	2006	882
	2007	**953**
Q4	2006	796
	2007	**922**

2006 figures restated

CropScience Quarterly EBITDA Before Special Items

€ million

Q1	2006	551
	2007	**584**
Q2	2006	368
	2007	**396**
Q3	2006	143
	2007	**167**
Q4	2006	142
	2007	**177**

MaterialScience Quarterly EBITDA Before Special Items

€ million

Q1	2006	539
	2007	**409**
Q2	2006	450
	2007	**409**
Q3	2006	381
	2007	**421**
Q4	2006	307
	2007	**367**

2006 figures restated

Gross Cash Flow

€ million		
Q1	2006	1,089
	2007	**1,411**
Q2	2006	928
	2007	**1,187**
Q3	2006	1,135
	2007	**1,165**
Q4	2006	761
	2007	**1,021**

2006 figures restated

Net Cash Flow

€ million		
Q1	2006	38
	2007	**375**
Q2	2006	882
	2007	**816**
Q3	2006	1,515
	2007	**1,623**
Q4	2006	1,493
	2007	**1,467**

2006 figures restated

Gross cash flow increased by €871 million to €4,784 million (2006: €3,913 million), due to the gratifying expansion of business and the full-year inclusion of Schering. Net cash flow advanced by 9.0 percent to €4,281 million (2006: €3,928 million).

Net debt of the Bayer Group as of December 31, 2007 amounted to €12.2 billion, compared with €17.5 billion at the end of 2006. This substantial reduction resulted from the improvement in operating cash flow and from the purchase price payments received in 2007 for the diagnostics business, H.C. Starck and Wolff Walsrode.

Provisions for pensions and other post-employment benefits declined by €1.0 billion compared with December 31, 2006, to €5.5 billion, mainly due to the rise in capital market interest rates.

Fourth quarter of 2007

The Bayer Group continued its positive performance of the first nine months in the **fourth quarter of 2007**. At €8,040 million, **sales** were up slightly from the prior-year figure of €7,970 million. On a currency- and portfolio-adjusted basis the increase came to 4.6 percent. HealthCare sales rose 4.6 percent, CropScience 4.5 percent and MaterialScience 5.8 percent over the same period of 2006.

Key Data by Subgroup and Segment, 4th Quarter

	Sales		EBIT before special items*		EBITDA before special items*		EBITDA margin before special items*	
€ million	4th Quarter 2006	**4th Quarter 2007**	4th Quarter 2006	**4th Quarter 2007**	4th Quarter 2006	**4th Quarter 2007**	4th Quarter 2006	**4th Quarter 2007**
HealthCare	**3,782**	**3,800**	**461**	**584**	**796**	**922**	**21.0 %**	**24.3 %**
Pharmaceuticals	2,698	2,619	263	367	563	670	20.9 %	25.6 %
Consumer Health	1,084	1,181	198	217	233	252	21.5 %	21.3 %
CropScience	**1,302**	**1,321**	**0**	**43**	**142**	**177**	**10.9 %**	**13.4 %**
Crop Protection	1,090	1,100	(11)	33	111	147	10.2 %	13.4 %
Environmental Science, BioScience	212	221	11	10	31	30	14.6 %	13.6 %
MaterialScience	**2,532**	**2,579**	**187**	**241**	**307**	**367**	**12.1 %**	**14.2 %**
Materials	749	778	18	1	62	42	8.3 %	5.4 %
Systems	1,783	1,801	169	240	245	325	13.7 %	18.0 %
Reconciliation	**354**	**340**	**(26)**	**(94)**	**13**	**(44)**	**3.7 %**	**(12.9) %**
Continuing operations	**7,970**	**8,040**	**622**	**774**	**1,258**	**1,422**	**15.8 %**	**17.7 %**

* for definition see Bayer Group Key Data table on front flap, also page 47

EBITDA before special items moved ahead in the fourth quarter by 13.0 percent to €1,422 million (Q4 2006: €1,258 million), with HealthCare posting a 15.8 percent increase to €922 million (Q4 2006: €796 million), CropScience a 24.6 percent advance to €177 million (Q4 2006: €142 million) and MaterialScience a 19.5 percent improvement to €367 million (Q4 2006: €307 million). EBIT before special items climbed by 24.4 percent to €774 million. Net special charges came to €389 million (Q4 2006: €416 million), with HealthCare accounting for most of these items. EBIT for the fourth quarter came in at €385 million (Q4 2006: €206 million).

The Bayer Group had net tax expense of €149 million (Q4 2006: net tax income of €130 million) in the fourth quarter of 2007. This result was diminished by one-time non-cash tax effects. The prior-year figure contained one-time tax income of €203 million due to the first-time recognition of deferred tax assets for loss carryforwards.

Group net income in the fourth quarter came to €67 million (Q4 2006: €311 million). Earnings per share for the quarter were €0.11 (Q4 2006: €0.41). Gross cash flow improved to €1,021 million (Q4 2006: €761 million), while net cash flow dropped by 1.7 percent to €1,467 million (Q4 2006: €1,493 million).

Operating Environment in 2007

The **global economy** grew strongly in 2007 for the fourth year, albeit not quite as fast as in the preceding years. From the second half, global business conditions were increasingly affected by the turbulence on the mortgage markets. Even though the financial crisis has not yet had a significant negative impact on the global economy, the risks to future economic development have since increased considerably. The emerging markets proved relatively resistant to the financial crisis. While the economy in Europe remained stable, the United States economy slowed noticeably over the course of the year due mainly to the domestic real estate and financial crisis. There was uncertainty in the euro zone as the euro continued to appreciate against the U.S. dollar. International trade remained robust thanks to strong demand from the emerging markets.

The **markets relevant to our HealthCare business** posted stable growth in the mid single digits in 2007, with the regional shift registered in prior years largely continuing. There was increasing growth in the emerging markets as health care services there became accessible to more and more people and the demand for treatment options for chronic diseases increased. By contrast, there were signs of slower growth in the United States and the major European countries, partly on account of declining treatment costs in areas where leading products have lost their patent protection and generics continue to gain market share. In addition, growth in western Europe in particular was hampered by health policy factors that led to stronger cost control and limited access to certain types of treatment. Following the biannual price reduction carried out in the previous year, the Japanese market grew once again in 2007, though at a below-average rate.

The **global seed and crop protection market** benefited in 2007 from more favorable weather patterns than in the previous year and from positive conditions on the world's agricultural markets. Significantly higher demand for food, energy and feed plants, coupled with declining inventories, led to higher prices and spurred both crop production and the related demand for crop protection products throughout the world. The Latin American and eastern European markets posted double-digit growth rates, and the crop protection market in western Europe also recovered despite adverse climatic conditions in some areas.

By contrast, the markets of North America and Asia expanded only slightly, with the trend varying from region to region. The upward trend in China and India was maintained, while the drought conditions that have prevailed for several years in Australia persisted and the Japanese market continued to shrink.

The trend in the sectors of greatest importance to our MaterialScience subgroup varied by region in 2007 but was positive overall.

The **automotive industry** registered moderate expansion overall, with considerable regional variations. Whereas growth was slow in western Europe, eastern Europe closed out the year with a double-digit increase in production. China and India were the growth drivers in Asia, but production stagnated in Japan. The big three U.S. automakers remained under strong pressure, while Asian and German producers continued to strengthen their positions.

Capital spending in the **construction industry** rose only slightly worldwide in 2007 as a result of the negative trend in the United States, where the mortgage crisis led to a double-digit decline in housing construction. The pace of growth in western Europe was modest, with a shift from new construction to renovation. In the other regions, the positive trend continued. Although the Japanese construction industry shrank again in 2007 following a brief upswing, growth in Asia as a whole was above the global average.

The **electrical and electronics sector** saw satisfactory growth worldwide, led by Asia and Europe. Strong global demand was registered in all major product segments. Steady expansion in western Europe was accompanied by double-digit growth in eastern Europe. In the United States, the effects of the home construction crisis left its mark on the electrical sector, too. The industry's performance in Japan was below the regional average, with strong growth being recorded in China, South Korea and India.

The **furniture industry** had a largely satisfactory year worldwide. The western European manufacturers enjoyed steady export sales despite the strength of the euro, while in eastern Europe the sector continued its recovery. In the United States, the real-estate crisis led to a significant decline in sales in the second half of the year. In Asia, China further reinforced its dominant position.

Performance by Subgroup and Segment

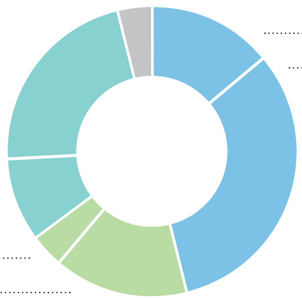
Group structure

Bayer AG, headquartered in Leverkusen, Germany, is the strategic management holding company for the Bayer Group. Business activities are conducted by the HealthCare, CropScience and MaterialScience subgroups, supported by the service companies Bayer Business Services, Bayer Technology Services and CURRENTA. There have been no material changes to the Bayer Group's structure since the 2006 Annual Report.

The commentaries in this report relate exclusively to continuing operations, except where specific reference is made to discontinued operations or to a total value (total). The divested activities of the Diagnostics Division from the HealthCare subgroup and of H.C. Starck and Wolff Walsrode from the MaterialScience subgroup are reported as discontinued operations. The prior-year figures have been restated accordingly.

The acquired business of Schering, Berlin, Germany, is included in the Pharmaceuticals segment of the HealthCare subgroup as of June 23, 2006. As of December 31, 2007, our interest in the voting capital of Bayer Schering Pharma AG, Berlin, Germany, amounted to 96.3 percent. The names "Bayer Schering Pharma" or "Schering" as used in this report always refer to Bayer Schering Pharma AG, Berlin, Germany, or its predecessor, Schering AG, Berlin, Germany, respectively. The reference to Bayer Schering Pharma AG or Schering AG also includes business conducted by affiliated entities in countries outside Germany. Bayer Schering Pharma AG and Schering-Plough Corporation, New Jersey, U.S., are unaffiliated companies that have been totally independent of each other for many years.

Sales by Segment in Percent, 2007 (2006 in parentheses)



Key Data by Subgroup and Segment, 2007

	Sales		EBIT before special items*		EBITDA before special items*		EBITDA margin before special items*	
€ million	2006	2007	2006	2007	2006	2007	2006	2007
HealthCare	**11,724**	**14,807**	**1,715**	**2,492**	**2,613**	**3,792**	**22.3 %**	**25.6 %**
Pharmaceuticals	7,478	10,267	934	1,641	1,686	2,807	22.5 %	27.3 %
Consumer Health	4,246	4,540	781	851	927	985	21.8 %	21.7 %
CropScience	**5,700**	**5,826**	**641**	**786**	**1,204**	**1,324**	**21.1 %**	**22.7 %**
Crop Protection	4,644	4,781	441	632	927	1,093	20.0 %	22.9 %
Environmental Science, BioScience	1,056	1,045	200	154	277	231	26.2 %	22.1 %
MaterialScience	**10,161**	**10,435**	**1,210**	**1,117**	**1,677**	**1,606**	**16.5 %**	**15.4 %**
Materials	2,925	3,041	289	100	448	273	15.3 %	9.0 %
Systems	7,236	7,394	921	1,017	1,229	1,333	17.0 %	18.0 %
Reconciliation	**1,371**	**1,317**	**(87)**	**(108)**	**90**	**55**	**6.6 %**	**4.2 %**
Continuing operations	**28,956**	**32,385**	**3,479**	**4,287**	**5,584**	**6,777**	**19.3 %**	**20.9 %**

* for definition see Bayer Group Key Data on front flap, also page 47

Bayer HealthCare

Bayer HealthCare	2006	2007	Change
	€ million	€ million	%
Sales	**11,724**	**14,807**	**+26.3**
Pharmaceuticals	7,478	10,267	+37.3
Consumer Health	4,246	4,540	+6.9
Sales by Region			
Europe	4,737	6,184	+30.5
North America	3,689	4,439	+20.3
Asia/Pacific	1,649	2,023	+22.7
Latin America/Africa/Middle East	1,649	2,161	+31.0
EBITDA[1]	**1,947**	**3,065**	**+57.4**
Special items	*(666)*	*(727)*	
EBITDA before special items[2]	*2,613*	*3,792*	*+45.1*
EBITDA margin before special items	22.3 %	25.6 %	
EBIT[1]	**1,313**	**1,564**	**+19.1**
Special items	*(402)*	*(928)*	
EBIT before special items[2]	*1,715*	*2,492*	*+45.3*
Gross cash flow[1]	**1,720**	**2,389**	**+38.9**
Net cash flow[1]	**1,526**	**2,010**	**+31.7**

[1] for definition see Bayer Group Key Data on front flap
[2] for definition see also page 47

Sales of the **HealthCare** subgroup grew by 26.3 percent in 2007, to €14,807 million. The acquired business of Schering AG, Berlin, Germany, is included in this figure on a full-year basis (2006: June 23 – December 31). Adjusted for currency and portfolio effects, sales climbed by 7.3 percent. The increase was due to the positive business performance of both segments.

EBITDA before special items of Bayer HealthCare advanced by 45.1 percent in 2007 to €3,792 million (2006: €2,613 million). This increase was attributable to the gratifying business performance in all divisions, the full-year inclusion of Schering and the integration synergies already achieved. **EBIT** before special items came in at €2,492 million, which was also a considerable increase against the previous year's figure of €1,715 million. The net special charges of €928 million resulted primarily from expenses relating to the Schering integration and from a write-down of intangible assets in connection with negative results from the BEYOND study on Betaferon®/Betaseron®. EBIT rose by €251 million, or 19.1 percent, to €1,564 million.

Pharmaceuticals	2006	2007	Change
	€ million	€ million	%
Sales	**7,478**	**10,267**	**+37.3**
Primary Care[1]	3,091	3,055	−1.2
Women's Healthcare[2]	1,320	2,630	•
Diagnostic Imaging (including Medrad)[2]	697	1,298	•
Specialized Therapeutics[2]	678	1,253	•
Hematology/Cardiology	1,142	1,033	−9.5
Oncology[3]	432	754	•
Dermatology (Intendis)[2]	118	244	•
Sales by Region			
Europe	3,046	4,367	+43.4
North America	2,226	2,862	+28.6
Asia/Pacific	1,313	1,659	+26.4
Latin America/Africa/Middle East	893	1,379	+54.4
EBITDA[4]	**1,051**	**2,108**	•
Special items	*(635)*	*(699)*	
EBITDA before special items[5]	*1,686*	*2,807*	*+66.5*
EBITDA margin before special items	22.5 %	27.3 %	
EBIT[4]	**563**	**741**	**+31.6**
Special items	*(371)*	*(900)*	
EBIT before special items[5]	*934*	*1,641*	*+75.7*
Gross cash flow[4]	**1,086**	**1,685**	**+55.2**
Net cash flow[4]	**1,053**	**1,451**	**+37.8**

[1] Schering andrology business included in 2006 pro rata temporis
[2] Schering sales included in 2006 pro rata temporis
[3] Schering oncology business included in 2006 pro rata temporis
[4] for definition see Bayer Group Key Data on front flap
[5] for definition see also page 47

Sales of our **Pharmaceuticals** segment climbed by 37.3 percent in 2007, to €10,267 million (2006: €7,478 million). This figure contains €5,921 million (2006: €3,082 million pro-rated) in sales of the Schering business. Adjusted for portfolio and currency changes, sales were up by 5.7 percent.

Best-Selling Pharmaceutical Products	2006	2007	Change	Currency-adjusted change
	€ million	€ million	%	%
Yasmin®/YAZ®/Yasminelle® * (Women's Healthcare)	451	1,042	•	•
Betaferon®/Betaseron® * (Specialized Therapeutics)	535	1,028	•	•
Kogenate® (Hematology/Cardiology)	787	818	+3.9	+7.7
Adalat® (Primary Care)	657	614	−6.5	−1.5
Avalox®/Avelox® (Primary Care)	396	445	+12.4	+16.8
Cipro®/Ciprobay® (Primary Care)	513	383	−25.3	−22.8
Mirena® * (Women's Healthcare)	166	361	•	•
Levitra® (Primary Care)	314	332	+5.7	+10.6
Magnevist® * (Diagnostic Imaging)	171	301	•	•
Glucobay® (Primary Care)	308	298	−3.2	+1.2
Nexavar® (Oncology)	130	270	+107.7	+116.2
Ultravist® * (Diagnostic Imaging)	86	235	•	•
Aspirin Cardio® (Primary Care)	209	229	+9.6	+13.1
Iopamiron® * (Diagnostic Imaging)	117	211	•	•
Diane® * (Women's Healthcare)	88	175	•	•
Total	•	**6,742**	•	•
Proportion of Pharmaceuticals sales	•	66 %		

Products are ranked by full year 2007 sales.
* acquired Schering product, sales included in 2006 pro rata temporis

The 2006 sales figures include the acquired business of Schering for the period June 23 through December 31, 2006. The commentaries given below on business developments related to the acquired Schering AG products are based in part on Schering data for the first half of 2006 that do not form part of the Bayer Group financial statements. We therefore refer to the sales figures for these products as “pro forma.”

Best-Selling Schering Products (pro forma)	2006	2007	Change	Currency-adjusted change
	€ million	€ million	%	%
Yasmin®/YAZ®/Yasminelle® (Women's Healthcare)	794	1,042	+31.2	+37.3
Betaferon®/Betaseron® (Specialized Therapeutics)	991	1,028	+3.7	+6.5
Mirena® (Women's Healthcare)	301	361	+19.9	+25.2
Magnevist® (Diagnostic Imaging)	323	301	−6.8	−1.3
Ultravist® (Diagnostic Imaging)	222	235	+5.9	+8.5
Iopamiron® (Diagnostic Imaging)	221	211	−4.5	+3.4
Diane® (Women's Healthcare)	175	175	0.0	+0.7

Sales of the Primary Care business unit dipped 1.2 percent in 2007, to €3,055 million (2006: €3,091 million). We significantly expanded sales of Avalox®/Avelox® (currency-adjusted: +16.8 percent), Aspirin Cardio® (currency-adjusted: +13.1 percent) and Levitra® (currency-adjusted: +10.6 percent). By contrast, sales of Cipro®/Ciprobay® (currency-adjusted: -22.8 percent) and Adalat® (currency-adjusted: -1.5 percent) were down as expected due to generic competition, while business with Glucobay® was at the previous year's level (+1.2 percent) on a currency-adjusted basis. Sales of Primary Care included €72 million in business with the andrology products acquired from Schering (2006: €31 million pro-rated). Currency- and portfolio-adjusted sales edged up by 1.8 percent year on year.

The Women's Healthcare business unit continued to develop very positively, posting sales of €2,630 million (2006: €1,320 million pro-rated). The principal growth drivers were the oral contraceptives of the Yasmin®/YAZ®/Yasminelle® family, which became our best-selling pharmaceutical product in 2007 with sales of €1,042 million. Sales of Yasmin®/YAZ®/Yasminelle® expanded by 37.3 percent (pro forma) on a currency-adjusted basis. Market introductions of YAZ® and Yasminelle® in various regions contributed significantly to this growth. Sales of the intra-uterine system Mirena® advanced by a pleasing 25.2 percent (pro forma) on a currency-adjusted basis, largely because of strong growth in the United States.

In the Diagnostic Imaging business unit, we had sales of €1,298 million (2006: €697 million pro-rated). Growth came mainly from the Medrad business and the stepwise relaunch of the 370 mgI/ml formulation of Ultravist®, which we had voluntarily withdrawn from the market in summer 2006. Total sales of Ultravist® moved ahead by 8.5 percent (pro forma) when adjusted for the effects of currency translation.

Sales of the Specialized Therapeutics business unit amounted to €1,253 million (2006: €678 million pro-rated). Business with Betaferon®/Betaseron® to treat multiple sclerosis (MS) expanded by 6.5 percent (pro forma) on a currency-adjusted basis.
In September 2007, we acquired from Novartis a production facility for biotechnological products in Emeryville, California, where Bayer manufactures Betaseron®. Due to negative results from the BEYOND study, we decided against a regulatory filing for the 500 mcg dose of Betaferon®/Betaseron®.

Sales of the Hematology/Cardiology business unit were down by 9.5 percent to €1,033 million (2006: €1,142 million). Currency- and portfolio-adjusted sales, however, rose by 3.1 percent. Business with Kogenate®, which received an expanded registration from the European Commission in January 2007, continued to develop positively, with a currency-adjusted 7.7 percent increase. Currency-adjusted sales of Trasylol®, our product to control bleeding during coronary bypass surgery, declined by a substantial 28.4 percent. In November 2007, Bayer suspended worldwide marketing of Trasylol® for the time being after preliminary results of an independent clinical study conducted in Canada indicated the possibility of an increased mortality risk for patients treated with Trasylol®. Marketing of the product will remain suspended until final results from the Canadian trial have been evaluated and the benefit-risk profile of Trasylol® can be reassessed together with the regulatory authorities.

Our Oncology business unit increased sales to €754 million (2006: €432 million). This figure contains €424 million (2006: €238 million pro-rated) in sales of the former Schering oncology business, including key products Fludara® and Campath®. Marketing authorization for Campath®/MabCampath®, which was jointly developed with Genzyme Corp. for the treatment of patients with B-cell chronic lymphocytic leukemia (B-CLL), was expanded in the United States in September 2007 and in the European Union at the end of December 2007. Currency- and portfolio-adjusted sales of the Oncology business unit improved by 33.7 percent, due particularly to the outstanding growth in business with our cancer drug Nexavar®, currency-adjusted sales of which jumped by 116.2 percent. In addition to its registration for the treatment of kidney cancer, Nexavar® was registered in the fall of 2007 in both Europe and the United States as the first medicine to treat liver cancer. Nexavar®, jointly developed by Bayer HealthCare and Onyx Pharmaceuticals, Inc., is the first product demonstrated to significantly extend overall survival in patients suffering from liver cancer.

The Dermatology (Intendis) business unit achieved sales of €244 million (2006: €118 million pro-rated). On a currency-adjusted basis, pro-forma sales of the two leading products Skinoren® and Advantan® rose by 11.0 and 5.6 percent, respectively.

EBITDA before special items for Pharmaceuticals in 2007 advanced by 66.5 percent to €2,807 million (2006: €1,686 million). **EBIT** before special items rose by €707 million, or 75.7 percent, to €1,641 million. The net special charges of €900 million largely comprise expenses associated with the integration of Schering. Also included in this figure are a €152 million write-down of intangible assets necessitated by the results of the BEYOND study on Betaferon®/Betaseron® and provisions recorded in connection with the suspension of marketing for Trasylol®. EBIT moved ahead by 31.6 percent to €741 million.

Consumer Health

In the **Consumer Health** segment, business expanded by 6.9 percent in 2007, to €4,540 million (2006: €4,246 million). Adjusted for currency and portfolio changes, **sales** were up by 10.3 percent. We registered above-market growth in all three divisions.

The Consumer Care Division grew sales by 4.1 percent to €2,634 million (2006: €2,531 million). This figure takes into account our first sales of the calcium dietary supplement Citracal®, acquired in the fourth quarter from Mission Pharmacal Company of the United States. Currency- and portfolio-adjusted sales improved by 7.8 percent. The highest growth rates were posted by Berocca® (currency-adjusted: +16.8 percent), Canesten® (currency-adjusted: +15.4 percent) and Aleve® (currency-adjusted: +13.9 percent).

Sales of the Diabetes Care Division came in at €950 million (2006: €810 million), with a currency- and portfolio-adjusted increase of 17.5 percent. This gratifying trend was chiefly attributable to the successful marketing, particularly in North America and Europe, of our Ascensia® Contour® and Ascensia® Breeze® blood glucose monitoring systems, which replace the Elite® systems of the Ascensia® product family.

Sales of the Animal Health Division increased by 5.6 percent to €956 million (2006: €905 million), or by 10.6 percent when adjusted for currency effects. The performance of our Advantage® product line was particularly gratifying, with currency-adjusted sales rising by 20.8 percent. In October 2007, the European Medicines Agency (EMEA) expanded the registration for the canine anti-parasitic Advocate®.

Consumer Health	2006	2007	Change
	€ million	€ million	%
Sales	**4,246**	**4,540**	**+6.9**
Consumer Care	2,531	2,634	+4.1
Diabetes Care	810	950	+17.3
Animal Health	905	956	+5.6
Sales by Region			
Europe	1,691	1,817	+7.5
North America	1,463	1,577	+7.8
Asia/Pacific	336	364	+8.3
Latin America/Africa/Middle East	756	782	+3.4
EBITDA[1]	**896**	**957**	**+6.8**
Special items	*(31)*	*(28)*	
EBITDA before special items[2]	*927*	*985*	*+6.3*
EBITDA margin before special items	21.8 %	21.7 %	
EBIT[1]	**750**	**823**	**+9.7**
Special items	*(31)*	*(28)*	
EBIT before special items[2]	*781*	*851*	*+9.0*
Gross cash flow[1]	**634**	**704**	**+11.0**
Net cash flow[1]	**473**	**559**	**+18.2**

[1] for definition see Bayer Group Key Data on front flap
[2] for definition see also page 47

Best-Selling Consumer Health Products	2006	2007	Change	Currency-adjusted change
	€ million	€ million	%	%
Ascensia® product line (Diabetes Care)	788	934	+18.5	+24.0
Aspirin®* (Consumer Care)	465	460	−1.1	+2.9
Advantage® product line (Animal Health)	275	314	+14.2	+20.8
Aleve®/naproxen (Consumer Care)	227	239	+5.3	+13.9
Canesten® (Consumer Care)	162	182	+12.3	+15.4
Baytril® (Animal Health)	162	156	−3.7	+1.2
Bepanthen®/Bepanthol® (Consumer Care)	131	145	+10.7	+11.2
Supradyn® (Consumer Care)	130	134	+3.1	+4.3
One-A-Day® (Consumer Care)	124	130	+4.8	+13.7
Rennie® (Consumer Care)	98	107	+9.2	+10.2
Total	**2,562**	**2,801**	**+9.3**	**+14.2**
Proportion of Consumer Health sales	60 %	62 %		

* total Aspirin® sales = €689 million (2006: €674 million), including Aspirin Cardio®, which is reflected in sales of the Pharmaceuticals segment

EBITDA before special items in the Consumer Health segment improved by 6.3 percent to €985 million (2006: €927 million), due especially to the gratifying expansion of business in all divisions. EBIT before special items moved ahead €70 million, or 9.0 percent, to €851 million. Earnings were diminished by special charges in connection with litigation-related accruals in the balance sheet. EBIT increased by €73 million, or 9.7 percent, to €823 million.

Bayer CropScience

Bayer CropScience	2006	2007	Change
	€ million	€ million	%
Sales	**5,700**	**5,826**	**+2.2**
Crop Protection	4,644	4,781	+3.0
Environmental Science, BioScience	1,056	1,045	−1.0
Sales by Region			
Europe	2,251	2,383	+5.9
North America	1,457	1,332	−8.6
Asia/Pacific	907	913	+0.7
Latin America/Africa/Middle East	1,085	1,198	+10.4
EBITDA [1]	**1,166**	**1,204**	**+3.3**
Special items	*(38)*	*(120)*	
EBITDA before special items [2]	*1,204*	*1,324*	*+10.0*
EBITDA margin before special items	21.1%	22.7%	
EBIT [1]	**584**	**656**	**+12.3**
Special items	*(57)*	*(130)*	
EBIT before special items [2]	*641*	*786*	*+22.6*
Gross cash flow [1]	**900**	**961**	**+6.8**
Net cash flow [1]	**898**	**1,040**	**+15.8**

[1] for definition see Bayer Group Key Data on front flap
[2] for definition see also page 47

Best-Selling Bayer CropScience Products*	2006	2007	Change	Currency-adjusted change
	€ million	€ million	%	%
Confidor®/Gaucho®/Admire®/Merit® (Insecticides/Seed Treatment/Environmental Science)	564	556	−1.4	+1.6
Flint®/Stratego®/Sphere® (Fungicides)	181	243	+34.3	+36.7
Basta®/Liberty® (Herbicides)	229	241	+5.2	+10.2
Poncho® (Seed Treatment)	127	237	+86.6	+98.1
Folicur®/Raxil® (Fungicides/Seed Treatment)	276	235	−14.9	−13.6
Atlantis® (Herbicides)	169	207	+22.5	+23.1
Puma® (Herbicides)	196	187	−4.6	−2.0
Decis®/K-Othrine® (Insecticides/Environmental Science)	183	178	−2.7	+0.4
Proline® (Fungicides)	144	175	+21.5	+22.3
Betanal® (Herbicides)	120	127	+5.8	+8.2
Total	**2,189**	**2,386**	**+9.0**	**+12.0**
Proportion of Bayer CropScience sales	38%	41%		

* Figures are based on active ingredient class. For the sake of clarity, only the principal brands and business units are listed.

CropScience raised its **sales** by 2.2 percent in 2007, to €5,826 million (2006: €5,700 million). Currency- and portfolio-adjusted sales increased by 5.6 percent.

EBITDA of the CropScience subgroup before special items grew by 10.0 percent to €1,324 million (2006: €1,204 million). This rise in earnings was attributable to higher volumes and cost savings, which more than offset the declining margins caused by negative currency effects. **EBIT** before special items climbed 22.6 percent to €786 million. Earnings were diminished by special charges for the cost-structure program initiated in 2006 and litigation-related defense costs. EBIT after special items advanced by 12.3 percent to €656 million (2006: €584 million).

Crop Protection

Sales of the **Crop Protection** segment in 2007 came in at €4,781 million, up 3.0 percent from the previous year (€4,644 million). Currency- and portfolio-adjusted sales grew by 6.3 percent.

Our crop protection business as a whole benefited from the positive conditions on the world's agricultural markets, particularly the higher prices for agricultural commodities, increased cultivation of crops for the production of biofuels and an improved market environment in Latin America. Our young, innovative products showed a particularly pleasing trend. Sales of active ingredients introduced in core markets since 2000 rose by a third compared with 2006, to nearly €1.4 billion.

Crop Protection	2006	**2007**	Change
	€ million	€ million	%
Sales	**4,644**	**4,781**	**+3.0**
Herbicides	1,758	1,725	−1.9
Fungicides	1,200	1,270	+5.8
Insecticides	1,219	1,181	−3.1
Seed Treatment	467	605	+29.6
Sales by Region			
Europe	1,909	2,035	+6.6
North America	996	912	−8.4
Asia/Pacific	772	769	−0.4
Latin America/Africa/Middle East	967	1,065	+10.1
EBITDA [1]	**889**	**1,008**	**+13.4**
Special items	*(38)*	*(85)*	
EBITDA before special items [2]	*927*	*1,093*	*+17.9*
EBITDA margin before special items	20.0 %	22.9 %	
EBIT [1]	**384**	**537**	**+39.8**
Special items	*(57)*	*(95)*	
EBIT before special items [2]	*441*	*632*	*+43.3*
Gross cash flow [1]	**691**	**799**	**+15.6**
Net cash flow [1]	**748**	**881**	**+17.8**

[1] for definition see Bayer Group Key Data on front flap
[2] for definition see also page 47

Sales in the Herbicides business unit amounted to €1,725 million, which was 1.9 percent below the previous year's figure of €1,758 million. On a currency- and portfolio-adjusted basis, however, business increased by 1.1 percent. While cotton and soybean herbicide sales in North America declined due to a reduction in acreages, business with cereal herbicides expanded strongly in Europe, thanks to the successful marketing of young products such as Atlantis® and Sekator®. We also further increased global sales of the Basta®/Liberty® product family.

In the Fungicides business unit, sales moved ahead by 5.8 percent to €1,270 million (2006: €1,200 million), or by 7.4 percent when adjusted to reflect the effects of currency translation and portfolio changes. The mild, wet weather in many parts of Europe led to higher sales, particularly of products used in cereals, potatoes and grapes. Business with our soybean fungicides benefited from the general market recovery in Latin America. In particular, we recorded an increased demand for our cereal fungicides Proline® and Fandango®, the potato fungicide Infinito® launched in 2006, and products from the Flint® family. The decline in sales of the Folicur® product group was mainly due to the planned shift toward our young fungicidal active ingredients and new mix products.

Sales in the Insecticides business, at €1,181 million, were down by 3.1 percent from the prior-year level of €1,219 million. Currency- and portfolio-adjusted sales grew by 1.7 percent. The Confidor® product family turned in a very gratifying performance, particularly in Latin America. Marketing of our innovative insecticide Biscaya® in Europe was also successful. By contrast, the North American insecticides business was impacted by the increasing shift from soil- and foliar-applied products toward seed treatment products.

In the Seed Treatment business unit, sales rose by a substantial 29.6 percent to €605 million (2006: €467 million), and by 34.9 percent on a currency- and portfolio-adjusted basis. This growth was supported by the positive global performance of our entire product portfolio. The strongest gain in sales was achieved in North America, where a significant expansion of corn acreages boosted demand. In Latin America, our new products CropStar® in corn and Atento® in soybeans showed a very pleasing development, while we successfully took advantage of the positive market environment in Europe with customized product solutions for cereal crops. Global business with Poncho® nearly doubled.

EBITDA of the Crop Protection segment before special items rose by 17.9 percent to €1,093 million (2006: €927 million), due mainly to higher volumes, savings from our cost-structure and efficiency programs and higher margin contributions from the new products. Exchange rates, however, had a negative impact. **EBIT** before special items improved substantially, advancing by 43.3 percent to €632 million. Special charges for the restructuring program launched in 2006 amounted to €95 million. EBIT after special items expanded to €537 million (2006: €384 million).

Environmental Science, BioScience	2006	2007	Change
	€ million	€ million	%
Sales	**1,056**	**1,045**	**−1.0**
Environmental Science	714	663	−7.1
BioScience	342	382	+11.7
Sales by Region			
Europe	342	348	+1.8
North America	461	420	−8.9
Asia/Pacific	135	144	+6.7
Latin America/Africa/Middle East	118	133	+12.7
EBITDA [1]	**277**	**196**	**−29.2**
Special items	*0*	*(35)*	
EBITDA before special items [2]	*277*	*231*	*−16.6*
EBITDA margin before special items	26.2%	22.1%	
EBIT [1]	**200**	**119**	**−40.5**
Special items	*0*	*(35)*	
EBIT before special items [2]	*200*	*154*	*−23.0*
Gross cash flow [1]	**209**	**162**	**−22.5**
Net cash flow [1]	**150**	**159**	**+6.0**

[1] for definition see Bayer Group Key Data on front flap
[2] for definition see also page 47

In the **Environmental Science, BioScience** segment, **sales** dipped by 1.0 percent to €1,045 million (2006: €1,056 million). After adjusting for currency and portfolio effects, however, business was up by 2.6 percent. Environmental Science saw business move back by 7.1 percent in 2007, to €663 million (2006: €714 million). Currency-adjusted sales fell by 2.8 percent. Declining business with products for professional users due to strong generic competition and unfavorable weather conditions was partly offset by higher sales of home and garden products for consumers.

BioScience increased sales by 11.7 percent to €382 million (2006: €342 million), and by 14.1 percent on a currency- and portfolio-adjusted basis. Sales of our vegetable seed products rose primarily due to a strong market performance by our tomato, onion, carrot and melon seeds. In agricultural crop applications, we markedly expanded business with our canola seed marketed under the InVigor® brand, and increasing business with our Arize® rice seed also contributed to the expansion in sales.

EBITDA before special items of the Environmental Science, BioScience segment, at €231 million, came in €46 million below the previous year's figure of €277 million. Earnings were diminished particularly by higher research and development expenditures at BioScience and also by the decline in sales of our Environmental Science business in North America. We also registered a negative earnings contribution from the Stoneville business, as this company was acquired in June of last year and thus subsequent to the close of the cotton seed season. **EBIT** before special items dropped by 23.0 percent, from €200 million in the prior year to €154 million in 2007. The net special charges of €35 million primarily included defense costs resulting from pending litigation in the United States related to genetically modified rice, along with costs for the restructuring program we initiated in 2006. **EBIT** declined by 40.5 percent to €119 million (2006: €200 million).

Bayer MaterialScience

Bayer MaterialScience	2006	2007	Change
	€ million	€ million	%
Sales	**10,161**	**10,435**	**+2.7**
Materials	2,925	3,041	+4.0
Systems	7,236	7,394	+2.2
Sales by Region			
Europe	4,402	4,585	+4.2
North America	2,622	2,376	−9.4
Asia/Pacific	2,007	2,229	+11.1
Latin America/Africa/Middle East	1,130	1,245	+10.2
EBITDA [1]	**1,499**	**1,542**	**+2.9**
Special items	*(178)*	*(64)*	
EBITDA before special items [2]	*1,677*	*1,606*	*−4.2*
EBITDA margin before special items	16.5 %	15.4 %	
EBIT [1]	**992**	**1,042**	**+5.0**
Special items	*(218)*	*(75)*	
EBIT before special items [2]	*1,210*	*1,117*	*−7.7*
Gross cash flow [1]	**1,166**	**1,228**	**+5.3**
Net cash flow [1]	**1,281**	**1,147**	**−10.5**

[1] for definition see Bayer Group Key Data on front flap
[2] for definition see also page 47

MaterialScience enjoyed further growth in **sales** in 2007. Sales rose by 2.7 percent to €10,435 million (2006: €10,161 million). Currency- and portfolio-adjusted sales advanced by 6.2 percent, due primarily to higher volumes in both segments. In addition, we were able to raise prices slightly overall.

EBITDA before special items came in at €1,606 million, slightly below the prior-year level of €1,677 million. We largely succeeded in offsetting the markedly higher costs for petrochemical raw materials and energies and the negative shifts in currency parities through higher volumes and selling prices. **EBIT** before special items fell by 7.7 percent to €1,117 million (2006: €1,210 million). We initiated an extensive restructuring program in the fall of 2007 to improve cost structures and further increase efficiency, taking special charges of €75 million for these measures. In the previous year we took special charges of €218 million, which were mainly litigation-related. After special items, EBIT rose by 5.0 percent to €1,042 million.

Materials	2006	2007	Change
	€ million	€ million	%
Sales	**2,925**	**3,041**	**+4.0**
Polycarbonates	2,720	2,811	+3.3
Thermoplastic Polyurethanes	205	230	+12.2
Sales by Region			
Europe	1,100	1,139	+3.5
North America	599	574	−4.2
Asia/Pacific	947	1,037	+9.5
Latin America/Africa/Middle East	279	291	+4.3
EBITDA[1]	**448**	**273**	**−39.1**
Special items	*0*	*0*	
EBITDA before special items[2]	*448*	*273*	*−39.1*
EBITDA margin before special items	15.3 %	9.0 %	
EBIT[1]	**289**	**100**	**−65.4**
Special items	*0*	*0*	
EBIT before special items[2]	*289*	*100*	*−65.4*
Gross cash flow[1]	**364**	**237**	**−34.9**
Net cash flow[1]	**324**	**183**	**−43.5**

[1] for definition see Bayer Group Key Data on front flap
[2] for definition see also page 47

Sales in the **Materials** segment moved ahead by 4.0 percent to €3,041 million (2006: €2,925 million) thanks to significantly higher volumes, especially in Asia. Sales climbed by 7.9 percent on a currency- and portfolio-adjusted basis. The Polycarbonates business unit increased sales by 3.3 percent to €2,811 million, and by 8.0 percent when adjusted for shifts in currency parities. Our Thermoplastic Polyurethanes business unit saw sales rise by 12.2 percent to €230 million. This figure contains the business of the Taiwanese group Ure-Tech, a leading supplier of thermoplastic polyurethanes in the Asia-Pacific region, from July 1, 2007. We have thus significantly strengthened this business unit and achieved a leading market position worldwide. After adjusting for currency- and portfolio-effects, sales of the Thermoplastic Polyurethanes business unit grew by 6.4 percent.

EBITDA before special items fell by a substantial 39.1 percent to €273 million. Earnings were diminished by declining margins due to higher petrochemical raw material and energy costs coupled with lower selling prices that the growth in volumes did not compensate. EBIT dropped by 65.4 percent to €100 million.

Systems

Systems	2006	**2007**	Change
	€ million	€ million	%
Sales	**7,236**	**7,394**	**+2.2**
Polyurethanes	5,182	5,224	+0.8
Coatings, Adhesives, Sealants	1,488	1,598	+7.4
Inorganic Basic Chemicals	403	423	+5.0
Other	163	149	−8.6
Sales by Region			
Europe	3,302	3,446	+4.4
North America	2,023	1,802	−10.9
Asia/Pacific	1,060	1,192	+12.5
Latin America/Africa/Middle East	851	954	+12.1
EBITDA[1]	**1,051**	**1,269**	**+20.7**
Special items	*(178)*	*(64)*	
EBITDA before special items[2]	*1,229*	*1,333*	*+8.5*
EBITDA margin before special items	17.0 %	18.0 %	
EBIT[1]	**703**	**942**	**+34.0**
Special items	*(218)*	*(75)*	
EBIT before special items[2]	*921*	*1,017*	*+10.4*
Gross cash flow[1]	**802**	**991**	**+23.6**
Net cash flow[1]	**957**	**964**	**+0.7**

[1] for definition see Bayer Group Key Data on front flap
[2] for definition see also page 47

Sales of our **Systems** segment came in at €7,394 million, up 2.2 percent from the prior-year figure of €7,236 million. To strengthen the forward integration of the Polyurethanes business unit, we acquired a systems house business in Dubai and another in the United States, sales of which were included for the first time in 2007. Currency- and portfolio-adjusted business expanded by 5.5 percent on account of higher volumes and selling prices increases. All business units grew sales in Asia and Europe. Business was down in North America, with sales to the automotive and construction industries particularly affected.

Sales of the Polyurethanes business unit edged ahead by 0.8 percent to €5,224 million. Currency- and portfolio-adjusted sales grew by 4.2 percent. Coatings, Adhesives, Sealants saw sales improve by a gratifying 7.4 percent to €1,598 million, and by 10.9 percent on a currency-adjusted basis. Sales of Inorganic Basic Chemicals moved forward by 5.0 percent to €423 million, and by 7.3 percent when adjusted for shifts in exchange rates.

EBITDA of the Systems segment before special items advanced by 8.5 percent to €1,333 million (2006: €1,229 million), with higher selling prices and volume gains more than offsetting increased costs for petrochemical raw materials and energy. **EBIT** before special items climbed by 10.4 percent to €1,017 million. We took special charges of €75 million in 2007 for our restructuring program, particularly the closure of our diphenylmethane diisocyanate (MDI) production facility in New Martinsville, West Virginia, United States. The previous year's figure contained special charges of €218 million, resulting primarily from an arbitration proceeding in the United States relating to the production of propylene oxide. After special items, EBIT improved by 34.0 percent to €942 million (2006: €703 million).

Calculation of EBIT(DA) Before Special Items

To permit a more accurate assessment of business operations, EBIT and EBITDA are also stated "before special items." The special items concerned are detailed in the table below. "EBITDA," "EBITDA before special items" and "EBIT before special items" are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information.

Special Items Reconciliation	EBIT 2006	**EBIT 2007**	EBITDA 2006	**EBITDA 2007**
€ million				
After special items	**2,762**	**3,154**	**4,675**	**5,866**
HealthCare	**402**	**928**	**666**	**727**
Schering PPA effects*	84	177	429	216
Schering integration costs	189	506	170	418
Write-downs of intangible assets	60	152	0	0
Restructuring	48	0	46	0
Litigations	26	106	26	106
Other	(5)	(13)	(5)	(13)
CropScience	**57**	**130**	**38**	**120**
Restructuring	79	97	60	87
Litigations	0	33	0	33
Other	(22)	0	(22)	0
MaterialScience	**218**	**75**	**178**	**64**
Restructuring	60	75	20	64
Litigations	153	0	153	0
Other	5	0	5	0
Reconciliation	**40**	**0**	**27**	**0**
Restructuring	37	0	24	0
Litigations	(7)	0	(7)	0
Other	10	0	10	0
Total special items	**717**	**1,133**	**909**	**911**
Before special items	**3,479**	**4,287**	**5,584**	**6,777**

2006 figures restated

* The purchase price paid for Schering AG, Germany, was allocated among the acquired assets and assumed liabilities in accordance with the International Financial Reporting Standards (IFRS). The purchase price allocation resulted in total charges to EBIT of €1,037 million in 2007. To ensure comparability with future earnings data, the expected long-term effects of the step-up are reflected in EBIT and EBITDA before special items, whereas temporary, non-cash effects of the purchase price allocation are eliminated. When calculating EBIT before special items, we deducted a €177 million special charge recorded in this connection. EBIT before special items therefore reflects €860 million in charges resulting from the purchase price allocation. EBITDA before special items remains unaffected by the purchase price allocation.

Value Management

Cash value added-based system

One of the prime objectives of the Bayer Group is to sustainably increase enterprise value. In 1994 we became one of the first German companies to embark on the development of a value management system, which we introduced throughout the Group in 1997. The system is used for the planning, controlling and monitoring of our businesses. Our primary value-based indicator is the cash value added (CVA), which shows the degree to which the cash flows needed to cover the costs of equity and debt and of reproducing depletable assets have been generated. If the CVA is positive, the company or business entity concerned has created additional value. If it is negative, the anticipated capital and asset reproduction costs have not been earned. Gross cash flow (GCF) and CVA are profitability indicators for a single reporting period. For a year-on-year comparison we therefore use the delta CVA, which is the difference between the CVAs of two consecutive periods. A positive delta CVA shows that value creation has improved from one period to the next.

Calculating the cost of capital

Bayer calculates the cost of capital according to the debt/equity ratio by the weighted average cost of capital (WACC) formula. The cost of equity capital is the return expected by stockholders, computed from capital market information. The cost of debt used in calculating WACC is based on the terms for a ten-year corporate bond issue.

To take into account the different risk and return profiles of our principal businesses, we calculate individual capital cost factors after income taxes for each of our subgroups. In 2007 this was 8.0 percent (2006: 7.5 percent) for Bayer HealthCare, 7.0 percent (2006: 7.0 percent) for Bayer CropScience and 6.5 percent (2006: 6.5 percent) for Bayer MaterialScience. The minimum return required for the Bayer Group as a whole was 7.5 percent (2006: 7.0 percent).

Gross cash flow, cash flow return on investment, and cash value added as performance yardsticks

The gross cash flow (GCF), as published in our cash flow statement, is the measure of our internal financing capability. Bayer has chosen this parameter because it is relatively free of accounting influences and thus a more meaningful performance indicator.

The profitability of the Group and of its individual business entities is measured by the cash flow return on investment (CFROI). This is the ratio of the GCF to the capital invested (CI). The CI is derived from the balance sheet and basically comprises the property, plant and equipment and intangible assets required for operations – stated at cost of acquisition or construction – plus working capital, less interest-free liabilities (such as current provisions). To allow for fluctuations during the year, the CFROI is computed on the basis of the average CI for the respective year.

Taking into account the costs of capital and of reproducing depletable assets, we determine the GCF hurdle. If the GCF hurdle is equaled or exceeded, the required return on equity and debt plus the cost of asset reproduction has been earned. The CFROI hurdle for 2007 was 10.2 percent (2006: 10.0 percent), while the corresponding GCF hurdle was €4,035 million (2006: €3,188 million).

Actual GCF came in at €4,784 million, exceeding the hurdle by a substantial 18.6 percent. Thus in 2007 we earned our entire capital and asset reproduction costs, and the positive CVA of €749 million shows that Bayer created additional value. Given the previous year's CVA of €725 million, the Bayer Group therefore recorded a delta CVA of €24 million, showing that the rate of value creation increased. The CFROI edged up from the previous year's record figure of 12.1 percent, to 12.2 percent.

The CropScience subgroup exceeded, and MaterialScience equaled, its target return including asset reproduction. The CFROI for CropScience rose from 10.3 percent in the prior year to 11.3 percent in 2007. MaterialScience achieved a CFROI of 15.9 percent (2006: 15.6 percent). HealthCare achieved a CFROI of 11.1 percent (2006: 12.4 percent) despite the increase in capital invested associated with the Schering AG acquisition and integration-related charges.

Value Management Indicators by Subgroup

	HealthCare		CropScience		MaterialScience		Bayer Group	
€ million	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
Gross cash flow hurdle (GCF hurdle)	1,536	2,394	1,000	939	649	624	3,188	4,035
Gross cash flow* (GCF)	1,720	2,389	900	961	1,166	1,228	3,913	4,784
Cash value added (CVA)	184	(5)	(100)	22	517	604	725	749
Cash flow return on investment (CFROI)	12.4 %	11.1%	10.3 %	11.3 %	15.6 %	15.9 %	12.1%	12.2 %
Average capital invested (ACI)	13,865	21,608	8,728	8,500	7,489	7,722	32,276	39,203

* for definition see Bayer Group Key Data on front flap

Liquidity and Capital Resources

Bayer Group Summary Cash Flow Statements	2006	2007
€ million		
Gross cash flow*	**3,913**	**4,784**
Changes in working capital/other non-cash items	15	(503)
Net cash provided by (used in) operating activities (net cash flow), continuing operations	**3,928**	**4,281**
Net cash provided by (used in) operating activities (net cash flow), discontinued operations	275	2
Net cash provided by (used in) operating activities (net cash flow) (total)	**4,203**	**4,283**
Net cash provided by (used in) investing activities (net cash flow) (total)	**(14,730)**	**3,186**
Net cash provided by (used in) financing activities (net cash flow) (total)	**10,199**	**(7,730)**
Change in cash and cash equivalents due to business activities (total)	**(328)**	**(261)**
Cash and cash equivalents at beginning of period	**3,290**	**2,915**
Change due to exchange rate movements and to changes in scope of consolidation	(47)	(123)
Cash and cash equivalents at end of period	**2,915**	**2,531**

* for definition see Bayer Group Key Data on front flap

Operating cash flow

Gross cash flow improved in 2007 by 22.3 percent year on year to €4,784 million (2006: €3,913 million) due to the strong business performance and the full-year inclusion of Schering AG, Berlin, Germany. Net cash flow rose by only €353 million to €4,281 million (2006: €3,928 million) due to an increase in cash tied up in working capital.

Investing cash flow

In 2007 there was a net cash inflow of €3,186 million for investing activities (2006: €14,730 million outflow), including divestment proceeds totaling €4.6 billion (after taxes) for the diagnostics business, H.C. Starck and Wolff Walsrode.

The €4.3 billion transaction volume for the diagnostics business comprised an initial payment of €0.4 billion at the end of 2006 and a further purchase price payment of €3.9 billion received in 2007. After deducting approximately €0.2 billion in divested cash and €0.4 billion in tax payments made on the divestment gain, net proceeds from the divestiture of the diagnostics business totaled €3.3 billion. Further tax payments of approximately €0.1 billion will arise in 2008 in connection with this divestiture.

The proceeds of the divestitures of H. C. Starck and Wolff Walsrode amounted to €1.3 billion after compensation for financial liabilities and the assumption of pension obligations by the acquirers.

Cash outflows for acquisitions included the US$ 314 million (approx. €232 million) purchase price for U.S. cotton seed producer Stoneville. In June 2007, Bayer CropScience acquired Stoneville Pedigreed Seed Company from Monsanto in order to strengthen the position of the BioScience business unit in the U.S. cotton seed market. In September 2007, Bayer HealthCare completed the agreed acquisition of a biologics production facility in Emeryville, California, from Novartis and made a purchase price payment of US$ 183 million (approx. €137 million). On July 1, 2007, Bayer MaterialScience completed the acquisition of the Ure-Tech group, Taiwan, a supplier of TPU resins and films, at a purchase price of US$ 85 million (approx. €63 million). Cash outflows for acquisitions in the prior-year period were largely attributable to the acquisition of Schering, Berlin, Germany.

Cash outflows for property, plant and equipment in 2007 came to €1,546 million (2006: €1,534 million) and those for intangible assets to €314 million (2006: €342 million), giving a total of €1,860 million (2006: €1,876 million). This figure included the expenditures for the expansion of our polymers production facilities in Caojing, China. Depreciation of property, plant and equipment came to €1,140 million (2006: €1,086 million), and amortization of intangible assets to €1,338 million (2006: €1,000 million). Write-downs of €286 million were made in addition.

Major capital expenditures made by the Bayer Group in the past two years are listed in the following table:

Capital expenditures 2007

Segment	Description
Pharmaceuticals	Consolidation of biotech production facilities in Seattle, Washington, U.S.A.
	Integration of biotech production facilities in Emeryville, California, U.S.A.
	Consolidation of R&D activities in Germany and the U.S. due to the Schering integration
	Expansion of production facility for contrast media application systems in Warrendale, Pennsylvania, U.S.A.
Crop Protection	Capacity extension at the active ingredient and formulating facilities in Hangzhou, China
	Formulation site consolidation project, U.S.A.
	Modification of existing manufacturing units for intermediates and new active ingredients for insecticides in Dormagen, Germany
	Site consolidation projects in Thane, India, and Wolfenbüttel, Germany
	Reconstruction of an active ingredient unit in Belford Roxo, Brazil
BioScience	New greenhouse for vegetable seeds in ’s-Gravenzande, Netherlands
Materials	Expansion of the polycarbonate facility in Map Ta Phut, Thailand
	Expansion of the polycarbonate facility in Caojing, China
	Construction of a new logistics center for polycarbonate compounds in Krefeld-Uerdingen, Germany
Systems	Construction of a world-scale MDI production facility in Caojing, China
	Construction of a plant for polyurethane dispersions in Caojing, China
	Construction of a world-scale plant for polymer polyols in Antwerp, Belgium

Capital expenditures 2006

Segment	Description
Pharmaceuticals	Construction of a clinical manufacturing facility for Kogenate® in Berkeley, California, U.S.A.
	Expansion of a production facility in Beijing, China
Consumer Health	Expansion of a production facility in Jakarta, Indonesia
Crop Protection	Insourcing of intermediates in Knapsack, Germany
	Expansion of warehouse, manufacturing and formulation plants in Frankfurt and Dormagen, Germany
	Expansion of fungicide production capacity in Dormagen, Germany
	Site consolidation in Baranquilla, Colombia
Environmental Science, BioScience	Construction of a seed processing facility in Lethbridge, Canada
Materials	Expansion of the polycarbonate facility in Map Ta Phut, Thailand
	Capacity expansion projects for polycarbonate in Caojing, China
Systems	Construction of a world-scale MDI production facility in Caojing, China
	Installation of a new plant for MDI specialty products in Baytown, Texas, U.S.A.

Financing cash flow

Net cash outflow for financing activities in 2007 amounted to €7,730 million (2006: €10,199 million net inflow). Net loan repayments totaled €5,613 million, including €2.1 billion for the scheduled redemption of our 2002/2007 Eurobond in April 2007. The Bayer AG dividend for 2006, paid in the second quarter of 2007, and dividend payments to minority stockholders of consolidated companies accounted for a further €773 million (2006: €535 million). The item "Bayer AG dividend, dividend payments to minority stockholders" in the prior year contained an inflow of €176 million from the reimbursement of advance capital gains tax payments made on intragroup dividends in 2004.

Liquid assets and net debt

As of December 31, 2007 the Bayer Group held cash and cash equivalents of €2,531 million, including €755 million held in escrow accounts. These are earmarked for payments to be made in connection with the squeeze-out of the remaining minority stockholders of Bayer Schering Pharma AG and civil law settlements of antitrust proceedings. Pursuant to a resolution of the Extraordinary Stockholders' Meeting of Bayer Schering Pharma AG on January 17, 2007, the shares in that company that are still held by minority stockholders will be transferred to the main stockholder, Bayer Schering GmbH, a wholly owned subsidiary of Bayer AG, in return for cash compensation of €98.98 per share. Dissenting stockholders are seeking to have the stockholder resolution set aside or to have it declared null and void. In view of the restriction on its use, the liquidity held in escrow accounts was not deducted when calculating net debt.

Net Debt	Dec. 31, 2006	**Dec. 31, 2007**
€ million		
Noncurrent financial liabilities as per balance sheets (including derivatives)	14,723	12,911
of which mandatory convertible bond	2,276	2,285
of which hybrid bond	1,247	1,237
Current financial liabilities as per balance sheets (including derivatives)	5,078	1,287
Derivative receivables	(185)	(230)
Financial liabilities	**19,616**	**13,968**
Cash and cash equivalents*	(2,116)	(1,776)
Current financial assets	(27)	(8)
Net debt from continuing operations	**17,473**	**12,184**
Net debt from discontinued operations	66	0
Net debt (total)	**17,539**	**12,184**

* In view of the restriction on its use, the €755 million (2006: €799 million) liquidity in escrow accounts was not deducted when calculating net debt. December 31, 2007: €1,776 million = €2,531 million - €755 million (December 31, 2006: €2,116 million = €2,915 million - €799 million).

Net debt showed a significant €5.4 billion decrease on the year, standing at €12.2 billion on December 31, 2007. This was due to cash inflows from the divestitures and also to an improvement in operating cash flow.

As of December 31, 2007 we had noncurrent financial liabilities of €12,911 million, including the €1.2 billion subordinated hybrid bond issued in July 2005 and the €2.3 billion mandatory convertible bond issued in April 2006. Net debt should be viewed against the fact that Moody's and Standard & Poor's treat 75 percent and 50 percent, respectively, of the hybrid bond as equity. Both rating agencies consider the mandatory convertible bond wholly as equity. Unlike conventional borrowings, the hybrid bond thus has only a limited effect on the Group's rating-specific debt indicators, while the mandatory convertible bond has no effect.

In April 2007 we issued a three-year €0.3 billion floating-rate bond and a four-year €0.2 billion fixed-rate bond under the EMTN program. In the second quarter of 2007, we raised financing for the Japanese holding company founded at the end of 2006, which performs holding-company and service functions and provides financing for all Bayer subsidiaries in Japan. As well as borrowing from local banks, we launched three separate yen bonds in Japan with a total volume of ¥55 billion (approx. €0.3 billion) under the EMTN program.

We succeeded in significantly paying down the syndicated loan secured in connection with the acquisition of Schering AG by €4.4 billion to €1.3 billion, mainly through the cash flows received from the divestitures and our business operations. We also redeemed in full the €2.1 billion five-year Bayer AG bond due in April 2007.

Financial strategy

The financial management of the Bayer Group is conducted by the strategic management holding company Bayer AG. Finance is a global resource, generally procured centrally and distributed within the Group. The foremost objectives of our financial management are to help bring about a sustained increase in corporate value and ensure the Group's creditworthiness and liquidity. That means reducing our cost of capital, improving our financing cash flow, optimizing our capital structure and effectively managing risk. The management of currency, interest rate, raw material price and default risks helps to reduce the volatility of our earnings.

The rating agencies contracted by Bayer assess us as follows:

	Long-term rating	Outlook	Short-term rating
Standard & Poor's	BBB+	positive	A-2
Moody's	A3	negative	P-2

These credit ratings reflect the company's good solvency and ensure access to a broad investor base for financing purposes. Our strategy is geared toward achieving the single-A rating category in order to maintain our financial flexibility. We therefore plan to use part of our operating cash flows to reduce net debt.

We pursue a prudent debt management strategy aimed at ensuring flexibility, drawing on a balanced financing portfolio. Chief among these resources are a multi-currency European Medium Term Note program, syndicated acquisition financing, a syndicated credit facility and a multi-currency commercial paper program. We also have various structured products, especially asset-backed securities programs.

We use financial derivatives to hedge against risks arising from business operations or financial transactions, but do not employ contracts in the absence of an underlying transaction. It is our policy to diminish the default risk by selecting trading partners with a high credit standing. We closely monitor the execution of all transactions, which are conducted according to Group-wide guidelines.

Further details of our risk management objectives and the ways in which we hedge all the major types of transaction to which hedge accounting is applied, along with procurement market, credit and liquidity risks, as they relate to our use of financial instruments, are given in the Risk Report beginning on page 80.

Earnings Performance

Bayer Group Summary Income Statements	2006	**2007**	Change
	€ million	€ million	%
Net sales	**28,956**	**32,385**	**+11.8**
Cost of goods sold	(15,275)	(16,352)	+7.1
Selling expenses	(6,534)	(7,782)	+19.1
Research and development expenses	(2,297)	(2,578)	+12.2
General administration expenses	(1,599)	(1,772)	+10.8
Other operating income and expenses – net	(489)	(747)	+52.8
EBIT (operating result)	**2,762**	**3,154**	**+14.2**
Non-operating result	**(782)**	**(920)**	**+17.6**
Income before income taxes	**1,980**	**2,234**	**+12.8**
Income taxes	(454)	72	•
Income from discontinued operations after taxes	169	2,410	•
Income after taxes	**1,695**	**4,716**	•
of which attributable to minority interest	12	5	•
of which attributable to Bayer AG stockholders (net income)	1,683	4,711	•

Net sales of the Bayer Group increased by 11.8 percent, or €3,429 million, from the previous year to €32,385 million. Adjusted for currency and portfolio effects, sales rose by 6.1 percent.

The cost of goods sold increased by 7.1 percent to €16.4 billion, mainly due to the full-year inclusion of the business of Schering AG, Berlin, Germany, but also because of the growth in business and higher raw material costs. The ratio of the cost of goods sold to total net sales was 50.5 percent (2006: 52.8 percent). With Schering AG included for the full year, selling expenses rose by a total of 19.1 percent to €7.8 billion. The ratio of selling expenses to sales thus rose to 24.0 percent, from 22.6 percent in 2006. Our research and development expenses also increased as a result of the inclusion of the Schering business for the full year, climbing by 12.2 percent to €2.6 billion; the ratio of R&D expenses to net sales was 8.0 percent (2006: 7.9 percent). General administration expenses came to €1.8 billion. The negative balance of other operating income and expenses resulted from costs related to the integration of Schering AG, restructuring, litigation and valuation write-downs.

EBIT for 2007 came in at €3,154 million. Before net special charges of €1,133 million (2006: €717 million), EBIT climbed by 23.2 percent to €4,287 million.

The non-operating result dropped by €138 million to minus €920 million. There was a net €69 million loss from investments in affiliated companies (2006: €207 million income), while net interest expense edged down €27 million to €701 million. Income from investments in affiliated companies in the previous year included the €236 million divestment gain from the sale of our interest in GE Bayer Silicones.

In 2007 we recorded net tax income of €72 million after one-time non-cash tax income of €912 million arising in connection with the corporate tax reform in Germany. This tax effect resulted mainly from the remeasurement of the deferred tax liabilities accrued in connection with the Schering acquisition, particularly in order to reflect the lower nominal rates of corporate income tax that apply in Germany from 2008. Before this one-time effect, we had tax expense in 2007 of €840 million (2006: €454 million).

Including the result of discontinued operations, which contains the proceeds from the divestments of H.C. Starck and Wolff Walsrode and part of the divestiture proceeds from the diagnostics business, and after minority interests, Group net income in 2007 rose by €3,028 million to €4,711 million (2006: €1,683 million).

Asset and Capital Structure

Bayer Group Summary Balance Sheets	Dec. 31, 2006	Dec. 31, 2007	Change
	€ million	€ million	%
Noncurrent assets	**35,897**	**34,712**	**−3.3**
Current assets	**17,069**	**16,582**	**−2.9**
Assets held for sale and discontinued operations	2,925	84	−97.1
Total current assets	**19,994**	**16,666**	**−16.6**
Total assets	**55,891**	**51,378**	**−8.1**
Stockholders' equity	**12,851**	**16,821**	**+30.9**
Noncurrent liabilities	**27,525**	**23,945**	**−13.0**
Current liabilities	**14,667**	**10,436**	**−28.8**
Liabilities directly related to assets held for sale and discontinued operations	848	176	−79.2
Total current liabilities	**15,515**	**10,612**	**−31.6**
Liabilities	**43,040**	**34,557**	**−19.7**
Total stockholders' equity and liabilities	**55,891**	**51,378**	**−8.1**

Total assets declined by €4.5 billion compared with December 31, 2006, to €51.4 billion. This was mainly due to the divestitures of H.C. Starck, Wolff Walsrode and the diagnostics business, which as of December 31, 2006 were already no longer reflected in the individual balance sheet items, but instead were recognized under "Assets held for sale and discontinued operations" and the corresponding liability item.

Noncurrent assets declined by €1.2 billion to €34.7 billion. They include goodwill of €8.2 billion resulting primarily from the Schering AG acquisition. Current assets of continuing operations declined by €0.5 billion from the previous year, to €16.6 billion.

Stockholders' equity expanded by €4.0 billion to €16.8 billion. The increase was mainly due to the Group net income of €4.7 billion, of which discontinued operations (primarily divestment gains) accounted for €2.4 billion. Stockholders' equity was diminished by the dividend payment of €0.8 billion made in 2007, among other factors. Negative currency effects of €0.8 billion were offset, mainly because of a decline in pension obligations that did not affect earnings. Our equity ratio (equity coverage of total assets), which had dropped to 23.0 percent by the end of 2006 as a result of the Schering acquisition, increased again considerably to 32.7 percent in 2007.

Liabilities decreased by €8.5 billion compared with December 31, 2006, to €34.6 billion. Current and noncurrent financial liabilities once again fell considerably following the sharp increase in the previous year as a result of the Schering acquisition, declining by €5.6 billion to €14.2 billion. Provisions for pensions were down by €1.0 billion to €5.5 billion compared with December 31, 2006, mainly as a result of actuarial changes recognized directly in stockholders' equity.

Balance Sheet and Financial Ratios		2006	2007
Cost of sales ratio (%)	Cost of goods sold / Net sales	52.8	50.5
R&D expense ratio (%)	Research and development expenses / Net sales	7.9	8.0
Inventory turnover	Cost of goods sold / Inventories	2.5	2.6
Receivables turnover	Net sales / Trade accounts receivable	5.0	5.6
EBIT margin before special items (%)	EBIT before special items / Net sales	12.0	13.2
EBITDA margin before special items (%)	EBITDA before special items / Net sales	19.3	20.9
Asset intensity (%)	Property, plant and equipment + intangible assets / Total assets (continuing operations) [1]	62.1	61.6
D&A/capex ratio (%)	Depreciation and amortization [3] / Capital expenditures [3]	100.1	128.3
Liability structure [2] (%)	Current liabilities / Liabilities	36.0	30.7
Gearing (%)	Net debt + pension provisions / Stockholders' equity	1.9	1.1
Equity ratio [2] (%)	Stockholders' equity / Total assets	23.0	32.7
Return on stockholders' equity [2] (%)	Income after taxes / Average stockholders' equity	14.1	31.8
Return on assets (%)	Income before taxes and interest expense / Average total assets for the year as per segment table	7.7	6.9

[1] Total assets (continuing operations) = noncurrent and current assets minus the balance sheet item "Assets held for sale and discontinued operations"
[2] Ratio refers to the total of continuing and discontinued operations
[3] Property, plant, equipment and intangible assets

Report pursuant to Section 315, Paragraph 4 of the German Commercial Code in conjunction with Section 120, Paragraph 3, Sentence 2 of the German Stock Corporation Act

The capital stock of Bayer AG amounts to €1,956,715,315.20 and is divided into 764,341,920 no-par bearer shares. Each share confers one voting right.

We received no notifications in 2007 of direct or indirect holdings of shares in Bayer AG that exceed 10 percent of the capital stock. We received the following notifications in 2006:

The Capital Group Companies, Inc., U.S.A., notified us pursuant to Section 21, Paragraph 1 of the German Securities Trading Act (WpHG) that the proportion of voting rights it holds in our company exceeded the 10 percent threshold on September 19, 2006, that since that date it has held 10.0179 percent of the voting rights and that all of these voting rights are attributable to it pursuant to Section 22, Paragraph 1, Sentence 1, No. 6 in conjunction with Section 22, Paragraph 1, Sentences 2 and 3 of the German Securities Trading Act. Further, the Capital Research and Management Company, U.S.A., which according to our information is a subsidiary of The Capital Group Companies, Inc., notified us that the proportion of voting rights it holds in our company exceeded the 10 percent threshold on November 8, 2006, that since that date it has held 10.0852 percent of the voting rights, and that all of these voting rights are attributable to it pursuant to Section 22, Paragraph 1, Sentence 1, No. 6 of the German Securities Trading Act.

Pursuant to Section 84, Paragraph 1 of the German Stock Corporation Act (AktG), the members of the Board of Management are appointed and dismissed by the Supervisory Board. Since Bayer AG falls within the scope of the German Codetermination Act, the appointment or dismissal of members of the Board of Management requires a majority of two-thirds of the votes of the members of the Supervisory Board on the first ballot.
If no such majority is achieved, the appointment may be approved pursuant to Section 31, Paragraph 3 of the Codetermination Act on a second ballot by a simple majority of the votes of the members of the Supervisory Board. If the required majority is still not achieved, a third ballot is held. Here again, a simple majority of the votes suffices, but in this ballot the Chairman of the Supervisory Board has two votes pursuant to Section 31, Paragraph 4 of the Codetermination Act.

Under Section 6, Paragraph 1 of the Articles of Incorporation of Bayer AG, the Board of Management must comprise at least two members. If further members are appointed to the Board of Management, the Supervisory Board may appoint one member to be Chairman of the Board of Management pursuant to Section 84, Paragraph 2 of the German Stock Corporation Act or Section 6, Paragraph 1 of the Articles of Incorporation.

Under Section 179, Paragraph 1 of the German Stock Corporation Act, amendments to the Articles of Incorporation require a resolution of the Stockholders' Meeting. Pursuant to Section 179, Paragraph 2 of the German Stock Corporation Act, this resolution must be passed by a majority of three-quarters of the voting capital represented at the meeting, unless the Articles of Incorporation provide for a different majority. However, where an amendment relates to a change in the object of the company, the Articles of Incorporation may only specify a larger majority. Section 17, Paragraph 2 of the Articles of Incorporation of Bayer AG utilizes the scope for deviation pursuant to Section 179, Paragraph 2 of the German Stock Corporation Act and provides that resolutions may be passed by a simple majority of the votes or, where a capital majority is required, by a simple majority of the capital.

Provisions of the Articles of Incorporation concerning Authorized Capital I and Authorized Capital II are entered in the commercial register of Bayer AG. With the approval of the Supervisory Board and until April 27, 2011, the Board of Management may use the

Authorized Capital I to increase the capital stock by up to a total of €465 million. The issue of new shares may take place in exchange for cash and/or contributions in kind, but capital increases in exchange for contributions in kind may not exceed a total of €370 million. If the Authorized Capital I is used to issue shares in return for cash contributions, stockholders must be granted subscription rights. With the approval of the Supervisory Board and until April 26, 2012, the Board of Management is also authorized to increase the capital by up to €195 million in one or more installments by issuing shares out of the Authorized Capital II in exchange for cash contributions. The stockholders must be granted subscription rights. However, the Board of Management is authorized, with the approval of the Supervisory Board, to exclude subscription rights for stockholders provided the capital increase out of the Authorized Capital II does not exceed 10 percent of the capital stock existing at the time this authorization becomes effective or the time this authorization is exercised.

Conditional capital of €186.88 million, corresponding to 73,000,000 shares, exists to service the conversion rights under a mandatory convertible bond issued by Bayer Capital Corporation B.V., Netherlands, on April 6, 2006. Further, the Annual Stockholders' Meeting on April 27, 2007 authorized the Board of Management to purchase and sell company shares representing up to 10 percent of the capital stock. This authorization expires on October 26, 2008.

Material agreements entered into by Bayer AG which are subject to the condition precedent of a change of control include, firstly, the agreement of March 23, 2006 establishing a €7 billion syndicated credit facility for Bayer AG. This agreement contains provisions entitling the banks participating in the syndication to terminate the agreement in the event of a change of control and demand repayment of any outstanding sums. The loan was paid down to €1.25 billion as of December 31, 2007.

Similarly, the €2.3 billion mandatory convertible bond issued by Bayer Capital Corporation B.V., Netherlands, on April 6, 2006, which is secured by a subordinated guarantee from Bayer AG, also contains a change of control clause. Under Section 6.5 of the conditions of issue, in the event of a takeover offer pursuant to Section 29, Paragraph 1 of the German Securities Acquisition and Takeover Act (WpÜG) or a mandatory offer, pursuant to Section 35, Paragraph 1 of that Act, bondholders shall be entitled to exercise their conversion rights. If they do so, they will receive Bayer AG shares in accordance with the applicable conversion ratio.

Finally, the terms of the approximately €3.9 billion in notes issued by Bayer in 2006 and 2007 under its multicurrency European Medium Term Note program also contain a change-of-control clause. Holders of these notes have the right to demand the redemption of their notes by Bayer AG in the event of a change of control if Bayer AG's credit rating is downgraded within 120 days after such change of control becomes effective.

In the event of a takeover offer for Bayer AG, the following agreements exist for members of the Board of Management:

The severance indemnity clause for the members of the Group Management Board described in the Compensation Report is currently supplemented by a change-of-control clause which, like the severance indemnity clause, only takes effect if a change of control results in the termination of a Group Management Board member's service contract and his leaving the Bayer Group prior to his 60^{th} birthday. The potential benefits are the same as under the severance indemnity clause, except that if the contract of a member of the Group Management Board terminates on or before his 55^{th} birthday, the monthly bridging allowance may be paid for 60 months, though not beyond his 60^{th} birthday, provided that he does not take up another position on comparable terms before then. The exact amount of the monthly payments, which are intended to offset any difference in remuneration, depend on the remuneration received elsewhere.

Proposal for Distribution of the Profit

Under German law, the dividend payment is based on the balance sheet profit of the parent company, which amounted to €1,032 million in 2007:

Bayer AG Summary Income Statements according to the German Commercial Code	2006	2007
€ million		
Net sales	**196**	**242**
Cost of goods sold	(146)	(195)
Gross profit	**50**	**47**
Selling and administration expenses	(194)	(224)
Other operating income and expenses – net	(5)	(2)
Operating result	**(149)**	**(179)**
Non-operating result	**1,449**	**2,304**
Income before income taxes	**1,300**	**2,125**
Income taxes	(50)	(197)
Net income	**1,250**	**1,928**
Allocation to retained earnings	(486)	(896)
Balance sheet profit	**764**	**1,032**

We will propose to the Annual Stockholders' Meeting on April 25, 2008 that the balance sheet profit be used to pay a dividend of €1.35 (2006: €1.00) per share (764,341,920 shares) on the capital stock of €2.0 billion entitled to the dividend for 2007.

Employees

On December 31, 2007, the Bayer Group had 106,200 employees worldwide (2006: 106,000). North America accounted for 16,800 of these employees, while 18,900 were based in Asia-Pacific, 14,300 in Latin America/Africa/Middle East and 56,200 in Europe. In Germany we had 39,100 employees, who made up 36.8 percent of the Group workforce. The number of employees has been converted to full-time equivalents, which means part-time employees are included in proportion to their contractual working hours. We believe this presentation improves the comparability of personnel expenses and employee numbers. Personnel expenses rose by 14.2 percent in 2007 to €7,571 million (2006: €6,630 million). In the previous year's figure, personnel expenses for Schering employees are included from June 23, 2006.

Employees by Corporate Function	Dec. 31, 2006	Dec. 31, 2007
Production	47,800	48,800
Marketing	37,400	36,900
Research and development	12,300	11,600
General administration	8,500	8,900
Total	**106,000**	**106,200**
of which trainees	3,100	2,700

A breakdown of employees by segment is provided in the segment table in Note [1] to the consolidated financial statements.

Our company's economic success is crucially dependent on a high level of commitment by the entire workforce. We therefore endeavor to foster the skills and capabilities of our employees through continuing education and human resources development programs worldwide. Our training programs are oriented toward the needs of our business operations and are planned, implemented and evaluated according to globally standardized processes. When developing new programs, we focus on combining topical subject-matter with modern teaching and learning methods. For example, our award-winning international leadership program "BayWay" – comprising virtual classroom instruction and on-site training – was revised in 2007 and successfully applied in our Group-wide management development. With our online training program "Discovering Bayer," launched as a pilot project in the United States in the summer of 2007, we teach newly hired employees about our company's values and organizational structure and support the building of personal networks as part of our Global Orientation Program.

Employee participation in the company's success

We enable our employees to participate in the company's success to a significant degree. Bayer is paying out roughly €490 million to employees in variable one-time payments for 2007 under its Short-Term Incentive program (2006 on a pro-forma basis: approx. €420 million).

Our employees also benefit from Bayer's business success through various stock participation programs. In addition to the existing programs, we introduced a newly designed program called "BayShare" in Portugal, Spain, Italy and the Netherlands in 2007. Our employees in those countries have the opportunity to purchase Bayer shares at an attractive discount. A company-wide program called "Aspire" has existed since 2005 for senior management.

Wide range of career opportunities for young people

As part of our international human resources policy, we traditionally focus on offering young people good future perspectives through well-founded vocational training and on attracting qualified specialists to our company. In 2007, a total of 895 young people embarked on vocational training programs for over 20 occupations at our German sites, bringing the number of young people we are preparing for a career in Germany to some 2,700.

Bayer also offers a proven program designed to help youngsters with limited educational qualifications prepare within one year for a vocational training course. In 2007 this initiative was recognized by the Dublin-based European Foundation for the Improvement of Living and Working Conditions as a groundbreaking project and an important contribution to combating youth unemployment.

The recruiting and advancement of young managers with an academic background is of great importance to Bayer. We currently operate four different international trainee programs for gifted university graduates.

Innovative tools

Mindful that all our employees need to prepare for a longer working life in the future, we run training programs specifically designed to help the various employee groups adapt to changes in life worktimes.

The long-term account system introduced in Germany in 2007 will enable our employees to more flexibly manage their individual working periods. Employees can save up value credit from various time and remuneration components which can then be used to finance paid leave prior to their official retirement.

Realignment of the Bayer-wide human resources function

Bayer is currently realigning its human resources function through the Group-wide "Transforming Human Resources" project. This realignment increases the contribution of the human resources function to the success of the business and enhances the quality and efficiency of global human resources processes.

As part of this realignment, the various human resources services are being performed by the company's own HR Shared Service Centers (SSCs). The SSC in Leverkusen currently serves employees in Germany and will in future be available to their colleagues in other European countries. The second HR Shared Service Center, which launched operations in Pittsburgh in April 2007, will support approximately 12,000 employees in North America.

Procurement and Distribution

Bayer HealthCare

The **Pharmaceuticals** segment generally procures the raw materials for manufacturing the active ingredients of its ethical pharmaceuticals from external suppliers. We hold strategic reserves to prevent supply bottlenecks and possible dependence on suppliers. To mitigate major price fluctuations, we generally purchase the building blocks and intermediates required to manufacture our principal active ingredients on the basis of global contracts or from several approved suppliers. The active ingredients of our ethical pharmaceuticals are currently manufactured almost entirely in Wuppertal and Bergkamen, Germany, for Bayer production facilities in Berlin, Leverkusen and Weimar, Germany; Berkeley and Emeryville, California; Garbagnate, Italy; São Paulo, Brazil; Madrid, Spain; Turku, Finland and elsewhere. Our products are primarily distributed through wholesalers, pharmacies and hospitals.

Since we compete with other drug suppliers worldwide, we actively seek to reinforce our external distribution network with co-promotion and co-marketing arrangements. In June 2007, we began co-marketing the Schering-Plough product Zetia® in Japan within the scope of the strategic alliance formed with that company in 2004. (Please note that Schering-Plough Corporation, New Jersey, and the company acquired by Bayer in June 2006, i. e. Bayer Schering Pharma AG (formerly named Schering AG), Berlin, Germany, are unaffiliated companies that have been totally independent of each other for many years.) In the United States, Schering-Plough also distributes Primary Care products from Bayer and co-markets our erectile dysfunction drug Levitra® with GlaxoSmithKline.

In our **Consumer Health** segment the focus is on products marketed directly to consumers. The Consumer Care Division, which concentrates on non-prescription drugs, procures certain high-volume raw materials such as acetylsalicylic acid and clotrimazole from within the Bayer Group, and other principal raw materials such as naproxen, ascorbic acid, citric acid and paracetamol from third parties. These are generally readily available. To minimize business risks, we diversify our raw material procurement sources worldwide and conclude long-term supply agreements. Among the division's largest production sites are the facilities in Myerstown, Pennsylvania, United States; Gaillard, France; and Grenzach, Germany. While the division's sales and distribution channels outside Europe are typically supermarket chains, drugstores and other large retailers, pharmacies are the usual distribution channel in Europe.

About one quarter of the products of the Diabetes Care Division are manufactured or assembled directly by Bayer, while the rest are procured from original equipment manufacturers (OEMs). The price and availability of most materials are safeguarded through contractual agreements and are therefore not subject to major fluctuations. We hold strategic reserves of certain direct materials or finished products in order to be able to supply our customers consistently and reliably. The division's biggest production site is located in Mishawaka, Indiana, United States. Our Diabetes Care products are generally marketed to consumers outside Europe through pharmacies, drugstores, mass merchants, hospitals and wholesalers. In Europe, they are sold mainly through pharmacies.

The Animal Health Division procures the pharmaceutical ingredients for its veterinary medicines both from within the Bayer Group and from external suppliers throughout the world. Its products are manufactured mainly at the sites in Kiel, Germany, and Shawnee, Kansas, United States, and marketed worldwide. Depending on local regulatory frameworks, animal health products may be available to end users with a prescription issued by a veterinarian or over the counter from retail stores, drugstores and pharmacies.

Bayer CropScience

Bayer CropScience procures most of its raw materials for the manufacture of crop protection products from external companies around the world. The cost of some raw materials depends on fluctuating crude oil and energy prices and freight charges.

Our business is subject to the growing seasons for the relevant crops and the respective distribution cycles.

Bayer CropScience operates more than 40 production facilities of its own around the world. Among the largest are the plants in Dormagen and Frankfurt, Germany; Institute, West Virginia and Kansas City, Missouri, United States; and Vapi, India. In addition to the central locations for the manufacture of our active ingredients, a network of decentralized formulation and filling plants enables us to respond rapidly to local market needs.

Our crop protection products are marketed either via wholesalers or directly through retailers by means of a two- or three-step distribution system, depending on local market conditions.

The products of the Environmental Science Business Group are addressed to both professional users and consumers in the non-agricultural segment and are distributed through different channels. Our green industry, pest control and vector control products are marketed directly to professional users, while home and garden products are sold to consumers through specialized retailers.

BioScience produces its commercial seeds in numerous breeding stations around the world. The products are made available to growers, breeders, specialist dealers and processing industries. Traits developed using plant biotechnology are either incorporated into our own seeds or outlicensed to other seed companies for use in their products. In some cases, traits are provided to other companies that use the technology in their research.

Bayer MaterialScience

The primary raw materials for our products are petrochemical feedstocks. We generally procure these on the open market by way of long-term agreements that serve to safeguard the supply of raw materials on competitive terms.

Bayer MaterialScience manufactures its products in close proximity to its customers at 30 locations around the world. Our largest production facilities for the European market are located in Dormagen, Krefeld-Uerdingen and Brunsbüttel, Germany; Antwerp, Belgium; and Tarragona, Spain. The major production sites for the U.S. market are at Baytown, Texas, while customers in the Asia-Pacific region are supplied chiefly from Map Ta Phut, Thailand and Caojing, China. Our focus is on world-scale facilities.

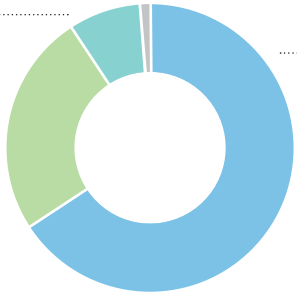
Products marketed by the MaterialScience subgroup are polyurethanes, polycarbonates, raw materials for coatings and adhesives, and selected basic chemicals.

These products are mainly used in the automotive, construction, electronics, information technology, furniture, timber, chemical, sports equipment, leisure goods, textile, medical technology and manufacturing industries.

Our plastics materials are marketed primarily through regional distribution channels or directly to customers. We also work together with trading houses and local distributors who are responsible for business with small customers. Major customers with global operations are serviced directly by our key account managers.

Research and Development

Research and Development Expenses by Subgroup in % (2006 in parentheses)



As a research-based company, the Bayer Group firmly believes in innovation as a key driver for future growth. We have the necessary resources in place to realize further growth opportunities for the future through research and development activities. In 2007 we invested a total of €2,578 million in research and development, compared with €2,297 million in the previous year. It is particularly important for us to develop new products that strengthen our core businesses while at the same time continuously optimizing our product portfolio and our manufacturing processes. Our research activities are closely aligned to the requirements of our markets, with customer needs and technological advances presenting opportunities for future innovation. With innovation projects in particular, our own research and development activities are supplemented by our international network of collaborations with leading universities, public-sector research institutes and partner companies. Through this pooling of expertise, we aim to rapidly translate new ideas into successful products.

Bayer HealthCare

In 2007 we invested €1,700 million (2006: €1,426 million) in R&D in the Pharmaceuticals and Consumer Health segments to lay the foundations for the introduction of further innovative products in the subgroup's expanding markets. This represented 65.9 percent of the Bayer Group's entire R&D expenditures and was equivalent to 11.5 percent of sales.

In connection with the integration of Schering AG, Berlin, Germany, we have carried out a strategic realignment and reorganized our global pharmaceutical research and development to adjust to the new situation. In drug discovery we now focus on four growth areas: oncology, cardiology, women's healthcare and diagnostic imaging. The respective research activities are consolidated at three main sites: Berlin and Wuppertal, Germany, and Berkeley, California. The Berlin and Wuppertal locations have significant capabilities and activities in the identification of molecular targets and the development and optimization of lead substances, as well as in drug metabolism, pharmacokinetics, toxicology and clinical pharmacology. Berkeley is an important global research and development center for protein-based active ingredients and is home to the biotechnological production facility for Kogenate®. Bayer HealthCare's U.S. research sites in West Haven, Connecticut, and Richmond, California, have been or will be closed.

To drive the development of new substances to treat diseases where there is a high unmet medical need, we conducted clinical studies with several drug candidates from our research and development pipeline during 2007. Products we submitted to one or more regulatory authorities for registration or extension of the existing registration included Xarelto® (prevention of venous thromboembolism following major orthopedic surgery), Menostar® transdermal VMS (menopause management), the E2/DNG project (contraception), the E2/LNG project (menopause management) and Zevalin® (follicular lymphoma). The following table shows the drug candidates currently in Phase II or III of clinical testing:

Research and development projects (Phases III and II)

	Indication	Status
Rivaroxaban/Xarelto®	Prevention of venous thromboembolism in medically ill, immobilized patients	Phase III
Rivaroxaban/Xarelto®	Stroke prevention in atrial fibrillation	Phase III
Rivaroxaban/Xarelto®	Treatment of venous thromboembolism	Phase III
Nexavar®	Melanoma	Phase III
Nexavar®	Non-small-cell lung cancer	Phase III
Bonefos®	Prevention of bone metastasis in breast cancer	Phase III
Zevalin®	Aggressive non-Hodgkin's lymphoma	Phase III
YAZ® Flex	Fertility control (long cycle)	Phase III
Combined oral contraceptive containing folate	Fertility control	Phase III
LCS (Levonorgestrel Contraceptive System)	Intrauterine fertility control	Phase III
Mirena®	Menorrhagia	Phase III
E2/DNG	Supplementary indication: dysfunctional uterine bleeding	Phase III
YAZ®	Dysmenorrhea (Japan)	Phase III
Angeliq® low-low	Menopause management	Phase III
Visanne®	Endometriosis	Phase III
VEGF Trap-Eye	Wet age-related macular degeneration (AMD)	Phase III
Alemtuzumab	Multiple sclerosis	Phase III
Ultravist® 370	Computed tomography	Phase III
Gadovist®	Magnetic resonance imaging	Phase III
Aspirin® i.v.	Acute coronary syndrome	Phase III
Avelox®	New indications	Phase III
Adenosine A1 agonist	Atrial fibrillation/stable angina pectoris	Phase II
sGC activator	Acute heart failure	Phase II
sGC stimulator	Pulmonary hypertension	Phase II
sGC stimulator 2	Heart failure	Phase II
Rivaroxaban/Xarelto®	Secondary prevention of acute coronary syndrome/myocardial infarction	Phase II
Kogenate®	Hemophilia (formulation based on liposome technology)	Phase II
Nexavar®	Breast cancer	Phase II
Nexavar®	Additional indications	Phase II
L19-Interleukin 2	Renal cell carcinoma	Phase II
ZK-PRA	Breast cancer	Phase II
Sagopilone (ZK-EPO)	Lung/ovarian/breast/prostate cancer	Phase II
FC Patch	Fertility control	Phase II
E2/DRSP	Fertility control	Phase II
Combined oral contraceptives/DHEA	Fertility control	Phase II
Valette® plus	Fertility control	Phase II
Spheramine®	Parkinson's disease	Phase II
Levitra®	New indications	Phase II
Amikacin Inhale	Pneumonia	Phase II
Cipro Inhale	Lung infection	Phase II

The nature of drug discovery and development is such that not all compounds can be expected to meet the pre-defined project goals. It is possible that any or all of the projects listed above may have to be discontinued due to scientific and/or commercial reasons and will not result in marketed products. It is also possible that the requisite FDA, European Medicines Agency (EMEA) or other regulatory approval will not be granted for these compounds.

We regularly evaluate our pharmaceutical research and development pipeline in order to prioritize the most promising projects.

Some important development candidates in our pipeline are described below. Our innovative cancer drug Nexavar® (sorafenib), developed jointly with Onyx Pharmaceuticals Inc., inhibits tumor growth by simultaneously blocking several serine/threonine and receptor tyrosine kinases in tumor cells. It also reduces the formation of new blood vessels that feed the tumor. We already market this product – first approved in December 2005 for the treatment of patients with advanced renal cell carcinoma – in more than 80 countries. In June 2007 we presented positive Phase III study results for the treatment of hepatocellular carcinoma with Nexavar®. Based on these data we obtained marketing authorization in this indication in Europe and the United States in the course of the year. Nexavar® is currently in various stages of clinical testing for the treatment of other tumor types.

In addition, our developmental product rivaroxaban (planned trade name: Xarelto®), a novel oral direct Factor Xa inhibitor, is being developed for the prevention and treatment of thrombotic events in order to address currently unmet needs in the anticoagulation market. This product is being jointly developed by Bayer HealthCare and Johnson & Johnson subsidiary Ortho-McNeil, Inc. under an agreement concluded in October 2005. Phase III clinical trials with Xarelto® were initiated in December 2005 for the prevention of venous thromboembolism (VTE) after major orthopedic surgery. In 2007 we applied to the European Medicines Agency (EMEA) for marketing approval for this indication. In 2006 we initiated Phase III clinical trials for the chronic indications of stroke prevention in atrial fibrillation and the treatment of venous thromboembolism and its secondary prevention. In 2007 we initiated the Phase III trial for the prevention of thrombosis in medically ill, immobilized patients. Phase II clinical trials for secondary prevention of acute coronary syndrome/myocardial infarction began in 2006.

An example of research and development activities in our Women's Healthcare business unit is our product YAZ® from the drospirenone product family. Featuring an innovative, patent-protected therapeutic regime, YAZ® is the first oral contraceptive with two additional indications: acne and PMDD (premenstrual dysphoric disorder). In addition to the benefits of drospirenone, the gestagen contained in the product, YAZ® reduces the typical monthly hormone fluctuations seen with traditional contraceptives with a 21-day regimen. The product has already been approved for all three indications in the United States. In June 2007, YAZ® was approved in the Netherlands for fertility control and the treatment of acne. On the basis of this registration, an application has been submitted for the product to receive marketing approval for these two indications throughout Europe via the Mutual Recognition Procedure (MRP).

Our research and development efforts for biological products in the Hematology/Cardiology business unit focus on strengthening and expanding our recombinant Factor VIII product Kogenate®. Key research and product development projects include a new presentation of Kogenate® based on patented pegylated liposome technology as well as Kogenate® – Next Generation and the evaluation of gene therapy for hemophilia B.

In the Specialized Therapeutics business unit, the humanized monoclonal antibody alemtuzumab successfully completed Phase II clinical trials and is now being tested in two global Phase III studies for the treatment of multiple sclerosis (MS). This novel approach to the treatment of the autoimmune disease MS is being developed in collaboration with Genzyme Corporation.

The portfolio of products emerging from our own research and development is supplemented by products inlicensed on a national, regional or global level. An example is the acquisition from U.S.-based ZymoGenetics, Inc., of commercialization rights outside the United States for recombinant human thrombin (rThrombin), which received marketing approval from the FDA in January 2008. The two companies plan to co-promote the product in the United States for an initial period of three years under the name Recothrom™ for the control of bleeding during surgery. In 2007 we entered into a partnership with Nektar Therapeutics Inc. to develop and commercialize an inhaled formulation of the antibiotic amikacin to treat pneumonia. Under the collaboration agreement entered into in 2006 with Regeneron Pharmaceuticals, Inc. on global development and marketing for the developmental product "VEGF Trap-Eye," the product has now entered Phase III testing in age-related macular degeneration. "VEGF Trap-Eye" is a protein which, when applied locally to the eye, binds to or "traps" the vascular endothelial growth factor (VEGF) and blocks its activity. Bayer has the right to market the drug outside the United States upon regulatory approval.

The agreement signed in 2006 with Nuvelo Inc. to globally develop and market alfimeprase was terminated after the drug failed to meet its primary endpoints in two Phase III trials (NAPA 2 and SONOMA 2).

We manage the life cycles of commercialized products by identifying new indications and developing improved formulations in order to expand the scope of possible treatment opportunities.

In our Consumer Health segment, research and development activities of the Consumer Care Division at the Morristown, New Jersey, and Gaillard, France, sites focus on identifying, developing and commercializing non-prescription (over-the-counter = OTC) products. These efforts are centered on support for existing brands and the implementation of product-specific, clinical and regulatory development strategies that enable the successful exploitation of new technologies, the expansion of indications for existing products or the reclassification of current prescription medicines as OTC products. We introduced several new products to the market in 2007.

In the Diabetes Care Division, headquartered in Tarrytown, New York, we focus on strengthening core product lines and continuing our expansion into attractive segments of the diabetes market. The results of our internal development work and our collaborations with partners enable us to offer user-friendly blood glucose monitoring systems to meet the individual needs of people with diabetes.

The Animal Health Division focuses its research and development activities in Monheim, Germany, on antiinfectives and parasiticides as well as active ingredients for the treatment of non-infectious disorders such as renal failure, pain, cancer and congestive heart failure, particularly in companion animals.

Bayer CropScience

In 2007, €637 million (2006: €614 million), or about 24.7 percent of the Bayer Group's research and development expenditures, was spent at Bayer CropScience. This is equivalent to 10.9 percent of the subgroup's sales.

CropScience maintains a global network of research and development facilities. Our biggest R&D sites for crop protection products are located in Monheim and Frankfurt, Germany, and Lyon, France. The major research centers of the BioScience Business Group are located in Ghent, Belgium, and Haelen, Netherlands.

While research is concentrated at a small number of centrally located sites, our development activities take place both there and at field testing stations across the globe, to enable future products to be tested under the relevant regional climatic conditions. Breeding activities for our seed business are also carried out at various decentralized locations to take account of specific local market requirements.

In the Crop Protection segment we identify and develop innovative, safe and economically sustainable insecticides, fungicides and herbicides and carry out research projects in new areas of future importance, such as plant health or stress tolerance. In addition to conventional chemistry, biology and biochemistry, modern technologies such as genomics, high-throughput screening, bioinformatics and combinatorial chemistry play an important role in the identification of new lead structures. Collaborations with external parties supplement our own activities.

Once a compound is identified for development, its biological, environmental and toxicological profile is assessed.

We work to actively extend the applications for our products by developing seed treatments and continuously managing product life cycles. This includes developing new formulations for active ingredients and products that are already on the market so that they can be applied to additional crops or are easier to use.

The Crop Protection active ingredient pipeline currently contains 18 projects that the company aims to bring to market maturity by 2015, and a further 45 projects in early-stage research. The following new active ingredients from the R&D pipeline of Bayer CropScience received their first marketing approvals in various countries in 2007:

New active ingredient	Indication	Status
Flubendiamide	Insecticide	Market introduction 2007
Spirotetramat	Insecticide	Market introduction expected in 2008
Tembotrione	Herbicide	Market introduction 2007
Pyrasulfotole	Herbicide	Market introduction expected in 2008

Flubendiamide (major brand: Belt®) is a new insecticide for foliar application in annual and perennial crops, offering protection primarily against all major Lepidoptera species. It belongs to a new chemical class of substances (substituted phthalic acid diamides) with a novel mechanism of action. The substance is also highly effective against insects that are resistant to certain conventional insecticides. Flubendiamide is intended for worldwide use in vegetables, fruit, cotton, corn, beans, tea and a number of other crops.

Spirotetramat (major brand: Movento®) is Bayer CropScience's third active ingredient from the ketoenols substance class. It is a highly effective systemic insecticide that offers protection against a broad spectrum of sucking insects. Spirotetramat protects pome and stone fruit, citrus fruit, grapes, nuts, vegetables and potatoes against pests such as aphids, cicadas, grape lice, mealybugs, whiteflies and cottony-cushion scales.

Tembotrione (major brand: Laudis®), from the triketone chemicals class, is absorbed by the plant through the leaves and can be used in corn to control a broad spectrum of weeds, including resistant varieties.

Pyrasulfotole (major brand: Huskie™), a member of the benzoylpyrazoles class, is a new herbicidal active ingredient offering farmers reliable control of a large number of broad-leaved weeds in cereals.

The compounds discovered in the course of crop protection research are also tested and evaluated by our Environmental Science unit to identify possible development potential for non-agricultural uses. Active ingredients from other companies may also be tested and purchased if suitable. Our current development projects include passive treatments such as gels and baits, formulations for pest control, new products for weed control, and active ingredient mixtures to control fungal diseases on turf and ornamental plants.

In 2007, Environmental Science introduced various new products for professional users and consumers. Key launches included the insecticide Exemptor® (thiacloprid) for the green industry in Europe and the new herbicide Destiny® (iodosulfuron) in Japan.

Research activities in our BioScience unit are based on plant biotechnology and modern breeding methods designed to optimize the properties of our core crops – cotton, canola and rice – and our vegetable seeds.

We have a promising pipeline comprising more than 40 lead projects. Our research and development activities are focused on stress tolerance, yield increases and qualitative plant traits. For example, we are working to develop new canola oil profiles, tomatoes with improved processing characteristics, and new cotton varieties with enhanced fiber properties. Other projects are directed toward improving plants' herbicide tolerance and their resistance to insect attack and diseases. We supplement our own research activities with research and licensing agreements, a key area here being the improvement and safeguarding of crop yields in stress situations by modulating specific genes in cotton, canola and rice.

The expansion of sales in our BioScience Business Group was supported by new product introductions in 2007.

Bayer MaterialScience

In 2007, Bayer MaterialScience spent €209 million (2006: €227 million) on research and development (not including joint development activities with customers) to further expand its leading position in market and process technology as a global supplier of high-quality customized materials and system solutions. The subgroup thus accounted for an 8.1 percent share of the Bayer Group's total research and development expenditures, with R&D expenses amounting to 2.0 percent of sales. In the four MaterialScience business units – Polyurethanes; Polycarbonates; Thermoplastic Polyurethanes; and Coatings, Adhesives, Sealants – the latest technologies and production processes are used to develop new products and applications in close cooperation with our customers and other external partners.

The Polycarbonates business unit strives to develop new formulations and applications for its products and continually improve its manufacturing processes. In product development, we focus our activities on developing new blends, refining materials for optical data storage, developing modified base materials for polycarbonate sheets and modifying the surface of polycarbonates using various coating technologies. Examples include polycarbonate windows and roof elements for cars. Noteworthy applications for polycarbonate films are LCD diffuser films for flat screens and formable coated films for electronic and automotive applications. Soft-touch Makrofol® films are used in automotive interior components and mobile phone housings.

Currently, the main areas of innovation in the Polyurethanes business unit are the development of new and improved polyether polyol types and blends, and the improvement of manufacturing processes for polyols and aromatic isocyanates. Our TDI facility in Caojing, China, due on stream in 2010, will employ gas-phase phosgenation, which uses between 40 and 60 percent less energy than previous processes. We are also investigating the feasibility of a new and highly efficient production process for MDI.

In product development, our activities are focused mainly on extending the applications for our polyurethane systems and improving their thermal insulation properties and flame retardance. The use of renewable raw materials also plays an important part. For example, we have developed polyols containing up to 70 percent by weight of renewable raw materials for use in mattresses, car seats and refrigerator insulation. One completely new application is a polyurethane foam system used to lay railroad ballast beds. The use of this innovative technology, which is currently being tested under regular rail traffic conditions, can result in a lower maintenance requirement for the railroad bed and also reduce train noise levels.

The Coatings, Adhesives, Sealants business unit focuses its research and development activities on developing polyurethane raw materials for the formulation of high performance coatings, adhesives and sealants, such as aliphatic and aromatic polyisocyanates and resin components. Important areas of research are raw materials for waterborne and UV-curing systems that help to conserve resources by obviating the need for organic solvents and reducing drying times for coatings. We are also collaborating with the U.S. company InPhase Technologies to develop holographic data-storage media with a capacity of 300 GB per first-generation disc. We are also working to open up more new applications in the areas of printing inks, cosmetics and medical technology.

Most research and development activities in the Thermoplastic Polyurethanes business unit are directed toward obtaining high-performance thermoplastic polyurethane resin granules and film products, such as solar-module films with very high transparency and UV stability.

The New Business section of MaterialScience constantly tracks and evaluates new technological and market trends, channeling the most promising ideas into research and development projects in order to create profitable business opportunities for the future or expand existing technology platforms. There are various approaches to implementing such projects, including collaboration with the business units or an external institution, or the establishment of an independent company as part of a "greenhouse" initiative. In a new technology initiative, Bayer in the fall of 2007 signed an agreement with Aachen Technical University concerning the establishment of a center for catalysis research in which novel catalytic processes are to be developed. Following the founding in 2006 of the start-up company LYTTRON for the production of three-dimensionally formable electroluminescent films, the internal start-up project Baytubes® was launched in 2007. We now manufacture multi-wall carbon nanotubes in a pilot facility with an annual capacity of 60 tons and market them under the trade name Baytubes®. Thus within a very short time, we have become one of the world's leading suppliers of such products.

Bayer Technology Services

The Bayer subgroups work closely with Bayer Technology Services on engineering and technology solutions, particularly in the fields of process technology, plant engineering and automation. This service company develops and implements innovative technology platforms that speed up development work and help the subgroups to manufacture new products, design system solutions and develop production processes. International sourcing of know-how plays a key strategic role in this. It involves country-specific expertise in the implementation of capital expenditure projects, global access to innovations and public funding, and the recruiting of top international personnel. The establishment of collaborations with other companies and with research institutes also has an important part to play in this respect.

Bayer Innovation

Bayer Innovation investigates and evaluates innovation themes outside of the subgroups' core activities and develops them into viable new businesses for the Bayer Group. The aim of Bayer Innovation is to incorporate Bayer's core competencies in the fields of health care, nutrition and high-tech materials into projects that complement Bayer's business portfolio, and to facilitate access to new and growing markets.

In 2007 Bayer Innovation focused on the manufacture of plant-made pharmaceuticals (PMP) and on novel concepts for the treatment of chronic wounds, such as wound dressings made from biodegradable silica gel fibers. The full potential of these technologies is being evaluated in close cooperation with Bayer HealthCare, Bayer CropScience, Bayer MaterialScience, Bayer Technology Services and external partners.

Triple-i: Inspiration, Ideas, Innovation

More than 3,000 suggestions have already been submitted in response to the innovation initiative launched by Bayer AG in 2006, entitled "Triple-i: Inspiration, Ideas, Innovation." Many of these proposals are currently undergoing further evaluation by our subgroups. The initiative is designed to motivate employees throughout the Group to submit ideas for new products and thus help to strengthen Bayer's innovation capability.

Sustainable Development

Our strategy to promote sustainable development is based on the Bayer Group's values, leadership principles and guidelines, and is defined by our Sustainable Development Policy and various voluntary commitments such as the Responsible Care Global Charter and the United Nations Global Compact. Our sustainable development strategy is spelled out and illustrated in directives and stated corporate positions. Our existing committees for sustainable development and for health, safety and environmental issues continued their work in 2007. We developed a Group-wide position on human rights and presented the "Bayer Climate Program," which is based on our new policy on climate change. Both apply in all countries and regions where Bayer operates throughout the world. The subgroups and service companies are charged with implementing these policies on a day-to-day basis.

How we measure and manage our performance in this area is illustrated by the Sustainable Development Program 2006+ ("Our goals for 2010"), comprising several fields of activity including innovation, product stewardship, excellence in corporate management, social responsibility and responsibility for the environment. Within these fields, we have assigned specific measures to each goal in order to monitor our progress and document the achievement of targets. The Bayer Group's Sustainable Development Program takes into account the goals of all the subgroups and service companies, and their management teams are responsible for its successful implementation.

In 2007, most of our key performance indicators held steady or further improved. The number of reportable environmental incidents and the industrial injuries rate both fell considerably. The number of reportable transportation incidents remained at the previous year's level; we have reorganized this process for the future and adapted Group regulations and responsibilities accordingly. Phosphorus and organic carbon emissions rose and energy use increased due to a higher production volume and the inclusion of the full data for the acquired Schering facilities. Greenhouse gas emissions remained level despite a higher production volume.

www.sustainability2006.
bayer.com

In our 2006 Sustainable Development Report, we published not only direct greenhouse gas emissions, but also – for the first time – our indirect greenhouse gas emissions related to energy purchase on a portfolio-adjusted basis in line with the Greenhouse Gas Protocol. Our Sustainable Development Report, now issued annually, is based largely on Version G3 of the Global Reporting Initiative (GRI) for sustainability reporting, which was co-founded by the United Nations. Bayer's 2007 Sustainable Development Report is scheduled to appear at the end of May 2008.

It is important to us that we participate in shaping external conditions. Bayer is keenly involved in the discussion surrounding environmental and consumer protection strategies and regulations at both the national and international levels. Committed as we are to product stewardship, we also support the objectives of the E.U. chemicals policy (REACH), which are to ensure the safety of everyone who comes into contact with chemical products throughout their life cycles and to further improve consumer safety and environmental protection. We therefore played a constructive part in the revision of the E.U. chemicals policy. In 2007 the Group Management Board issued an internal directive entitled "REACH Implementation" to ensure that chemicals are registered, evaluated and – where necessary – submitted for approval in line with the REACH policy.

We endorse the goals of the E.U. action plan for improving health and the environment, which in its first cycle focuses particularly on children's health. It is essential here to look at all factors influencing children's health and focus on relevant health problems. Decision-making must continue to be based on the scientific assessment of risk, which is increasingly based on biomonitoring. We support scientifically founded biomonitoring programs and have developed a Group-wide position on this topic.

Category	Key Performance Indicator	2006 [1]	2007 [1]
Health, Safety and Environment			
Health and Safety	Industrial injuries to Bayer employees resulting in at least one day's absence (number of injuries per million hours worked)	2.8	2.4
	Reportable industrial injuries to Bayer employees (number of injuries per million hours worked)	4.3	3.7
	Major environmental incidents	8	3
	Transportation incidents	9	10
Emissions and waste	Direct greenhouse gas emissions (CO_2 equivalents in million metric tons)*	3.9	3.9
	Indirect greenhouse gas emissions (CO_2 equivalents in million metric tons)*	3.7	3.7
	Volatile organic compounds (VOC) (thousand metric tons/year)	2.9	2.9
	Total phosphorus in waste water (thousand metric tons/year)	0.8	1.0
	Total nitrogen in waste water (thousand metric tons/year)	0.7	0.7
	Total organic carbon (TOC) (thousand metric tons/year)	1.5	1.8
	Hazardous waste generated (million metric tons/year)	0.3	0.3
	Hazardous waste landfilled (million metric tons/year)	0.1	0.1
Use of resources	Water use (million m^3/day)	1.2	1.2
	Energy use (petajoules [10^{15} joules])/year)	86.4	91.7
Employees and Society			
Diversity and opportunity	Percentage of women in Bayer Group senior management**	3.8	4.3
	Number of nationalities in Bayer Group senior management**	17	16
Training and development	Training costs in percent of personnel expenses	2.2	2.0
Employment	Number of employees by region as of December 31 (permanent and temporary)		
	Europe	57,800	56,200
	North America	17,200	16,800
	Asia/Pacific	17,300	18,900
	Latin America/Africa/Middle East	13,700	14,300

2006 figures restated
[1] including Schering as of June 23, 2006; excluding the Diagnostics Division, H.C. Starck and Wolff Walsrode
* as per Greenhouse Gas Protocol
** At year end 2006 no former Schering employees had yet been named to the Bayer Group Leadership Circle.

Evaluating both benefits and possible risks is a key element in Bayer's product development. The safety and environmental compatibility of our products have top priority. Biotechnology and nanotechnology hold tremendous potential for major products and applications in the areas of health care, nutrition and environmental protection. In 2007 we therefore issued an updated position on the responsible use of genetic engineering, along with the "Bayer Position on Nanotechnology" and the "Bayer Code of Good Practice in the Manufacturing and On-Site Use of Nanomaterials." All of these underscore our commitment to safety and environmental protection. In the field of nanotechnology, we are also involved in the "Nanocare" and "TRACER" safety research projects of the German Ministry of Education and Research.

Working for climate protection

Climate change presents a major global challenge. Since 1992 Bayer has set for itself and published ambitious targets for the reduction of energy use and CO_2 emissions. Between 1990 and 2006 we reduced our direct and indirect greenhouse gas emissions by 36 percent. The calculation is in line with the Greenhouse Gas Protocol and is portfolio-adjusted. In 2007 Bayer launched the integrated Group-wide Bayer Climate Program with the goals

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of further reducing CO_2 emissions from its own production facilities and developing new solutions for protecting the climate and addressing climate change.

Initiated by the Group Management Board, the program comprises a package of measures to be implemented over a period of several years. As part of the Bayer Climate Program, the company is bundling its specific competencies and has initiated groundbreaking projects such as the "Eco Commercial Building" – a global concept for zero-emissions office and industrial buildings. Other projects include developing stress-resistant plants, helping to ensure the effective use of biofuels, and the "Bayer Climate Check" for production processes.

Bayer plans to provide €1 billion for climate-relevant R&D and projects over the next three years.

For the period from 2005 through 2020, Bayer has set itself new emission targets that are particularly ambitious in view of the greenhouse gas reductions it has already achieved. The Bayer MaterialScience subgroup aims to lower its global specific greenhouse gas emissions per ton of products sold by 25 percent. Bayer CropScience plans to reduce absolute emissions worldwide by 15 and Bayer HealthCare by 5 percent.

In the United States, Bayer Corporation is voluntarily participating in the emissions trading program of the Chicago Climate Exchange (CCX) and has committed to reduce its greenhouse gas emissions by 6 percent overall between 2003 and 2010. This goal has already been achieved.

Bayer is also involved with the Global Roundtable on Climate Change (GRoCC), participating in this worldwide dialogue with politicians, institutions, industry, science and environmental associations. We are also active in the business leadership initiative "3 C: Combat Climate Change" and the Climate Change Dialogue of GLOBE International.

Sustainable investment

Bayer stock is included in various indices and investment funds that focus on companies with sustainable and responsible corporate policies.

Bayer has been listed in the Dow Jones Sustainability Index World (DJSI World) since it was first established in 1999 and in the European Dow Jones Sustainability Index STOXX (DJSI STOXX) since its inception in 2001. Our stock has also been included in the annually published benchmark series of the FTSE4Good indices since it was launched by the Financial Times and the London Stock Exchange in 2001. In 2007, Bayer was additionally included in the newly established FTSE4Good Environmental Leaders Europe 40 Index, which lists European companies with optimal environmental management. Analysts at the Storebrand Principal Fund again rated Bayer among the top companies in its peer group at the beginning of 2007, awarding it the ranking "Best in Class – Environmental and Social Performance." In addition, our shares were again listed in the French "Advanced Sustainable Performance Indices" (ASPI) Eurozone Index in 2007. As in 2005 and 2006, Bayer was last year named "Best in Class" by the investor group Carbon Disclosure Project (CDP) as one of the world's leading companies in the area of climate protection. In 2007 the company was listed for the third consecutive year in the Climate Disclosure Leadership Index, the first global climate protection index. Bayer is the only European chemical company listed in this index.

Bayer's social commitment is illustrated by some 300 projects in various parts of the world, many of which we have organized and financed for a number of years. In 2007, Bayer once again underscored its role as a good corporate citizen with a range of social activities focused on the areas of Education and Research, Environment and Nature, Health and Social Needs, and Sports and Culture. We continued to develop these projects, extending them to more countries and launching new initiatives.

www.csr.bayer.com

Education and research

The newly established "Bayer Science & Education Foundation," in which the company is pooling and strengthening its activities in the field of education, science and research, started work in 2007. The main focus is on awarding prizes for scientific achievement, granting scholarships and supporting local schools. First payments by the new foundation were made in 2007. The €50,000 Hansen Family Award 2007 went to Professor Magdalena Götz of the Institute of Stem Cell Research at the Helmholtz Association in Neuherberg, Germany, who is also a teaching professor at the Physiological Institute of the Medical Faculty of Ludwig Maximilian University in Munich. The award honors the biologist for her pioneering research in the field of neurobiology. The foundation also awarded 21 scholarships with a total volume of €142,000 to dedicated science and medical students. In 2007, the "Bayer Science & Education Foundation" launched a new focus on school sponsorship, approving the allocation of €400,000 to support school projects in the communities close to Bayer's sites.

In cooperation with Tongji University and the United Nations Environment Programme (UNEP), Bayer has also established a Chair for Sustainable Development in Shanghai, China. The Science & Education Foundation provided an endowment of US$1 million for a period of five years to finance research projects in the field of environmental protection and socioeconomic development as well as training programs and scholarships. In 2007, we added a further group of countries to the "Making Science Make Sense" education program – this time India, Italy, Colombia, Singapore and Taiwan. Schoolchildren in a total of ten countries are now benefiting from the commitment of Bayer employees who visit schools to demonstrate the aims and benefits of science with the aid of hands-on experiments.

Environment and nature

A major focus of Bayer's activities in the field of youth environmental education was the week-long Tunza International Youth Conference 2007, the environment summit of the United Nations Environment Programme (UNEP) for young people that is held every two years and was attended this time by 180 young people from 85 countries. Through its partnership with UNEP, Bayer AG became the first private-sector company to host the TUNZA conference. This was also the first time it had been held in western Europe, the first two conferences having taken place in Asia and eastern Europe. At the beginning of the conference – for which the slogan was "Technology in Service of the Environment" – Bayer and UNEP announced an extension of their partnership for a further three years, accompanied by a €200,000 increase in Bayer's annual contribution to €1.2 million. Bayer also supported UNEP by helping to organize regional conferences in Asia, Latin America and Africa.

Another element of the collaboration between UNEP and Bayer in 2007 was the organization in Bangkok, Thailand, of "Eco-Minds 2007." This science symposium was dedicated to the topic of protecting freshwater supplies. Turkey was recently added to the "Young Environmental Envoy" program, which means 17 countries now send delegates on a week-long study trip to Germany at Bayer's invitation once a year. Climate change was the subject of this year's eastern European photo competition established by Bayer and entitled "Ecology in Focus," and also of the International Children's Painting Competition on the Environment, in which around 13,500 children from 104 countries took part.

At the beginning of 2007, UNEP launched its "Plant for the Planet: Billion Tree Campaign," which aimed to persuade organizations and individuals throughout the world to plant a billion trees during the course of the year to combat climate change. Bayer gave wholehearted support to this campaign, arranging for 100,000 trees to be planted at UNEP headquarters in Nairobi. Each of the delegates at the TUNZA conference symbolically planted a tree, and some two dozen Bayer companies around the globe joined in this statement of ecological solidarity. The Bayer Group contributed significantly to the success of the unique campaign by planting some 300,000 trees in all.

Health and social needs

In 2007, Bayer donated 2.5 million Lampit® tablets to the World Health Organization (WHO) and provided additional funding to safeguard the global supply of drugs for the next five years to patients suffering from the parasite-borne Chagas' disease.

In future, Bayer will pool its activities in the field of disaster aid in the new "Bayer Cares Foundation," which began operating in 2007. Among the aims of the foundation are to provide rapid and straightforward emergency aid and to support sustainable reconstruction projects. In 2007, Bayer provided various forms of relief for cyclone victims in Bangladesh, making some €100,000 available for infrastructure projects in addition, and the 3,000 or so Bayer employees in neighboring India donated one day's wages. The company aided flood victims in Mexico by donating drugs and insecticides worth US$ 350,000 to ease the consequences of the floods and help guard against epidemics. And in Greece, Bayer provided €150,000 for communities particularly hard hit by the bush fires.

Sports and culture

Announcing its new sports strategy, Bayer reaffirmed its long-standing commitment to supporting recreational, youth and disabled sports. Bayer provides annual funding of more than €14 million to the 27 company clubs, whose total membership is nearly 50,000.

In 2007 the Bayer Cultural Affairs Department celebrated the 100th anniversary of its founding. On this occasion the company emphasized that cultural activities would remain at the center of its social commitment to the communities near its sites. For its enduring commitment to the fine arts, Bayer was also presented with the "Freedom and Responsibility 2007" award, with which Germany's leading industry associations each year honor outstanding examples of corporate social responsibility in cooperation with the magazine *Wirtschaftswoche*.

Compensation of the Board of Management

The compensation of the Board of Management basically comprises four components: a fixed annual salary, 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 short-term incentive award 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 directly effected remuneration of members of the Board of Management in 2007 (fixed salaries, short-term incentives and remuneration in kind) amounted to €8,882,552 (2006: €8,143,822), comprising €1,985,580 (2006: €2,260,400) in base salaries and €982,792 (2006: €1,096,556) in fixed supplements, €5,768,862 (2006: €4,644,475) in short-term incentive payments as well as €145,318 (2006: €142,391) of remuneration in kind and other benefits. Remuneration in kind mainly consists of values assigned to remuneration in kind and other benefits in accordance with German taxation guidelines.

The long-term incentive evolved in the following way: Through 2004, members of the Board of Management were permitted to participate in a cash-settlement-based stock option program. The last of the options were exercised in 2007, therefore no further claims existed under this program as of December 31, 2007.

Since 2005, the members of the Board of Management have participated in the long-term stock-based compensation program Aspire I (2005, 2006 and 2007 tranches). Further details of this program are provided under "Personnel commitments" in Note [26] to the consolidated financial statements.

The entitlements earned in 2007 relate to the 2007 parts of the respective three-year performance periods of the long-term stock-based compensation programs granted in current and previous years. The changes in the value of previously existing entitlements under long-term stock-based compensation programs that were earned prior to 2007 are shown separately. They result from the upward trend in the price of Bayer stock in 2007. Additionally, the fair value of the stock-based compensation as of the grant date in 2007 is given separately.

The table on page 78 shows the remuneration components of those individual members of our Board of Management who actively served in the course of 2007.

Remuneration of the members of the Board of Management

€		Werner Wenning	Klaus Kühn	Udo Oels[1]	Wolfgang Plischke[2]	Richard Pott	**Total**
Base salary	2007	748,872	412,236	-	412,236	412,236	1,985,580
	2006	748,872	412,236	343,526	343,530	412,236	2,260,400
Fixed supplement	2007	325,132	316,366	-	170,647	170,647	982,792
	2006	325,132	316,366	142,205	142,206	170,647	1,096,556
Short-term incentive	2007	2,168,878	1,379,994	-	1,109,995	1,109,995	5,768,862
	2006	1,525,086	1,034,615	567,335	689,745	827,694	4,644,475
Remuneration in kind and other benefits	2007	51,104	35,769	-	25,208	33,237	145,318
	2006	47,926	35,571	9,594	18,163	31,137	142,391
Directly effected remuneration	**2007**	**3,293,986**	**2,144,365**	**-**	**1,718,086**	**1,726,115**	**8,882,552**
	2006	2,647,016	1,798,788	1,062,660	1,193,644	1,441,714	8,143,822
Long-term incentive (stock-based compensation entitlements earned in the respective year)	2007	1,149,675	698,890	-	358,924	631,618	2,839,107
	2006	820,514	480,609	538,181	193,188	461,939	2,494,431
Change in value of existing entitlements	2007	889,725	510,121	-	100,950	491,935	1,992,731
	2006	339,733	229,617	104,125	66,262	164,952	904,689

[1] member of the Board of Management until April 28, 2006
[2] member of the Board of Management effective March 1, 2006

The fair value of the stock-based compensation as of the grant dates for 2007 and 2006 is shown in the following table:

€		Werner Wenning	Klaus Kühn	Udo Oels[1]	Wolfgang Plischke[2]	Richard Pott	**Total**
Fair value of newly granted stock-based compensation as of grant date	2007	299,173	202,957	-	162,366	162,366	826,862
	2006	268,113	181,886	40,419	117,597	145,509	753,524

[1] member of the Board of Management until April 28, 2006
[2] member of the Board of Management effective March 1, 2006

The fair value of the entitlements to newly granted stock-based compensation already earned in the respective year is included in the preceding table under "Long-term incentive."

The current members of the Board of Management are entitled to receive a pension from the age of 60 in an annual amount equal to at least 30 percent of the last yearly fixed salary. This percentage increases depending on years of service as a Board of Management member and, according to the inception of the respective service contract, is capped between 60 and 80 percent. We refer to the maximum such percentage a member of the Board of Management can reach as his final target pension level. Pension provisions for the current members of the Board of Management amounted to €25,810,477 (2006: €29,564,478).

The current service cost for the pension entitlements of the members of the Board of Management was as follows:

		Werner Wenning	Klaus Kühn	Udo Oels [1]	Wolfgang Plischke [2]	Richard Pott	Total
€							
Current service cost for pension entitlements earned in the respective year	2007	-	588,064	-	187,344	223,453	998,861
	2006	398,564	1,651,294	-	1,644,517	233,284	3,927,659

[1] member of the Board of Management until April 28, 2006
[2] member of the Board of Management effective March 1, 2006

For active Board of Management members a general severance indemnity clause applies if the service contract is terminated at the company's instigation prior to a member's 60th birthday. The basic principles according to this clause are as follows:

If a member of the Board of Management is not offered a new service contract upon expiration of his existing service contract because he is not reappointed to the Board of Management, or if the member is removed from the Board of Management prematurely during the term of his contract in the absence of grounds for termination without notice, he will receive a monthly bridging allowance amounting to 80 percent of his last monthly fixed salary for a period of 60 months from the date of expiration of his service contract less the period for which he was released from his duties on full pay or otherwise compensated. (If he were removed during the term of his contract, he would also receive the payment due for the rest of the term, though this would be reduced to the amount of his annual fixed salary plus the target amount for the short-term incentive payment for at least twelve months). His earnings from any new employment elsewhere would be offset against the bridging allowance. In the case of premature termination at the instigation of the company, further years of service might be credited under certain circumstances for the purpose of computing his Board of Management pension entitlement, though not beyond his 60th birthday. Special supplementary arrangements apply in the event of a change of control; for details see page 57 f.

There were no loans to members of the Board of Management outstanding as of December 31, 2007, nor any repayments of such loans during the year.

We currently pay former and retired members of the Board of Management a monthly pension equal to 80 percent of the last monthly base salary received while in service. The pensions paid to former members of the Board of Management or their widows are normally reassessed every three years and adjusted taking into account the development of consumer prices. These benefits are in addition to any amounts they receive under previous employee pension arrangements. The pensions paid to retired members of the Board of Management and their surviving dependents amounted to €10,997,016 (2006: €10,924,768). Pension provisions for former members of the Board of Management and their surviving dependents amounted to €115,103,558 (2006: €117,866,846).

Compensation of the Supervisory Board

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, each member of the Supervisory Board receives 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. If changes are made to the Supervisory Board and its committees during the fiscal year, members receive remuneration on a pro-rated basis. No remuneration or benefits were paid for personal services, in particular, the provision of consultancy or intermediary services. The Company has purchased insurance for the members of the Supervisory Board to cover their legal liability arising from their service on the Supervisory Board.

In addition to their remuneration as members of the Supervisory Board, those employee representatives who are employees of Bayer Group companies receive compensation unrelated to their service on the Supervisory Board. The total amount of such compensation was €686,661 (2006: €647,813).

There were no loans to members of the Supervisory Board outstanding as of December 31, 2007, nor any repayments of such loans during the year.

The remuneration of the individual members of the Supervisory Board is shown in the table in the Corporate Governance Report on page 15.

Risk Report

Risk management

Business operations necessarily involve opportunities and risks. Effective risk management is therefore a key factor in maintaining the company's value over the long term.

The management of opportunities and risks at Bayer is an integral part of the Group-wide corporate governance system, not the task of one particular organizational unit. Key elements of the risk management system are the planning and controlling process, Group regulations and the reporting system. In regular conferences the company's results and its potential opportunities and risks are discussed, and targets and necessary actions are agreed upon.

Corporate Auditing monitors the effectiveness of, and compliance with, the internal management and control system. The effectiveness of the risk management system is audited at regular intervals. In addition, during the year-end audit the external auditor issues an opinion on the risk management system and briefs the Group Management Board and the Supervisory Board on the outcomes of these evaluations. These outcomes are taken into account in the continuing enhancement of our risk management system.

As a global company with a diverse business portfolio, the Bayer Group is exposed to numerous risks. We have purchased insurance coverage – where it is available on economically acceptable terms – in order to minimize related financial impacts. The level of this coverage is continuously re-examined.

Significant risks for the Bayer Group are outlined in the following sections. The order in which the risks are listed is not intended to imply any assessment as to the likelihood of their materialization or the extent of any resulting damages.

Legal risks
We are exposed to numerous legal risks from legal disputes or proceedings to which we are currently a party or which could arise in the future, particularly in the areas of product liability, competition and antitrust law, patent disputes, tax assessments, and environmental matters. The outcome of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal or regulatory judgments could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could significantly affect our revenues and earnings.

Legal proceedings currently considered to involve material risks are described in Note [32] to the consolidated financial statements.

Overall business risks
Pharmaceutical product prices are subject to regulatory controls in many markets. Some governments intervene directly in setting prices. In addition, in some markets major purchasers of pharmaceutical products have the economic power to exert substantial pressure on prices. We expect that price controls and pressures on pricing will persist or increase. Price controls, as well as price pressure from generic manufacturers as a result of government reimbursement systems favoring less expensive generic pharmaceuticals over brand-name products, diminish earnings from our pharmaceutical products and could potentially make the market introduction of a new product unprofitable.

Sales of crop protection products are affected by weather conditions, such as droughts, and by fluctuations in agricultural commodity prices.

The performance of our MaterialScience subgroup is affected by cyclicality in customer industries. A downturn in the business cycle, characterized by weak demand and overcapacities, may lead to price pressure and more intense competition. Expectations of growth, especially in Asian economies, encourage producers to increase their production capacities. Future growth in demand may not be sufficient to absorb those capacity additions without significant downward pressure on prices.

The early identification of trends in the economic or regulatory environment and active portfolio management are important elements of our business management. Our analyses of the global economy and forecasts of medium-term economic development are documented in detail on a quarterly basis and used to support operational business planning. For a summary forecast, see Future Perspectives – Economic outlook on page 89.

Product development risks
The Bayer Group's competitive positions, sales and earnings depend significantly on the development of commercially viable new products and production technologies. We therefore devote substantial resources to research and development. Because of the lengthy development processes, technological challenges, regulatory requirements and intense competition, we cannot assure that all of the products we are currently developing and will begin to develop in the future will actually reach the market and achieve commercial success as scheduled or at all.

Furthermore, adverse effects of our products that may be discovered after regulatory approval or registration despite thorough prior testing may lead to a partial or complete withdrawal from the market, due either to regulatory actions or our voluntary decision to stop marketing a product. In particular, litigation, including claims for damages, in connection with negative effects of our products may materially diminish our net income.

To ensure an effective and efficient use of resources, the Bayer Group has implemented an organizational structure and process organization comprising functional departments, working groups and reporting systems to monitor internal research and development projects.

Regulatory risks

The Bayer Group must comply with a broad range of regulatory requirements relating to the testing, manufacturing and marketing of many of our products. In some countries regulatory controls have become increasingly demanding. We expect this trend to continue, particularly in the United States and the European Union.

Our life science businesses, in particular, are subject to strict regulatory regimes. Increasing regulatory requirements, such as those governing clinical or (eco-)toxicological studies, may increase product development costs and/or delay product (re-)registration.

In addition, the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) could mandate a significant increase in the testing and assessment of chemical substances.

To counter risks arising from legal or other requirements, we make our decisions and engineer our business processes on the basis of comprehensive legal advice provided both by our own experts and by acknowledged external specialists. Projects have been initiated to coordinate the implementation of new regulatory controls and mitigate any negative implications for the business.

Patent risks

A large proportion of our products, especially in the life sciences, is protected by patents. We are currently involved in lawsuits to enforce patent rights in our products. Generic manufacturers and others attempt to contest patents prior to their expiration. When a patent defense is unsuccessful, or if one of our patents expires, our prices are likely to come under pressure because of increased competition from generic products entering the market. Details of related litigation are provided as part of the description of legal risks in Note [32] to the consolidated financial statements.

With certain types of product we may also be required to defend ourselves against charges of infringement of patent or proprietary rights of third parties. This could impede or even halt the development or manufacturing of certain products or require us to pay monetary damages or royalties to third parties.

Our life science units have a comprehensive system in place for the management of product life cycles. In addition, our legal department regularly reviews the patents situation in conjunction with the relevant functional departments and watches for potential infringements of our patents by other companies so that legal action can be taken if necessary.

Production, procurement market and environmental risks

Production capacities at some of our manufacturing facilities could be adversely affected by, for example, technical failures, natural disasters, regulatory rulings or supply disruptions to key raw materials or intermediates. This applies particularly to our biotech products because of the highly complex manufacturing process. If in such cases we are unable to meet demand by shifting sufficient production to other plants or drawing on our inventories, we may suffer declines in sales revenues.

The supply of strategically important raw materials is ensured on the basis of long-term contracts with multiple suppliers wherever possible. Furthermore, all stages of our production processes and our material inputs are continuously monitored by the relevant technical units of the company.

The manufacturing of chemical products is subject to risks associated with the production, filling, storage and transportation of raw materials, products and wastes. These risks have the potential to cause personal injury, property damage, environmental contamination or business interruptions, as a result of which the company may be required to pay compensation.

Furthermore, the possibility of accidental cross-contamination among our crop protection products or the presence of unintended trace amounts of genetically modified organisms in agricultural products and/or foodstuffs cannot be completely excluded.

We address product and environmental risks by way of suitable quality assurance measures. An integrated quality, health, environmental and safety management system ensures process stability. In addition, we are committed to the international Responsible Care initiative of the chemical industry and report regularly on our own safety and environmental management system.

Operational risks

Business and production processes and the internal and external communications of the Bayer Group are increasingly dependent on information technology systems. Major disruptions or failure of global or regional business systems may result in loss of data and/or impairment of business and production processes. Technical precautions such as data recovery and continuity plans have been established to address this risk.

Where it appears strategically advantageous we may acquire a company or part of a company and combine it with our existing business. The amount of goodwill and other intangible assets reflected in the consolidated balance sheet of the Bayer Group has increased significantly in recent years, primarily as a result of the acquisition of Schering, Berlin, Germany. Failure to successfully integrate a newly acquired business or unexpectedly high integration costs could jeopardize the achievement of quantitative or qualitative targets, such as synergies, and adversely impact earnings. Our acquisition processes are observed by integration teams, and appropriate resources are provided to steer the integration processes.

Risk to pension obligations from capital market developments

The Bayer Group has obligations to current and former employees related to pensions and other post-employment benefits. Changes in relevant valuation parameters (such as interest rates, mortality and rates of increases in compensation) may negatively impact the valuation of our pension obligations and could lead to increased pension costs.
A large proportion of our pension and other post-employment benefit obligations is covered by plan assets including fixed-income securities, shares, real estate and other investments. Declining or even negative returns on these investments may negatively impact the value of plan assets, thus necessitating additional contributions by the company. Further details are given in Note [25] to the consolidated financial statements. We address the risk of market-related fluctuations in plan asset values through prudent strategic investment and constantly monitor investment risks for our global pension obligations.

Financial risks

Management of financial and commodity price risks

As a global enterprise, Bayer is exposed in the normal course of business to credit risk, liquidity risk and various market risks that could materially affect its net assets, financial position and results of operations.

It is company policy to use derivative financial instruments to minimize or eliminate the risks associated with operating activities and the resulting financing requirements. Derivative financial instruments are used almost exclusively to hedge booked or forecasted transactions. The use of derivative financial instruments is subject to strict internal controls based on centrally defined mechanisms and uniform guidelines. The derivatives used are mainly over-the-counter instruments, particularly forward exchange contracts, currency option contracts, interest rate swaps, cross-currency interest-rate swaps, commodity swaps and commodity option contracts concluded with banks. We set counterparty limits for such banks depending on their creditworthiness.

The various risks associated with financial instruments are outlined below together with the relevant risk management systems.

Credit risk

In the Bayer Group credit risk arises from the possibility of the value of its receivables or other financial assets being impaired because counterparties cannot meet their payment or other performance obligations. Since the Bayer Group does not conclude master netting arrangements with its customers, the total amounts recognized in assets represent the maximum exposure to credit risk.

Bayer has a standardized process in place to effectively manage the credit risk from trade receivables. Regular creditworthiness analysis takes place in relation to exposures; these receivables are partially secured. Credit limits are generally set for all customers. All credit limits for debtors where total risk exposure is €10 million or more are evaluated by operational credit management and also submitted to the company's Central Financial Risk Committee.

To minimize credit risk from transactions with financial assets and instruments, such transactions are only conducted with counterparties of first-class credit standing. For any other counterparties, pre-determined risk limits based on a methodological model are observed.

Country risks relating to trade receivables and intragroup loans are continuously monitored, systematically evaluated and centrally managed.

Liquidity risk

Liquidity risk, i.e. the risk of not being able to fulfill current or future payment obligations because insufficient cash is available, is centrally managed in the Bayer Group. Sufficient liquid assets are held to meet all of the Group's payment obligations when they fall due, thereby ensuring solvency at all times. Such payment obligations take the form of both operating cash flows and changes in current financial liabilities and are derived from our liquidity planning. In addition, a reserve is maintained for unbudgeted shortfalls in cash receipts or unexpected disbursements. For this purpose, budget deviation analyses are performed on the basis of historical time series, adjusted for variations in business structure. The liquidity reserve is then determined which, with a defined probability, will cover a negative deviation from planned cash flows. The size of this reserve is regularly reviewed and adjusted as necessary to current conditions. Liquid assets are kept mainly in the form of overnight and term deposits. Furthermore, credit facilities with banks are available.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument could fluctuate due to variations in market prices. Market risks include currency risk, interest-rate risk and other price risks, especially commodity price risk.

Sensitivity analysis is a widely used risk measurement tool that allows our management to make judgments regarding the potential loss in future earnings, fair values or cash flows of market-risk-sensitive instruments resulting from one or more selected hypothetical changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market rates or prices over a selected period of time. We use sensitivity analysis because it provides reasonable risk estimates using straightforward assumptions (for example, an increase in interest rates). The risk estimates we provide below assume:

- a simultaneous, parallel shift in foreign exchange rates in which the euro depreciates against all currencies by 10 percent;
- a simultaneous commodity price increase of 20 percent in all relevant commodities with respect to which we hold derivatives; and
- a parallel shift of 100 basis points in the interest rate yield curves of all currencies.

We use market information and additional analytics to manage our risk exposure and mitigate the limitations of our sensitivity analysis. We have found sensitivity analysis to be a useful tool in achieving some of our specific risk management objectives. Sensitivity analysis offers an easy-to-understand risk exposure estimate that allows an approximation of the effect changing market conditions could have on our business. Additionally, it allows our management to take the necessary steps to address such risks.

We continually refine our risk measurement and reporting procedures. This includes periodically re-examining the underlying assumptions and parameters utilized.

The sensitivity analyses included in the following sections present the hypothetical loss in cash flows of financial instruments and derivative financial instruments held as of December 31, 2007 and December 31, 2006. The range of sensitivities chosen for these analyses reflects our view of changes in foreign exchange rates, commodity prices and interest rates that are reasonably possible over a one-year period.

Currency risk
Since the Bayer Group conducts a significant portion of its operations outside the euro currency zone, fluctuations in currency exchange rates can materially affect earnings. Currency risk from financial instruments exists with respect to receivables, payables, cash and cash equivalents that are not denominated in a company's functional currency. In the Bayer Group this risk is particularly significant for the U.S. dollar, the Japanese yen and the Canadian dollar.

Currency risks are identified, analyzed and managed centrally and systematically. The scope of hedging is evaluated regularly and defined in a corporate directive. The booked foreign currency exposure from operating items as well as from financial positions, i.e. receivables and payables, is normally fully hedged.

The anticipated foreign currency exposure from forecasted transactions in the next 12 months is hedged on a basis agreed between the Group Management Board, the central finance department and the operating units. A significant proportion of contractual and foreseeable currency risks is hedged, mainly through forward exchange contracts and currency options.

The Board of Management has provided clear guidance on how to limit and monitor cash flow risks that result from this approach.

To determine sensitivities we applied a hypothetical adverse scenario in which all currencies simultaneously appreciate by 10 percent against the euro compared with their year-end exchange rates. Under this scenario the estimated hypothetical loss of cash flows from derivative and non-derivative financial instruments as of December 31, 2007 would be €119 million (2006: €111 million). Of this €119 million, €97 million is related to the U.S. dollar, €14 million to the Japanese yen and €8 million to other currencies. Of the €119 million estimated hypothetical loss of cash flow, €122 million results from derivatives used to hedge anticipated exposure from planned sales denominated in foreign currencies. Such transactions qualify for hedge accounting, and the respective changes in value are recognized in other comprehensive income. The impact of exchange-rate fluctuations on our anticipated sales in foreign currencies is not included in this calculation. The offsetting position of €3 million is primarily attributable to unhedged currency derivatives embedded in supply contracts.

Interest-rate risk
The Bayer Group's interest-rate risk arises primarily from financial assets and liabilities with maturities exceeding one year. In the case of fixed-rate financial instruments, such as fixed-rate bonds, the risk of fluctuations in capital-market interest rates results in a fair-value risk because the fair values fluctuate as a function of interest rates. In the case of floating-rate instruments, a cash flow risk exists because interest payments could increase in the future.

Interest rate risk is analyzed centrally in the Bayer Group and managed by the central finance department using a mix of fixed-rate and floating-rate instruments defined by the management and subject to regular review. Derivatives – mainly interest-rate swaps, cross-currency interest-rate swaps and interest options – are employed to preserve the target structure of the portfolio.

Financial liabilities including derivatives amounted to €14,198 million as of December 31, 2007 (December 31, 2006: €19,801 million). The sensitivity analysis was performed on the basis of our floating-rate debt position at year end 2007, taking into account the interest rates relevant to our liabilities in all principal currencies. A hypothetical increase of 100 basis points, or 1 percent per annum, in these interest rates (assuming constant currency exchange rates) effective January 1, 2007, would have raised our interest expense for the year ended December 31, 2007 by €65 million (2006 based on floating-rate liabilities at year end 2006: €147 million).

Other price risks (especially commodity price risks)
The Bayer Group requires significant quantities of petrochemical feedstocks and energy for its various production processes. The prices of these inputs may fluctuate considerably depending on market conditions. As in the past, there will be times when it is not possible for us to pass on increased raw material costs to customers through price adjustments. This applies particularly to our MaterialScience business.

A commodity price risk therefore exists, which can impact net assets, financial position and results of operations. We have addressed this risk by concluding long-term contracts with multiple suppliers. In addition, derivatives are employed where possible to hedge against commodity price risks in order to smooth variations in income-statement items due to changes in commodity prices – and the resulting changes in stockholders' equity – over the long term. The procurement departments of the subgroups are responsible for managing these price risks on the basis of internal, centrally issued directives and limits, which are subject to constant review.

Commodity swaps and commodity options, in particular, are employed to hedge changes in the prices of energy, especially gas, and of crude oil, naphtha and benzene feedstocks. These instruments are also used in the case of long-term, fixed-price supply contracts.

We applied a hypothetical adverse scenario in which all commodity and energy prices simultaneously decrease by 20 percent. Under this scenario the estimated hypothetical loss of cash flows from derivatives as of December 31, 2007 would be €34 million (2006: €31 million). Of this €34 million, €2 million would be directly disclosed in the income statement and €32 million would be recognized as a value adjustment in other comprehensive income according to hedge accounting rules. In considering sensitivities for commodity futures and commodity option contracts, we have borne in mind to a limited extent that forward rates are less volatile than spot rates. The stated long-term contract volumes are therefore based on somewhat smaller price changes. The derivative financial instruments used by the Bayer Group to mitigate the risk of changes in exchange rates, interest rates and commodity prices are described in Note [30] to the consolidated financial statements.

Assessment of the overall risk situation

Compared to the previous year, the overall risk situation did not change significantly in the reporting period. The overall risk assessment is based on a consolidated view of all significant individual risks. At present, no potential risks have been identified that either individually or in combination could endanger the continued existence of the Bayer Group.

Subsequent Events

Bayer's U.S. affiliate Medrad, Inc. and U.S.-based Possis Medical, Inc. have entered into a definitive merger agreement pursuant to which Medrad will acquire Possis Medical in a cash tender offer for US$ 19.50 per share, or a total equity value of approximately US$ 361 million. The offer price represents a premium of approximately 39 percent over Possis Medical's average closing price for the 30 days prior to February 8, 2008. The board of directors of Possis Medical has unanimously approved the transaction and will recommend the offer to the company's shareholders.

Anticipated development opportunities

As an international enterprise, Bayer is subject to a wide variety of developments in the various national and international markets in which it operates in its three areas of business. The following forecasts are based on the business performance described in this report, taking into account the potential risks and opportunities.

We aim to take maximum advantage of the opportunities that present themselves in our various fields of activity. We continuously evaluate potential additional opportunities in all areas. Through our research and development activities in particular, we constantly strive to discover new products and to further develop and improve existing ones. Various risks described in our Risk Report, and particularly those related to financial matters, are counterbalanced by corresponding opportunities that could result from positive changes to forecasted developments. In addition, our initiated cost and structural measures are aimed at further improving our earnings performance. We also attempt to realize business opportunities through suitable portfolio measures.

Economic outlook and market opportunities in 2008

We currently expect the global economy to go on expanding in 2008. The pace of growth will decline somewhat compared with 2007, yet remain satisfactory overall in light of healthy business conditions in Europe and the continuing dynamic development of the emerging countries. We anticipate that the world economy will more or less sustain its present growth trend, with the economic weakness in the United States being partially offset by continuing strong growth in the emerging markets. However, there is an increased risk particularly from possible negative repercussions of the ongoing financial crisis for the real economy or in the event of further increases in oil and raw material prices.

We anticipate that expansion in the **pharmaceuticals market** will trend slightly slower during 2008 but still give a growth rate in the mid single digits. Growth here will be generated increasingly by countries such as China, Brazil, Mexico, South Korea, India, Turkey and Russia, where we expect to see a low double-digit percentage rate of expansion. Due to improvements in health systems, patients in these markets will increasingly gain access to medical care, particularly in rural areas. This trend will be supported by strong economic growth.

In the major European countries and especially in the United States, however, growth is expected to be dampened by the expiration of patent protection for leading products and increasing cost pressure coming from health care institutions.

The global **consumer care market** should grow by roughly 4 percent annually in the medium term. In 2008, the worldwide OTC market is expected to expand at the same rate as in the past two years. Slower growth in the United States is likely to be partially offset by more rapid growth in Europe, while expansion in the Asia-Pacific region in 2008 is again expected to be buoyed primarily by China and India.

There are again some positive signs regarding the development of the global **seed and crop protection markets** in 2008. Continuing high prices are forecasted for the world's agricultural markets as a result of steadily rising demand for crops used to generate energy and low inventories of key agricultural commodities throughout the world. We therefore anticipate a sustained increase in the production of important crops such as cereal, corn, canola, soybeans and rice, and intensified use of agricultural inputs in order to achieve the necessary higher yields. The seed and crop protection markets worldwide will likely benefit from this trend.

For the **industries relevant to our MaterialScience** subgroup, we expect that the positive development will continue in 2008 at the level of the long-term trend and thus match or slightly exceed global economic growth.

We expect a moderate increase in output of the **automotive industry**, with trends varying significantly from one region to another. Production is likely to stagnate in western Europe while continuing to grow by double-digit percentages in the eastern part of the continent. China and India will probably continue to act as growth engines for Asia, with a slight recovery expected in Japan as well. In the United States, the outlook is clouded by the economic uncertainties, with declining demand expected to hold back both production and imports.

We anticipate that the mortgage crisis in the United States will continue to affect the **construction industry** and that residential construction there will not recover before 2009. In western Europe, we should see slow but steady growth. The pleasingly positive trend in the remaining regions is likely to continue, with Asia once again exceeding the global average thanks particularly to the rapid pace of growth in China.

The **electrical and electronics sector** will likely maintain its robust global growth trend, led by Asia. We expect to see sustained expansion in this industry in western Europe, with double-digit growth rates continuing in eastern Europe. A temporary downswing is looming in the United States, and dynamic growth is not predicted for this sector in Japan either. By contrast, strong growth is expected to continue in China, South Korea and India.

Business expectations for 2008 in the **furniture industry** are again clouded by the ongoing effects of the real-estate crisis in the United States. Lower demand in the U.S. market is expected to adversely impact production in the Asia-Pacific region and European exports, resulting in heightened competition. Eastern Europe should see continuing growth in furniture production and increasingly help to supply the world market.

Business strategy

The Bayer Group is focusing on the fast-growing, innovation-driven health care, nutrition and high-tech materials businesses in line with its mission statement: "Bayer: Science For A Better Life." By strategically aligning ourselves to these attractive markets and concentrating on our core competencies, we are able to invest more intensively in growth areas and innovative technologies. We aim to achieve leadership roles and expand our already strong market positions. We will also press ahead with cost-containment and efficiency-improvement efforts in order to further increase the company's value over the long term. For a detailed description of our financial strategy, please consult the Liquidity and Capital Resources section on page 50 ff.

Bayer HealthCare

Bayer HealthCare's goal remains to grow with or above the market in all divisions.

Our biggest HealthCare segment, Pharmaceuticals, comprises both Specialty Care and Primary Care activities. We aim to position our Pharmaceuticals segment as a strong supplier of products for medical specialists, while at the same time seizing opportunities in the primary care arena. We also want to focus more closely on indications in which there is major potential for improving diagnosis and therapy.

The acquisition of Schering AG, Berlin, Germany, in 2006 was a key step in this direction. Our promising Specialty Care portfolio in the fields of hemophilia (Kogenate®), cardiology (Xarelto®, currently in registration) and oncology (Nexavar®) was significantly expanded and strengthened by the acquisition-related addition of leading products in the fields of gynecology (YAZ®/Yasmin®), diagnostic imaging (Magnevist®) and multiple sclerosis (Betaferon®/Betaseron®).

Our Primary Care business offers products for general practitioners. We are well represented in the primary care market with our established brands Avalox®/Avelox®, Levitra®, Adalat®, Glucobay® and Ciprobay®/Cipro®. In the United States, these products are marketed through the existing alliance with Schering-Plough. (Please note that Schering-Plough Corporation, New Jersey, and the company acquired by Bayer in June 2006, i.e. Bayer Schering Pharma AG (formerly named Schering AG), Berlin, Germany, are unaffiliated companies that have been entirely independent of each other for many years.) Since 2007, we have also been co-marketing Schering-Plough's cholesterol-lowering drug Zetia® in Japan following its registration there, further strengthening our Primary Care business in this region.

Research and development is an important growth driver for our Pharmaceuticals business, which is why this segment accounts for the biggest proportion of R&D spending within the HealthCare subgroup. Life cycle management, inlicensing and cooperation agreements are important elements of our strategy, as such business development activities supplement our own research efforts and are designed to strengthen our portfolio.

Our Consumer Health segment is comprised of the Consumer Care, Diabetes Care and Animal Health divisions.

The goal of our Consumer Care Division is to build a leading position in the global over-the-counter (OTC) medicines market. Our strategy is primarily aimed at fully leveraging the growth potential of proven brands such as Aspirin®, Aleve®, Canesten®, Bepanthen®, One-A-Day®, Rennie® and Alka-Seltzer®. We are pursuing a clear course of expansion in fast-growing regions such as eastern Europe and Asia/Pacific, and we aim to further develop our business in new growth segments. We also intend to seize external growth opportunities through acquisitions and inlicensing. An example of this is the acquisition of Citracal® in 2007.

Our Diabetes Care Division aims to enhance its competitive position in the area of blood glucose measurement and diabetes management. To this end, we are expanding our product range by developing new measurement systems and test strips to facilitate even more user-friendly blood glucose monitoring for diabetics. We also aim to expand our portfolio by investing in additional business areas. We intend to enhance our competitiveness by continuously improving our products, as well as through cost-containment measures and the more efficient use of our resources. Our strategy also includes supplementing our own strengths through strategic partnerships in specific fields of expertise.

In the Animal Health Division, we aim to achieve global leadership positions in the livestock and companion animal markets and to become a preferred supplier and partner. Our strategy is directed at achieving organic growth by focusing on attractive countries and markets, as well as through the successful life cycle management of existing core brands.

Bayer CropScience

Bayer CropScience is aligning its corporate planning to the long-term trends in agricultural markets. As a leading innovation-driven enterprise comprising the Crop Protection, Environmental Science and BioScience business units, its aim is to provide products and integrated solutions that contribute to the production of high-quality food, animal feed, energy crops and natural fibers. Against the background of limited acreages and a steadily increasing world population that places growing demands on the quality of food and clothing and consumes more energy, it is essential to safeguard and further increase agricultural yields. We seek to maintain mutually beneficial, long-lasting and dependable partnerships with our customers and all other interest groups. We manage our business responsibly in keeping with our commitment to sustainable development and in order to achieve profitable long-term growth.

Innovation forms the basis for the company to create value in the future. The development of new active ingredients and formulations along with high-quality seed enables us to replace older products and technologies with innovative products that have an improved performance spectrum, offer better environmental compatibility and user safety, and increase value-added for our customers. These new products also help us to boost sales and are an important prerequisite for meeting our profitability targets. Our strict cost management is making a further significant contribution. To optimize our cost structures, we introduced a program of measures in August 2006 that should be largely implemented by 2009, leading to annual savings of about €300 million by 2010. We thus aim to make Bayer CropScience even more efficient in all areas.

In the Crop Protection segment, Bayer CropScience aims to defend and further expand its leading market positions in insecticides, fungicides, herbicides and seed treatment by maintaining a broad regional presence and offering a balanced portfolio of innovative and highly effective products.

We endeavor to achieve this strategic goal by steadily enhancing our product mix. This not only means regularly launching new products from our research and development pipeline and successfully managing product life cycles, but also carrying out research in new growth areas. Examples include projects aimed at making plants healthier and increasing yields by improving nutrient uptake and stress tolerance.

Environmental Science makes use of the development and production capacities of Crop Protection and its new active ingredient developments. In terms of sales, it is one of the world's leading suppliers of products for non-agricultural use. Our strategy is to further expand this position by developing and marketing high-quality products for consumers and professional users. The focus here is on the development of innovative, customer-oriented products and solutions that are easy to use, safe to handle and satisfy society's increasing demands with regard to health, hygiene, growing and greening.

BioScience comprises the research, development and marketing of commercial seeds and solutions based on plant biotechnology and modern breeding methods. We aim to create integrated offerings for farmers through a combination of seeds, new plant traits and crop protection products. BioScience subsidiary Nunhems is a leading developer and supplier of high-quality vegetable seed. With regard to agricultural applications, we focus our activities on three core crops – cotton, canola and rice. We aim to market the technologies we develop not just in our own seed products, but also - with the help of our partners – for other crops such as corn and soybeans. We strengthened our cotton activities in 2007 through the acquisition of U.S. cotton seed producer Stoneville. Bayer CropScience is stepping up its commitment to the seed and plant biotechnology segment in the future with the aim of expanding BioScience sales to approximately €1 billion within the next ten years.

Bayer MaterialScience

MaterialScience aims to defend its leading market position in the future. Here we are relying in particular on our technological know-how, new applications for our products in the Materials and Systems segments and the targeted expansion of our presence in the growth markets of Asia. Our recently completed capital expenditure projects in Asia therefore represent an important step in the expansion of our business activities in this fast-growing region. We also intend to enhance this segment's performance in all areas by continuously improving its cost structures.

The "New Business" section identifies and evaluates market and technology trends for all MaterialScience business units, translating business ideas into projects for the development of new products and applications beyond the company's existing core business.

In the Materials segment, the acquisition of the Ure-Tech group of Taiwan has greatly strengthened the market position of our Thermoplastic Polyurethanes business unit, boosted our market share in Asia and given us global market leadership in this field. Thermoplastic Polyurethanes will further enhance its focus on high-margin, fast-growing products with the aim of achieving and maintaining higher profitability.

The commissioning of the first phase of our world-scale production facility for polycarbonates in Caojing, China, has helped to raise cost efficiency. If demand rises sufficiently, we aim to bring the second phase on stream at the end of 2008, enabling us to supply the Chinese polycarbonate market from local production to a large extent. Furthermore, we intend to make available sufficient resources for product and applications development in growth areas of this market. In addition to our current expansion course in China, we aim to constantly evaluate business potential in other regions with a view to expanding our market coverage. We plan to strengthen our compounds business through targeted investment and expand it geographically. In the case of semi-finished products such as polycarbonate sheet and film, we continue to aim for higher returns by optimizing our product portfolio.

We are endeavoring to strengthen the world market position of our Systems segment, too, by exploiting growth potential. Here again, we have recently completed a number of capital expenditure projects in Asia. Our world-scale production facility in Asia should make our Polyurethanes business unit more efficient and allows us to deploy the latest technologies in this growth region. We are focusing primarily on quality, product innovation and process improvements in order to capture further market share in the fast-growing Asian markets. Our aim is to meet globally increasing demand for our products by further expanding our MDI capacities. We are striving to improve the performance of the Polyurethanes business unit by increasing the efficiency of our research and development and steadily improving our cost structures. Portfolio management activities are planned in some market segments to achieve a shift toward higher-performance products, thereby improving profitability. We continue to work toward strengthening our market position in the polyurethane systems business.

The Coatings, Adhesives, Sealants business unit is seeking to defend the market position of its basic and modified isocyanates segment and plans to meet increasing demand in the growth regions by expanding production capacities. We aim to achieve higher profitability in our resins activities by increasing the use of leading-edge technologies and optimizing our product portfolio. In addition, leaner distribution structures at our newly established company Viverso, based in Bitterfeld, Germany, should contribute to increased profitability in this business unit.

In the newly formed Industrial Operations unit, we plan to use modern technologies to produce raw materials such as chlorine and sodium hydroxide for the Polyurethanes; Coatings, Adhesives, Sealants; and Polycarbonates business units, as well as for sale to third parties. We also plan to tap additional synergy potential for MaterialScience by bundling procurement activities and our trading activities regarding by-products.

Bayer Group sales and earnings forecast

In 2008 we expect the global economy to continue expanding, with regional variations. We believe the strongest growth will occur in Asia and Latin America. In Europe we anticipate that economic expansion will remain robust. Uncertainty surrounds the economic trend in the United States and its possible impact on the global economy. Exchange rates also remain unpredictable. Our planning is based on an exchange rate of US$ 1.45 to the euro, compared to the average rate of US$ 1.37 in 2007.

In this environment we aim to continue growing the business in 2008 and anticipate that we can raise Bayer Group sales by about 5 percent on a currency-adjusted basis. This would mean a slight nominal increase over 2007.

We also expect to further increase EBITDA before special items and improve our operating margin, in anticipation of a gratifying earnings trend for HealthCare and CropScience along with a difficult market environment for MaterialScience.

We plan to take special charges of about €650 million, of which between €400 million and €450 million will be cash items. These charges will result primarily from the integration of Schering and also from ongoing restructuring projects at CropScience and MaterialScience. We are budgeting for cash expenses of approximately €200 million in 2008 and €50 million in 2009 for the Schering integration.

To safeguard long-term growth, we plan to spend €1.7 billion for property, plant and equipment in 2008. We estimate total depreciation and amortization at about €2.6 billion, with property, plant and equipment accounting for €1.2 billion of this figure. We expect to increase our research and development spending to €2.8 billion.

We can confirm that we still plan to achieve an EBITDA margin before special items in excess of 22 percent in 2009.

Bayer HealthCare

HealthCare is targeting a market or above-market rate of currency-adjusted sales growth in all divisions in 2008, and an improvement in its EBITDA margin before special items to approximately 27 percent. We confirm our goal of reaching an EBITDA margin before special items of around 28 percent in 2009.

Bayer CropScience

For CropScience we expect a generally positive market environment in 2008 and aim to raise sales by approximately 5 percent on a currency-adjusted basis. Our goal is to improve the EBITDA margin before special items to more than 23 percent. We plan to further increase our profitability by 2009 and continue to target an EBITDA margin before special items of around 25 percent in a normal market environment.

Bayer MaterialScience

MaterialScience is planning to achieve good volume growth once again in 2008. Due to the uncertain business environment and highly volatile raw material prices, it is currently not possible to make a firm prediction concerning earnings for the full year. We expect to achieve a good, value-creating earnings level, though without matching the 2007 figure. For the first quarter of 2008 we believe EBITDA before special items will remain practically level with the fourth quarter of 2007.

We continue to believe that in the future, under favorable economic conditions, we can post an EBITDA margin before special items of more than 18 percent. Our cost-structure program is designed to help achieve this objective.

Consolidated Financial Statements

Consolidated Financial Statements

Notes to the Consolidated Financial Statements of the Bayer Group

Bayer Group Consolidated Statements of Income

€ million	Note	2006	2007
Net sales	[7]	**28,956**	**32,385**
Cost of goods sold		(15,275)	(16,352)
Gross profit		**13,681**	**16,033**
Selling expenses	[8]	(6,534)	(7,782)
Research and development expenses	[9]	(2,297)	(2,578)
General administration expenses		(1,599)	(1,772)
Other operating income	[10]	730	822
Other operating expenses	[11]	(1,219)	(1,569)
Operating result [EBIT]		**2,762**	**3,154**
Equity-method loss	[13.1]	(25)	(45)
Non-operating income		931	834
Non-operating expenses		(1,688)	(1,709)
Non-operating result	[13]	**(782)**	**(920)**
Income before income taxes		**1,980**	**2,234**
Income taxes	[14]	(454)	72
Income from continuing operations after taxes		**1,526**	**2,306**
Income from discontinued operations after taxes	[6.3]	**169**	**2,410**
Income after taxes		**1,695**	**4,716**
of which attributable to minority interest	[15]	12	5
of which attributable to Bayer AG stockholders (net income)		**1,683**	**4,711**
Earnings per share (€)			
From continuing operations	[16]		
Basic*		2.00	2.91
Diluted*		2.00	2.91
From discontinued operations	[16]		
Basic*		0.22	2.93
Diluted*		0.22	2.93
From continuing and discontinued operations	[16]		
Basic*		2.22	5.84
Diluted*		2.22	5.84

*The ordinary shares to be issued upon conversion of the mandatory convertible bond are treated as already issued shares.

Bayer Group Consolidated Balance Sheets

€ million	Note	Dec. 31, 2006	Dec. 31, 2007
Noncurrent assets			
Goodwill	[17]	8,227	8,215
Other intangible assets	[17]	15,807	14,555
Property, plant and equipment	[18]	8,867	8,819
Investments in associates	[19]	532	484
Other financial assets	[20]	1,094	1,127
Other receivables	[21]	165	667
Deferred taxes	[14]	1,205	845
		35,897	**34,712**
Current assets			
Inventories	[22]	6,153	6,217
Trade accounts receivable	[23]	5,868	5,830
Other financial assets	[20]	401	335
Other receivables	[21]	1,512	1,461
Claims for income tax refunds		220	208
Cash and cash equivalents	[36]	2,915	2,531
Assets held for sale and discontinued operations	[6.3]	2,925	84
		19,994	**16,666**
Total assets		**55,891**	**51,378**
Stockholders' equity	[24]		
Capital stock of Bayer AG		1,957	1,957
Capital reserves of Bayer AG		4,028	4,028
Other reserves		6,782	10,749
		12,767	**16,734**
Equity attributable to minority interest		84	87
		12,851	**16,821**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	[25]	6,543	5,501
Other provisions	[26]	1,464	1,166
Financial liabilities	[27]	14,723	12,911
Other liabilities	[29]	449	501
Deferred taxes	[14]	4,346	3,866
		27,525	**23,945**
Current liabilities			
Other provisions	[26]	3,765	3,754
Financial liabilities	[27]	5,078	1,287
Trade accounts payable	[28]	2,375	2,466
Income tax liabilities		109	56
Other liabilities	[29]	3,340	2,873
Liabilities directly related to assets held for sale and discontinued operations	[6.3]	848	176
		15,515	**10,612**
Total stockholders' equity and liabilities		**55,891**	**51,378**

2006 figures restated

Bayer Group Consolidated Statements of Cash Flows

€ million	Note	2006	2007
Income from continuing operations after taxes		1,526	2,306
Income taxes		454	(72)
Non-operating result		782	920
Income taxes paid		(763)	(915)
Depreciation and amortization		1,913	2,712
Change in pension provisions		(295)	(369)
(Gains) losses on retirements of noncurrent assets		(133)	(13)
Non-cash effects of the remeasurement of acquired assets (inventory work-down)		429	215
Gross cash flow		**3,913**	**4,784**
Decrease (increase) in inventories		(155)	(347)
Decrease (increase) in trade accounts receivable		(201)	(183)
(Decrease) increase in trade accounts payable		130	189
Changes in other working capital, other non-cash items		241	(162)
Net cash provided by (used in) operating activities (net cash flow), continuing operations	[33]	**3,928**	**4,281**
Net cash provided by (used in) operating activities (net cash flow), discontinued operations	[6.3]	275	2
Net cash provided by (used in) operating activities (net cash flow) (total)		**4,203**	**4,283**
Cash outflows for additions to property, plant, equipment and intangible assets		(1,876)	(1,860)
Cash inflows from sales of property, plant, equipment and other assets		185	165
Cash inflows from divestitures		489	4,648
Cash inflows from noncurrent financial assets		850	70
Cash outflows for acquisitions less acquired cash		(15,351)	(491)
Interest and dividends received		686	636
Cash inflows (outflows) from current financial assets		287	18
Net cash provided by (used in) investing activities (total)	[34]	**(14,730)**	**3,186**
Capital contributions		1,174	0
Bayer AG dividend, dividend payments to minority stockholders, reimbursements of advance capital gains tax payments		(535)	(773)
Issuances of debt		13,931	2,155
Retirements of debt		(3,216)	(7,768)
Interest paid		(1,155)	(1,344)
Net cash provided by (used in) financing activities (total)	[35]	**10,199**	**(7,730)**
Change in cash and cash equivalents due to business activities (total)		**(328)**	**(261)**
Cash and cash equivalents at beginning of year		**3,290**	**2,915**
Change in cash and cash equivalents due to changes in scope of consolidation		(2)	(4)
Change in cash and cash equivalents due to exchange rate movements		(45)	(119)
Cash and cash equivalents at end of year	[36]	**2,915**	**2,531**

Bayer Group Consolidated Statements of Recognized Income and Expense

€ million	2006	**2007**
Changes in fair values of derivatives designated as hedges, recognized in stockholders' equity	(59)	180
Changes in fair values of derivatives designated as hedges, recognized in the income statement	*11*	*(65)*
Changes in fair values of available-for-sale financial assets, recognized in stockholders' equity	(7)	31
Recognition of available-for-sale financial assets in the income statement	*-*	*(8)*
Changes in actuarial gains/losses on defined benefit obligations for pensions and other post-employment benefits and effects of the limitation on pension plan assets, recognized in stockholders' equity	448	1,355
Exchange differences on translation of operations outside the euro zone, recognized in stockholders' equity	(725)	(825)
Deferred taxes on valuation adjustments offset directly against stockholders' equity	(148)	(677)
Deferred taxes on valuation adjustments, removed from stockholders' equity and recognized in the income statement	*3*	*20*
Changes due to changes in the scope of consolidation	-	42
Minority interest in partnerships, recognized in liabilities	-	(36)
Valuation adjustments recognized directly in stockholders' equity	**(477)**	**17**
of which attributable to minority interest	(5)	(3)
Income after taxes	**1,695**	**4,716**
Total income and expense recognized in the financial statements	**1,218**	**4,733**
of which attributable to minority interest	7	2
of which attributable to Bayer AG stockholders	1,211	4,731

Notes to the Consolidated Financial Statements of the Bayer Group

1. Key Data by Segment and Region

Segments	HealthCare			
	Pharmaceuticals		Consumer Health	
€ million	2006	**2007**	2006	**2007**
Net sales (external)	7,478	10,267	4,246	4,540
Change	+83.9 %	+37.3 %	+8.1 %	+6.9 %
Currency-adjusted change	+84.5 %	+41.1 %	+8.5 %	+11.5 %
Intersegment sales	51	97	7	11
Net sales	**7,529**	**10,364**	**4,253**	**4,551**
Other operating income	224	322	39	49
Operating result [EBIT]	563	741	750	823
Gross cash flow	1,086	1,685	634	704
Capital invested	18,253	17,885	3,477	3,601
CFROI	10.5 %	9.3 %	18.2 %	19.9 %
Net cash flow	1,053	1,451	473	559
Equity-method income (loss)	0	0	0	0
Equity-method investments	0	0	0	0
Assets	25,860	23,119	4,372	4,102
Capital expenditures	476	359	100	234
Depreciation, amortization and write-downs	488	1,367	146	134
of which write-downs	79	242	1	0
Liabilities	3,451	2,823	1,154	1,128
Research and development expenses	1,257	1,518	169	182
Number of employees (as of Dec. 31)	40,000	39,300	11,400	12,200

Regions	Europe		North America	
€ million	2006	**2007**	2006	**2007**
Net sales (external) – by market	12,652	14,353	7,779	8,161
Change	+17.5 %	+13.4 %	+19.8 %	+4.9 %
Currency-adjusted change	+17.4 %	+13.5 %	+19.9 %	+13.6 %
Net sales (external) – by point of origin	13,696	15,575	7,776	8,197
Change	+17.5 %	+13.7 %	+19.8 %	+5.4 %
Currency-adjusted change	+17.5 %	+13.8 %	+19.9 %	+14.4 %
Interregional sales	4,315	5,472	1,795	2,138
Other operating income	474	508	98	138
Operating result [EBIT]	1,581	1,947	821	798
Assets	37,255	34,002	7,881	9,066
Capital expenditures	777	709	398	489
Depreciation, amortization and write-downs	1,201	1,957	459	467
Liabilities	29,985	22,246	4,928	4,274
Research and development expenses	1,639	1,836	551	581
Number of employees (as of Dec. 31)	57,800	56,200	17,200	16,800

CropScience				MaterialScience							
Crop Protection		Environmental Science, BioScience		Materials		Systems		Reconciliation		Continuing Operations	
2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
4,644	4,781	1,056	1,045	2,925	3,041	7,236	7,394	1,371	1,317	28,956	32,385
-4.7 %	+3.0 %	+3.3 %	-1.0 %	+3.1 %	+4.0 %	+9.5 %	+2.2 %			+17.2 %	+11.8 %
-5.2 %	+5.4 %	+3.7 %	+2.7 %	+3.4 %	+8.6 %	+9.7 %	+5.9 %			+17.4 %	+15.4 %
59	50	6	6	25	16	138	182	(286)	(362)		
4,703	**4,831**	**1,062**	**1,051**	**2,950**	**3,057**	**7,374**	**7,576**	**1,085**	**955**	**28,956**	**32,385**
186	142	20	18	17	19	66	54	178	218	730	822
384	537	200	119	289	100	703	942	(127)	(108)	2,762	3,154
691	799	209	162	364	237	802	991	127	206	3,913	4,784
7,203	6,845	1,403	1,549	2,789	2,856	4,691	5,108	1,541	1,204	39,357	39,048
9.5 %	11.4 %	14.5 %	11.0 %	13.2 %	8.4 %	16.9 %	20.2 %			12.1 %	12.2 %
748	881	150	159	324	183	957	964	223	84	3,928	4,281
0	0	0	0	29	3	(54)	(48)	0	0	(25)	(45)
0	0	0	0	28	30	504	454	0	0	532	484
7,712	6,856	1,444	1,532	2,742	2,499	4,745	4,545	6,091	8,641	52,966	51,294
156	184	41	39	282	204	471	685	213	186	1,739	1,891
505	471	77	77	159	173	348	327	190	163	1,913	2,712
22	13	0	0	0	5	39	18	32	8	173	286
2,088	1,989	311	314	597	544	1,681	1,599	32,910	25,984	42,192	34,381
500	506	114	131	76	76	151	133	30	32	2,297	2,578
15,000	14,700	2,900	3,100	5,000	5,200	9,900	10,200	21,800	21,500	106,000	106,200

Asia/Pacific		Latin America/ Africa/Middle East		Reconciliation		Continuing Operations	
2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
4,610	5,211	3,915	4,660			28,956	32,385
+13.2 %	+13.0 %	+16.5 %	+19.0 %			+17.2 %	+11.8 %
+15.0 %	+20.0 %	+16.0 %	+23.2 %			+17.4 %	+15.4 %
4,410	4,994	3,074	3,619			28,956	32,385
+12.2 %	+13.2 %	+17.2 %	+17.7 %			+17.2 %	+11.8 %
+14.0 %	+20.4 %	+16.5 %	+22.6 %			+17.4 %	+15.4%
210	274	228	258	(6,548)	(8,142)		
46	30	112	146			730	822
296	235	204	359	(140)	(185)	2,762	3,154
3,965	4,772	2,500	2,525	1,365	929	52,966	51,294
472	613	92	80			1,739	1,891
138	160	68	72	47	56	1,913	2,712
1,463	2,687	1,049	950	4,767	4,224	42,192	34,381
80	126	27	35			2,297	2,578
17,300	18,900	13,700	14,300			106,000	106,200

2. General information

The consolidated financial statements of the Bayer Group as of December 31, 2007 have been prepared – pursuant to Article 315a of the German Commercial Code – according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), which are endorsed by the European Union, in effect at the closing date.

Bayer Aktiengesellschaft (Bayer AG) is a global enterprise based in Germany. Its business activities in the fields of health care, nutrition and high-tech materials are divided among the Bayer HealthCare, Bayer CropScience and Bayer MaterialScience subgroups, respectively. The activities of the various segments are outlined in Note [5].

A Declaration of Conformity with the German Corporate Governance Code has been issued pursuant to Section 161 of the German Stock Corporation Act and made available to stockholders.

The Board of Management of Bayer AG approved the consolidated financial statements of the Bayer Group on February 18, 2008 for submission to the company's Supervisory Board. They were submitted to the Audit Committee of the Supervisory Board on February 25, 2008 and approved by the Supervisory Board at its meeting on February 26, 2008.

The consolidated financial statements of the Bayer Group are drawn up in euros (€). Amounts are stated in millions of euros (€ million) except where otherwise indicated. The financial statements of the individual consolidated companies are prepared as of the closing date for the Group statements.

In the income statement and balance sheet, certain items are combined for the sake of clarity. These are explained in the Notes. The income statement is prepared using the cost-of-sales method. Assets and liabilities are classified by maturity. They are regarded as current if they mature within one year or within the normal business cycle of the company or the Group, or are held for sale. The normal business cycle is defined for this purpose as beginning with the procurement of the resources necessary for the production process and ending with the receipt of cash or cash equivalents as consideration for the sale of the goods or services produced in that process. Trade accounts receivable and payable, claims for tax refunds, tax liabilities and inventories are always presented as current items, deferred tax assets and liabilities and pension provisions as noncurrent items.

In compliance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), a distinction is made between continuing operations and discontinued operations or assets held for sale. The discontinued operations are recognized as separate line items in the balance sheet and in the income and cash flow statements. Depreciation of noncurrent assets allocable to discontinued operations ceased when the respective divestiture was announced. All data in these Notes refer to continuing operations, except where otherwise indicated. Discontinued operations are described in Note [6.3].

Changes in recognition and valuation principles are explained in the Notes. The retrospective application of new or revised standards requires – except as otherwise provided in the respective standard – that earnings for the preceding year and the opening balance sheet for the reporting year be restated as if the new recognition and valuation principles had been applied in the past. The financial statements as of December 31, 2006 have therefore been restated in line with the new and revised standards applied by the Bayer Group as of January 1, 2007.

3. Effects of new accounting pronouncements

Accounting standards applied for the first time in 2007

In 2007, the following accounting standards and interpretations had to be applied for the first time. None of the following standards had a material impact on the Group's net assets, financial position, results of operations or earnings per share in the current period.

In August 2005, the IASB issued an amendment to IAS 1 (Presentation of Financial statements) relating to the disclosure of an entity's capital. Under this amendment, information on an entity's capital management must be presented in the Notes to the financial statements for annual periods beginning on or after January 1, 2007.

In August 2005, the IASB issued IFRS 7 (Financial Instruments: Disclosures), which is to be applied for annual periods beginning on or after January 1, 2007. IFRS 7 requires the disclosure of information on the significance of financial instruments for an entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how such risks are managed. IFRS 7 considerably extends the previous disclosure requirements for financial instruments, which have to be presented by class or using the categories defined in IAS 39.

In July 2006, the IFRIC issued IFRIC 10 (Interim Financial Reporting and Impairment), which is to be applied for annual periods beginning on or after November 1, 2006. This interpretation states that impairment losses recognized in an interim period on goodwill, investments in equity instruments, or investments in financial assets carried at cost may not be reversed in subsequent interim financial statements or in annual financial statements.

Newly issued accounting standards

In November 2006, the IASB published IFRS 8 (Operating Segments), which will replace IAS 14 (Segment Reporting), the existing standard in this field. The new standard was endorsed by the European Union in November 2007. Under IFRS 8, segment reporting must be based on the information used internally by management to identify operating segments and to evaluate their performance. IFRS 8 is to be applied for the first time for annual periods beginning on or after January 1, 2009. The Bayer Group does not believe that the application of this standard will have a significant impact on the presentation of its segment reporting.

In September 2007, the IASB issued amendments to IAS 1 (Presentation of Financial Statements). These include proposals for renaming certain sections of the financial statements, the obligation to publish an opening balance sheet for the previous financial year in certain circumstances, separate presentation of changes in equity arising from transactions with owners and with non-owners, separate disclosure by component of amounts removed from stockholders' equity and recognized in income, and disclosure of the related income tax effect by component in the statement of recognized income and expense. This interpretation is to be applied for annual periods beginning on or after January 1, 2009. The Bayer Group is currently evaluating the impact that the application of the amendments may have on the Group's financial position, results of operations or cash flows.

In March 2007, the IASB issued amendments to IAS 23 (Borrowing Costs) requiring the capitalization of interest on borrowings made to acquire, construct or produce a qualifying asset. The previous option of immediately recognizing such borrowing costs in income has been withdrawn. Since interest on borrowed capital directly attributable to qualifying assets was already capitalized in the past, the amendments will have no impact on the consolidated financial statements of the Bayer Group.

In June 2007, the IFRIC issued the interpretation IFRIC 13 (Customer Loyalty Programmes), which addresses the recognition of expenses for and revenues from such programs. This interpretation is to be applied for annual periods beginning on or after July 1, 2008. The Bayer Group is currently evaluating the impact that application of the interpretation may have on the Group's financial position, results of operations or cash flows.

In July 2007, the IFRIC issued the interpretation IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction). This interpretation addresses the "asset ceiling" rule for plan assets that exceed pension obligations and the recognition of statutory minimum funding requirements in plan assets. This interpretation is to be applied for annual periods beginning on or after January 1, 2008. The Bayer Group is currently evaluating the impact that application of the interpretation may have on the Group's financial position, results of operations or cash flows.

In January 2008, the IASB published the revised standards IFRS 3 (Business Combinations) and IAS 27 (Consolidated and Separate Financial Statements). Under IFRS 3 (revised 2008), business combinations continue to be accounted for by the purchase method. The changes affect, for example, the accounting treatment of any minority interest in goodwill and its recognition in stockholders' equity. IAS 27 (revised 2008) contains rules for the consolidation and treatment of changes in ownership interests. IFRS 3 (revised 2008) and IAS 27 (revised 2008) are to be applied for the first time in annual periods beginning on or after January 1, 2009. Earlier application is permitted provided that both revised standards are applied simultaneously. The Bayer Group is currently evaluating the impact that the application of these revised standards may have on future business combinations and the presentation of the consolidated financial statements.

In February 2008, the IASB issued amendments to IAS 32 (Financial Instruments: Presentation) and IAS 1 (Presentation of Financial Statements). These refer particularly to the distinction between equity and debt in accounting for company capital to which cancellation rights are attached (puttable financial instruments). Puttable financial instruments previously had to be classified as a liability, whereas in the future such cancellable instruments are to be classified as equity in certain circumstances. The amendments are to be applied for the first time for annual periods beginning on or after January 1, 2009. The Bayer Group is currently evaluating the impact that the application of these amendments may have on the Group's financial position, results of operations or cash flows.

4. Basic principles, methods and critical accounting policies

The financial statements of the consolidated companies are prepared according to uniform accounting and valuation principles.

The consolidated financial statements of the Group are based on the principle of the historical cost of acquisition, construction or production, with the exception of the items reflected at fair value, such as available-for-sale financial assets and derivative financial instruments.

The preparation of the financial statements for the Bayer Group requires the use of estimates and assumptions that affect the classification and measurement of assets, liabilities, income, expenses and contingent liabilities. Estimates and assumptions mainly relate to the useful life of noncurrent assets, the discounted cash flows used in impairment testing and the recognition of provisions, including those for litigation-related expenses, pensions and other benefits, taxes, environmental compliance and remediation costs, sales allowances, product liability and guarantees. Essential estimates and assumptions that may affect reporting in the various item categories of the financial statements are described in the following sections of this Note. Estimates are based on historical experience and other assumptions that are considered reasonable under given circumstances. They are continually reviewed but may vary from the actual values.

Consolidation

Intragroup sales, profits, losses, income, expenses, receivables and payables are eliminated. Deferred income tax effects are reflected in consolidation.

Joint ventures are included by proportionate consolidation according to the same principles.

Capital consolidation is performed according to IAS 27 (Consolidated and Separate Financial Statements) by offsetting the net carrying amounts of subsidiaries in the balance sheet against their underlying equity. Equity of subsidiaries is valued at the respective acquisition dates, recognizing identifiable assets and liabilities (including contingent liabilities) at their fair values along with attributable deferred tax assets and liabilities. Any remaining difference to the purchase price is recognized as goodwill.

The cost of acquisition of a company included at equity in the consolidated financial statements is adjusted annually by a percentage of any change in its stockholders' equity corresponding to Bayer's percentage interest in the company. Differences arising upon first-time inclusion at equity are accounted for according to full-consolidation principles. Bayer's share of changes in these companies' stockholders' equities that are recognized in their income statements – including write-downs of goodwill – are recognized in the non-operating result. Intercompany profits and losses for these companies were not material in either 2007 or 2006.

Foreign currency translation

In the financial statements of the individual consolidated companies, all receivables and payables in currencies other than the respective functional currency are translated at closing rates, irrespective of whether they are exchange-hedged. Derivative financial instruments are stated at fair value. Exchange rate differences from valuation of balances in foreign currencies are recognized in income. The majority of consolidated companies carry out their activities financially, economically and organizationally autonomous and their functional currencies are therefore the respective local currencies.

The assets and liabilities of foreign companies at the start and end of the year are translated at closing rates. All changes occurring during the year and all income and expense items are translated at average rates for the year. Components of stockholders' equity are translated at the historical exchange rates prevailing at the respective dates of their first-time recognition in Group equity.

The differences between the resulting amounts and those obtained by translating at closing rates are reflected in other comprehensive income and stated separately in the tables in the Notes under "Exchange differences on translation of operations outside the euro zone" or "Exchange differences." When a company is deconsolidated, exchange differences recognized in stockholders' equity are removed from equity and recognized in the income statement.

The exchange rates for major currencies against the euro varied as follows:

		Closing rate		Average rate	
€1		2006	**2007**	2006	**2007**
Argentina	ARS	4.04	4.64	3.86	4.27
Brazil	BRL	2.82	2.61	2.73	2.67
China	CNY	10.28	10.75	10.01	10.42
U.K.	GBP	0.67	0.73	0.68	0.68
Japan	JPY	156.93	164.93	146.04	161.23
Canada	CAD	1.53	1.44	1.42	1.47
Mexico	MXN	14.27	16.08	13.69	14.97
Switzerland	CHF	1.61	1.65	1.57	1.64
United States	USD	1.32	1.47	1.26	1.37

Net sales and other operating income

Revenues from the sale of products and the rendering of services are recognized when
- the significant risks and rewards of ownership of the goods have been transferred to the customer,
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- the amount of income and costs incurred or to be incurred can be measured reliably, and
- it is sufficiently probable that the economic benefits associated with the transaction will flow to the company.

Sales are stated net of sales taxes, other taxes and sales deductions. The latter are estimated amounts for cash discounts, rebates and product returns. They are deducted at the time the sales are recognized, and appropriate provisions are recorded. Sales deductions are estimated primarily on the basis of historical experience, specific contractual terms and future expectations of sales development in each business segment. It is unlikely that estimation parameters other than these could affect sales deductions in a way that would be material to the Bayer Group's business operations. The potential for variability in provisions for future sales deductions is not material in relation to the Group's reported operating results. Adjustments to provisions for rebates, cash discounts or returns for sales made in prior periods were not significant in relation to income before income taxes in the years under report.

Provisions for rebates in 2007 amounted to 1.4 percent of total net sales (2006: 1.6 percent). In addition to rebates, Group companies offer cash discounts for prompt payment in some countries. Provisions for cash discounts as of December 31, 2007 and December 31, 2006 were less than 0.1 percent of total net sales for the respective year.

Sales are reduced for expected returns of defective goods or in respect of contractual arrangements to return saleable products on the date of sale or at the time when the amount of future returns can be reasonably estimated. Provisions for product returns as of December 31, 2007 were 0.3 percent of total net sales for the year (December 31, 2006: 0.1 percent). If future product returns cannot be reasonably estimated and are significant to the sale transaction, the revenues and the related cost of sales are deferred until an estimate may reasonably be made or when the right to return the goods has expired.

Some of the Bayer Group's revenues are generated on the basis of licensing agreements under which third parties are granted rights to its products and technologies. Payments relating to the sale or outlicensing of technologies or technological expertise – once the respective agreements have become effective – are immediately recognized in income if all rights relating to the technologies and all obligations resulting from them have been relinquished under the contract terms and Bayer has no continuing obligation to perform under the agreement. However, if rights to the technologies continue to exist or obligations resulting from them have yet to be fulfilled, the payments received are recorded in line with the actual circumstances. Upfront payments and similar non-refundable payments received under these agreements are recorded as other liabilities and recognized in income over the estimated performance period stipulated in the agreement. Revenues such as license fees or rentals are recognized according to the same principles.

License or research and development collaboration agreements may consist of multiple elements and provide for varying consideration terms, such as upfront payments and milestone or similar payments. They therefore have to be assessed to determine whether separate delivery of the individual elements of such arrangements requires more than one unit of account. The delivered elements are separated if

- they have value to the customer on a stand-alone basis,
- there is objective and reliable evidence of the fair value of the undelivered element(s) and
- the arrangement includes a general right of return relative to the delivered element(s) and delivery or performance of the as yet undelivered element(s) is probable and substantially within the control of the company.

If all three criteria are fulfilled, the appropriate revenue recognition rule is then applied to each separate accounting unit.

Research and development expenses

A substantial proportion of the Bayer Group's financial resources is invested in research and development. In addition to in-house research and development activities, especially in the health care business, various research and development collaborations and alliances are maintained with third parties involving the provision of funding and/or payments for the achievement of performance milestones.

For accounting purposes, research expenses are defined as costs incurred for current or planned investigations undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development expenses are defined as costs incurred for the application of research findings or specialist knowledge to production, production methods, services or goods prior to the commencement of commercial production or use.

According to IAS 38 (Intangible Assets), research costs cannot be capitalized; development costs must be capitalized if, and only if, specific, narrowly defined conditions are fulfilled. Development costs must be capitalized if it is sufficiently certain that the future economic benefits to the company will also cover the respective development costs. Since development projects are often subject to regulatory approval procedures and other uncertainties, the conditions for the capitalization of costs incurred before receipt of approvals are not normally satisfied.

The following costs in particular, by their very nature, constitute research and development expenses: the appropriate allocations of direct personnel and material costs and related overheads for application technology, engineering and other departments; costs for experimental and pilot facilities; costs for services purchased in connection with research and development activities; costs for clinical research; costs for the utilization of third parties' patents for research and development purposes; other taxes related to research facilities; and fees for the filing and registration of self-generated patents that are not capitalized.

Under IAS 38 (Intangible Assets), milestone payments must initially be capitalized to the extent that they are related to the acquisition of the related technology rights, even if uncertainties exist as to whether the research and development will ultimately be successful in producing a saleable product. Where research and development collaborations are embedded in contracts for a strategic alliance, it is necessary to assess whether milestone or advance payments constitute funding of research and development work or consideration for the acquisition of assets. Factors considered in reaching this determination are the reason for the payment (for example, whether it is related to a regulatory approval, the attainment of a sales target or outsourced research and development activities), and the ratio of the fair value of the planned research and development activities to the total amount of the payment.

Goodwill and other intangible assets

Intangible assets are recognized at the cost of acquisition or creation. Those with a determinable useful life are amortized accordingly over a period of up to 30 years, except where their actual depletion demands a different amortization pattern. Determination of the expected useful lives of such assets and of amortization patterns is based on estimates of the period for which they will generate cash flows and the distribution of those cash flows over time.

Write-downs are made for impairment losses. Corresponding write-backs are made where the reasons for previous write-downs of intangible assets other than goodwill no longer apply, provided that the write-backs do not cause the carrying amount to exceed the amortized cost of acquisition.

Goodwill and other assets with an indefinite life are subject to annual impairment tests, which are explained under "Procedure used in global impairment testing and its impact."

Costs of €27 million for in-house software development incurred in the application development phase were capitalized as of December 31, 2007 (2006: €49 million). These costs are amortized over the useful life of the software from the date it is placed in service.

Information on goodwill and other intangible assets existing at the balance sheet date is given in Note [17].

Property, plant and equipment

Property, plant and equipment is carried at the cost of acquisition or construction depreciated over its estimated useful life. A write-down (impairment loss) is recognized in addition if an asset's value falls below the depreciated cost of acquisition or construction.

The cost of acquisition comprises the acquisition price plus ancillary and subsequent acquisition costs, less any reduction received on the acquisition price. The cost of self-constructed property, plant and equipment comprises the direct cost of materials, direct manufacturing expenses and appropriate allocations of material and manufacturing overheads. Where an obligation exists to dismantle or remove an asset or restore a site to its former condition at the end of its useful life, the present value of the related future payments is capitalized along with the cost of acquisition or construction upon completion and a corresponding liability is recognized.

If the construction phase of property, plant or equipment extends over a long period, the interest incurred on borrowed capital up to the date of completion is capitalized as part of the cost of acquisition or construction in accordance with IAS 23 (Borrowing Costs).

Expenses for the repair of property, plant and equipment, such as ongoing maintenance costs, are normally charged to income. The cost of acquisition or construction is capitalized if a repair (such as a complete overhaul of technical equipment) will result in future economic benefits.

Property, plant and equipment is depreciated by the straight-line method, except where depreciation based on actual depletion is more appropriate.

Declines in value that go beyond regular depreciation and are expected to be permanent are accounted for by write-downs. Corresponding write-backs are made where the reasons for previous write-downs no longer apply, provided that the write-backs do not cause the carrying amount to exceed the cost of acquisition less accumulated depreciation.

When assets are sold, closed down or scrapped, the difference between the net proceeds and the net carrying amount of the assets is recognized as a gain or loss in other operating income or expenses, respectively.

The following depreciation periods, based on the estimated useful lives of the respective assets, are applied throughout the Group:

Buildings	20 to 50 years
Outdoor infrastructure	10 to 20 years
Plant installations	6 to 20 years
Machinery and equipment	6 to 12 years
Laboratory and research facilities	3 to 5 years
Storage tanks and pipelines	10 to 20 years
Vehicles	4 to 8 years
Computer equipment	3 to 5 years
Furniture and fixtures	4 to 10 years

In accordance with IAS 17 (Leases), assets leased on terms economically equivalent to financing a purchase by a long-term loan (finance leases) are capitalized at the lower of their fair value or the present value of the minimum lease payments at the date of addition. The leased assets are depreciated over their estimated useful lives except where subsequent transfer of title is uncertain, in which case they are depreciated over their estimated useful lives or the respective lease terms, whichever are shorter.

Financial assets

Financial assets comprise issued loans and receivables, acquired equity and debt instruments, cash and cash equivalents, and derivative financial instruments with positive fair values.

They are recognized and measured in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Accordingly, financial assets are recognized in the consolidated financial statements if the Bayer Group has a contractual right to receive cash or other financial assets from another entity. Regular way purchases and sales of financial assets are posted on the settlement date. Financial assets are initially recognized at fair value plus transaction costs. The transaction costs incurred for the purchase of financial assets held at fair value through profit or loss are expensed immediately. Interest-free or low-interest receivables are initially reflected at the present value of the expected future cash flows. For purposes of subsequent measurement, financial assets are allocated to the following categories:

- *Financial assets held at fair value through profit or loss* comprise those financial assets that are held for trading. This category comprises receivables from forward commodity contracts and receivables from other derivative financial instruments, which are included in other financial assets, except where hedge accounting is used. Changes in the fair value of financial assets in this category are recognized in the income statement when the increase or decrease in value occurs.
- *Loans and receivables* are non-derivative financial assets that are not quoted in an active market. They are carried at amortized cost. This category comprises trade accounts receivable, the financial receivables and loans included in other financial assets, the additional financial receivables and loans reflected in miscellaneous receivables, and cash and cash equivalents. Interest income from items assigned to this category is determined using the effective interest method, insofar as such items are not classified as current receivables and the effect of discounting interest is not material.

- *Held-to-maturity financial assets* are non-derivative financial assets, with fixed or determinable payments, that are to be held for a fixed period of time. They are accounted for at amortized cost by the effective-interest method. Held-to-maturity financial investments are recognized in other financial assets.
- *Available-for-sale financial assets* are those non-derivative financial assets that are not assigned to any of the above categories. In particular, they comprise equity instruments recognized at fair value and debt instruments not to be held to maturity, which are included in other financial assets. Changes in the fair value of available-for-sale financial assets are recognized in stockholders' equity and not released to the income statement until the assets are sold or impaired. Where possible, a fair value for equity and debt securities is derived from market data. Financial assets for which no market price is available and whose fair value cannot be reliably estimated are carried at cost less impairment charges.

If there are substantial, objective indications that loans and receivables, held-to-maturity financial assets or available-for-sale financial assets are impaired, their carrying amount is compared to the present value of the expected future cash flows, discounted by the current market rate of return on a comparable financial asset. If an impairment is confirmed, they are written down by the difference between the two amounts. Indications of impairment include the fact that a company has been making an operating loss for several years, a reduction in market value, a significant deterioration in credit standing, a material breach of contract, a high probability of insolvency or other financial restructuring of the debtor, or the disappearance of an active market for the asset.

Corresponding write-backs are made where the reasons for previous write-downs no longer apply, provided that the write-backs do not cause the carrying amount to exceed the cost of acquisition. No write-backs are made for available-for-sale equity instruments.

Financial assets are derecognized when contractual rights to receive cash flows from the financial assets no longer exist or the financial assets are transferred together with all material risks and benefits.

The management of financial and commodity price risks and, in particular, the accounting treatment of derivative financial instruments and hedging relationships involving such instruments are explained in more detail in Note [30].

Inventories

In accordance with IAS 2 (Inventories), inventories encompass assets (finished goods and goods purchased for resale) held for sale in the ordinary course of business, in the process of production for such sale (work in process) or in the form of materials or supplies to be consumed in the production process or in the rendering of services (raw materials and supplies). Inventories are recognized at the lower of acquisition or production cost – calculated by the weighted-average method – and net realizable value which is the realizable sale proceeds under normal business conditions less estimated cost to complete and selling expenses.

Taxes

Income taxes comprise the taxes levied on taxable income in the individual countries and the changes in deferred tax assets and liabilities. The actual income taxes are recognized at the amounts likely to be payable under the statutory regulations in force, or already enacted in relation to future periods, as of the closing date.

The remaining taxes, such as property, electricity and other energy taxes, are included in the functional cost items.

In compliance with IAS 12 (Income Taxes), deferred taxes are calculated for temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the balance sheet drawn up for tax purposes, for consolidation measures, and for tax loss carryforwards likely to be realizable.

Deferred tax assets relating to deductible temporary differences and tax loss carryforwards are recognized to the extent that it is sufficiently probable that taxable income will be available in the future to enable the tax loss carryforwards to be utilized. Deferred tax liabilities are recognized on temporary differences taxable in the future. Deferred taxes are calculated at the rates which – on the basis of the statutory regulations in force, or already enacted in relation to future periods, as of the closing date – are expected to apply in the individual countries at the time of realization. Deferred tax assets and deferred tax liabilities are offset if they relate to income taxes levied by the same taxation authority. Changes in deferred tax assets and liabilities due to changes in tax rates are recognized in income. This also applies to the related deferred tax assets or liabilities where gains or losses are recognized directly in stockholders' equity. The probability that deferred tax assets resulting from temporary differences or loss carryforwards can be utilized in the future is the subject of forecasts by the individual consolidated companies regarding their future earnings situation and other parameters.

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate adjustments to tax income and expense in future periods. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Further information on income taxes is provided in Note [14].

Provisions for pensions and other post-employment benefits

Group companies provide retirement benefits for most of their employees, either directly or by contributing to privately or publicly administered funds. The way these benefits are provided varies according to the legal, fiscal and economic conditions of each country, the benefits generally being based on the employees' remuneration and years of service. The obligations relate both to existing retirees' pensions and to pension entitlements of future retirees.

Group companies provide retirement benefits under defined contribution and/or defined benefit plans. In the case of defined contribution plans, the company pays contributions to publicly or privately administered pension schemes on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the company has no further payment obligations. The regular contributions constitute expenses for the year in which they are due and as such are included in the functional cost items, and thus in the operating result (EBIT). All other retirement benefit systems are defined benefit plans, which may be either unfunded, i. e. financed by provisions (accruals), or funded, i. e. financed through pension funds. All income and expenses relating to defined benefit plans other than from interest cost and the expected return on plan assets are recognized in the Group operating result. Interest cost and the expected return on plan assets are reflected in the non-operating result under other non-operating income and expense. Actuarial gains and losses from defined benefit plans and deductions in connection with asset limitation are recognized entirely in the respective provision via the statement of changes in stockholders' equity and shown in a separate statement of recognized income and expense, so they have no impact on profit or loss. Early retirement and certain other benefits to retirees are also included in the provisions for pensions, since these obligations are similar in character to pension obligations.

The present value of provisions for defined benefit plans is calculated in accordance with IAS 19 (Employee Benefits) by the projected unit credit method. The future benefit obligations are valued by actuarial methods. This involves assumptions regarding life expectancy, staff fluctuation, and other parameters that depend partly on the economic situation in the respective country. The other main factors on which these calculations are based are assumptions regarding discount rate, expected return on plan assets, the rate of future compensation increases and variations in health care costs. Statistical information such as attrition and mortality rates is also used in estimating the expenses and liabilities under the plans. The effects of changes in important parameters are explained in Note [25].

Benefits expected to be payable after retirement are spread over each employee's entire period of employment, allowing for future changes in remuneration.

The fair value of plan assets is deducted from the present value of the defined benefit obligation for pensions and other post-employment benefits. The obligations and plan assets are valued at regular intervals of not more than three years. For all major plans, comprehensive actuarial valuations are performed annually as of December 31. The difference between the defined benefit obligation – after deducting the fair value of plan assets – and the net liability recognized in the balance sheet is attributable to unrecognized past service cost. Plan assets in excess of the benefit obligation are reflected in other receivables, subject to the asset limitation specified in IAS 19 (Employee Benefits).

The expected future cash outflows are discounted in order to recognize obligations for pensions and other post-employment benefits at their present value as of the reporting date. The interest rate used to discount post-employment benefit obligations to present value is derived from the yields of senior, high-quality corporate bonds in the respective country at the balance sheet date. These generally include AA-rated securities. The discount rate is based on the yield of a portfolio of bonds whose weighted residual maturities approximately correspond to the duration necessary to cover the entire benefit obligation. If AA-rated corporate bonds of equal duration are not available, a discount rate equivalent to the effective interest rate for government bonds at the balance sheet date is used instead but increased by about 0.5 to 1.0 percentage point since corporate bonds generally provide higher yields by virtue of their risk structure.

Determination of the discount rate is also based on a bond portfolio corresponding to the expected cash outflows from the pension plans. The average return on this bond portfolio serves as the benchmark when determining the discount rate. The expected long-term return on plan assets, determined on the basis of published and internal capital market reports and forecasts for each asset class, is applied to the fair market value of plan assets at each year end.

Because of changing market and economic conditions, the expenses and the obligations actually arising under the plans in the future may differ materially from the estimates made on the basis of these actuarial assumptions. The plan assets are mainly comprised of equity and fixed-income instruments. Therefore, declining returns on equity markets and markets for fixed-income instruments could necessitate additional contributions to the plans in order to cover future pension obligations. Also, higher or lower withdrawal rates or longer or shorter life of participants may have an impact on the amount of pension income or expense recorded in the future.

Other provisions

Other provisions are recognized for currently existing obligations arising from past events that will probably give rise to a future outflow of resources, provided that a reliable estimate can be made of the amount of the obligation.

Other provisions are measured in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) or, where applicable, IAS 19 (Employee Benefits). Where the cash outflow to settle an obligation is not expected to occur until after one year, the provision is recognized at the present value of the expected cash outflow. Reimbursements receivable from third parties are capitalized separately if their realization is virtually certain.

If the projected obligation declines as a result of a change in the estimate, the provision is reversed by the corresponding amount and the resulting income recognized in the operating expense item(s) in which the original charge was recognized.

To enhance the information content of the estimates, certain provisions that could have a material effect on the financial position and results of operations of the Group are selected and tested for their sensitivity to changes in the underlying parameters. To reflect uncertainty about the likelihood of the assumed events actually occurring, the impact of a 5 percent change in the probability of occurrence is examined in each case. For noncurrent interest-bearing provisions, the impact of a 1-percentage-point change in the interest rate used is analyzed. Analysis has not shown other provisions to be materially sensitive.

Personnel-related provisions are mainly those recorded for annual bonus payments, long-service awards, surpluses on long-term accounts and other personnel costs. Reimbursements to be received from the German authorities under the senior part-time work program are recorded as receivables and recognized in income as soon as the criteria for such reimbursements are fulfilled.

Trade-related provisions are recorded mainly for the granting of rebates or discounts, the acceptance of product returns, or obligations in respect of services already received but not yet invoiced.

Provisions for environmental protection are recorded if future cash outflows are likely to be necessary to ensure compliance with environmental regulations or to carry out remediation work, such costs can be reliably estimated and no future benefits are expected from such measures.

Estimating the future costs of environmental protection and remediation involves many uncertainties, particularly with regard to the status of laws, regulations and the information available about conditions in the various countries and at the individual sites. Significant factors in estimating the costs include previous experiences in similar cases, the conclusions in expert opinions obtained regarding the Group's environmental programs, current costs and new developments affecting costs, management's interpretation of current environmental laws and regulations, the number and financial position of third parties that may become obligated to participate in any remediation costs on the basis of joint liability, and the remediation methods which are likely to be deployed. Changes in these assumptions could impact future reported results.

Taking into consideration experience gained to date regarding environmental matters of a similar nature, provisions are believed to be adequate based upon currently available information. There were no significant changes in assumptions or estimates that would have impacted the income statement in prior years. However, given the inherent difficulties in estimating liabilities in the businesses in which the Group operates, especially those for which the risk of environmental damage is relatively greater (CropScience and MaterialScience), it remains possible that material additional costs will be incurred beyond the amounts accrued. It may transpire during remediation work that additional expenditures are necessary over an extended period of time that exceed existing provisions and cannot be reasonably estimated. Management nevertheless believes that such additional amounts, if any, would not have a material adverse effect on the Group's financial position or results of operations. Further information on environmental provisions in the Bayer Group can be found in Note [26.3].

As a global company with a diverse business portfolio, the Bayer Group is exposed to numerous legal risks, particularly in the areas of product liability, competition and antitrust law, patent disputes, tax assessments and environmental matters.

Provisions for litigations are recorded in the balance sheet in respect of pending or future litigation, subject to a case-by-case examination. Such legal proceedings are evaluated on the basis of the available information, including that from legal counsel acting for the Group, to assess potential outcomes. Where it is reasonably likely that a future obligation arising out of legal proceedings will result in an outflow of resources, a provision is recorded in the amount of the present value of the expected cash outflows if these are considered to be reliably measurable. These provisions cover the estimated payments to plaintiffs, court fees, attorney costs and the cost of potential settlements. The evaluation is based on the current status of litigation as of each reporting date and includes an assessment of whether the criteria for recording a provision are met and, if so, the amount of the provision to be recorded.

The outcome of currently pending and future proceedings cannot be predicted. Thus, an adverse decision in a lawsuit could result in additional costs that are not covered, either wholly or partially, under insurance policies and that could significantly impact the business and results of operations of the Bayer Group. If the Bayer Group loses a case in which it seeks to enforce its patent rights, a decrease in future earnings could result as other manufacturers could be permitted to begin to market products that the Bayer Group or its predecessors had developed.

Litigation and other judicial proceedings generally raise complex issues and are subject to many uncertainties and complexities including, but not limited to, the facts and circumstances of each particular case, issues regarding the jurisdiction in which each suit is brought and differences in applicable law. Upon resolution of any pending legal matter, the Bayer Group may be forced to incur charges in excess of the presently established provisions and related insurance coverage. It is possible that the financial position, results of operations or cash flows of the Bayer Group could ultimately be materially affected by the unfavorable outcome of litigation.

Further information on legal risks and the related provisions is contained in Notes [26.6] and [32].

Financial liabilities

Financial liabilities comprise primary financial liabilities and negative fair values of derivative financial instruments.

Primary financial liabilities are recognized in the balance sheet if the Bayer Group has a contractual obligation to transfer cash or other financial assets to another party. Such liabilities are initially recognized at the fair value of the consideration received or the value of payments received less any transaction costs. In subsequent periods, they are measured at amortized cost using the effective-interest method. Liabilities relating to finance leases are carried at the present value of the minimum future lease payments.

Derivative financial instruments are carried at fair value through profit or loss unless hedge accounting is used. Negative fair values of derivative financial instruments are included in financial liabilities or other liabilities. The accounting treatment of derivative financial instruments and hedging relationships involving such instruments are explained in more detail in Note [30].

Financial liabilities are derecognized when the contractual obligation is discharged or canceled, or has expired.

Under IAS 32 (Financial Instruments: Presentation), financial instruments are only classified as equity if no contractual obligation exists to repay the capital or deliver other financial assets to the issuer. Where a third party holding a (minority) interest in a consolidated subsidiary is contractually entitled to terminate its participation and at the same time claim repayment of its capital contribution, such capital is recognized as a liability in the Group statements even if it is classified as equity in the respective jurisdiction. The redeemable capital of a minority stockholder is recognized at the amount of such stockholder’s pro-rated share of the subsidiary’s net assets.

Other receivables and liabilities
Accrued items, advance payments and non-financial assets and liabilities are carried at amortized cost. They are amortized to income by the straight-line method or according to performance of the underlying transaction.

In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), grants and subsidies that serve to promote investment are reflected in the balance sheet under other liabilities and amortized to income over the useful lives of the respective assets.

Acquisition accounting
Acquired businesses are accounted for using the purchase method of accounting, which requires that the assets acquired and liabilities assumed be recorded at their respective fair values on the date Bayer gains control.

The application of the purchase method requires certain estimates and assumptions especially concerning the determination of the fair values of the acquired intangible assets and property, plant and equipment as well as the liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets, property, plant and equipment have to be determined.

Measurement is based to a large extent on anticipated cash flows. If actual cash flows vary from those used in calculating fair values, this may significantly affect the Group's future results of operations. In particular, the estimation of discounted cash flows of intangible assets under development and developed technologies is subject to assumptions closely related to the nature of the acquired business. Factors that may affect the assumptions regarding future cash flows include
- outcomes of research and development activities regarding compound efficacy, results of clinical trials etc.,
- probability of obtaining regulatory approval in individual countries,
- long-term sales forecasts,
- anticipation of selling price erosion after the end of patent protection due to generic competition in the market,
- behavior of competitors (launch of competing products, marketing initiatives etc.).

For significant acquisitions, the purchase price allocation is carried out with assistance from independent third-party valuation specialists. The valuations are based on information available at the acquisition date.

Procedure used in global impairment testing and its impact
In accordance with IFRS 3 (Business Combinations) and the related revised versions of IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill and other intangible assets with indefinite useful lives are tested regularly for impairment.

Where goodwill or other indefinite-lived intangible assets allocated to a cash-generating unit are not likely to generate identifiable future economic benefits independently of other assets, they must be tested for impairment annually, or more frequently if events or changes in circumstances indicate a possible impairment. This involves comparing the net carrying amount of each cash-generating unit to the recoverable amount, which is the higher of the cash-generating unit's fair value less costs to sell and its value in use. In the Bayer Group, the strategic business entities – the financial reporting levels below the segments – are defined as the cash-generating units.

Where the carrying amount of a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized for the difference. First, the goodwill of the relevant strategic business entity is written down accordingly. Any remaining impairment loss is allocated among the other assets of the strategic business entity in proportion to their net carrying amounts. This value adjustment is recognized in the income statement under other operating expenses.

The recoverable amount is determined from the present value of future cash flows, based on continuing use of the asset by the strategic business entity and its retirement at the end of its useful life. The cash flow forecasts are derived from the current long-term planning for the Bayer Group, generally for a five-year planning horizon, which involves assumptions, especially regarding future selling prices, sales volumes and costs. Cash flows beyond this planning period are extrapolated using individual growth rates derived from the respective market information. The assumed growth rates, depending on the businesses valued, are zero to 4.0 percent for HealthCare, 1.4 to 5.7 percent for CropScience, and zero to 1.0 percent for MaterialScience.

Bayer calculates the cost of capital on the basis of the debt/equity ratio. The underlying capital structure of each subgroup is determined by benchmarking against comparable companies in the same industry sector. The cost of equity corresponds to the return expected by stockholders, while the cost of debt is based on the conditions on which the company can obtain long-term financing. Both components are derived from capital market information.

To allow for the different risk and return profiles of the Bayer Group's principal businesses, the after-tax cost of capital is calculated separately for each subgroup. The discount rates used are 8.1 percent (2006: 7.6 percent) for HealthCare, 8.1 percent (2006: 7.9 percent) for CropScience and 7.6 percent (2006: 7.3 percent) for MaterialScience. The equivalent pre-tax interest rates are 8.3 percent (2006: 7.8 percent) for HealthCare, 8.5 percent (2006: 8.3 percent) for CropScience and 8.0 percent (2006: 7.8 percent) for MaterialScience. These rates are based on assumptions and estimates relating to business-specific costs of capital, which in turn depend on country risks, credit risks, and additional risks resulting from the volatility of certain businesses. The risk adjustment for each subgroup is determined by benchmarking against comparable companies in the same industry sector.

Sensitivity analysis is based on a 10 percent decline in future cash flows and a 10 percent increase in the weighted average cost of capital because changes up to this magnitude are reasonably possible. Based on the Group's experience, greater changes than this are unlikely. If the actual present value of future cash flows were 10 percent lower than the anticipated present value, the net carrying amount of goodwill in the Systems segment would have to be impaired by €31 million. If the weighted average cost of capital used for the impairment test were increased by 10 percent, assets of the Systems segment would have to be impaired by €36 million.

In 2007 and 2006 the following write-downs were made as a result of specific events (such as restructuring) or changes in circumstances. In 2007 as in 2006, however, no impairment losses were recorded on the basis of the global annual impairment tests.

€ million	2006	2007
Impairment charges (continuing operations)	172	286
Impairment charges (discontinued operations)	18	-
Total impairment charges	190	286

Although the estimates of the useful lives of certain assets, assumptions concerning the macroeconomic environment and developments in the industries in which the Bayer Group operates and estimates of the discounted future cash flows are believed to be appropriate, changes in assumptions or circumstances could require changes in the analysis. This could lead to additional impairment charges in the future or – except in the case of goodwill – to valuation write-backs should the expected trends reverse.

5. Segment reporting

In accordance with IAS 14 (Segment Reporting), separate breakdowns of certain data reported in the consolidated financial statements are given by business segment and geographical region. The segments and regions are the same as those used for internal reporting.

As of December 31, 2007 the Bayer Group comprised three subgroups with operations subdivided into divisions (HealthCare), business groups (CropScience) or business units (MaterialScience). Their activities are aggregated into the six reporting segments listed below according to economic characteristics, products, production processes, customer relationships and methods of distribution.

The subgroups' activities are as follows:

Subgroup/Segment	Activities
HealthCare	
Pharmaceuticals	Development, production and marketing of prescription pharmaceuticals, such as for the treatment of hypertension, cardiovascular diseases, infectious diseases, cancer and multiple sclerosis, and for contraception.
Consumer Health	Development, production and marketing of over-the-counter medications, diagnostic products, nutritional supplements for humans and animals, veterinary medicines and grooming products for animals.
CropScience	
Crop Protection	Development, production and marketing of a comprehensivie portfolio of fungicides, herbicides, insecticides and seed treatment products to meet a wide range of regional requirements.
Environmental Science, BioScience	Development, production and marketing of a wide range of products for the green industry, garden care, non-agricultural pest and weed control, plant biotechnology and conventional seeds.
MaterialScience	
Materials	Development, production and marketing of high-quality plastics granules, sheet and film.
Systems	Development, production and marketing of polyurethanes for a wide variety of applications and of coating and adhesive raw materials; production and marketing of inorganic basic chemicals.

The segment table presents continuing operations only, and thus no longer includes the diagnostics business, Wolff Walsrode or H.C. Starck. Details of the discontinued operations are given in Note [6.3].

The reconciliation eliminates intersegment items and reflects income, expenses, assets and liabilities not allocable to segments. These include in particular the Corporate Center and the service companies.

The segment data are calculated as follows:

- The intersegment sales reflect intragroup transactions effected at transfer prices fixed on an arm's-length basis.
- The gross cash flow comprises income from continuing operations after taxes, plus income taxes, plus/minus non-operating result, minus income taxes paid, plus depreciation, amortization and write-downs, minus write-backs, plus/minus changes in pension provisions, minus gains/plus losses on retirements of noncurrent assets, plus non-cash effects of the remeasurement of acquired assets. The change in pension provisions includes the elimination of non-cash components of the operating result (EBIT). It also contains benefit payments during the year.
- The net cash flow is the cash flow from operating activities as defined in IAS 7 (Cash Flow Statements).
- The capital invested comprises all assets serving the respective segment that are required to yield a return on their cost of acquisition. Noncurrent assets are included at cost of acquisition or construction throughout their useful lives because the calculation of cash flow return on investment (CFROI) requires that depreciation and amortization be excluded. Interest-free liabilities are deducted. The capital invested is stated as of December 31.
- The CFROI is the ratio of the gross cash flow to the average capital invested for the year and is thus a measure of the return on capital employed.
- The equity items reflect the earnings and carrying amounts of companies recognized at equity (associates). They are allocated to the segments where possible.
- Since financial management of Group companies is carried out centrally by Bayer AG, financial liabilities are not allocated directly to the respective segments. Consequently, the liabilities shown for the individual segments do not include financial liabilities.
- The number of employees is reported as full-time equivalents, with part-time employees included in proportion to their contractual working hours.

The table shows the regional breakdown of intangible assets and property, plant and equipment:

€ million	2006	**2007**
Germany	21,235	17,504
United States	4,026	4,916
Finland	1,503	2,040
France	1,200	1,296
China	825	1,269
Switzerland	1,166	1,130
Other	2,946	3,434
Total	**32,901**	**31,589**

6. Scope of consolidation

The consolidated financial statements include all subsidiaries, joint ventures and associates. Subsidiaries are those companies in which Bayer AG directly or indirectly has a majority of the voting rights or from which it is able to derive the greater part of the economic benefit and bears the greater part of the risk by virtue of its power to govern corporate financial and operating policies, generally through an ownership interest of more than 50 percent. Inclusion of such companies' accounts in the consolidated financial statements begins when Bayer AG starts to exercise control over the company and ceases when it is no longer able to do so.

Joint ventures are companies over which the Bayer Group exercises joint control with a third party. Voting rights are normally divided equally between the two parties or on the basis of a joint venture agreement.

Associates in which Bayer AG exerts significant influence, generally through an ownership interest between 20 and 50 percent, are accounted for by the equity method.

Subsidiaries that do not have a material impact on the Group's net worth, financial position or earnings, either individually or in aggregate, are not consolidated.

6.1 Changes in the scope of consolidation

	Germany	Other countries	Total
Bayer AG and consolidated companies			
December 31, 2006	90	342	**432**
Changes in the scope of consolidation	(9)	(19)	**(28)**
Additions	-	4	**4**
Retirements	(21)	(61)	**(82)**
December 31, 2007	60	266	**326**
Companies included at equity (associates)			
December 31, 2006	1	5	**6**
Changes in the scope of consolidation	-	-	**-**
Additions	-	-	**-**
Retirements	(1)	-	**(1)**
December 31, 2007	**-**	**5**	**5**

The decrease in the number of fully consolidated companies in 2007 is primarily due to mergers between Group companies in the course of the integration of the Schering group and to the divestitures of H. C. Starck and Wolff Walsrode.

Five joint ventures – the same number as in the previous year – are included by proportionate consolidation in compliance with IAS 31 (Interests in Joint Ventures).

The effect of joint ventures on the Group balance sheet and income statement is as follows:

€ million	2007
Current assets	22
Noncurrent assets	54
Current liabilities	(30)
Noncurrent liabilities	(13)
Net assets	**33**

€ million	2007
Income	97
Expenses	(69)
Income after taxes	**28**

Excluded from consolidation are 115 subsidiaries and 39 associates that in aggregate are immaterial to the net worth, financial position and earnings of the Bayer Group and are recognized at cost of acquisition less any impairments. These companies account for less than 0.4 percent of Group sales, less than 0.7 percent of stockholders' equity and less than 0.4 percent of total assets.

A list of Bayer AG's direct and indirect holdings is published in the electronic version of the German Federal Gazette. It is also available directly from Bayer AG on request.

The principal companies consolidated in the financial statements are listed in the following table:

Company Name and Place of Business	Bayer's interest
%	
Germany	
Bayer Business Services GmbH, Leverkusen	100
Bayer CropScience AG, Monheim	100
Bayer CropScience Deutschland GmbH, Langenfeld	100
Bayer HealthCare AG, Leverkusen	100
Bayer MaterialScience AG, Leverkusen	100
Bayer Schering GmbH, Leverkusen	100
Bayer Schering Pharma AG, Berlin	96.3
Bayer Technology Services GmbH, Leverkusen	100
Bayer Vital GmbH, Leverkusen	100
Currenta GmbH & Co. OHG (formerly Bayer Industry Services GmbH & Co. OHG), Leverkusen	60
Other European countries	
Bayer Antwerpen Comm.V, Belgium	100
Bayer Biologicals S.r.l., Italy	100
Bayer B.V., Netherlands	100
Bayer Consumer Care AG, Switzerland	100
Bayer CropScience France S.A.S., France	100
Bayer CropScience S.A., France	100
Bayer International S.A., Switzerland	100
Bayer Santé S.A.S., France	100
Bayer Polyurethanes B.V., Netherlands	100
Bayer Public Limited Company, U.K.	100
Bayer Schering Pharma Oy, Finland	100
Bayer S.p.A., Italy	100
Química Farmacéutica Bayer, S.L., Spain	100

Company Name and Place of Business	Bayer's interest
%	
North America	
Bayer Corporate and Business Services LLC, U.S.A.	100
Bayer Corporation, U.S.A.	100
Bayer CropScience Inc., Canada	100
Bayer CropScience LP, U.S.A.	100
Bayer HealthCare LLC, U.S.A.	100
Bayer HealthCare Pharmaceuticals Inc., U.S.A.	100
Bayer Inc., Canada	100
Bayer MaterialScience LLC, U.S.A.	100
Bayer Pharmaceuticals Corporation, U.S.A.	100
BAYPO Limited Partnership, U.S.A.	100
Medrad Inc., U.S.A.	100
Asia/Pacific	
Bayer Australia Limited, Australia	100
Bayer Healthcare Co. Ltd., China	100
Bayer MaterialScience Limited, Hong Kong	100
Bayer MaterialScience Trading (Shanghai) Company Limited, China	100
Bayer Polymers Shanghai Co. Ltd., China	90
Bayer Thai Company Limited, Thailand	100
Bayer Yakuhin, Ltd., Japan	100
Latin America/Africa/Middle East	
Bayer (Proprietary) Limited, South Africa	100
Bayer de México, S.A. de C.V., Mexico	100
Bayer S.A., Argentina	100
Bayer S.A., Brazil	100
Bayer Türk Kimya Sanayi Limited Sirketi, Turkey	100

Also included in the consolidated financial statements are the following associates, which are accounted for by the equity method:

Company Name and Place of Business	Bayer's interest
%	
DIC Bayer Polymer Ltd., Japan	50
Lyondell Bayer Manufacturing Maasvlakte VOF, Netherlands	50
Palthough Industries (1998) Ltd., Israel	25
PO JV, LP, U.S.A.	44.1
Polygal Plastics Industries Ltd., Israel	25.8

The following domestic subsidiaries availed themselves in 2007 of certain exemptions granted under Sections 264, paragraph 3 and 264 b of the German Commercial Code regarding the preparation, auditing and publication of financial statements:

Company Name	Place of Business
Bayer 04 Immobilien GmbH	Leverkusen
Bayer 04 Leverkusen Fußball GmbH	Leverkusen
Bayer 04 Marketing GmbH	Leverkusen
Bayer 04 Mobilien GmbH	Leverkusen
Bayer Beteiligungsverwaltungsgesellschaft mbH	Leverkusen
Bayer Bitterfeld GmbH	Bitterfeld
Bayer Business Services GmbH	Leverkusen
Bayer Chemicals AG	Leverkusen
Bayer CropScience AG	Monheim
Bayer Direct Services GmbH	Leverkusen
Bayer Gastronomie GmbH	Leverkusen
Bayer Gesellschaft für Beteiligungen mbH	Leverkusen
Bayer HealthCare AG	Leverkusen
Bayer Innovation GmbH	Düsseldorf
Bayer-Kaufhaus GmbH	Leverkusen
Bayer MaterialScience AG	Leverkusen
Bayer MaterialScience Customer Services GmbH	Leverkusen
Bayer Real Estate GmbH (formerly GeWoGe Gesellschaft für Wohnen und Gebäudemanagement mbH)	Leverkusen
Bayer Schering GmbH	Leverkusen
Bayer Technology Services GmbH	Leverkusen
Bayer Vital GmbH	Leverkusen
Bayfin GmbH	Leverkusen
BerliServe Professional Services GmbH	Berlin
Chemion Logistik GmbH	Leverkusen
Currenta GmbH & Co. OHG (formerly Bayer Industry Services GmbH & Co. OHG)	Leverkusen
Drugofa GmbH	Cologne
Dynevo GmbH	Leverkusen
EPUREX Films GmbH & Co. KG	Bomlitz
Erste K-W-A Beteiligungsgesellschaft mbH	Leverkusen
Euroservices Bayer GmbH	Leverkusen
Generics Holding GmbH	Leverkusen
GP Grenzach Produktions GmbH	Grenzach
ICON Genetics GmbH	Munich
Intendis GmbH	Berlin
Intendis Dermatologie GmbH	Berlin
Jenapharm GmbH & Co. KG	Jena
Kosinus Grundstücks-Verwaltungs-Gesellschaft mbH & Gamma OHG	Berlin
KVP Pharma+Veterinär-Produkte GmbH	Kiel
LYTTRON Technology GmbH	Leverkusen
Marotrast GmbH	Jena
Menadier Heilmittel GmbH	Hamburg
Pharma Verlagsbuchhandlung GmbH	Berlin
Schering AG	Berlin
Schering GmbH und Co. Produktions KG	Weimar
Schering International Holding GmbH	Berlin
Schering Kahlbaum GmbH	Berlin
Sportrechte Vermarktungs- und Verwertungs-GmbH & Co. OHG	Leverkusen
TravelBoard GmbH	Leverkusen
Zweite K-W-A Beteiligungsgesellschaft mbH	Leverkusen

6.2 Business combinations and other acquisitions

Acquisitions are accounted for by the purchase method in accordance with IFRS 3 (Business Combinations), the results of the acquired businesses therefore being included in the consolidated financial statements as from the respective dates of acquisition. The purchase prices of acquisitions of companies domiciled outside the euro zone are translated at the exchange rates in effect at the respective dates of acquisition.

Acquisition costs in 2007 amounted to €482 million. The purchase prices of the acquired companies or businesses were settled in cash. Goodwill arising on these acquisitions totaled €210 million.

In June 2006, the wholly owned subsidiary Bayer Schering GmbH acquired a majority interest in Bayer Schering Pharma AG (at that time known as Schering AG), Berlin, Germany, which was included in full effective June 23, 2006 in the consolidated financial statements of the Bayer Group. As of December 31, 2007, Bayer Schering GmbH held 96.32 percent of the shares in Bayer Schering Pharma AG. The purchase price allocation has been completed and is virtually unchanged compared with December 31, 2006.

On May 31, 2007, Bayer CropScience signed an agreement to acquire the U.S. cotton seed producer Stoneville Pedigreed Seed Company from Monsanto for the preliminary purchase price of US$ 314 million (€232 million) including ancillary acquisition costs. This company was included in full effective June 1, 2007 in the consolidated financial statements of the Bayer Group. The goodwill remaining after the purchase price allocation is mainly attributable to technology and distribution synergies. The acquisition strengthens the position of Bayer's BioScience business unit in the U.S. cotton seed market.

On July 1, 2007, Bayer MaterialScience completed the acquisition of the Ure-Tech Group of Taiwan, the largest producer of thermoplastic polyurethanes (TPU) in the Asia/Pacific region, for US$ 85 million (€63 million).

Bayer HealthCare completed the announced acquisition of a biologics production facility in Emeryville, California, from Novartis. Bayer HealthCare will continue the production of Betaferon®/Betaseron® in Emeryville and is taking over the entire manufacturing and process technology and the facility's employees. Novartis has received about US$ 183 million (€137 million) for the acquisition of the production facility, including the Biologics License Application (BLA), the transfer of the related equipment and inventories, and the leasing of certain buildings.

The effects of these and other, smaller acquisitions on the Group's assets and liabilities as of the respective acquisition dates are shown in the table. Including acquired cash and cash equivalents, they resulted in the following net cash outflow:

€ million	Net carrying amount at the date of first-time consolidation	Fair-value adjustment	Net carrying amount after the acquisition
Acquired assets and assumed liabilities			
Goodwill	6	204	210
Other intangible assets	90	89	179
Property, plant and equipment	51	18	69
Other noncurrent assets	5	-	5
Inventories	83	(14)	69
Other current assets	32	(1)	31
Cash and cash equivalents	1	-	1
Provisions for pensions and other post-employment benefits	-	(4)	(4)
Other provisions	-	(17)	(17)
Financial liabilities	-	(6)	(6)
Other liabilities	(31)	(7)	(38)
Deferred taxes	-	(1)	(1)
Net assets	**237**	**261**	**498**
Minority interests	-	-	(16)
Purchase prices	**-**	**-**	**482**
of which ancillary acquisition costs	-	-	4
Acquired cash and cash equivalents	-	-	1
Net cash outflow for the acquisitions	**-**	**-**	**481**

6.3 Divestitures and discontinued operations

Proceeds from divestitures in 2007 amounted to €5,421 million. The principal divestitures were as follows:

Diagnostics business

On June 29, 2006, Bayer AG concluded an agreement with Siemens AG for the latter to acquire the diagnostics business. The Bayer Group sold this business of Bayer HealthCare to Siemens AG, Munich, in January 2007 for €4.3 billion. Transfer of the business to the acquirer was completed on January 2, 2007. An initial payment of €0.4 billion had already been received at the end of 2006.

H. C. Starck

On November 23, 2006, an agreement was concluded to divest the activities of the H. C. Starck Group, formerly assigned to the Materials segment, to a consortium of two financial investors, Advent International and The Carlyle Group, for a purchase price of €1.2 billion less the assumption of some €0.3 billion in financial liabilities and €0.2 billion in pension obligations. Closing of the transaction took place on February 1, 2007.

Wolff Walsrode
An agreement was signed on December 18, 2006 to sell the companies of the Wolff Walsrode Group, which operates principally in the field of cellulose chemistry, to The Dow Chemical Company, U.S.A., for a purchase price of €0.5 billion less the assumption of financial liabilities and pension obligations totaling about €0.1 billion. Wolff Walsrode also was formerly assigned to the Materials segment. Following approval of the transaction by the antitrust authorities, closing took place on June 30, 2007.

The effects of these and other, smaller divestitures on the Group's assets and liabilities as of the respective divestiture dates were as follows:

€ million	2007
Divested assets and liabilities	
Goodwill	36
Other intangible assets	382
Property, plant and equipment	884
Other financial assets	85
Inventories	800
Other current assets	1,039
Cash and cash equivalents	219
Pension and other post-employment benefits	(307)
Other provisions	(184)
Financial liabilities	(403)
Other liabilities	(579)
Net assets	**1,972**

The effects of these and other, smaller divestitures recognized in other operating income and expenses on Group earnings were as follows:

€ million	2007
Divestiture proceeds	**5,421**
- Net assets	1,972
- Divestiture costs	80
- Other adjustments	213
Net gain from the divestitures (before taxes)	**3,156**

Discontinued operations

The diagnostics activities, H. C. Starck and Wolff Walsrode are recognized as discontinued operations in 2007. The corresponding information is provided from the standpoint of the Bayer Group and is not intended as a separate presentation of the divested activities.

A breakdown of the results of discontinued operations is given below:

	Diagnostics		H. C. Starck		Wolff Walsrode		Total	
€ million	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
Net sales	**1,526**	**0**	**985**	**74**	**334**	**172**	**2,845**	**246**
Cost of goods sold	(660)	0	(806)	(51)	(233)	(109)	(1,699)	(160)
Selling expenses	(394)	(1)	(51)	(4)	(45)	(22)	(490)	(27)
Research and development expenses	(124)	0	(28)	(2)	(8)	(4)	(160)	(6)
General administration expenses	(94)	(1)	(32)	(2)	(19)	(9)	(145)	(12)
Other operating income (expenses) - net	(51)	2,821	(13)	90	11	246	(53)	3,157
Operating result (EBIT)	**203**	**2,819**	**55**	**105**	**40**	**274**	**298**	**3,198**
Non-operating result	(1)	0	(5)	(1)	(7)	(3)	(13)	(4)
Income before income taxes	**202**	**2,819**	**50**	**104**	**33**	**271**	**285**	**3,194**
Income taxes	(85)	(766)	(18)	(5)	(13)	(13)	(116)	(784)
Income after taxes	**117**	**2,053**	**32**	**99**	**20**	**258**	**169**	**2,410**
of which:								
Current income (loss) (before taxes)	202	(16)	50	11	33	26	285	21
Income taxes	(85)	4	(18)	(3)	(13)	(7)	(116)	(6)
Current income (loss) (after taxes)	**117**	**(12)**	**32**	**8**	**20**	**19**	**169**	**15**
Income from the divestitures (before taxes)	-	2,835	-	93	-	245	-	3,173
Income taxes	-	(770)	-	(2)	-	(6)	-	(778)
Income from the divestitures (after taxes)	**-**	**2,065**	**-**	**91**	**-**	**239**	**-**	**2,395**

Divestitures of discontinued operations in 2007 resulted in the following cash flows:

€ million	**2007**
Divestiture proceeds	**5,415**
Prepayments and outstanding payments	(400)
Divestiture costs	(76)
Divested cash and financial loans	186
Tax payments	(443)
Other cash flows	(34)
Net cash inflow from the divestitures	**4,648**

The separate asset and liability line items in the balance sheet reflect the following amounts pertaining to the discontinued operations as of December 31:

	Diagnostics		H.C. Starck		Wolff Walsrode		Total	
€ million	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
Noncurrent assets	**822**	**-**	**391**	**-**	**214**	**-**	**1,427**	**-**
Goodwill and other intangible assets	383	-	33	-	8	-	424	-
Property, plant and equipment	356	-	300	-	194	-	850	-
Other noncurrent assets	42	-	15	-	2	-	59	-
Deferred taxes	41	-	43	-	10	-	94	-
Current assets	**700**	**76**	**676**	**-**	**122**	**8**	**1,498**	**84**
Inventories	235	-	506	-	61	-	802	-
Trade accounts receivable	422	-	162	-	53	-	637	-
Other current assets	43	76	8	-	8	8	59	84
Assets held for sale and discontinued operations	**1,522**	**76**	**1,067**	**-**	**336**	**8**	**2,925**	**84**
Noncurrent liabilities	**33**	**-**	**233**	**-**	**115**	**-**	**381**	**-**
Provisions for pensions and other post-employment benefits	26	-	182	-	89	-	297	-
Other provisions	-	-	30	-	7	-	37	-
Financial liabilities	-	-	-	-	-	-	-	-
Other noncurrent liabilities	-	-	-	-	-	-	-	-
Deferred taxes	7	-	21	-	19	-	47	-
Current liabilities	**299**	**176**	**125**	**-**	**43**	**-**	**467**	**176**
Other provisions	100	129	20	-	11	-	131	129
Financial liabilities	-	-	58	-	8	-	66	-
Trade accounts payable	74	-	29	-	16	-	119	-
Other current liabilities	125	47	18	-	8	-	151	47
Liabilities directly related to assets held for sale and discontinued operations	**332**	**176**	**358**	**-**	**158**	**-**	**848**	**176**

Discontinued operations affected the Group cash flow statements as follows:

	Diagnostics		H. C. Starck		Wolff Walsrode		Total	
€ million	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
Net cash provided by (used in) operating activities	154	(34)	78	23	43	13	275	2
Net cash provided by (used in) investing activities	(107)	3,292	(55)	927	(17)	429	(179)	4,648
Net cash provided by (used in) financing activities	(47)	(3,258)	(23)	(950)	(26)	(442)	(96)	(4,650)
Change in cash and cash equivalents	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Notes to the Statements of Income

7. Net sales

Sales revenues are derived primarily from product deliveries. Total reported net sales increased by €3,429 million or 11.8 percent from 2006 to €32,385 million. While volumes increased by €1,617 million, or 5.6 percent, adverse shifts in exchange rates trimmed sales by €1,042 million, or 3.6 percent. Changes in selling prices contributed €147 million, or 0.5 percent, to the growth in business. Portfolio changes boosted sales by €2,707 million, or 9.3 percent.

Portfolio changes led to the following changes in sales compared with the previous year:

€ million	2007
Acquisitions	
Schering	2,755
Ure-Tech	20
BaySystems	18
Other	22
	2,815
Divestitures	
Cessation of plasma distribution	(107)
CropScience active ingredients	(39)
Sales to divested businesses (primarily to the diagnostics business)	38
	(108)
Net effect of portfolio changes	**2,707**

Breakdowns of net sales by segment and by region are given in the table in Note [1].

8. Selling expenses

Selling expenses comprise all expenses incurred in the reporting period through the sale, storage and transportation of saleable products, advertising, the provision of advice to customers and market research activities. They include €957 million (2006: €917 million) for the physical distribution and warehousing of finished products, €2,665 million (2006: €2,287 million) in marketing expenses and €4,160 million (2006: €3,330 million) in other selling expenses.

9. Research and development expenses

Research and development expenses and their accounting treatment are closely defined in Note [4]. Breakdowns of research and development expenses by segment and region are given in Note [1].

10. Other operating income

As in the previous year, total other operating income is composed of a large number of individually immaterial items within the subsidiaries.

€ million	2006	2007
Gains from sales of noncurrent assets and from divestitures	169	80
Write-backs of receivables and other assets	98	76
Reversals of unutilized provisions	55	101
Recognition of exchange rate hedges	120	192
Miscellaneous operating income	288	373
Total	**730**	**822**

11. Other operating expenses

€ million	2006	2007
Losses from sales of noncurrent assets and from divestitures	(31)	(52)
Write-downs of receivables	(138)	(98)
Expenses related to significant legal risks	(205)	(139)
Recognition of exchange rate hedges	(126)	(57)
Miscellaneous operating expenses	(719)	(1,223)
Total	**(1,219)**	**(1,569)**

The principal restructuring expenses included in other operating expenses for 2007 amount to €709 million (2006: €408 million), including €506 million related to the integration of the Schering Group (2006: €179 million). Further details of restructuring expenses are given in Note [26.4].

Other operating expenses for 2007 include a €152 million write-down of intangible assets necessitated by the findings of the BEYOND study on Betaferon®/Betaseron®. In the previous year, other operating expenses contained write-downs related to development and marketing agreements for the drug alfimeprase and the product Viadur® totaling €60 million and a write-down of €31 million as a result of a change in the plan to expand the chlor-alkali production facilities in Baytown, Texas, U.S.A.

An amount of €362 million (2006: €220 million) relates to a large number of individually immaterial items within the subsidiaries.

12. Personnel expenses / employees

Personnel expenses increased by €941 million to €7,571 million in 2007 (2006: €6,630 million). The increase compared with 2006 was principally due to the inclusion of the entire year's personnel expenses for employees of the former Schering group. Changes in exchange rates diminished personnel expenses by €208 million.

€ million	2006	2007
Wages and salaries	5,216	5,960
Social expenses and expenses for pensions and other benefits	1,414	1,611
of which for defined-contribution pension plans	392	410
of which for defined-benefit pension plans	198	294
Total	**6,630**	**7,571**

The personnel expenses shown here do not include the interest portion of personnel-related provisions (particularly pension provisions), which is included in the non-operating result as other non-operating expense (see Note [13.3]).

The average number of employees classified by corporate functions is shown in the table below.

	2006	2007
Production	45,076	48,250
Marketing	31,098	35,849
Research and development	10,356	11,732
General administration	10,064	9,791
Total	**96,594**	**105,622**
of which trainees	2,715	2,631

The employees of joint ventures are included in the above figures in proportion to Bayer's interests in the respective companies. The total number of people employed by joint ventures in 2007 was 66 (2006: 67).

The average number of employees is stated in full-time equivalents, with part-time employees included on a pro-rata basis in line with their contractual working hours.

13. Non-operating result

The non-operating result for 2007 was minus €920 million (2006: minus €782 million), comprising an equity-method loss of €45 million (2006: €25 million), non-operating expenses of €1,709 million (2006: €1,688 million) and non-operating income of €834 million (2006: €931 million). Details on the individual categories of the non-operating result are provided below.

13.1 Income (loss) from investments in affiliated companies
This comprised the following:

€ million	2006	2007
Net loss from investments in associates (equity-method loss)	(25)	(45)
Expenses		
Write-downs of investments in affiliated companies	(20)	(27)
Losses from the sale of investments in affiliated companies	(12)	-
Income		
Dividends from affiliated companies and income from profit and loss transfer agreements (net)	5	-
Gains from the sale of investments in affiliated companies	259	3
Total	**207**	**(69)**

The income from investments in affiliated companies mainly comprised an equity-method loss of €48 million (2006: €55 million) from two production joint ventures with Lyondell. In 2006, this item also included equity-method income of €28 million received from GE Bayer Silicones prior to its divestiture, which itself contributed €236 million to income from investments in affiliated companies in that year.

Further details of the companies included at equity in the consolidated financial statements are given in Note [19].

13.2 Interest expense
This comprised the following:

€ million	2006	2007
Expenses		
Interest and similar expenses	(1,075)	(1,320)
Interest expense for derivatives (held for sale)	(306)	(107)
Income		
Other interest and similar income	394	612
Interest income from derivatives (held for sale)	259	114
Total	**(728)**	**(701)**

This item includes interest expense of €32 million (2006: €45 million) relating to non-financial liabilities and interest income of €1 million (2006: €16 million) from non-financial assets.

The portion of net income or loss attributable to minority stockholders to whom the company has a repayment obligation out of total assets is reflected in net interest expense. In this context income of €2 million was recorded as interest expense for the year under report (2006: €26 million interest income).

13.3 Other non-operating expense

Other non-operating income and expense comprised the following:

€ million	2006	2007
Expenses		
Interest portion of interest-bearing provisions	(223)	(246)
Exchange loss	(18)	-
Miscellaneous non-operating expenses	(34)	(9)
Income		
Exchange gain	-	88
Miscellaneous non-operating income	14	17
Total	**(261)**	**(150)**

The interest portion of noncurrent interest-bearing provisions mainly relates to pension provisions.

14. Income taxes

The breakdown of income taxes by origin is as follows:

€ million	2006	2007
Income taxes paid or accrued		
Germany	(139)	(185)
other countries	(624)	(730)
	(763)	**(915)**
Deferred taxes		
from temporary differences	(12)	1,469
from tax loss carryforwards	321	(482)
	309	**987**
Total	**(454)**	**72**

The Bayer Group recognized deferred tax income of €921 million in 2007 (2006: €1 million) due to changes in tax rates, including one-time deferred tax income of €912 million arising in connection with the corporate tax reform in Germany. The latter amount resulted mainly from the remeasurement of the deferred tax liabilities accrued in connection with the Schering acquisition, particularly in order to reflect the lower nominal rates of corporate income tax that apply in Germany from 2008.

The deferred tax assets and liabilities are allocable to the various balance sheet items as follows:

	Dec. 31, 2006		Dec. 31, 2007	
€ million	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	157	5,164	464	3,946
Property, plant and equipment	78	936	59	696
Financial assets	104	277	45	293
Inventories	482	374	392	247
Receivables	66	526	52	459
Other assets	24	50	5	26
Provisions for pensions and other post-employment benefits	1,431	503	797	523
Other provisions	791	125	674	404
Liabilities	592	43	487	66
Tax loss carryforwards	1,217	0	777	0
Unused tax loss carryforwards	(85)	0	(113)	0
	4,857	**7,998**	**3,639**	**6,660**
of which noncurrent	2,989	6,813	2,092	5,707
Set-off	(3,652)	(3,652)	(2,794)	(2,794)
Total	**1,205**	**4,346**	**845**	**3,866**

Utilization of tax loss carryforwards from previous years diminished the amount of income taxes paid or accrued in 2007 by €353 million (2006: €97 million).

The value of existing tax loss carryforwards by expiration date is as follows:

€ million	Dec. 31, 2006	Dec. 31, 2007
One year	9	4
Two years	14	42
Three years	60	33
Four years	67	32
Five years and thereafter	3,075	2,179
Total	**3,225**	**2,290**

In light of operating losses recently experienced in certain jurisdictions, consideration was given to the taxable income available to the Group along with prudent and feasible tax planning strategies.

Deferred tax assets of €664 million (2006: €1,132 million) are recognized on the €1,896 million (2006: €2,981 million) in tax loss carryforwards, including €14 million (2006: €25 million) that could not be recognized in income. It is considered that sufficient income will be available in the future to utilize these tax assets. No deferred tax assets are recognized on loss carryforwards totaling €394 million (2006: €244 million) that can theoretically be utilized over more than one year.

Not capitalizable deferred taxes from existing tax loss carryforwards amount to €113 million (2006: €85 million). This amount resulted chiefly from statutory, economic or other constraints on the offsetting of losses from previous years against taxable income or the expiration of time limits.

Deferred taxes have not been recognized for temporary differences of €3,830 million (2006: €6,486 million) relating to earnings of foreign subsidiaries, either because these profits are not subject to taxation or because they are to be reinvested for an indefinite period. If deferred taxes were recognized for these temporary differences, the liability would be based on the respective withholding tax rates only, taking into account the German tax rate of 5 percent on corporate dividends where applicable. Deferred tax liabilities are recognized for €73 million (2006: €21 million) in planned dividend payments by foreign subsidiaries.

The actual tax income for 2007 is €72 million (2006: expense of €454 million). This figure differs by €867 million (2006: €241 million) from the expected tax expense of €795 million (2006: €695 million) that would result from applying to the pre-tax income of the Group a tax rate of 35.6 percent (2006: 35.1 percent), which is the weighted average of the theoretical tax rates for the individual Group companies.

The reconciliation of theoretical to actual income tax expense (income) for the Group is as follows:

	2006		2007	
	€ million	%	€ million	%
Theoretical income tax expense (income)	**695**	**100**	**795**	**100**
Reduction in taxes due to tax-free income				
Tax-free income from affiliated companies and divestiture proceeds	(5)	(1)	(2)	0
Other	(107)	(15)	(47)	(6)
First-time recognition of previously unrecognized deferred tax assets on loss carryforwards	(203)	(29)	(1)	0
Tax effects of changes in tax rates	(1)	0	(921)	(116)
Tax income and expenses relating to other periods	13	2	4	1
Increase in taxes due to non-tax-deductible expenses				
Write-downs of investments	8	1	2	0
Expenses related to litigations	1	0	10	1
Other	94	13	85	11
Other tax effects	(41)	(6)	3	0
Actual income tax expense (income)	**454**	**65**	**(72)**	**(9)**
Effective tax rate in %	22.9		(3.2)	

15. Income / losses attributable to minority interest

Minority interest in income amounted to €16 million (2006: €22 million), and minority interest in losses to €11 million (2006: €10 million).

16. Earnings per share from continuing and discontinued operations

Earnings per share are determined according to IAS 33 (Earnings per Share) by dividing net income by the weighted average number of shares. The number of ordinary shares to be taken into account for this purpose is increased by the potential shares that would be issued upon exercise of the rights under the mandatory convertible bond issued in April 2006. The financing expenses for the mandatory convertible bond are added back to net income. In computing earnings per share, the ordinary shares to be issued upon exercise of the conversion rights from this bond issue are counted along with the already issued shares, so basic and diluted earnings per share are identical. Further details of the convertible bond can be found in Note [27].

€ million	2006	2007
Income after taxes	1,695	4,716
Income attributable to minority interest	12	5
Income attributable to Bayer AG stockholders	1,683	4,711
Income from discontinued operations	169	2,410
Financing expenses for the mandatory convertible bond, net of tax effects	72	98
Adjusted income from continuing operations after taxes	1,586	2,399
Adjusted net income	1,755	4,809
Weighted average number of issued ordinary shares	746,456,988	764,341,920
Potential shares to be issued upon conversion of the mandatory convertible bond	45,300,595	59,565,383
Adjusted weighted average total number of issued and potential ordinary shares	791,757,583	823,907,303
Basic earnings per share (€)		
from continuing operations	2.00	2.91
from discontinued operations	0.22	2.93
from continuing and discontinued operations	2.22	5.84
Diluted earnings per share (€)		
from continuing operations	2.00	2.91
from discontinued operations	0.22	2.93
from continuing and discontinued operations	2.22	5.84

Under the German Stock Corporation Act, the sum available for payment of the dividend is determined from the balance sheet profit shown in the annual financial statements for Bayer AG prepared in accordance with the German Commercial Code.

The dividend paid for the 2006 fiscal year was €1.00 per share, compared with €0.95 for 2005. The proposed dividend for fiscal 2007 is €1.35 per share. Payment of the proposed dividend is contingent upon approval by the stockholders at the Annual Stockholders' Meeting and has not been recognized as a liability in the consolidated financial statements of the Bayer Group.

Notes to the Balance Sheets

In compliance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), the information in the Notes to the Balance Sheets pertaining to 2007 refers to continuing operations, while that pertaining to 2006 also includes the assets and liabilities of the discontinued operations.

In the tables in the following Notes, the assets and liabilities held for sale as of December 31, 2006 are shown in the separate line items "reclassifications to current assets" (both under gross carrying amounts and under accumulated depreciation/amortization and write-downs), "reclassifications to current liabilities" or "allocations to discontinued operations."

17. Goodwill and other intangible assets

Changes in intangible assets in 2007 were as follows:

€ million	Acquired goodwill	Patents	Trade-marks	Marketing and distri-bution rights	Production rights	R&D projects	Other rights and advance payments	Total
Gross carrying amounts, December 31, 2006	**8,227**	**10,115**	**3,688**	**818**	**1,994**	**1,317**	**2,039**	**28,198**
Acquisitions	210	16	4	6	24	0	129	389
Capital expenditures	-	5	130	24	6	61	85	311
Retirements	(28)	(15)	(2)	(3)	(10)	(41)	(215)	(314)
Transfers	58	(66)	15	(2)	-	27	(14)	18
Exchange differences	(252)	(47)	(109)	(24)	(2)	(19)	(136)	(589)
Gross carrying amounts, December 31, 2007	**8,215**	**10,008**	**3,726**	**819**	**2,012**	**1,345**	**1,888**	**28,013**
Accumulated amortization and write-downs, December 31, 2006	**-**	**1,021**	**526**	**230**	**828**	**41**	**1,518**	**4,164**
Retirements	-	(10)	(1)	(2)	(7)	(41)	(208)	(269)
Amortization and write-downs in 2007	-	810	152	77	167	155	133	1,494
of which write-downs	-	-	-	-	2	152	2	156
Write-backs	-	-	-	-	-	-	(1)	(1)
Transfers	-	(1)	2	4	-	-	(3)	2
Exchange differences	-	(9)	(17)	(14)	(1)	-	(106)	(147)
Accumulated amortization and write-downs, December 31, 2007	**-**	**1,811**	**662**	**295**	**987**	**155**	**1,333**	**5,243**
Net carrying amounts, December 31, 2007	**8,215**	**8,197**	**3,064**	**524**	**1,025**	**1,190**	**555**	**22,770**

Write-downs of intangible assets totaled €156 million, mainly including a €152 million impairment charge arising from the BEYOND study for Betaferon®/Betaseron®.

Details of acquisitions and divestitures are contained in Notes [6.2] and [6.3]. Further details of the impairment testing procedure for goodwill are given in Note [4].

Changes in intangible assets in 2006 were as follows:

€ million	Acquired goodwill	Patents	Trade-marks	Marketing and distri-bution rights	Production rights	R&D projects	Other rights and advance payments	Total
Gross carrying amounts, December 31, 2005	**2,623**	**1,705**	**2,127**	**880**	**1,990**	**-**	**2,108**	**11,433**
Acquisitions	5,804	8,880	1,666	174	-	1,218	179	17,921
Capital expenditures	-	10	0	139	11	105	78	343
Retirements	(2)	(12)	(23)	(1)	(3)	-	(31)	(72)
Reclassifications to current assets	(42)	(397)	(4)	(313)	0	-	(101)	(857)
Transfers	0	(6)	2	3	0	-	(53)	(54)
Exchange differences	(156)	(65)	(80)	(64)	(4)	(6)	(141)	(516)
Gross carrying amounts, December 31, 2006	**8,227**	**10,115**	**3,688**	**818**	**1,994**	**1,317**	**2,039**	**28,198**
Accumulated amortization and write-downs, December 31, 2005	**-**	**735**	**436**	**312**	**667**	**-**	**1,595**	**3,745**
Retirements	-	(11)	(20)	(1)	(1)	-	(24)	(57)
Reclassifications to current assets	-	(210)	(2)	(149)	0	-	(72)	(433)
Amortization and write-downs in 2006	-	533	126	101	164	41	135	1,100
of which write-downs	-	0	-	20	-	41	4	65
Write-backs	-	-	-	-	-	-	-	-
Transfers	-	0	1	(3)	0	-	(1)	(3)
Exchange differences	-	(26)	(15)	(30)	(2)	-	(115)	(188)
Accumulated amortization and write-downs, December 31, 2006	**-**	**1,021**	**526**	**230**	**828**	**41**	**1,518**	**4,164**
Net carrying amounts, December 31, 2006	**8,227**	**9,094**	**3,162**	**588**	**1,166**	**1,276**	**521**	**24,034**

Over the next five years, amortization of the intangible assets recognized in 2007 is expected to be as follows:

€ million	
2008	1,375
2009	1,318
2010	1,073
2011	1,058
2012	1,003

Possible future acquisitions and/or divestments of intangible assets are not taken into account in computing these amounts and may therefore cause them to vary.

The residual carrying amounts of goodwill for the operating subgroups and reporting segments are as follows:

€ million	Pharma-ceuticals	Consumer Health	**HealthCare**	Crop Protection	Environ-mental Science, BioScience	**CropScience**
Net carrying amounts, January 1, 2006	**2**	**895**	**897**	**1,165**	**415**	**1,580**
Acquisitions	5,772	24	5,796	2	5	7
Retirements	-	-	-	(2)	-	(2)
Reclassifications to current assets	-	(11)	(11)	-	-	-
Amortization and write-downs in 2006	-	-	-	-	-	-
Exchange differences	(47)	(45)	(92)	(29)	(31)	(60)
Net carrying amounts, December 31, 2006	**5,727**	**863**	**6,590**	**1,136**	**389**	**1,525**
Acquisitions	8	4	12	4	152	156
Retirements	0	0	0	(9)	(19)	(28)
Amortization and write-downs in 2007	0	0	0	0	0	0
Transfers	58	0	58	0	0	0
Exchange differences	(154)	(42)	(196)	(17)	(36)	(53)
Net carrying amounts, December 31, 2007	**5,639**	**825**	**6,464**	**1,114**	**486**	**1,600**

€ million	Materials	Systems	**MaterialScience**	Recon-ciliation	Bayer Group
Net carrying amounts, January 1, 2006	**124**	**22**	**146**	**-**	**2,623**
Acquisitions	1	0	1	-	5,804
Retirements	-	-	-	-	(2)
Reclassifications to current assets	(31)	-	(31)	-	(42)
Amortization and write-downs in 2006	-	-	-	-	-
Exchange differences	(3)	(1)	(4)	-	(156)
Net carrying amounts, December 31, 2006	**91**	**21**	**112**	**-**	**8,227**
Acquisitions	33	9	42	-	210
Retirements	0	0	0	-	(28)
Amortization and write-downs in 2007	0	0	0	-	0
Transfers	0	0	0	-	58
Exchange differences	(2)	(1)	(3)	-	(252)
Net carrying amounts, December 31, 2007	**122**	**29**	**151**	**-**	**8,215**

Patents
We seek to protect our products with patents in major markets. Depending on the jurisdiction, patent protection may be available for:

- individual active ingredients,
- specific compounds, formulations and combinations containing active ingredients,
- manufacturing processes,
- working methods,
- equipment,
- intermediates useful in the manufacture of products,
- genomic research and
- new uses for existing active ingredients or products.

The protection that a patent provides varies from country to country, depending on the type of claim granted, the scope of the claim's coverage and the legal remedies available for enforcement.

The advance of genomic research has accelerated our patent filings for biological products. We typically seek protection upon determining a gene's function.

We currently hold thousands of patents, and have applications pending for a significant number of new patents. Although patents are important to our business, we believe that, with the exception of the patents covering Avelox®, Betaferon®/Betaseron®, Campath®, Leukine®, Levitra®, Magnevist®, Mirena®, Nexavar®, Ultravist®, Yasmin®, Yasminelle®, YAZ® and Zevalin®, no single patent (or group of related patents) is material to our business as a whole.

Term and expiration of patents
Patents are valid for varying periods, depending on the laws of the jurisdiction granting the patent. In some jurisdictions, patent protection begins from the date a patent application was filed; in others, it begins on the date the patent is granted.

The European Union member countries as well as the United States, Japan and certain other countries extend patent terms or issue supplementary protection certificates to compensate for patent term loss due to regulatory review and for the substantial investments in product research and development. Our policy is to obtain these extensions wherever possible.

Patent protection in our major markets for some of our key products is scheduled to expire in the near term. Although the expiration of a patent for an active ingredient often results in the loss of market exclusivity, we may continue to reap protection provided by:

- patents on processes and intermediates used in manufacturing an active ingredient,
- patents relating to specific uses for an active ingredient,
- patents relating to novel compositions and formulations, and
- in certain markets (including the United States), market exclusivity under laws other than patent laws.

The following table sets forth the expiration dates in our major markets of the most important patents covering Avelox®, Betaferon®/Betaseron®, Campath®, Leukine®, Levitra®, Magnevist®, Mirena®, Nexavar®, Ultravist®, Yasmin®, Yasminelle®, YAZ® and Zevalin®.

	Market							
	Germany	France	U.K.	Italy	Spain	Japan	U.S.A.	Canada
Products								
Avelox®								
Active ingredient	2014	2014	2014	2014	2014	2014	2014	2015
Active ingredient monohydrate	2016	2016	2016	2016	2016	2016	2016	2016
Tablets	2019	2019	2019	2019	2019	2019	2019	2019
Betaferon®/Betaseron® active ingredient	2008	2008	2008	2008	2008	2008	2007	2016
Campath® active ingredient	2014	2014	2014	2014	2014	2014	2015	2014
Leukine® active ingredient	-	-	-	-	-	-	2012	2017
Levitra® active ingredient	2018	2018	2018	2018	2018	2020	2018	2018
Magnevist®								
Active ingredient	-	-	-	2007	-	-	2011	-
Formulation	2007	2007	2007	2007	2007	2007	2009	2010
Process	-	-	-	-	-	-	2013	-
Mirena®								
Applicator	2015	2015	2015	2015	2015	-	2015	2015
Process	2013	2013	2013	2013	2013	2013	2013	2013
Nexavar® active ingredient	2020	2020	2020	2020	2020	2020	2022	2020
Ultravist® active ingredient	-	-	-	2009	-	-	-	-
Yasmin®								
Formulation	2020[a]	2020[a]	2020[a]	2020[a]	2020[a]	2020[ab]	2020[a]	2020[a]
Production process	2017	2017	2017	2017	2017	2017	2017	2017
Yasminelle®								
Formulation	2020[a]	2020[a]	2020[a]	2020[a]	2020[a]	2020[ab]	2020[a]	2020[a]
Production process	2017	2017	2017	2017	2017	2017	2017	2017
YAZ®								
Formulation	2020[a]	2020[a]	2020[a]	2020[a]	2020[a]	2020[ab]	2020[a]	2020[a]
Dosage regimen	2014	2014	2014	2014	2014	2014[b]	2014	2014[b]
Production process	2017	2017	2017	2017	2017	2017	2017	2017
Zevalin® active ingredient	2018	2018	2018	2018	2018	2013[c]	2015	2013

[a] Composition containing micronized drosperinone and ethinyl estradiol
[b] Patent pending
[c] An application has been submitted to extend patent protection through 2018.

Information on specific patent disputes is given in Note [32] "Legal risks."

Trademarks

We seek to obtain extensive trademark protection for our products in all jurisdictions in which they are marketed or are to be marketed in the near future. As well as product names, we also register particularly distinctive slogans, logos, graphic elements and designs as global trademarks.

Wherever possible trademarks are registered through supranational trademark protection systems, for example as European Community Trademarks or international trademarks, and additionally with the national trademark registration offices. The protection actually provided by a trademark may vary considerably from one country to another depending on the distinctiveness of the trademark.

We currently have many thousands of registered and pending trademarks. Trademarks are particularly important for those products that are not protected by patents and are exposed to strong competitive pressure from generics. However, with the exception of the company name Bayer and the Bayer Cross logo, we do not believe that any single trademark is crucial to our business as a whole.

Our trademarks include:

Bayer HealthCare: Adalat®, Aleve®, Alka-Seltzer®, Ascensia®, Aspirin®, Avalox®/Avelox®, Bepanthen®, Betaferon®/Betaseron®, Canesten®, Ciprobay®/Cipro®, Kogenate®, Levitra®, Magnevist®, Rennie® and Yasmin®.

Bayer CropScience: Basta®/Liberty®, Confidor®/Gaucho®/Admire®/Merit®, Flint®, Folicur® and Puma®.

Bayer MaterialScience: Bayblend®, BaySystems®, Desmodur®, Desmopan®, Desmophen®, Makrolon® and Vulkollan®.

18. Property, plant and equipment

Changes in property, plant and equipment in 2007 were as follows:

€ million	Land and buildings	Plant installations and machinery	Furniture, fixtures and other equipment	Construction in progress and advance payments	Total
Gross carrying amounts, December 31, 2006	**7,267**	**12,514**	**1,566**	**971**	**22,318**
Changes in the scope of consolidation	2	10	1	4	17
Acquisitions	28	36	0	5	69
Capital expenditures	117	273	144	1,046	1,580
Retirements	(413)	(290)	(167)	(23)	(893)
Transfers	189	277	93	(577)	(18)
Exchange differences	(191)	(372)	(38)	(64)	(665)
Gross carrying amounts, December 31, 2007	**6,999**	**12,448**	**1,599**	**1,362**	**22,408**
Accumulated depreciation and write-downs, December 31, 2006	**3,670**	**8,703**	**1,049**	**29**	**13,451**
Changes in the scope of consolidation	(2)	3	-	-	1
Retirements	(356)	(274)	(142)	(2)	(774)
Depreciation and write-downs in 2007	370	711	184	5	1,270
of which write-downs	92	30	3	5	130
Write-backs	(3)	(8)	(1)	-	(12)
Transfers	(28)	26	-	-	(2)
Exchange differences	(74)	(247)	(21)	(3)	(345)
Accumulated depreciation and write-downs, December 31, 2007	**3,577**	**8,914**	**1,069**	**29**	**13,589**
Net carrying amounts, December 31, 2007	**3,422**	**3,534**	**530**	**1,333**	**8,819**

Write-downs of property, plant and equipment totaled €130 million, including €109 million related to plant closures under the subgroups' restructuring programs.

Further capital expenditures were made for the expansion of the production facilities in Caojing, China. The amount of €1.3 billion recorded for construction in progress includes approximately €600 million for this major project alone.

In 2007, borrowing costs of €9 million (2006: €8 million) were capitalized as components of the cost of acquisition or construction of qualifying assets, applying an average financing cost factor of 5 percent (2006: 4.75 percent)

Capitalized property, plant and equipment includes assets with a total net value of €237 million (2006: €273 million) held under finance leases. The gross carrying amounts of these assets total €719 million (2006: €780 million). They principally comprise plant installations and machinery with a carrying amount of €156 million (gross amount: €587 million) and buildings with a carrying amount of €77 million (gross amount: €118 million).

Also included are assets with a carrying amount of €51 million (2006: €48 million) leased to other parties under operating leases as defined in IAS 17 (Leases). The gross carrying amount of assets classified as operating leases is €70 million (2006: €69 million); their depreciation in 2007 amounted to €4 million (2006: €5 million). If under the relevant agreements the lessee is to be regarded as the economic owner of the assets and the lease therefore constitutes a finance lease, a receivable is recognized in the balance sheet in the amount of the discounted future lease payments.

Changes in property, plant and equipment in 2006 were as follows:

€ million	Land and buildings	Plant installations and machinery	Furniture, fixtures and other equipment	Construction in progress and advance payments	**Total**
Gross carrying amounts, December 31, 2005	**7,014**	**12,913**	**1,960**	**910**	**22,797**
Changes in the scope of consolidation	0	0	(1)	0	(1)
Acquisitions	784	507	204	87	1,582
Capital expenditures	130	369	184	913	1,596
Retirements	(165)	(264)	(204)	(5)	(638)
Reclassifications to current assets	(467)	(1,029)	(636)	(80)	(2,212)
Transfers	233	487	129	(795)	54
Exchange differences	(262)	(469)	(70)	(59)	(860)
Gross carrying amounts, December 31, 2006	**7,267**	**12,514**	**1,566**	**971**	**22,318**
Accumulated depreciation and write-downs, December 31, 2005	**3,857**	**9,156**	**1,463**	**0**	**14,476**
Changes in the scope of consolidation	0	0	(1)	-	(1)
Retirements	(98)	(237)	(171)	0	(506)
Reclassifications to current assets	(252)	(678)	(432)	0	(1,362)
Depreciation and write-downs in 2006	276	774	241	31	1,322
of which write-downs	46	39	9	31	125
Write-backs	0	0	0	-	0
Transfers	4	1	(2)	-	3
Exchange differences	(117)	(313)	(49)	(2)	(481)
Accumulated depreciation and write-downs, December 31, 2006	**3,670**	**8,703**	**1,049**	**29**	**13,451**
Net carrying amounts, December 31, 2006	**3,597**	**3,811**	**517**	**942**	**8,867**

The following tables provide an overview of the main sites operated by each subgroup:

Location	Principal use
Bayer HealthCare	
Leverkusen, Germany	Formulation and packaging of pharmaceutical products
Wuppertal, Germany	Production of active ingredients for ethical pharmaceutical products, research and development
Berkeley, California	Production of recombinant Factor VIII
Myerstown, Pennsylvania	Formulation and packaging of Consumer Care products
Mishawaka, Indiana	Production of instruments for the Diabetes Care Division
Bergkamen, Germany	Active ingredient production, administration
Berlin, Germany	Production and packaging of contrast media; packaging of solids; research and development; offices
Turku, Finland	Production of gynecological and andrological products; solids (oncology); research and development, offices
Bayer CropScience	
Monheim, Germany	Research and development for fungicides and insecticides; corporate headquarters of Bayer CropScience
Frankfurt, Germany	Research and development for herbicides, manufacture of products for Crop Protection and Environmental Science
Dormagen, Germany	Development of new production processes and manufacture of products for Crop Protection and Environmental Science
Kansas City, Missouri	Development of new production processes and manufacture of products for Crop Protection and Environmental Science
Haelen, Netherlands	Research, development and production of vegetable seeds
Bayer MaterialScience	
Krefeld, Germany	Production of polycarbonates, diphenylmethane diisocyanate, chlorine, sodium hydroxide solution, hydrochloric acid and hydrogen
Baytown, Texas	Production of modified isocyanates, polycarbonates, diphenylmethane diisocyanate, toluene diisocyanate, chlorine, sodium hydroxide solution, hydrochloric acid and hydrogen
Dormagen, Germany	Production of modified isocyanates, coating resins, polycarbonate film, toluene diisocyanate, polyether, thermoplastic polyurethanes, chlorine, sodium hydroxide solution, hydrochloric acid and hydrogen
Antwerp, Belgium	Production of polycarbonates, aniline, nitrobenzene and polyether
Brunsbüttel, Germany	Production of diphenylmethane diisocyanate, toluene diisocyanate, chlorine, hydrochloric acid and hydrogen

19. Investments in associates

Changes in the carrying amounts of the Group's interests in associates included at equity were as follows:

€ million	2006	**2007**
Net carrying amounts, January 1	795	532
Acquisitions	2	0
Other additions	46	28
Divestitures	(195)	0
Miscellaneous retirements	(47)	0
Reclassifications to current assets	(3)	0
Equity-method loss after taxes	(30)	(45)
Exchange differences	(36)	(31)
Net carrying amounts, December 31	**532**	**484**

For strategic reasons, the Bayer MaterialScience subgroup holds or is responsible for interests in companies that are included at equity in the consolidated financial statements of the Bayer Group.

In 2000, Bayer acquired the polyols business and parts of the propylene oxide (PO) production operations of Lyondell Chemicals. The strategic objective is to ensure access to patented technologies and safeguard the long-term supply of PO, a starting product for polyurethane, at reasonable prices. As part of this strategy, two joint ventures have been established to produce PO (PO JV Delaware U.S.A., Bayer's interest 44 percent and Lyondell Bayer Manufacturing Maasvlakte VOF, Netherlands, Bayer's interest 50 percent). The production facilities of both companies are operated by Lyondell. Bayer benefits from fixed long-term supply quotas/volumes of PO based on fixed price components.

The difference between the equity interest in the underlying net assets of associates and their at-equity accounting values is €12 million (2006: €12 million). It mainly relates to acquired goodwill.

The following tables present a summary of the aggregated income statement and balance sheet data for the associates included at equity in the consolidated financial statements of the Bayer Group.

Aggregated income statement data of associates included at equity	2006	**2007**
€ million		
Net sales	1,593	1,072
Gross profit	320	88
Net loss	(46)	(92)
Share of pre-tax loss	(20)	(45)
Other	(5)	0
Pre-tax loss from interests in associates included at equity (equity-method loss)	**(25)**	**(45)**

Aggregated balance sheet data of associates included at equity	Dec. 31, 2006	**Dec. 31, 2007**
€ million		
Noncurrent assets	1,100	962
Current assets	253	260
Noncurrent liabilities	10	11
Current liabilities	218	191
Stockholders' equity	1,125	1,020
Share of stockholders' equity	507	463
Other	25	21
Net carrying amount of associates included at equity	**532**	**484**

The item "miscellaneous" mainly comprises differences arising from adjustments of data to Bayer's uniform accounting policies, purchase price allocations and their amortization in income, and impairment losses.

20. Other financial assets

Other financial assets are as follows:

	Dec. 31, 2006		Dec. 31, 2007	
€ million	Total	of which current	Total	of which current
Loans and receivables	450	165	347	126
of which pertaining to associates	3	2	1	-
Available-for-sale financial assets	395	38	325	7
of which debt instruments	66	28	59	5
of which equity instruments	329	10	266	2
Held-to-maturity financial investments	172	32	179	9
Receivables from forward commodity contracts	137	32	246	38
Receivables from other derivative financial instruments	280	121	339	154
Receivables under lease agreements	61	13	26	1
Total	**1,495**	**401**	**1,462**	**335**

In 2007, impairment losses of €9 million (2006: €2 million) were recognized on loans and receivables and an impairment charge of €27 million (2006: €20 million) was recognized on available-for-sale financial assets. No unimpaired other financial assets were overdue on the closing date.

Available-for-sale financial assets include equity instruments in the amount of €86 million (2006: €98 million) whose fair value could not be determined from a stock exchange or other market price or by discounting reliably determined future cash flows. These equity instruments are recognized at cost.

Further information on the accounting for receivables from derivative financial instruments is given in Note [30].

Receivables from leasing agreements relate to finance leases where Bayer is the lessor and the lessee is the economic owner of the leased assets. The following table provides a breakdown of these payments into a lease and an interest component, together with their due dates:

	Dec. 31, 2006				Dec. 31, 2007		
€ million	Lease payments	Interest component	Receivables under finance leases	€ million	Lease payments	Interest component	Receivables under finance leases
2007	15	2	13	2008	2	1	1
2008	15	2	13	2009	2	1	1
2009	5	2	3	2010	2	1	1
2010	4	1	3	2011	2	1	1
2011	3	1	2	2012	1	1	-
2012 or later	29	2	27	2013 or later	23	1	22
Total	**71**	**10**	**61**	**Total**	**32**	**6**	**26**

21. Other receivables

Other receivables, less write-downs of €13 million (2006: €11 million), are comprised as follows:

	Dec. 31, 2006		Dec. 31, 2007	
€ million	Total	of which current	Total	of which current
Benefit plan assets in excess of obligations	38	0	533	0
Payroll receivables	27	26	32	32
Other tax receivables	361	361	326	322
Interest receivables	266	266	164	163
Miscellaneous receivables	985	859	1,073	944
Total	**1,677**	**1,512**	**2,128**	**1,461**

Interest receivables consist mainly of interest earned or accrued that is not due to be received until after the balance sheet date.

The following unimpaired other receivables were overdue on the reporting date:

€ million	up to 3 months*	3 – 6 months	6 – 12 months	more than 12 months
December 31, 2007	74	15	17	22
December 31, 2006	65	6	12	22

* The figures in the column "up to three months" include receivables due immediately.

The above table shows only the carrying amounts of the financial assets.

In 2007, as in the previous year, there were no other receivables from associates.

Miscellaneous receivables include €169 million (2006: €160 million) in accrued income, of which €149 million (2006: €146 million) represents current assets.

Receivables and liabilities from licenses have been reclassified from other receivables and liabilities to trade accounts receivable and payable. The previous year's figures are restated accordingly.

22. Inventories

Inventories comprised:

€ million	Dec. 31, 2006	**Dec. 31, 2007**
Raw materials and supplies	1,004	1,012
Work in process, finished goods and goods purchased for resale	5,145	5,197
Advance payments	4	8
Total	**6,153**	**6,217**

Of the inventories totaling €6,217 million as of December 31, 2007 (2006: €6,153 million), €691 million (2006: €910 million) were carried at fair value less costs to sell.

The changes in the inventory reserve, which are reflected in the cost of goods sold, were as follows:

€ million	2006	**2007**
January 1	**(340)**	**(311)**
Changes in the scope of consolidation	-	(3)
Additions expensed	(180)	(149)
Deductions due to reversal or utilization	151	130
Reclassifications to current assets	46	-
Exchange differences	12	15
December 31	**(311)**	**(318)**

23. Trade accounts receivable

Trade accounts receivable, less write-downs of €295 million (2006: €305 million), include €5,775 million (2006: €5,822 million) maturing within one year and €55 million (2006: €46 million) maturing after one year.

Of the total, €17 million (2006: €25 million) related to receivables from associates and €5,813 million (2006: €5,843 million) from other customers.

The following unimpaired trade accounts receivable were overdue on the reporting date:

€ million	up to 3 months*	3 – 6 months	6 – 12 months	more than 12 months
December 31, 2007	638	119	84	103
December 31, 2006	756	100	102	79

* The figures in the column "up to three months" include receivables due immediately.

24. Stockholders' equity

Stockholders' equity amounted to €16,821 million as of December 31, 2007. The principal objectives of financial management are to achieve a sustained rise in the value of the Bayer Group and to safeguard its liquidity and credit standing. The pursuit of these goals means reducing the cost of capital, improving the cash flow from financing activities, optimizing the capital structure and operating an effective risk management system.

The rating agencies retained by Bayer assess our creditworthiness as follows:

	Long-term rating	Outlook	Short-term rating
Standard & Poor's	BBB+	positive	A-2
Moody's	A 3	negative	P-2

Bayer's financial strategy is geared to achieving an A rating, indicating that the company is able to meet its payment obligations and giving it access to financing from a broad investor base. The Group's capital management strategy is based on the various debt ratios issued by the rating agencies, which look at the cash flow for a given period in relation to debt. Since the acquisition of Schering in 2006, the proceeds of a capital increase, a mandatory convertible bond issue and divestitures, along with the cash flow from our operating activities, have been used mainly to reduce net debt in line with that strategy.

Bayer's Articles of Incorporation do not stipulate capital ratios. Based on the price of Bayer AG shares on December 31, 2007, the number of issued shares will increase by a minimum of approximately 59.6 million and a maximum of approximately 69.7 million by 2009 at the latest as a result of the conversion of the mandatory convertible bond issued in 2006.

The components of stockholders' equity and their changes during 2006 and 2007 are shown in the following table.

€ million	Capital stock of Bayer AG	Capital reserves of Bayer AG	Other reserves	Equity attributable to Bayer AG stockholders	Equity attributable to minority interest	**Stockholders' equity**
December 31, 2005	**1,870**	**2,942**	**6,265**	**11,077**	**80**	**11,157**
Capital contributions	87	1,086	-	1,173	-	1,173
Other changes	-	-	517	517	4	521
December 31, 2006	**1,957**	**4,028**	**6,782**	**12,767**	**84**	**12,851**
Capital contributions	-	-	-	-	-	-
Other changes	-	-	3,967	3,967	3	3,970
December 31, 2007	**1,957**	**4,028**	**10,749**	**16,734**	**87**	**16,821**

The capital stock of Bayer AG totals €1,957 million, as in the previous year, and is divided into 764,341,920 (2006: 764,341,920) no-par bearer shares. Each share confers one voting right.

Authorized capital of €465 million was approved by the Annual Stockholders' Meeting on April 28, 2006. It expires on April 27, 2011. It can be used to increase the capital stock by issuing new no-par bearer shares against cash contributions or contributions in kind, but capital increases against contributions in kind may not exceed a total of €370 million (Authorized Capital I). Stockholders must normally be granted subscription rights. However, subject to the approval of the Supervisory Board, the Board of Management is authorized to exclude subscription rights for the stockholders with respect to any excess shares remaining after rights have been allocated (fractional amounts) and also to the extent necessary to grant subscription rights for new shares to holders of convertible bonds or bonds with attached warrants or mandatory convertible bonds issued by Bayer AG or its Group companies, who would be entitled to subscription rights upon exercise of the conversion rights or warrants. In addition, the Board of Management is authorized to exclude stockholders' subscription rights, subject to the approval of the Supervisory Board, in cases where an increase in capital against contributions in kind is carried out for the purpose of acquiring companies, parts of companies, participating interests in companies or other assets.

Further authorized capital was also approved by the Annual Stockholders' Meeting on April 27, 2007. The Board of Management is authorized until April 26, 2012 to increase the capital stock, subject to the approval of the Supervisory Board, by up to a total of €195 million in one or more installments by issuing new no-par bearer shares against cash contributions (Authorized Capital II). Under the resolution adopted by the Annual Stockholders' Meeting, stockholders must normally be granted subscription rights. However, the Board of Management is authorized to exclude subscription rights for stockholders with respect to one or more capital increases out of the Authorized Capital II, subject to the approval of the Supervisory Board, provided that such capital increase does not exceed 10 percent of the capital stock existing at the time this authorization becomes effective or the time this authorization is exercised, for purposes of issuing new shares against cash contributions at a price that is not significantly below the market price of shares in the company that are already listed on the stock exchange at the time the issue price is finally determined. Shares acquired on the basis of an authorization of the Stockholders' Meeting and sold pursuant to Section 71, Paragraph 1, No. 8, Sentence 5 of the German Stock Corporation Act in conjunction with Section 186, Paragraph 3, Sentence 4 of that Act during the term of this authorization shall count toward the above 10 percent limit. Shares issued or to be issued to service bonds with conversion rights, attached warrants or mandatory conversion rights shall also count toward this limit where such bonds were issued during the term of this authorization and stockholders' subscription rights were excluded by application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act.

Conditional capital of €186.88 million, corresponding to 73,000,000 shares, exists to service the conversion rights contained in a mandatory convertible bond issued by Bayer Capital Corporation B.V., Netherlands, on April 6, 2006.

The individual components of other reserves and their changes during 2006 and 2007 are shown in the following table.

€ million	Retained earnings: Revaluation surplus	Retained earnings: Other retained earnings	Retained earnings: Net income	Accumulated other comprehensive income: Exchange differences	Accumulated other comprehensive income: Fair-value measurement of securities	Accumulated other comprehensive income: Cash flow hedges	**Other reserves**
December 31, 2005	**62**	**5,347**	**1,597**	**(775)**	**23**	**11**	**6,265**
Changes in stockholders' equity not recognized in net income							
Changes in fair value of securities and cash flow hedges					(7)	(59)	(66)
Changes in actuarial gains/losses on defined benefit obligations for pensions and other post-employment benefits		448					448
Exchange differences on translation of operations outside the euro zone				(720)			(720)
Deferred taxes on valuation adjustments offset directly against stockholders' equity		(166)			2	16	(148)
Other changes in stockholders' equity	(4)	4					0
Transfer of changes recognized in income						14	14
	58	**5,633**	**1,597**	**(1,495)**	**18**	**(18)**	**5,793**
Dividend payments			(694)				(694)
Allocations to retained earnings		903	(903)				0
		903	**(1,597)**				**(694)**
Changes in stockholders' equity recognized in net income							
Net income 2006			1,683				1,683
			1,683				**1,683**
December 31, 2006	**58**	**6,536**	**1,683**	**(1,495)**	**18**	**(18)**	**6,782**
Changes in stockholders' equity not recognized in net income							
Changes in fair value of securities and cash flow hedges					31	157	188
Changes in actuarial gains/losses on defined benefit obligations for pensions and other post-employment benefits		1,406					1,406
Exchange differences on translation of operations outside the euro zone				(822)			(822)
Deferred taxes on valuation adjustments offset directly against stockholders' equity		(627)			(11)	(41)	(679)
Other changes in stockholders' equity	(4)	4					0
Transfer of changes recognized in income					(6)	(67)	(73)
	54	**7,319**	**1,683**	**(2,317)**	**32**	**31**	**6,802**
Dividend payments			(764)				(764)
Allocations to retained earnings		919	(919)				0
		919	**(1,683)**				**(764)**
Changes in stockholders' equity recognized in net income							
Net income 2007			4,711				4,711
			4,711				**4,711**
December 31, 2007	**54**	**8,238**	**4,711**	**(2,317)**	**32**	**31**	**10,749**

The effect of the revaluation of assets relating to acquisitions made in stages is recognized in equity in compliance with IFRS 3 (Business Combinations). If an enterprise is acquired in several stages, all assets and liabilities of the company have to be completely revalued on the date on which the acquiring company gains control and recognized at fair value. If the new fair value of the assets already held by the acquiring company exceeds their carrying amount, the carrying amount must be increased accordingly. This adjustment is recognized in a separate equity item (revaluation surplus) and thus has no effect on net income. The revaluation surplus of €58 million reported under stockholders' equity in 2006 was entirely due to the acquisition of the remaining 50 percent interest in an OTC joint venture with Roche in the United States that was established in 1996. In 2007 the €4 million portion of the revaluation surplus that relates to scheduled amortization/depreciation of the respective assets was transferred to retained earnings.

The retained earnings contain prior years' undistributed income of consolidated companies.

Under IAS 19 (Employee Benefits), which contains an option for the accounting treatment of actuarial gains and losses from defined benefit plans, all such gains and losses are recognized in the retained earnings of the Bayer Group. Changes in fair values of cash flow hedges and available-for-sale financial assets are recognized in other comprehensive income.

The components of third-party minority interests in Group equity and their changes during 2007 and 2006 are shown in the following table.

	Equity attributable to minority interest	
€ million	2006	2007
January 1	**80**	**84**
Changes in stockholders' equity not recognized in net income		
Changes in fair value of securities and cash flow hedges	0	0
Changes in actuarial gains/losses on defined benefit obligations for pensions and other post-employment benefits	0	0
Exchange differences on translation of operations outside the euro zone	(5)	(3)
Deferred taxes on valuation adjustments offset directly against stockholders' equity	0	0
Other changes in stockholders' equity	14	4
	89	**85**
Dividend payments	(15)	(11)
Allocations to retained earnings	(2)	8
	(17)	**(3)**
Changes in stockholders' equity recognized in net income	**12**	**5**
December 31	**84**	**87**

Minority stockholders' interest mainly comprises third parties' shares in the equity of the consolidated subsidiaries Sumika Bayer Urethane Co. Ltd., Japan; Bayer CropScience Limited, India; Berlimed, S.A., Spain; Justesa Imagen, S.A., Spain; Bayer CropScience Nufarm Ltd., United Kingdom; Bayer Polymers Co. Ltd., China and BaySystems Pearl, Dubai.

25. Provisions for pensions and other post-employment benefits

The provisions for pensions and other post-employment benefits in Germany and other countries as of the reporting date are as shown in the following table:

	Pensions		Other post-employment benefits		Total	
€ million	Dec. 31, 2006	**Dec. 31, 2007**	Dec. 31, 2006	**Dec. 31, 2007**	Dec. 31, 2006	**Dec. 31, 2007**
Germany	5,304	4,538	139	141	5,443	4,679
Other countries	587	438	513	384	1,100	822
Total	**5,891**	**4,976**	**652**	**525**	**6,543**	**5,501**

The expenses for defined benefit pension plans and other benefit obligations for the continuing and discontinued operations are comprised as follows:

Expenses for defined benefit pension plans	Germany		Other countries		Total	
€ million	2006	**2007**	2006	**2007**	2006	**2007**
Current service cost	195	186	76	66	271	252
Past service cost	(8)	40	3	3	(5)	43
Interest cost	466	523	230	234	696	757
Expected return on plan assets	(270)	(315)	(262)	(272)	(532)	(587)
Plan curtailments	(2)	-	(20)	(27)	(22)	(27)
Plan settlements	-	-	(2)	4	(2)	4
Total	**381**	**434**	**25**	**8**	**406**	**442**

Expenses for other post-employment benefit obligations	Germany		Other countries		Total	
€ million	2006	**2007**	2006	**2007**	2006	**2007**
Current service cost	19	10	24	27	43	37
Past service cost	-	-	(12)	(1)	(12)	(1)
Interest cost	4	6	51	50	55	56
Expected return on plan assets	-	-	(27)	(28)	(27)	(28)
Plan curtailments	-	-	(25)	(14)	(25)	(14)
Plan settlements	-	-	1	-	1	-
Total	**23**	**16**	**12**	**34**	**35**	**50**

Expenses for pension plans assigned to assets held for sale in 2006 comprised service cost of €14 million, interest cost of €20 million for entitlements earned in previous years, expected return on plan assets amounting to €10 million and income of €37 million from plan curtailments.

The status of unfunded and funded defined benefit obligations is as follows:

	Germany			
	Pension obligations		Other post-employment benefit obligations	
€ million	2006	2007	2006	2007
Defined benefit obligation as of January 1	**10,256**	**11,357**	**158**	**139**
Acquisitions	1,703	0	6	-
Divestitures/changes in the scope of consolidation	(10)	(41)	0	(1)
Current service cost	195	186	19	10
Interest cost	466	523	4	6
Employee contributions	26	25	-	-
Past service cost	(8)	40	-	-
Plan settlements	-	-	-	-
Net actuarial (gain) loss	(487)	(1,095)	-	-
Benefits paid	(489)	(537)	(46)	(48)
Plan curtailments	(2)	-	-	-
Reclassifications to current assets / liabilities	(293)	-	(2)	-
Other reclassifications	-	-	-	35
Exchange differences	-	-	-	-
Defined benefit obligation as of December 31	**11,357**	**10,458**	**139**	**141**
Fair value of plan assets as of January 1	**4,599**	**6,053**	**-**	**-**
Acquisitions	1,497	0	-	-
Divestitures/changes in the scope of consolidation	(5)	(28)	-	-
Expected return on plan assets	270	315	-	-
Net actuarial (gain) loss	(154)	(78)	-	-
Plan settlements	-	-	-	-
Employer contributions	325	415	46	48
Employee contributions	26	25	-	-
Benefits paid	(489)	(537)	(46)	(48)
Reclassifications to current assets / liabilities	(16)	-	-	-
Exchange differences	-	-	-	-
Fair value of plan assets as of December 31	**6,053**	**6,165**	**-**	**-**
Net recognized liability as of December 31	**(5,304)**	**(4,293)**	**(139)**	**(141)**
Unrecognized past service cost	-	-	-	-
Unrecognized transition obligation	-	-	-	-
Asset limitation due to uncertainty of obtaining future benefits	-	-	-	-
Net recognized liability as of December 31	**(5,304)**	**(4,293)**	**(139)**	**(141)**
Amounts recognized in the balance sheet				
Prepaid benefit assets	-	245	-	-
Provisions for pensions and other post-employment benefits	(5,304)	(4,538)	(139)	(141)
Net recognized liability as of December 31	**(5,304)**	**(4,293)**	**(139)**	**(141)**

Of the defined benefit obligation for pensions, €4,762 million (2006: €5,067 million) relates to unfunded benefit obligations while €9,401 million (2006: €10,638 million) relates to funded benefit obligations. Of the defined benefit obligation for other post-employment benefits, €235 million (2006: €328 million) relates to unfunded benefit obligations while €624 million (2006: €675 million) relates to funded benefit obligations.

	Other countries				Total			
	Pension obligations		Other post-employment benefit obligations		Pension obligations		Other post-employment benefit obligations	
	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
	4,269	**4,348**	**878**	**864**	**14,525**	**15,705**	**1,036**	**1,003**
	405	0	27	0	2,108	0	33	0
	-	0	-	0	(10)	(41)	0	(1)
	76	66	24	27	271	252	43	37
	230	234	51	50	696	757	55	56
	2	1	-	-	28	26	-	-
	8	0	(10)	0	0	40	(10)	0
	(4)	(74)	-	0	(4)	(74)	-	0
	(1)	(270)	54	(97)	(488)	(1,365)	54	(97)
	(211)	(264)	(45)	(40)	(700)	(801)	(91)	(88)
	(20)	(27)	(25)	(14)	(22)	(27)	(25)	(14)
	(155)	-	(1)	-	(448)	-	(3)	-
	-	-	-	-	-	-	-	35
	(251)	(309)	(89)	(72)	(251)	(309)	(89)	(72)
	4,348	**3,705**	**864**	**718**	**15,705**	**14,163**	**1,003**	**859**
	3,485	**3,804**	**359**	**357**	**8,084**	**9,857**	**359**	**357**
	307	0	-	-	1,804	0	-	-
	-	-	-	-	(5)	(28)	-	-
	262	272	27	28	532	587	27	28
	159	(9)	17	(1)	5	(87)	17	(1)
	(1)	(71)	(1)	-	(1)	(71)	(1)	-
	173	139	38	33	498	554	84	81
	2	1	-	-	28	26	-	-
	(211)	(264)	(45)	(40)	(700)	(801)	(91)	(88)
	(150)	-	0	-	(166)	-	0	-
	(222)	(304)	(38)	(38)	(222)	(304)	(38)	(38)
	3,804	**3,568**	**357**	**339**	**9,857**	**9,733**	**357**	**339**
	(544)	**(137)**	**(507)**	**(379)**	**(5,848)**	**(4,430)**	**(646)**	**(520)**
	2	4	(6)	(5)	2	4	(6)	(5)
	0	-	-	-	0	-	-	-
	(7)	(17)	-	-	(7)	(17)	-	-
	(549)	**(150)**	**(513)**	**(384)**	**(5,853)**	**(4,443)**	**(652)**	**(525)**
	38	288	-	0	38	533	-	0
	(587)	(438)	(513)	(384)	(5,891)	(4,976)	(652)	(525)
	(549)	**(150)**	**(513)**	**(384)**	**(5,853)**	**(4,443)**	**(652)**	**(525)**

Of the funded pension plans, total overfunding of individual plans amounts to €546 million (2006: €89 million) while underfunding amounts to €214 million (2006: €870 million). Similarly, other funded post-employment benefit obligations of individual funds are underfunded by €285 million (2006: €318 million).

The Bayer Group has set up funded pension plans for its employees in many countries. Since the legal and tax requirements and economic conditions may vary considerably between countries, assets are managed according to country-specific principles.

Bayer-Pensionskasse VvaG (Bayer-Pensionskasse) in Germany is by far the most significant of the pension funds. This legally independent fund is a private insurance company and is therefore subject to the German Law on the Supervision of Private Insurance Companies. Since Bayer guarantees the commitments of Bayer-Pensionskasse, it is classified as a defined benefit plan for IFRS purposes. The fair value of the plan assets includes real estate leased by Bayer which is recognized at a fair value of €51 million (2006: €54 million). Bayer AG has undertaken to provide profit-sharing capital in the form of an interest-bearing loan totaling €150 million for the Bayer-Pensionskasse. The entire amount was drawn as of December 31, 2006 and 2007.

The investment policy of Bayer-Pensionskasse is geared to compliance with regulatory provisions and to the risk structure resulting from its obligations. In light of capital market movements, Bayer-Pensionskasse has therefore developed a strategic target investment portfolio aligned to its risk structure. Its investment strategy focuses principally on stringent management of downside risks rather than on maximizing absolute returns. It is anticipated that this investment policy can generate a return that enables it to meet its long-term commitments.

Our German pension plans generally hold stocks, bearer annuities and certain real-estate assets through special funds to reduce the administrative outlay. The plans own all of the share certificates of these special assets, which are administered in accordance with the German Investment Act. Their allocation provides for a balanced mix of investment segments. At the reporting date there was a slight weighting in favor of stocks, and the proportion of real estate in the portfolios was comparatively small.

A large proportion of the benefit obligations of Bayer Schering Pharma AG, Berlin, Germany, which was acquired in 2006, is covered by Schering Altersversorgung Treuhand Verein. Here, too, the investment strategy is geared to the structure of the corresponding obligations. It permits the use of derivatives; nearly all currency risks are fully hedged. With the aid of a risk management system, stress scenarios are simulated and other risk analyses are undertaken (e.g. value at risk).

For plan assets in other countries, too, the key investment strategy criteria are the structure of the benefit obligations and the risk profile. Other determinants are risk diversification, portfolio efficiency and a country-specific and global balance of opportunity and risk capable of ensuring the payment of all future benefits.

The weighted parameters used to value the plan assets to cover pensions and other post-employment benefit obligations were allocated as follows at year-end:

Plan assets to cover pension obligations as of December 31	Germany		Other countries	
%	2006	**2007**	2006	**2007**
Equity securities	13.36	0.72	50.84	45.72
Debt securities	41.68	36.21	40.46	44.61
Special securities funds	26.13	42.14	0.01	0.00
Real estate and special real estate funds	8.92	8.66	3.03	3.12
Other	9.91	12.27	5.66	6.55
Total	**100.00**	**100.00**	**100.00**	**100.00**

Plan assets to cover other post-employment benefit obligations as of December 31	Germany		Other countries	
%	2006	**2007**	2006	**2007**
Equity securities	-	-	56.80	51.73
Debt securities	-	-	35.30	41.04
Special securities funds	-	-	-	-
Real estate and special real estate funds	-	-	-	-
Other	-	-	7.90	7.23
Total	**-**	**-**	**100.00**	**100.00**

At the closing dates, plan assets included roughly the same weightings of Bayer shares as the major stock indices.

Obligations in Germany to pay early retirement benefits are entirely unfunded.

The following weighted parameters were used to value the pension obligations as of December 31 and the expense of pensions and other post-employment benefits in the respective year:

Parameters for pension obligations	Germany		Other countries		Total	
%	2006	**2007**	2006	**2007**	2006	**2007**
Pension obligations						
Discount rate	4.60	5.50	5.65	6.45	4.90	5.75
Projected future remuneration increases	2.60	2.85	4.10	4.65	2.85	3.10
Projected future benefit increases	1.50	1.75	2.45	3.25	1.60	1.95
Other post-employment benefit obligations						
Discount rate	4.30	5.10	6.25	6.85	6.00	6.55

Parameters for pension expense

%	Germany 2006	Germany 2007	Other countries 2006	Other countries 2007	Total 2006	Total 2007
Pension obligations						
Discount rate	4.25	4.60	5.50	5.65	4.60	4.90
Projected future remuneration increases	2.50	2.60	4.00	4.10	2.75	2.85
Projected future benefit increases	1.25	1.50	2.75	2.45	1.45	1.60
Expected return on plan assets	5.25	5.25	7.50	7.85	6.10	6.20
Other post-employment benefit obligations						
Discount rate	3.25	4.30	6.00	6.25	5.65	6.00
Expected return on plan assets	-	-	8.25	8.25	8.25	8.25

Altering individual parameters by 0.5 percentage points while leaving the other parameters unchanged would impact pension and other post-employment benefit obligations as of year end 2007 as follows:

€ million	Germany 0.5 percentage point increase	Germany 0.5 percentage point decrease	Other countries 0.5 percentage point increase	Other countries 0.5 percentage point decrease	Total 0.5 percentage point increase	Total 0.5 percentage point decrease
Pension obligations						
Change in discount rate	(773)	868	(247)	272	(1,020)	1,140
Change in projected future remuneration increases	146	(141)	35	(33)	181	(174)
Change in projected future benefit increases	548	(502)	68	(56)	616	(558)
Other post-employment benefit obligations						
Change in discount rate	(1)	1	(36)	40	(37)	41

Altering individual parameters by 0.5 percentage points while leaving the other parameters unchanged would impact pension expense as of year end 2007 as follows:

€ million	Germany 0.5 percentage point increase	Germany 0.5 percentage point decrease	Other countries 0.5 percentage point increase	Other countries 0.5 percentage point decrease	Total 0.5 percentage point increase	Total 0.5 percentage point decrease
Pension obligations						
Change in discount rate	(12)	12	(1)	0	(13)	12
Change in projected future remuneration increases	13	(12)	4	(4)	17	(16)
Change in projected future benefit increases	41	(37)	5	(4)	46	(41)
Change in expected return on plan assets	(31)	31	(18)	18	(49)	49
Other post-employment benefit obligations						
Change in discount rate	0	0	(1)	1	(1)	1
Change in expected return on plan assets	-	-	(2)	2	(2)	2

Provisions are also set up for the obligations of Group companies, particularly in the United States, to provide post-employment benefits in the form of health care cost payments to retirees. The valuation of health care costs is based on the assumption that they will increase at a rate of 11 percent (assumption in 2006: 11 percent), which should decline to 9 percent by 2009 (assumption in 2006: 9 percent by 2008). The table shows the impact of a one percentage point change in the assumed rate of cost increases:

€ million	Increase of one percentage point	Decrease of one percentage point
Impact on other post-employment benefit obligations	77	(65)
Impact on pension expense	9	(7)

The following employer contributions were made in 2007 and 2006, and are expected to be made in 2008, in connection with defined benefit obligations:

	Germany			Other countries		
€ million	2006	**2007**	2008 projected	2006	**2007**	2008 projected
Pension obligations	325	415	368	173	139	69
Other post-employment benefit obligations	46	48	45	38	33	34
Total	**371**	**463**	**413**	**211**	**172**	**103**

Pensions and other post-employment benefits payable in the future are estimated as follows:

	Germany		Other countries		**Total**	
€ million	Pension obligations	Other post-employment benefit obligations	Pension obligations	Other post-employment benefit obligations	Pension obligations	Other post-employment benefit obligations
2008	539	45	182	41	721	86
2009	551	42	190	44	741	86
2010	572	31	201	47	773	78
2011	590	12	215	49	805	61
2012	612	3	226	52	838	55
2013–2017	3,445	9	1,273	291	4,718	300

The actuarial gains and losses related to defined benefit obligations and plan assets, recognized in a separate statement of recognized income and expense outside of profit or loss, are as follows:

	Pension obligations Germany					Pension obligations Other countries				
€ million	2003	2004	2005	2006	**2007**	2003	2004	2005	2006	**2007**
Defined benefit obligation	8,099	8,866	10,256	11,357	10,458	3,746	3,807	4,269	4,348	3,705
Fair value of plan assets	4,240	4,373	4,599	6,053	6,165	2,675	2,841	3,485	3,804	3,568
Funded status	**(3,859)**	**(4,493)**	**(5,657)**	**(5,304)**	**(4,293)**	**(1,071)**	**(966)**	**(784)**	**(544)**	**(137)**
Accumulated actuarial gains (losses) relating to benefit obligation as of										
January 1	**(670)**	**(1,119)**	**(1,682)**	**(2,842)**	**(2,293)**	**(98)**	**(304)**	**(421)**	**(692)**	**(657)**
Changes due to divestitures and changes in the scope of consolidation	-	-	-	1	1	-	-	-	-	-
Newly arisen during the year due to changes in actuarial parameters	(610)	(575)	(1,122)	441	1,097	(249)	(161)	(265)	46	299
Newly arisen during the year due to experience adjustments	161	12	(38)	46	(2)	13	19	3	(45)	(29)
Allocations to discontinued operations	-	-	-	61	-	-	-	-	34	-
Exchange differences	-	-	-	-	-	30	25	(9)	0	(16)
December 31	**(1,119)**	**(1,682)**	**(2,842)**	**(2,293)**	**(1,197)**	**(304)**	**(421)**	**(692)**	**(657)**	**(403)**
Accumulated actuarial gains (losses) relating to plan assets as of										
January 1	**(753)**	**(735)**	**(786)**	**(693)**	**(846)**	**(631)**	**(315)**	**(204)**	**(125)**	**15**
Changes due to divestitures and changes in the scope of consolidation	-	-	-	0	4	-	-	-	-	-
Newly arisen during the year	18	(51)	93	(154)	(78)	230	100	84	159	(9)
Allocations to discontinued operations	-	-	-	1	-	-	-	-	(19)	-
Exchange differences	-	-	-	-	-	86	11	(5)	0	1
December 31	**(735)**	**(786)**	**(693)**	**(846)**	**(920)**	**(315)**	**(204)**	**(125)**	**15**	**7**

In Germany, no unrealized gains/losses exist in relation to other post-employment benefit obligations.

	Other post-employment benefit obligations Other countries					Pension obligations Total					Other post-employment benefit obligations Total				
	2003	2004	2005	2006	**2007**	2003	2004	2005	2006	**2007**	2003	2004	2005	2006	**2007**
	886	724	878	864	718	11,845	12,673	14,525	15,705	14,163	1,088	908	1,036	1,003	859
	263	286	359	357	339	6,915	7,214	8,084	9,857	9,733	263	286	359	357	339
	(623)	**(438)**	**(519)**	**(507)**	**(379)**	**(4,930)**	**(5,459)**	**(6,441)**	**(5,848)**	**(4,430)**	**(825)**	**(622)**	**(677)**	**(646)**	**(520)**
	(20)	**(222)**	**(259)**	**(259)**	**(311)**	**(768)**	**(1,423)**	**(2,103)**	**(3,534)**	**(2,950)**	**(20)**	**(222)**	**(259)**	**(259)**	**(311)**
	-	-	-	-	-	-	-	-	1	1	-	-	-	-	-
	(190)	(38)	(31)	(71)	33	(859)	(736)	(1,387)	487	1,396	(190)	(38)	(31)	(71)	33
	(42)	(17)	31	17	64	174	31	(35)	1	(31)	(42)	(17)	31	17	64
	-	-	-	0	-	-	-	-	95	-	-	-	-	0	-
	30	18	0	2	(7)	30	25	(9)	0	(16)	30	18	0	2	(7)
	(222)	**(259)**	**(259)**	**(311)**	**(221)**	**(1,423)**	**(2,103)**	**(3,534)**	**(2,950)**	**(1,600)**	**(222)**	**(259)**	**(259)**	**(311)**	**(221)**
	(92)	**(49)**	**(36)**	**(41)**	**(24)**	**(1,384)**	**(1,050)**	**(990)**	**(818)**	**(831)**	**(92)**	**(49)**	**(36)**	**(41)**	**(24)**
	-	-	-	-	-	-	-	-	-	4	-	-	-	-	-
	29	11	(5)	17	(1)	248	49	177	5	(87)	29	11	(5)	17	(1)
	-	-	-	0	-	-	-	-	(18)	-	-	-	-	0	-
	14	2	0	0	0	86	11	(5)	0	1	14	2	0	0	0
	(49)	**(36)**	**(41)**	**(24)**	**(25)**	**(1,050)**	**(990)**	**(818)**	**(831)**	**(913)**	**(49)**	**(36)**	**(41)**	**(24)**	**(25)**

26. Other provisions

The various categories of provisions changed as follows in 2007:

€ million	Taxes	Personnel commit-ments	Environ-mental protec-tion	Restruc-turing	Trade-related commit-ments	Litigations	Miscella-neous provisions	Total
December 31, 2006	**1,089**	**1,792**	**262**	**196**	**769**	**434**	**687**	**5,229**
Changes in the scope of consolidation	(46)	(30)	-	1	9	(3)	30	(39)
Additions	617	1,387	49	128	191	133	613	3,118
Utilization	(697)	(1,168)	(18)	(134)	(149)	(114)	(538)	(2,818)
Reversal	(97)	(89)	(13)	(31)	(45)	(46)	(87)	(408)
Other reclassifications	-	(39)	-	-	3	-	1	(35)
Interest cost	9	19	3	3	2	-	-	36
Exchange differences	(12)	(47)	(13)	(9)	(38)	-	(44)	(163)
December 31, 2007	**863**	**1,825**	**270**	**154**	**742**	**404**	**662**	**4,920**

The expected disbursements out of the provisions recognized in the 2007 balance sheets are as follows:

€ million	Taxes	Personnel commit-ments	Environ-mental protec-tion	Restruc-turing	Trade-related commit-ments	Litigations	Miscella-neous provisions	Total
2008	817	1,194	35	100	728	367	513	3,754
2009	26	222	42	51	9	31	89	470
2010	-	91	11	3	-	-	4	109
2011	15	71	2	-	-	-	1	89
2012	-	25	11	-	-	-	30	66
2013 or later	5	222	169	-	5	6	25	432
Total	**863**	**1,825**	**270**	**154**	**742**	**404**	**662**	**4,920**

The provisions are partly offset by claims for refunds in the amount of €59 million, which are recognized as receivables. They relate principally to environmental measures.

26.1 Taxes

Provisions for taxes mainly comprise of provisions for income taxes, but also include provisions for other types of taxes.

26.2 Personnel commitments

Provisions for personnel commitments mainly include those for variable and individual one-time payments, surpluses on long-term accounts, service awards and other personnel costs. Also reflected here are the obligations under the stock-based compensation programs.

Stock-based compensation in the Bayer Group is granted primarily under standard programs and also on an individual agreement basis. Individual agreements enable the company to link remuneration components to the stock price or future stock price trends. Awards under such agreements may be contingent upon the attainment of agreed targets, or may be based solely on the length of service. Standard programs exist for different groups of employees. The program offered to members of the Board of Management and other senior executives from 2001 through 2004 was essentially a stock option program with variable stock-based awards. This program provides for cash payments. Middle management was offered a stock incentive program, while other groups of employees were offered a stock participation program. A stock-based compensation program for top and middle management known as "Aspire" was introduced in 2005. It comprises two variants, which are described on page 168. For other managers and non-managerial employees, an annual stock participation program has been offered since 2005 ("ABP 2007" in the year under report), under which Bayer subsidizes employee purchases of shares in the company.

As with other remuneration systems involving cash settlement, awards to be made under the stock-based programs are covered by provisions in the amount of the fair value of the obligations existing as of the date of the financial statements vis-à-vis the respective employee group. Adjustments to provisions relating to all existing stock-based compensation programs are recognized in the income statement.

The table below shows the change in provisions for the various programs:

€ million	Stock Option Program	Stock Incentive Program	Stock Participation Program	Aspire I	Aspire II	**Total**
December 31, 2006	**13**	**3**	**12**	**26**	**38**	**92**
Allocations	12	3	9	41	40	105
Utilization	(14)	(2)	(4)	(7)	(13)	(40)
Reversal	-	-	-	-	-	-
Exchange differences	-	-	-	(2)	(5)	(7)
December 31, 2007	**11**	**4**	**17**	**58**	**60**	**150**

An additional amount of €12 million (2006: €4 million) in expenses was recorded for the 2007 short-term stock participation program.

Provisions of €11 million existed at the end of 2007 (2006: €8 million) for obligations entered into under individual stock-based compensation agreements, of which €8 million (2006: €6 million) were recognized in income. The obligations were measured in the same way as those incurred under the standard programs.

The fair value of obligations under the standard stock-based compensation programs and individual agreements has been calculated using the Monte Carlo simulation method and the following key parameters:

	2006	**2007**
Dividend yield	2.29 %	1.91 %
Risk-free interest rate	3.83 %	4.06 %
Volatility of Bayer stock	21.52 %	22.19 %
Volatility of the Euro Stoxx 50[SM]	13.14 %	13.83 %
Correlation between Bayer stock price and the Euro Stoxx 50[SM]	0.61	0.54

The expected exercise period is three to five years.

Long-term incentive program for members of the Board of Management and other senior executives (Aspire I)

To participate in Aspire, members of the Board of Management and other senior executives are required to purchase a certain number of Bayer shares determined on the basis of specific guidelines and to retain them for the full term of the program.

A percentage of their annual base salary is defined as a target for variable payments ("Aspire target opportunity"). Depending on the performance of Bayer stock, both in absolute terms and relative to the EURO STOXX 50SM benchmark index, participants are granted an award of between 0 and 200 percent of their individual target opportunity.

Participants may ask for their Aspire award to be paid out in cash immediately at the end of the three-year performance period, or they may convert it into "performance units." These can then be redeemed within a two-year exercise period for a cash payment that depends on the Bayer stock price on the exercise date.

Long-term incentive program for middle management (Aspire II)

A variant of the Aspire program with the following modifications is offered to middle management:

- No personal investment in Bayer shares is required.
- The amount of the award in relation to the employee's personal Aspire target opportunity is based entirely on the absolute performance of Bayer stock during the performance period.
- The award varies between 0 and 150 percent of the Aspire target opportunity.

This variant of the Aspire program is not linked to the EURO STOXX 50SM index.

Stock Participation Program (2007) for other managers and non-managerial employees

Under this program, Bayer offered employees the opportunity to purchase shares at a discount of 15 percent of the lowest stock price on July 31, 2007. Employees could invest a maximum of €7,500 in discounted shares, depending on their base salary and salary grade. The shares purchased under the 2007 Stock Participation Program may not be sold prior to December 31, 2008. In 2007, employees acquired a total of 732,837 Bayer shares under the Stock Participation Program.

Stock-based compensation programs 2000-2004

The stock-based compensation programs offered to the different employee groups in 2000 through 2004 were all similar in their respective structures. Provisions for the obligations under these programs are recorded in the balance sheet and recognized in the income statement at fair value. Entitlement to awards under these programs is conditioned on retention of the Bayer stock designated under the program for a certain time period.

The following table shows the programs applicable through December 31, 2004:

	Stock Option Programs	Stock Incentive Programs	Stock Participation Programs
Year of issue	2002–2004	2000–2004	2000–2004
Original term in years	5	10	10
Retention period/distribution date in years from issue date	3	2 / 6 / 10	2 / 6 / 10
Reference price	0	0	0
Performance criteria	Yes	Yes	No

Stock Option Program (2002-2004)

A maximum personal investment in Bayer stock was defined for each Board of Management member or other senior executive who wished to participate in the Stock Option Program.

The Stock Option Program contains a three-year retention condition. The retention period is followed by a two-year exercise period, after which any option rights not exercised expire. Eligibility to exercise option rights and the award to which the holder is entitled depend on the absolute and relative performance of Bayer stock.

For the tranche issued in 2002, every participant received one option for every 20 shares of their personal investments placed in a special account. Each option originally could reach a maximum value of 200 shares during the term of the tranche, depending on the performance of Bayer stock, both in absolute terms and relative to the EURO STOXX 50[SM] index. For the tranches issued in 2003 and 2004, participants received up to three options per share for every share of their personal investments placed in the special account. For each option, a cash payment – equivalent to the market price of one Bayer share – and an outperformance premium are awarded at the exercise date subject to the attainment of certain performance and outperformance targets, respectively.

All stock options under the 2002 tranche, which expired on May 15, 2007, were exercised. Stock options under the 2003 and 2004 tranches were partially exercised and are currently still exercisable. As of December 31, 2007 their intrinsic value was €12 million.

Stock Incentive Program (2000-2004)

This program was offered to middle management. Each participant was required to deposit shares up to a maximum number defined on the basis of his/her individual performance-related bonus and the share price at the start of the program. Unlike the Stock Option Program, participants are permitted to sell their shares during the term of the program, although any shares sold no longer count for purposes of calculating the incentive awards on subsequent distribution dates. The Stock Incentive Program runs for a ten-year period, during which there are three incentive payment dates.

Incentive payments under the program are only made if Bayer stock has outperformed the EURO STOXX 50SM index on the respective incentive payment dates. For every ten Bayer shares originally placed in their special account and retained until the incentive payment date, participants receive payments equal to the value of two shares after two years, the value of four shares after six years, and the value of an additional four shares after ten years.

Stock Participation Program (2000-2004)
This program was for all other managerial employees and non-managerial employees. The incentive payments made on the three incentive payment dates amount to one half of those under the Stock Incentive Program. Payments are not contingent upon the performance of Bayer stock.

26.3 Environmental protection

Provisions for environmental remediation as of December 31, 2007 amounted to €270 million. The material components of these provisions relate to the rehabilitation of contaminated land, recultivation of landfills and redevelopment and water protection measures. The expected future payments for environmental remediation amounting to €340 million have been discounted at average risk-free interest rates of between 3.0 % and 13.8 % and a provision equal to their present value of €270 million has been recognized.

26.4 Restructuring

Provisions for restructuring totaled €154 million on December 31, 2007. These charges include €124 million for severance payments and €30 million for other expenses, mainly demolition and other costs related to the closure of production facilities.

The principal restructuring charges in 2007 related to four major projects.

The “Transforming Human Resources” (THR) project initiated in 2005 is designed to harmonize the human resources function worldwide by introducing an innovative operating model. The new structures provide better, and at the same time more efficient, support for employees and thus make a greater contribution to the company’s performance. The new operating model and the related organizational units have been gradually introduced at 162 Bayer Group companies worldwide starting in October 2006. Current planning anticipates that the rollout of this project will be completed in 2009. Total restructuring expenses for the THR project in 2007 were €31 million, including €2 million in severance payments and €29 million in other restructuring expenses.

Bayer MaterialScience introduced a restructuring program, named the RIVER project, in the fall of 2007 to optimize cost structures and raise efficiency. This project mainly affects North America and Europe and principally comprises reducing methylenediphenyl diisocyanate capacity at the facility in New Martinsville, West Virginia, in the United States and optimizing cost structures at the production site in Antwerp, Belgium. In Germany, the optimization affects administrative functions at the Leverkusen site. Total restructuring expenses in connection with this project amounted to €75 million, comprising €29 million in severance payments, €11 million in accelerated depreciation and write-downs and €35 million in other restructuring expenses.

The implementation of the NEW restructuring program, adopted in August 2006 to ensure a sustained improvement in the efficiency of the Bayer CropScience subgroup, continued as planned in 2007. This program centered on restructuring in the United Kingdom, India, North America and Germany. Production of the active ingredient ethofumesate at the facility in Widnes, U.K., will cease in mid-2008 and it will be produced in India in the future. An agreement has been reached with LANXESS, which also has production facilities at the Thane site in India, on the closure of this site, so the restructuring plan can now proceed as scheduled. In Germany the shutdown of the Griesheim plant took place on schedule and is now virtually complete. In North America a number of individual measures were undertaken to improve efficiency, including the transfer of several compounding operations to Kansas City. Total restructuring expenses for this project amounted to €97 million, comprising €21 million in severance payments, €10 million in write-downs and €66 million in other restructuring expenses.

The extensive restructuring program introduced in the Bayer Schering Pharma Division following the acquisition of Schering, Berlin, Germany, in 2006 continued in 2007. The aim is to consolidate Bayer's pharmaceutical activities in parallel with the integration progress and ensure uniform operation of the business in the interests of the Bayer Group as a whole. During 2007 the local subsidiaries of Bayer Schering Pharma AG were integrated into the established Bayer organization in most countries. The field forces and marketing functions of these Bayer Schering Pharma subsidiaries and the Pharmaceuticals division of Bayer HealthCare were merged in each case to form local Bayer Schering Pharma divisions. The global research and development activities are being consolidated in the future at the Berlin and Wuppertal sites in Germany and at Berkeley, California, United States. Total expenses for the restructuring related to the Bayer Schering Pharma integration amounted to €506 million in 2007 and included €159 million in severance payments, €88 in accelerated depreciation and write-downs and €259 million in other restructuring expenses.

26.5 Trade-related commitments

Provisions for trade-related commitments amounted to €742 million on December 31, 2007 and comprised provisions for rebates, discounts and other price adjustments, provisions for product returns, outstanding invoices, pending losses and onerous contracts.

26.6 Litigations

Provisions for litigation-related expenses amounted to €404 million on December 31, 2007. The legal risks currently considered to be material are outlined in Note [32].

26.7 Miscellaneous provisions

Miscellaneous provisions comprise those for guarantees, product liability, asset retirement obligations (except where these are included in environmental provisions), contingent liabilities relating to acquisitions and provisions for miscellaneous liabilities.

Miscellaneous provisions amounted to €662 million on December 31, 2007.

27. Financial liabilities

Financial liabilities comprise the following:

	Dec. 31, 2006		Dec. 31, 2007	
€ million	Total	of which current	Total	of which current
Bonds and notes	11,852	2,137	10,411	190
Liabilities to banks	6,805	2,273	3,032	887
Liabilities under finance leases	384	69	358	30
Liabilities from derivative financial instruments	187	31	235	23
Other financial liabilities	573	568	162	157
Total	**19,801**	**5,078**	**14,198**	**1,287**

The maturities of financial liabilities were as follows:

Maturity	Dec. 31, 2006
€ million	
Up to 2007	5,078
Up to 2008	254
Up to 2009	4,567
Up to 2010	32
Up to 2011	4,029
Up to 2012 or later	5,841
Total	**19,801**

Maturity	Dec. 31, 2007
€ million	
Up to 2008	1,287
Up to 2009	4,643
Up to 2010	447
Up to 2011	1,566
Up to 2012	2,455
Up to 2013 or later	3,800
Total	**14,198**

As in the previous year, there were no financial liabilities to associates.

U.S. dollar-denominated financial liabilities amounted to €1.2 billion (2006: €1.8 billion) and accounted for 8.3 percent (2006: 8.9 percent) of total financial liabilities.

Short-term borrowings (excluding the short-term portion of debentures) amounted to €1.1 billion (2006: €2.9 billion) with a weighted average interest rate of 3.2 percent (2006: 3.8 percent). The Bayer Group's financial liabilities are primarily unsecured and – with the exception of a subordinated mandatory convertible bond with a face value of €2,300 million and a subordinated hybrid bond with a face value of €1,300 million – of equal ranking.

Further information on the accounting for liabilities from derivative financial instruments is given in Note [30].

The Bayer Group has issued the following bonds and notes:

Effective interest rate	Stated rate		Nominal volume	Dec. 31, 2006	**Dec. 31, 2007**
				€ million	€ million
		Bayer AG			
5.515 %	5.375 %	Eurobonds 2002/2007	EUR 2,137 million	2,137	-
6.075 %	6.000 %	Eurobonds 2002/2012	EUR 2,000 million	2,010	1,971
5.155 %	5.000 %	Hybrid bonds 2005/2105 (2015)	EUR 1,300 million	1,247	1,237
Floating	Floating	Eurobonds 2006/2009	EUR 1,600 million	1,596	1,598
4.621 %	4.500 %	Eurobonds 2006/2013	EUR 1,000 million	993	994
5.774 %	5.625 %	Eurobonds 2006/2018	GBP 250 million	368	337
5.541 %	5.625 %	Eurobonds 2006/2018 (increase)	GBP 100 million	150	137
Floating	Floating	Eurobonds 2007/2010	EUR 300 million	-	300
4.464 %	4.375 %	Eurobonds 2007/2011	EUR 200 million	-	199
3.502 %	3.490 %	Eurobonds (private placement) 2004/2008	EUR 20 million	20	20
		Bayer Capital Corp. B.V.			
7.117 %	6.625 %	Mandatory convertible bonds 2006/2009	EUR 2,300 million	2,276	2,285
		Bayer Corporation			
7.180 %	7.125 %	Notes 1995/2015	USD 200 million	144	135
6.670 %	6.650 %	Notes 1998/2028	USD 350 million	263	236
6.210 %	6.200 %	Notes 1998/2008	USD 250 million	190	170
4.043 %	3.750 %	Eurobonds 2004/2009	EUR 460 million	458	459
		Bayer Holding Japan LLC			
1.654 %	1.585 %	Eurobonds 2007/2010	JPY 10 billion	-	61
2.006 %	1.955 %	Eurobonds 2007/2012	JPY 15 billion	-	91
Floating	Floating	Eurobonds 2007/2012	JPY 30 billion	-	181
		Total		**11,852**	**10,411**

In June 2007, Bayer Holding Japan LLC launched bond issues under the multi-currency European Medium Term Note (EMTN) program. These comprised a three-year bond with a face value of JPY 10 billion and a coupon of 1.585 percent, a five-year bond with a face value of JPY 15 billion and a coupon of 1.955 percent, and a floating-rate note with a face value of JPY 30 billion. The latter has a maturity of five years and a coupon of three-month JPY Libor plus 26 basis points. These bonds are guaranteed by Bayer AG.

In April 2007, Bayer AG issued a floating rate bond with a maturity of three years and a face value of €300 million under the EMTN program. The coupon is the three-month Euribor rate plus 10 basis points. At the same time, a four-year bond with a face value of €200 million and a coupon of 4.375 percent was issued.

In May 2006, Bayer AG launched further bond issues under its EMTN program as part of the financing of the acquisition of Schering AG, Berlin, Germany. The first of these was a three-year floating rate note in a nominal amount of €1,600 million which bears interest at 0.225 percent above the 3-month EURIBOR rate. The second issue, which has a face value of €1,000 million, has a coupon of 4.5 percent and matures in seven years. A third bond, denominated in sterling (GBP), was also issued with a face value of GBP 250 million. A second tranche of GBP 100 million was issued in the same year. This bond has a coupon of 5.625 percent and matures in 2018. The entire issue has been swapped into euros.

In April 2006, Bayer Capital Corp. B.V. issued a subordinated mandatory convertible bond with a face value of €2,300 million as part of the financing of the acquisition of Schering AG, Berlin, Germany. This issue carries a 6.625 percent coupon and matures on June 1, 2009. Investors may convert the bond into a variable number of Bayer AG shares up to the expiration date, depending on the movement of the share price within a set band. If the share price exceeds or falls below the band, the bond will be converted into a fixed number of shares. Conversion is mandatory after three years. This bond is treated entirely as equity by Moody's and Standard & Poor's and therefore significantly improves the Bayer Group's rating-specific debt indicators.

In July 2005, Bayer AG issued a 100-year subordinated hybrid bond with an issue volume of €1,300 million. This issue matures in 2105 and has a fixed coupon of 5 percent in the first ten years. Thereafter, interest is calculated quarterly at a floating rate (three-month EURIBOR plus 280 basis points). After the first ten years, Bayer AG has a quarterly option to redeem the bonds at face value. The coupon is payable in arrears. Moody's treats this hybrid bond as 75 percent equity while Standard & Poor's treats it as 50 percent equity so it improves the Bayer Group's rating-specific debt indicators.

In February 1998, Bayer Corporation issued notes of US$ 350 million with a coupon of 6.65 percent and notes of US$ 250 million with a coupon of 6.20 percent for eligible institutional investors. The first of these issues has a maturity of 30 years. The second issue has combined call and put options, giving the lead manager the right to repurchase the notes, and the investors the right to cash them, after ten years. In September 2007, it was contractually agreed with the lead manager that it would exercise its right to repurchase the notes from the investors and would sell the notes back to Bayer Corporation in February 2008. Interest on both issues is paid semi-annually.

The long-term liabilities to banks principally comprise a syndicated loan of €1.25 billion raised in 2006 in connection with the acquisition of Schering AG, Berlin, Germany. This credit facility is provided by a syndicate of eleven banks and bears a variable interest rate (EURIBOR plus a margin, which has been fixed at 20 basis points since July 2007). This credit facility has a fixed term until March 2011 but can be repaid in full or in part at any time on Bayer's request.

As of December 31, 2007 the Group had credit facilities at its disposal totaling approximately €7.9 billion (2006: €11.7 billion), of which €3.0 billion (2006: €6.8 billion) was used and €4.9 billion (2006: €4.9 billion) was unused and thus available for borrowing on an unsecured basis.

Liabilities under finance leases are recognized as financial liabilities if the leased assets are capitalized under property, plant and equipment. They are stated at the present values of the minimum future lease payments. Lease payments totaling €458 million (2006: €486 million), including €100 million (2006: €102 million) in interest, are to be made to the respective lessors in future years.

Leasing liabilities mature as follows:

Maturity	Dec. 31, 2006		
€ million	Lease payments	Interest compo-nent	Liabilities under finance leases
2007	86	17	69
2008	40	16	24
2009	36	14	22
2010	35	14	21
2011	32	13	19
2012 or later	257	28	229
Total	**486**	**102**	**384**

Maturity	**Dec. 31, 2007**		
€ million	Lease payments	Interest compo-nent	Liabilities under finance leases
2008	47	17	30
2009	48	17	31
2010	37	15	22
2011	33	14	19
2012	32	13	19
2013 or later	261	24	237
Total	**458**	**100**	**358**

Lease payments under operating leases in 2007 amounted to €204 million (2006: €187 million).

28. Trade accounts payable

Trade accounts are payable mainly to third parties. Trade accounts payable as of December 31, 2007 include €2,455 million (2006: €2,364 million) due within one year and €11 million (2006: €11 million) due after one year. Of the total, €26 million (2006: €39 million) was payable to associates and €2,440 million (2006: €2,336 million) to other suppliers.

29. Other liabilities

Other liabilities comprised:

	Dec. 31, 2006		Dec. 31, 2007	
€ million	Total	of which current	Total	of which current
Accrued interest on liabilities	561	561	451	439
Payroll liabilities	196	133	172	126
Liabilities for social expenses	146	138	159	150
Other tax liabilities	291	291	275	265
Advance payments received	27	26	40	40
Liabilities from forward commodity contracts	209	76	219	49
Liabilities to minority stockholders	756	736	794	721
Miscellaneous liabilities	1,603	1,379	1,264	1,083
Total	**3,789**	**3,340**	**3,374**	**2,873**

The total amount includes €451 million (2006: €561 million) in accrued interest, representing expenses attributable to the fiscal year but not due to be paid until after the closing date.

Liabilities for social expenses include, in particular, social insurance contributions that had not been paid by the closing date.

As in the previous year, there were no other liabilities to associates.

Miscellaneous liabilities include €399 million (2006: €421 million) in accrued expenses of which €248 million (2006: €248 million) are to be regarded as current. Accrued expenses include €44 million (2006: €47 million) in grants and subsidies received from governments. The amount reversed and recognized in income was €7 million (2006: €15 million). The miscellaneous liabilities also include guarantees, commissions to customers, and expense reimbursements.

The Extraordinary Stockholders' Meeting of Bayer Schering Pharma AG on January 17, 2007 resolved to effect a squeeze-out of the remaining minority stockholders. Pursuant to this resolution, the shares held by minority stockholders will be transferred to the majority stockholder Bayer Schering GmbH in return for cash compensation of €98.98 per share. Based on the takeover offer made in connection with the domination agreement with Bayer Schering Pharma AG, a total obligation of €721 million (2006: €736 million) existed in 2007 toward the remaining minority stockholders to purchase their shares. This is reflected in other current liabilities and not in equity attributable to minority interest. Liabilities to minority stockholders also include an amount of €73 million (2006: €20 million) representing the third-party share of the capital of CURRENTA GmbH & Co. OHG.

Further information on the accounting for liabilities from derivative financial instruments is given in Note [30].

Liabilities of €5 million (2006: €392 million) were secured, including €2 million (2006: €2 million) by mortgages.

30. Financial instruments

The system used by the Bayer Group to manage credit risk, liquidity risk and the various types of market risks (interest-rate risk, currency risk and other price risks), together with its objectives, methods and procedures, is outlined in the Risk Report, which forms part of the Management Report.

	December 31, 2007				
	Carried at amortized cost		Carried at fair value	Non-financial assets/ liabilities	
€ million	Carrying amount Dec. 31, 2007	Fair value (for information)	Carrying amount	Carrying amount	Carrying amount on balance sheet
Trade accounts receivable	5,830				5,830
Loans and receivables	5,830	5,825			5,830
Other financial assets	638		824		1,462
Loans and receivables	373	370			373
Available-for-sale financial assets	86		239		325
Held-to-maturity financial investments	179	177			179
Derivatives that qualify for hedge accounting			134		134
Derivatives that do not qualify for hedge accounting			451		451
Other receivables	1,085			1,043	2,128
Loans and receivables	1,085	1,084			1,085
Non-financial assets				1,043	1,043
Cash and cash equivalents	2,531				2,531
Loans and receivables	2,531	2,531			2,531
Total financial assets	**10,084**		**824**		
of which loans and receivables	9,819				9,819
Financial liabilities	13,963		235		14,198
Carried at amortized cost	13,963	15,312			13,963
Derivatives that qualify for hedge accounting			98		98
Derivatives that do not qualify for hedge accounting			137		137
Trade accounts payable	2,466				2,466
Carried at amortized cost	2,466	2,465			2,466
Other liabilities	2,229		257	888	3,374
Carried at amortized cost	2,229	2,228			2,229
Derivatives that qualify for hedge accounting			8		8
Derivatives that do not qualify for hedge accounting			249		249
Non-financial liabilities				888	888
Total financial liabilities	**18,658**		**492**		
of which carried at amortized cost	18,658				18,658
of which derivatives that qualify for hedge accounting			106		106
of which derivatives that do not qualify for hedge accounting			386		386

30.1 Information on financial instruments by category

The following table shows the carrying amounts and fair values of financial assets and liabilities by category of financial instrument and a reconciliation to the corresponding line item in the balance sheet. Since the line items "Other receivables" and "Other liabilities" contain both financial instruments and non-financial assets and liabilities (such as other tax receivables or advance payments for services to be received in the future), the reconciliation is shown in the column headed "Non-financial assets / liabilities."

	December 31, 2006				
	Carried at amortized cost		Carried at fair value	Non-financial assets/ liabilities	
	Carrying amount Dec. 31, 2006	Fair value (for information)	Carrying amount	Carrying amount	Carrying amount on balance sheet
	5,868				5,868
	5,868	5,866			5,868
	765		730		1,495
	511	517			511
	82		313		395
	172	169			172
			108		108
			309		309
	1,104			573	1,677
	1,104	1,100			1,104
				573	573
	2,915				2,915
	2,915	2,914			2,915
	10,652		**730**		
	10,398				10,398
	19,614		187		19,801
	19,614	20,157			19,614
			154		154
			33		33
	2,375				2,375
	2,375	2,374			2,375
	2,634		236	919	3,789
	2,634	2,637			2,634
			72		72
			164		164
				919	919
	24,623		**423**		
	24,623				24,623
			226		226
			197		197

Loans and receivables and liabilities carried at amortized cost also include receivables and liabilities under finance leases where Bayer is the lessor or lessee and which therefore have to be measured in accordance with IAS 17.

The fair value of receivables, loans, held-to-maturity financial investments and primary liabilities is measured as the present value of future cash inflows or outflows, discounted at a current interest rate as of the closing date and taking into account the due date of assets or remaining term of liabilities and the rating of Bayer AG. Where a market price is available, this is taken as the fair value.

Because of the short maturities of most trade accounts receivable and payable, other receivables and liabilities, and cash and cash equivalents, the net carrying amounts at the balance sheet date do not differ significantly from the fair values.

Income, expense, gains and losses on financial instruments can be assigned to the following categories:

2007

€ million	Loans and receivables	Held-to-maturity investments	Available-for-sale financial assets	Held for trading (derivatives only)	Liabilities carried at amortized cost	**Total**
Interest income	243	9	9	114	350	725
Interest expense	-	-	-	(107)	(1,288)	(1,395)
Income from affiliated companies	-	-	-	-	-	-
Changes in fair value	-	-	-	1	-	1
Impairment charges	(107)	-	(27)	-	-	(134)
Income from write-backs	83	-	-	-	-	83
Gains/losses from retirements	-	-	1	-	-	1
Other non-operating income and expense	12	-	(1)	-	1	12
Net result	**231**	**9**	**(18)**	**8**	**(937)**	**(707)**

2006

€ million	Loans and receivables	Held-to-maturity investments	Available-for-sale financial assets	Held for trading (derivatives only)	Liabilities carried at amortized cost	**Total**
Interest income	206	17	15	259	140	637
Interest expense	-	-	-	(306)	(1,030)	(1,336)
Income from affiliated companies	-	-	5	-	-	5
Changes in fair value	-	-	-	(4)	-	(4)
Impairment charges	(140)	-	(20)	-	-	(160)
Income from write-backs	102	-	-	-	-	102
Gains/losses from retirements	-	-	19	-	-	19
Other non-operating income and expense	(4)	-	-	-	(1)	(5)
Net result	**164**	**17**	**19**	**(51)**	**(891)**	**(742)**

The column headed “Held for trading” consists almost entirely of interest income and expenses relating to interest-rate and cross-currency interest-rate hedges that do not qualify for hedge accounting (see Note [13.2]).

30.2 Maturity analysis

As of the reporting date, the liquidity risk to which the Bayer Group was exposed from its financial instruments comprises obligations relating to future interest and repayment installments for financial liabilities and the liquidity risk arising from derivative financial instruments, as shown in the table on page 182 f.

The carrying amount of bonds includes €2,285 million (2006: €2,276 million) for the mandatory convertible bond. This includes future interest payments but not repayment installments.

30.3 Accounting for derivative financial instruments

The Bayer Group uses derivative financial instruments to mitigate the risk of changes in exchange rates, interest rates and commodity prices. Many transactions constitute economic hedges but do not qualify for hedge accounting under IAS 39 (Financial Instruments: Recognition and Measurement). Changes in the fair value of these derivative financial instruments are recognized directly in the income statement. Fair value changes from forward exchange contracts and currency options are reflected in exchange gains and losses, those from interest-rate swaps and interest-rate options in interest income and expense, and those from commodity futures and commodity options in other operating income and expenses.

The fair values of derivative financial instruments are measured by the usual methods in light of the market data available at the measurement date. Currency and commodity contracts are measured individually at their forward rates or forward prices on the balance sheet date. These depend on spot prices including time spreads. The fair values of interest-rate hedging instruments are determined by discounting future cash flows over the remaining terms of the instruments at market rates of interest. The present value of each interest-rate, currency or cross-currency interest-rate swap transaction is measured individually as of the balance sheet date. Interest income is recognized in the income statement at the date of payment or, in case of accrual, at the balance sheet date. Certain long-term commodity contracts to which fair values cannot be assigned are measured with the aid of valuation models based on internal fundamental data.

Changes in the fair values of derivative financial instruments designated as fair value hedges are recognized without any effect on the income statement along with the underlying transactions. Changes in the fair values of the effective portion of derivatives designated as cash flow hedges are initially recognized not in the income statement, but in stockholders' equity under other comprehensive income. They are released to the income statement when the underlying transaction is realized. The effects of hedging forecasted transactions denominated in foreign currencies and of hedging planned commodity purchases are recognized in other operating income and expense at the date of realization. If a derivative is sold or ceases to qualify for hedge accounting, the amount reflected in other comprehensive income continues to be recognized in this item until the forecasted transaction is realized. If the forecasted transaction is no longer probable, the amount previously recognized in other comprehensive income is released to the income statement.

The income and expense reflected in the non-operating result pertaining to the derivatives and the underlying transactions are shown separately. Income and expense are not offset.

€ million	Dec. 31, 2007 Carrying amount	Cash flows January–March 2008 Interest	Repayment	Cash flows April–December 2008 Interest	Repayment
Financial liabilities					
Bonds and notes	10,411	45	170	514	20
Liabilities to banks	3,032	58	386	41	501
Remaining liabilities	520	2	153	15	34
Trade accounts payable	2,466	0	2,333	0	123
Other liabilities					
Accrued interest on liabilities	451	346	-	93	-
Remaining liabilities	1,778	30	734	2	992
Derivative financial liabilities					
Derivatives that qualify for hedge accounting	106	14	8	(3)	0
Derivatives that do not qualify for hedge accounting	386	8	42	(1)	57
Derivative financial assets					
Derivatives that qualify for hedge accounting	134	10	41	(6)	30
Derivatives that do not qualify for hedge accounting	451	9	90	7	22

€ million	Dec. 31, 2006 Carrying amount	Cash flows January–March 2007 Interest	Repayment	Cash flows April–December 2007 Interest	Repayment
Financial liabilities					
Bonds and notes	11,852	30	0	621	2,137
Liabilities to banks	6,805	63	2,195	143	79
Remaining liabilities	957	2	447	18	190
Trade accounts payable	2,375	0	2,203	0	161
Other liabilities					
Accrued interest on liabilities	561	0	-	561	-
Remaining liabilities	2,073	2	1,893	2	108
Derivative financial liabilities					
Derivatives that qualify for hedge accounting	226	52	0	(78)	74
Derivatives that do not qualify for hedge accounting	197	(3)	1	5	43
Derivative financial assets					
Derivatives that qualify for hedge accounting	108	10	14	0	39
Derivatives that do not qualify for hedge accounting	309	(3)	20	40	57

	Cash flows 2009		Cash flows 2010		Cash flows 2011		Cash flows 2012		Cash flows 2013–2017		Cash flows after 2017	
	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment
	500	2,055	301	361	296	200	285	2,272	482	2,436	193	714
	88	270	78	63	41	1,347	24	72	46	385	1	8
	18	31	15	23	14	20	13	20	20	223	4	16
	0	9	0	1	0	0	0	0	0	0	0	0
	0	-	9	-	3	-	0	-	0	-	0	-
	0	11	0	27	0	1	0	2	0	6	0	5
	10	0	10	0	10	0	(16)	69	(6)	0	(1)	29
	11	100	12	72	11	1	3	51	15	63	0	0
	14	0	3	0	2	0	2	0	(1)	0	0	0
	18	130	17	103	16	2	3	1	3	5	0	5

	Cash flows 2008		Cash flows 2009		Cash flows 2010		Cash flows 2011		Cash flows 2012-2016		Cash flows after 2016	
	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment
	527	210	474	2,044	288	0	288	0	746	4,452	255	787
	193	14	188	279	175	11	74	4,040	7	176	1	11
	17	25	16	23	15	22	14	19	29	231	0	0
	0	9	0	1	0	0	0	0	0	1	0	0
	0	-	0	-	0	-	0	-	0	-	0	-
	0	14	0	10	0	16	0	10	0	21	0	2
	24	0	22	0	23	0	23	0	(13)	152	(4)	0
	1	36	1	5	1	0	1	0	8	112	0	0
	5	0	13	0	4	0	4	0	9	0	0	0
	16	16	16	18	16	59	16	39	25	2	0	2

Fair value hedges
Fair value hedges are used to eliminate the risk of changes in fair value, especially on fixed-interest borrowings, by obtaining a variable interest rate. Essentially these fair value hedges relate to the €2 billion bond issued in 2002 and the €1.3 billion bond issued in 2005.

The ineffective portion of fair value hedges amounts to €1 million (2006: €3 million).

Cash flow hedges
Fluctuations in future cash flows from forecasted foreign currency transactions are avoided by designating cash flow hedges. Cash flow hedges are also used to partially limit exposure to fluctuations in future cash flows resulting from price changes on procurement markets. Such cash flow hedges relate to forecasted transactions or the risk of price fluctuations in procurement transactions with total notional volumes of €1,294 million and €293 million (2006: €1,761 million and €389 million), respectively.

Other comprehensive income increased by €124 million in 2007 (2006: €43 million decrease) due to positive changes in the fair values of derivatives designated as cash flow hedges. Income of €65 million (2006: expense of €11 million) was released from other comprehensive income to other operating income and expenses. Pro-rated deferred taxes of €19 million (2006: expense of €3 million), previously recognized in other comprehensive income, was transferred to deferred tax expenses. No ineffective portions of hedges had to be recognized in the income statement in 2007 (2006: €5 million).

An amount of €22 million (2006: €38 million) is expected to be reclassified from other comprehensive income to the income statement during 2008. The realization of all forecasted transactions is considered highly probable.

The market values of contracts existing at year end in the major categories were as follows:

€ million	Dec. 31, 2006 Notional amount	Dec. 31, 2006 Fair value Positive fair value	Dec. 31, 2006 Fair value Negative fair value	Dec. 31, 2007 Notional amount	Dec. 31, 2007 Fair value Positive fair value	Dec. 31, 2007 Fair value Negative fair value
Currency hedging of recorded transactions	**10,305**	**78**	**(29)**	**5,523**	**136**	**(54)**
Forward exchange contracts	8,960	40	(19)	4,572	77	(24)
of which FV hedges	0	0	0	0	0	0
of which CF hedges	-	-	-	-	-	-
Currency options	76	2	(1)	34	2	(1)
of which FV hedges	0	0	0	0	0	0
of which CF hedges	-	-	-	-	-	-
Cross-currency interest-rate swaps	1,269	36	(9)	917	57	(29)
of which FV hedges	0	0	0	0	0	0
of which CF hedges	965	33	(9)	874	57	(29)
Currency hedging of forecasted transactions	**1,761**	**54**	**(4)**	**1,294**	**69**	**(7)**
Forward exchange contracts	1,761	54	(4)	1,294	69	(7)
of which FV hedges	-	-	-	-	-	-
of which CF hedges	1,201	51	(2)	1,273	68	(7)
Currency options	0	0	0	0	0	0
of which FV hedges	-	-	-	-	-	-
of which CF hedges	0	0	0	0	0	0
Interest rate hedging of recorded transactions	**11,633**	**110**	**(157)**	**8,703**	**99**	**(183)**
Interest rate swaps	10,633	106	(156)	7,703	95	(183)
of which FV hedges	5,708	22	(145)	1,719	7	(69)
of which CF hedges	-	-	-	-	-	-
Interest rate options	1,000	4	(1)	1,000	4	0
of which FV hedges	-	-	-	-	-	-
of which CF hedges	-	-	-	-	-	-
Commodity price hedging	**389**	**137**	**(225)**	**293**	**247**	**(219)**
Forward commodity contracts	323	76	(149)	208	86	(70)
of which FV hedges	0	0	0	0	0	0
of which CF hedges	72	2	(70)	8	2	(1)
Commodity option contracts	66	61	(76)	85	161	(149)
of which FV hedges	-	-	-	-	-	-
of which CF hedges	-	-	-	-	-	-
Total	**24,088**	**379**	**(415)**	**15,813**	**551**	**(463)**
of which short-term derivative financial instruments	15,484	135	(57)	6,071	180	(79)
for currency hedging	11,101	103	(31)	5,878	142	(30)
for interest rate hedging	4,127	0	(4)	0	0	0
for commodity hedging	256	32	(22)	193	38	(49)

31. Commitments and contingencies

Contingent liabilities result entirely from liabilities assumed on behalf of third parties and comprise:

€ million	Dec. 31, 2006	**Dec. 31, 2007**
Issuance and endorsement of bills	5	10
Warranties	74	51
Miscellaneous	57	82
Total	**136**	**143**

Contingent liabilities refer to the potential occurrence of future events that would create an obligation. Although such events are regarded as improbable on the reporting date, they cannot be ruled out entirely.

Litigation and administrative proceedings are evaluated on a case-by-case basis considering the available information, including that from legal counsel, to assess potential outcomes. Where it is considered probable that a future obligation will result in an outflow of resources, a provision is recorded in the amount of the present value of the expected cash outflows if these are deemed to be reliably measurable. Litigation and other judicial proceedings as a rule raise complex legal issues and are subject to many uncertainties and complexities including, but not limited to, the facts and circumstances of each particular case, issues regarding the jurisdiction in which each suit is brought and differences in applicable law. Further details of material litigation risks to which the Bayer Group is exposed are given in Note [32].

Under the German Transformation Act, Bayer AG and LANXESS AG are jointly and severally liable for all obligations of Bayer AG that existed on January 28, 2005. To the extent that certain obligations were not assigned to Bayer AG under the Spin-off and Acquisition Agreement, dated September 22, 2004, between Bayer AG and LANXESS AG, Bayer AG ceases to be liable for such obligations after a five-year period. The Master Agreement, entered into between the same parties contemporaneously with the Spin-off and Acquisition Agreement, includes corresponding indemnification obligations of Bayer AG and LANXESS AG. It also contains provisions dealing with the apportionment of liabilities arising from product liability claims, environmental claims and antitrust violations as between the contracting parties.

In addition to provisions, other liabilities and contingent liabilities, there are also other financial commitments that result mainly from long-term lease and rental agreements.

Minimum non-discounted future payments relating to operating leases total €479 million (2006: €559 million). The respective payment obligations mature as follows:

Maturing in	Dec. 31, 2006
€ million	
2007	148
2008	106
2009	88
2010	74
2011	66
2012 or later	77
Total	**559**

Maturing in	Dec. 31, 2007
€ million	
2008	124
2009	104
2010	81
2011	63
2012	52
2013 or later	55
Total	**479**

Financial commitments resulting from orders already placed under purchase agreements related to planned or ongoing capital expenditure projects total €256 million (2006: €507 million).

In addition, the Group has entered into research agreements with a number of third parties under which Bayer has agreed to fund various research projects or has assumed other commitments based on the achievement of certain milestones or other specific conditions. The total amount of such funding and other commitments is €932 million (2006: €956 million). At December 31, 2007, the remaining payments expected to be made to these parties, assuming the milestones or other conditions are met, were as follows:

Maturity	Dec. 31, 2006
€ million	
2007	168
2008	198
2009	116
2010	79
2011	88
2012 or later	307
Total	**956**

Maturity	Dec. 31, 2007
€ million	
2008	159
2009	181
2010	59
2011	83
2012	69
2013 or later	381
Total	**932**

Total financial commitments under cooperation agreements vary in only immaterial respects from the previous year.

32. Legal risks

As a global company with a diverse business portfolio, the Bayer Group (including Bayer Schering Pharma AG, which previously was named Schering AG) is exposed to numerous legal risks, particularly in the areas of product liability, competition and antitrust law, patent disputes, tax assessments, and environmental matters. The outcome of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal or regulatory judgments could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could significantly affect our revenues and earnings. (Please note that Bayer Schering Pharma AG and Schering-Plough Corporation, New Jersey, are unaffiliated companies that have been independent of each other for many years. The names "Bayer Schering Pharma" or "Schering" as used in this Annual Report always refer to Bayer Schering Pharma AG, Berlin, Germany, or its predecessor, Schering AG, Berlin, Germany, respectively).

Legal proceedings currently considered to involve material risks are outlined below. The legal proceedings referred to do not necessarily represent an exhaustive list.

Lipobay/Baycol: As of February 1, 2008, approximately 335 Lipobay/Baycol cases remain pending against Bayer worldwide (approximately 295 of them in the United States, including class actions claiming economic loss, medical monitoring, and personal injury, one of which has been certified). We are currently aware of fewer than five pending cases in the United States that in our opinion meet our criteria for potential settlement. Based on the information currently available, Bayer has taken accounting measures for anticipated defense costs.

Since the existing insurance coverage is exhausted, it is possible – depending on the future progress of the litigation – that Bayer could face further payments that are not covered by the accounting measures already taken.

In connection with Lipobay/Baycol, a class-action lawsuit claiming damages from Bayer was filed by shareholders. The suit alleges that Bayer made misleading statements, prior to the product's withdrawal from the market, about the product's commercial prospects and, after its withdrawal, about the related potential financial liability. In 2005 the court dismissed with prejudice the claims of non-U.S. purchasers of Bayer AG stock on non-U.S. exchanges. Bayer has reached an agreement in principle with the remaining plaintiffs to settle the litigation on a class-wide basis for a payment by Bayer of a total of US$ 18.5 million, subject to conclusion of a final settlement agreement and court approval.

Magnevist®: As of February 1, 2008, Bayer has been served in a total of 29 lawsuits in the United States involving the gadolinium-based contrast agent Magnevist®. Three other manufacturers of gadolinium-based contrast agents in the United States also have been named party to the same or similar lawsuits. Additional cases are anticipated.

In the lawsuits, plaintiffs allege that patients developed nephrogenic systemic fibrosis (NSF) as a result of the use of Magnevist® during medical imaging procedures. NSF is a rare, severe condition that can be debilitating and in some cases fatal. Plaintiffs seek compensatory and punitive damages under theories of strict liability and negligence and/or breach of warranty, claiming that the product is defective and unreasonably dangerous, that Bayer knew or should have known of the risks associated with Magnevist®, and has failed to disclose or adequately warn its users.

The proceedings are still at an early stage. A motion is pending to create a multi-district litigation (MDL) proceeding for common pre-trial management of all cases pending in federal courts. Bayer believes that it has meritorious defenses and intends to defend itself vigorously. Based on the information currently available, Bayer has taken accounting measures for anticipated defense costs.

Trasylol® (aprotinin) is a drug approved for use in managing bleeding in patients undergoing coronary artery bypass graft surgery. As of February 1, 2008, there were 46 lawsuits pending in the United States served upon Bayer on behalf of persons alleging personal injuries, including renal failure and death, from the use of Trasylol®. Plaintiffs seek compensatory and punitive damages, claiming that Bayer knew or should have known of these risks and is liable for having failed to disclose or adequately warn users of Trasylol®. Additional cases are anticipated.

In 2006 and 2007 observational studies reported on a possible correlation between the administration of Trasylol® and severe renal dysfunction, myocardial infarction, stroke and an increase in mortality. In November 2007, Bayer temporarily suspended worldwide marketing of Trasylol® after preliminary results from an independent clinical study in Canada raised concerns about a possible increased risk of mortality in patients who had received Trasylol®. The marketing suspension will remain in effect until the final results from the Canadian study have been analyzed and the benefit-risk assessment for Trasylol® can be re-evaluated together with the health authorities. In some countries, including the United States, Trasylol® continues to be available to certain surgical patients with an established medical need. We are closely cooperating with health authorities to resolve the questions that have arisen.

Bayer believes it has meritorious defenses and intends to defend itself vigorously. Based on the information currently available, Bayer has taken accounting measures for anticipated defense costs.

Diabetes Care investigation

The United States Department of Justice has pending an investigation against Bayer HealthCare's Diabetes Care Division regarding the manner in which Bayer provided marketing support to certain customers who marketed and sold Bayer blood glucose meters and test strips to patients. Bayer is cooperating in the investigation.

Competition law proceedings

Cipro®: 39 putative class action lawsuits and one individual lawsuit against Bayer involving the medication Cipro® are pending in the United States. These matters first arose in July 2000. The plaintiffs are suing Bayer and other companies also named as defendants, alleging that a settlement to end patent litigation reached in 1997 between Bayer and Barr Laboratories, Inc. violated antitrust regulations. The plaintiffs claim the alleged violation prevented the marketing of generic ciprofloxacin as of 1997. In particular, they are seeking triple damages under U.S. law. After the settlement with Barr the patent was the subject of a successful re-examination by the U.S. Patent and Trademark Office and of successful defenses in U.S. federal courts. It has since expired.

All the actions pending in federal court were consolidated in federal district court in New York in a multidistrict litigation (MDL) proceeding. In 2005 the court dismissed all of plaintiffs' claims in the MDL proceeding. The plaintiffs have appealed this decision. Further cases are pending before various state courts. Bayer believes that it has meritorious defenses and intends to defend itself vigorously.

Antitrust proceedings in connection with polymers

All proceedings by authorities reported in the past relating to rubber, polyester polyols, polyether polyols, urethanes, urethane chemicals and other primary products for urethane end products in which fines were expected have since been terminated. Most recently, a fine of €28.87 million was imposed by the E.U. Commission upon Bayer for antitrust violations relating to nitrile butadiene rubber.

In addition, subject to few exceptions, all North American civil lawsuits for damages relating thereto have been settled. Bayer no longer considers the remaining risks to be material. However, there is a possibility that further lawsuits may be filed.

In Europe, the E.U. Commission imposed fines upon Bayer or granted Bayer full amnesty in antitrust investigations concerning the products rubber chemicals, butadiene rubber, styrene butadiene rubber, polychloroprene rubber and nitrile butadiene rubber. Bayer is expecting civil antitrust lawsuits for damages to be filed concerning these products.

A new class action alleging antitrust violations in connection with certain rubber products was filed recently in Australia. The proceeding is still at a very early stage.

The financial risk from the Australian litigation and the litigation expected in Europe cannot currently be quantified. Therefore, Bayer is unable to take any accounting measures in this regard.

Antitrust proceedings in connection with over-the-counter drugs in Germany

The German Federal Cartel Office (Bundeskartellamt) has instituted an inquiry against Bayer Vital GmbH questioning the manner in which Bayer extended discounts to its pharmacy customers. Bayer is cooperating with the Bundeskartellamt in its investigation.

Proceedings involving genetically modified rice

Since August 2006, Bayer CropScience LP has been party to multiple lawsuits, including putative class actions, filed in U.S. federal and state courts by rice farmers and resellers. Plaintiffs allege that they have suffered economic losses after traces of genetically modified rice were identified in samples of conventional long-grain rice grown in the U.S. This is alleged to have led to various commercial damages, including a decline in the commodity price for long-grain rice, costs associated with restrictions on imports and exports, and costs to secure alternative supplies. All the actions pending in federal court were consolidated in December 2006 in federal district court in Missouri in a multidistrict litigation (MDL) proceeding, and plaintiffs recently asked that court to certify a class action.

In development of the genetically modified rice, field testing was conducted in cooperation with third parties, including a breeding research institute in the U.S. The genetically modified rice was never commercialized.

The USDA and the FDA have stated that the genetically modified rice does not present a health risk and is safe for use in food and feed and for the environment. Additionally, in October 2007, the USDA released its report concerning its investigation into how the genetically modified rice entered the commercial rice supply. The USDA was unable to determine a cause and indicated it would not pursue any enforcement actions against Bayer CropScience or any other party.

Bayer believes it has meritorious defenses in these actions and intends to continue to defend itself vigorously. Bayer has taken accounting measures for anticipated defense costs based on the information currently available.

Proceedings involving oral contraceptives

Yasmin®: In April 2005, Bayer Schering Pharma filed suit against Barr Pharmaceuticals Inc. and Barr Laboratories Inc. in U.S. federal court alleging patent infringement by Barr for its intended generic version of Bayer Schering Pharma's Yasmin® oral contraceptive product in the United States. In June 2005 Barr filed its counterclaim seeking to invalidate Bayer Schering Pharma's patent. Barr conceded that the marketing of a generic version of Yasmin® would infringe Bayer's patent, therefore the proceedings now relate solely to the question of the validity of the patent. Trial of the matter began on November 15, 2007 and ended on December 4, 2007. Bayer is awaiting a court decision.

YAZ®: In January 2007, Bayer Schering Pharma received notice from Barr Laboratories, Inc. that it has filed an ANDA paragraph IV application with the U.S. FDA seeking approval of a generic version of Bayer Schering Pharma's YAZ® oral contraceptive product. In October 2007 Bayer Schering Pharma received notice that Watson Laboratories Inc. also had filed an ANDA paragraph IV application with the U.S. FDA seeking approval of a generic version of Bayer Schering Pharma's YAZ® oral contraceptive product. Both applications claim that Bayer Schering Pharma's patents are invalid and/or that the respective generic product does not infringe them. Bayer has filed a patent infringement suit against Watson claiming, inter alia, that Bayer's '531 patent has been infringed. Bayer's '531 patent is also at issue in the patent infringement suit against Barr, mentioned in the previous paragraph, relating to the Yasmin® oral contraceptive. Bayer Schering Pharma retains FDA marketing exclusivity for YAZ® as an oral contraceptive until March 2009.

The Yasmin® and YAZ® oral contraceptive products are very important to the business. Bayer is deeply committed to maintaining its leadership in oral contraception and intends to continue to vigorously defend its position.

Proceedings involving propylene oxide

In May 2006, a U.S. arbitration panel issued a final award in favor of Lyondell Chemical Co. in respect of a dispute with Bayer over interpretation of their Joint Venture Agreement for the manufacture of propylene oxide. Subsequently, Bayer sought to vacate the final award. Lyondell seeks to confirm such award and obtain pre-award interest. On March 20, 2007, the Texas District Court denied Bayer's motion to vacate, confirmed in part the final award and ordered additional discovery. Bayer has established appropriate provisions for the entire matter.

In addition, in January 2007, Bayer filed suit against Lyondell in the U.S. seeking equitable reformation of an agreement and restitution of certain monies paid or, as a result of the final award, allegedly owing by Bayer to Lyondell in connection with the panel award.

Bayer has separately notified Lyondell of Bayer's claim to compensation for use by Lyondell's affiliate of certain quantities of propylene oxide from Bayer's share of capacity under the Joint Venture.

Patent and contractual disputes

In August 2005, Abbott Laboratories commenced a lawsuit in the United States against Bayer and another party alleging infringement of two of Abbott's patents relating to blood glucose monitoring devices. One of the devices concerned, sold by Bayer as part of its Ascensia® Contour® system, is supplied to Bayer by a Japanese manufacturer, who originally designed the product. The manufacturer is contractually obligated to indemnify Bayer against potential liability, including defense costs, with respect to infringement claims such as this. In July 2006, Abbott added a separate claim of infringement against the devices sold by Bayer as part of its DEX® and Autodisc® system. Bayer is not entitled to indemnification on this separate claim.

In November 2007, Roche Diagnostics Operations and Corange International commenced a lawsuit in the United States against Bayer and several other parties alleging infringement of two of Roche's patents relating to blood glucose monitoring devices. Two of the accused devices are sold by Bayer as part of its Breeze® 2 and Contour® systems.

In France, Limagrain has filed suit – as legal successor to Rhône-Poulenc Agrochimie SA – against Bayer for indemnity against liabilities to third parties arising from an alleged breach of a 1986 contract to which Rhône-Poulenc was a party. A court decision is expected shortly. In parallel binding arbitration proceedings in the U.S., the arbitration panel in March 2006 denied all of Limagrain's claims of more than US$ 60 million.

In a further dispute, Bayer has filed suit against several companies in the U.S. alleging patent infringement in connection with moxifloxacin. These companies are defending the action, claiming, among other things, that the patents are invalid, not enforceable or not infringed. In October 2007, in one of these proceedings, the U.S. District Court for the District of Delaware ruled in favor of Bayer finding validity, enforceability and infringement of the two enforced Bayer patents. No appeal was filed. In the two proceedings still pending, the trial is scheduled to begin in late February 2008.

In February 2008, Bayer received notice of a patent infringement suit filed in the United States by Novartis Vaccines and Diagnostics Inc. and Novo Nordisc A/S alleging that Bayer's manufacturing and marketing of the recombinant Factor VIII product Kogenate® infringe a substance patent granted in 2006. The suit primarily seeks damages. Bayer does not believe that it has infringed any valid patent.

Bayer believes it has meritorious defenses in these patent and contractual disputes and intends to defend itself vigorously.

Further legal proceedings

Numerous actions are pending against Bayer seeking damages for plaintiffs resident outside of the United States who claim to have become infected with HIV or HCV (hepatitis C virus) through use of blood plasma products sold by Bayer. Additional actions are pending by U.S. residents who claim to have been infected with HCV.

In the United States, Bayer, together with other manufacturers, resellers and applicators, is a defendant in multiple cases, including a putative class action, that seek damages for personal injuries allegedly resulting from exposure to diphenylmethane diisocyanate (MDI) used in coal mines.

Bayer and a number of pharmaceutical companies in the United States are defendants in pending lawsuits in which plaintiffs, including states, are alleging manipulation in the reporting of wholesale prices and/or best prices for their prescription pharmaceutical products. The plaintiffs seek damages, including disgorgement of profits and punitive damages.

The shareholder resolution on the domination and profit and loss transfer agreement between Bayer Schering Pharma AG and Bayer Schering GmbH passed at the Extraordinary Stockholders' Meeting held on September 13, 2006 is subject to legal challenges. Dissenting stockholders are seeking to have the stockholder resolution set aside or to have it declared null and void. Bayer Schering Pharma AG has commenced special proceedings (Freigabeverfahren) to obtain a judgment that the stockholder actions do not prevent registration of the domination and profit and loss transfer agreement and that any defects of the stockholder resolution do not affect the validity of the registration. In May 2007 the District Court of Berlin (Landgericht Berlin) dismissed all of the stockholders' actions and approved Bayer Schering Pharma AG's application in the aforementioned special proceedings. Meanwhile, both proceedings are pending before the High Court of Berlin (Kammergericht Berlin). Several stockholders have initiated a valuation proceeding (Spruchverfahren) seeking to have reviewed the adequacy of the compensation (Abfindung) and of the guaranteed dividend (Ausgleich) provided for in the domination and profit and loss transfer agreement. This proceeding is pending before the District Court of Berlin (Landgericht Berlin) as the court of first instance. One stockholder has brought a suit in Berlin, Germany, seeking to have registration of the domination and profit and loss transfer agreement in the Commercial Register removed (Amtslöschungsverfahren). The Local Court of Berlin-Charlottenburg (Amtsgericht Berlin-Charlottenburg) has dismissed such suit. The stockholder appealed to the District Court of Berlin (Landgericht Berlin), which dismissed the appeal on November 22, 2007. The further appeal brought is pending before the High Court of Berlin (Kammergericht Berlin).

A further risk may arise from asbestos litigation in the United States. In the majority of these cases, the plaintiffs allege that Bayer and co-defendants employed third parties on their sites in past decades without providing them with sufficient warnings or protection against the known dangers of asbestos. Additionally, a Bayer affiliate in the United States is the legal successor to companies that sold asbestos products until 1976. Union Carbide has agreed to indemnify Bayer for this liability.

Bayer, among others, had been named as a defendant in a putative nationwide class action filed in federal court in North Carolina, United States, which alleges violations of antitrust laws in the marketing of a certain pest control product (Premise®). On July 13, 2007, the court granted summary judgment in favor of the defendants and plaintiffs have appealed.

On September 26, 2006, a high pressure rupture of a holding tank interrupted operation of the toluene diisocyanate II unit at the Baytown, Texas facility. After the rupture, 59 contractor employees filed a lawsuit against Bayer in Texas state court. Plaintiffs allege that they have suffered physical damages and seek both compensatory and punitive damages. The first trial, to address the claims of five plaintiffs, is scheduled to begin in March 2008. Bayer is an additional named insured on insurance policies of one of the contractors, which employed 44 of the plaintiffs.

Bayer believes it has meritorious defenses in the legal proceedings reported in this section and intends to continue to defend itself vigorously.

Liability considerations following the LANXESS spin-off

The liability situation following the spin-off of the LANXESS subgroup is governed by both statutory and contractual provisions. Under the German Transformation Act, all entities that are parties to a spin-off are jointly and severally liable for obligations of the transferor entity that are established prior to the spin-off date. Bayer AG and LANXESS AG are thus jointly and severally liable for a time period of five years for all obligations of Bayer AG that existed on January 28, 2005.

Notes to the Statements of Cash Flows

The cash flow statement shows how the liquidity of the Bayer Group was affected by the inflow and outflow of cash and cash equivalents during the year. The effects of changes in the scope of consolidation are eliminated. Cash flows are classified by operating, investing and financing activities in accordance with IAS 7 (Cash Flow Statements). The cash and cash equivalents shown in the balance sheet comprise cash, checks, balances with banks and securities with original maturities of up to three months.

The amounts reported by consolidated companies outside the euro zone are translated at average exchange rates for the year, with the exception of cash and cash equivalents, which are translated at closing rates as in the balance sheet. The effect of changes in exchange rates on cash and cash equivalents is shown separately.

Cash and cash equivalents contain both the proceeds from divestitures of discontinued operations and the cash inflows from these operations prior to the divestitures. In principle, therefore, the statement of cash flows must account for all cash inflows and outflows from continuing and discontinued operations. However, IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) specifies that cash flows from operating, investing and financing activities be classified by continuing and discontinued operations. The discontinued operations' shares of the cash flows from operating, investing and financing activities are stated separately in Note [6.3].

In both the balance sheet and the income statement, however, the amounts corresponding to the components of the net operating cash flow are shown for continuing operations only. This is the case, for example, with the amounts of inventories, receivables and payables recognized in the balance sheet that determine the changes in working capital shown in the cash flow statement. The income from continuing operations after taxes that is recognized in the income statement forms the starting point for the cash flow statement. To ensure that the operating activities are consistently presented in the cash flow statement, income statement and balance sheet, the net operating cash flow from continuing operations is stated first on the face of the cash flow statement. The total net operating cash flow from discontinued operations is shown in the next line, by analogy with the presentation of the income statement. The cash flows from continuing and discontinued operations are added together to give the net operating cash flow (total) for the entire business.

33. Net cash provided by (used in) operating activities

The gross cash flow for 2007 of €4,784 million (2006: €3,913 million) is the cash surplus from operating activities before any changes in working capital. The cash flows by segment are shown in the table in Note [1].

The net operating cash flow from continuing operations of €4,281 million (2006: €3,928 million) takes into account the changes in working capital and other non cash-relevant transaction. The €2 million (2006: €275 million) net cash flow from the discontinued operations comprises operating income from the H.C. Starck and Wolff Walsrode business units and the diagnostics business. The total net cash flow for 2007 is €4,283 million (2006: €4,203 million).

The line "Non-cash effects of the remeasurement of acquired assets (inventory work-down)" has been inserted in the cash flow statement in order to eliminate the effects of the Schering purchase price allocation from gross cash flow. Thus, the non-cash effect of the work-down of the step-up from the remeasurement of Schering inventories to fair value as of June 23, 2006, the date of acquisition, on the gross cash flow is reversed. In 2007 €215 million (2006: €429 million) was transferred to this line from "Decrease/Increase in inventories." These non-cash effects do not impact net cash flow.

34. Net cash provided by (used in) investing activities

In 2007, there was a net cash inflow of €3,186 million (2006: net cash outflow of €14,730 million), consisting principally of the proceeds from the divestitures of the Diagnostics Division, H.C. Starck and Wolff Walsrode. The principal acquisitions were those of the U.S. cotton seed producer Stoneville Pedigreed Seed Company, the Ure-Tech group of Taiwan, and a biologics manufacturing facility from Novartis. Further details of acquisitions and divestitures are given in Notes [6.2/6.3].

Cash outflows for additions to property, plant and equipment and intangible assets in 2007 came to €1,860 million (2006: €1,876 million). Disbursements for property, plant and equipment and intangible assets included those for the acquisition of Zymo Genetics and the expansion of the production site for polymer products in Caojing, near Shanghai, China.

Inflows from sales of property, plant and equipment and other assets amounted to €165 million (2006: €185 million). An initial payment of €395 million on the divestiture of the diagnostics business, which was completed at the start of 2007, was received at the end of 2006.

Cash inflows from noncurrent financial assets amounted to €70 million (2006: €850 million).

35. Net cash provided by (used in) financing activities

In fiscal 2007 there was a net cash outflow of €7,730 million (2006: net cash inflow of €10,199 million) from financing activities. These disbursements served primarily to reduce debt by €5,613 million (2006: net borrowing of €10.7 billion to finance the acquisition of Schering).

Cash outflows for dividend payments amounted to €773 million (2006: €535 million – including the €176 million refund of advance capital gains tax payments made on intragroup dividends in 2004). Interest expense increased to €1,344 million (2006: €1,155 million).

36. Cash and cash equivalents

Cash and cash equivalents comprise cash, checks and balances with banks. In accordance with IAS 7 (Cash Flow Statements) this item also includes securities with original maturities of up to three months, reflecting their high liquidity. Cash and cash equivalents amounted to €2,531 million as of December 31, 2007 (2006: €2,915 million). Cash of €755 million (2006: €799 million) has been deposited in escrow accounts. This amount comprises €695 million (2006: €710 million) transferred to a guarantee account in light of the resolved squeeze-out of the remaining minority stockholders of Schering, and €60 million (2006: €89 million) to be used exclusively for payments relating to antitrust fines and civil law settlements.

Other information

37. Audit fees

The following fees for the services of the auditor of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, were recognized as expenses:

€ million	2006	**2007**
Financial statement auditing	10	9
Audit-related services and other audit work	3	2
Tax consultancy	1	-
Other services rendered to Bayer AG or subsidiaries	1	-
Total	**15**	**11**

The fees for the auditing of financial statements mainly comprise those for the audits of the consolidated financial statements of the Bayer Group and the financial statements of Bayer AG and its German subsidiaries. Fees for audit-related services and other audit work primarily relate to the preparation of expert reports and audit work in connection with acquisitions and divestitures, audits of the internal control system including project audits in connection with the implementation of new IT systems, and auditor reviews of interim financial statements.

38. Related parties

Our business partners include companies in which an interest is held, and companies with which members of the Supervisory Board of Bayer AG are associated. Transactions with these companies are carried out on an arm's-length basis. Business with such companies was not material from the viewpoint of the Bayer Group. The Bayer Group was not a party to any transaction of an unusual nature or structure that was material to it or to companies or persons closely associated with it.

Transactions in the following amounts – mainly for trade in goods and services – were undertaken with related parties included in the financial statements of the Bayer Group at equity or cost less impairment charges:

€ million	2006	**2007**
Income	188	135
Receivables	143	47
Liabilities	(127)	(111)

In addition, financial receivables of €6 million from related parties existed in 2007 (2006: €43 million).

39. Total remuneration of the Board of Management and the Supervisory Board and loans

The remuneration of the Supervisory Board amounted to €2,346,596 (2006: €2,337,041), including €782,199 (2006: €779,014) in variable components.

The remuneration components of the individual members of the Board of Management were as follows:

€		Werner Wenning	Klaus Kühn	Udo Oels[1]	Wolfgang Plischke[2]	Richard Pott	Total
Base salary	2007	748,872	412,236	-	412,236	412,236	1,985,580
	2006	748,872	412,236	343,526	343,530	412,236	2,260,400
Fixed supplement	2007	325,132	316,366	-	170,647	170,647	982,792
	2006	325,132	316,366	142,205	142,206	170,647	1,096,556
Short-term incentive	2007	2,168,878	1,379,994	-	1,109,995	1,109,995	5,768,862
	2006	1,525,086	1,034,615	567,335	689,745	827,694	4,644,475
Remuneration in kind and other benefits	2007	51,104	35,769	-	25,208	33,237	145,318
	2006	47,926	35,571	9,594	18,163	31,137	142,391
Directly effected remuneration	**2007**	**3,293,986**	**2,144,365**	**-**	**1,718,086**	**1,726,115**	**8,882,552**
	2006	2,647,016	1,798,788	1,062,660	1,193,644	1,441,714	8,143,822
Long-term incentive (stock-based compensation entitlements earned in the respective year)	2007	1,149,675	698,890	-	358,924	631,618	2,839,107
	2006	820,514	480,609	538,181	193,188	461,939	2,494,431
Change in value of existing entitlements	2007	889,725	510,121	-	100,950	491,935	1,992,731
	2006	339,733	229,617	104,125	66,262	164,952	904,689

[1] member of the Board of Management until April 28, 2006
[2] member of the Board of Management effective March 1, 2006

The fair value of the stock-based compensation as of the grant dates for 2007 and 2006 is shown in the following table.

€		Werner Wenning	Klaus Kühn	Udo Oels[1]	Wolfgang Plischke[2]	Richard Pott	Total
Fair value of newly granted stock-based compensation as of grant date	2007	299,173	202,957	-	162,366	162,366	826,862
	2006	268,113	181,886	40,419	117,597	145,509	753,524

[1] member of the Board of Management until April 28, 2006
[2] member of the Board of Management effective March 1, 2006

The fair value of the entitlements to newly granted stock-based compensation already earned in the respective year is included in the preceding table under “Long-term incentive.”

The current service cost for the pension entitlements of the members of the Board of Management was as follows:

		Werner Wenning	Klaus Kühn	Udo Oels[1]	Wolfgang Plischke[2]	Richard Pott	**Total**
€							
Current service cost for pension entitlements earned in the respective year	2007	-	588,064	-	187,344	223,453	998,861
	2006	398,564	1,651,294	-	1,644,517	233,284	3,927,659

[1] member of the Board of Management until April 28, 2006
[2] member of the Board of Management effective March 1, 2006

Further details are provided in the Compensation Report, which forms part of the Management Report.

The pensions paid to retired members of the Board of Management and their surviving dependents amounted to €10,997,016 (2006: €10,924,768. Pension provisions for former members of the Board of Management and their surviving dependents amounted to €115,103,558 (2006: €117,866,846).

There were no loans to members of the Board of Management or the Supervisory Board outstanding as of December 31, 2007, nor any repayments of such loans during the year.

Leverkusen, February 18, 2008
Bayer Aktiengesellschaft

Board of Management

Statement by the Board of Management on Financial Reporting

The consolidated financial statements of the Bayer Group have been prepared by the management, which is responsible for the substance and objectivity of the information contained therein. The same applies to the Group management report, which is consistent with the consolidated financial statements.

Our financial reporting takes place according to the rules issued by the International Accounting Standards Board, London.

Effective internal monitoring procedures instituted by Group management at the consolidated companies along with appropriate staff training ensure the propriety of our reporting and its compliance with legal provisions. Integrity and social responsibility form the basis of our corporate principles and of their application in areas such as environmental protection, quality, product safety, plant safety and adherence to local laws and regulations. The worldwide implementation of these principles and the reliability and effectiveness of the monitoring procedures are continuously verified by our Corporate Auditing Department.

The Board of Management conducts the business of the Group in the interests of the stockholders and in awareness of its responsibilities toward employees, communities and the environment in all the countries in which we operate. Our declared aim is to deploy the resources entrusted to us in order to increase the value of the Bayer Group as a whole.

In accordance with the resolution of the Annual Stockholders' Meeting, the Supervisory Board appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the independent auditor of the consolidated financial statements and of the statements' compliance with the International Financial Reporting Standards. The scope of the auditor's report, which appears on the following page, also includes Bayer's risk management system, audited in light of the German Law on Corporate Supervision and Transparency. The consolidated financial statements, the management report and the auditor's report were discussed in detail, in the presence of the auditor, by the Audit Committee of the Supervisory Board and at a plenary meeting of the Supervisory Board. The Report of the Supervisory Board appears on page 10 ff of this Annual Report.

The Board of Management

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Leverkusen, February 18, 2008
Bayer Aktiengesellschaft

The Board of Management

Werner Wenning   Klaus Kühn   Dr. Wolfgang Plischke   Dr. Richard Pott

Auditor's Report

We have audited the consolidated financial statements prepared by Bayer Aktiengesellschaft, Leverkusen, comprising the income statement, the balance sheet, cash flow statement, statement of recognized income and expense and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with the IFRS, as adopted by the E.U., and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRS as adopted by the E.U., the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Essen, February 25, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Armin Slotta)	(Volker Linke)
Wirtschaftsprüfer	Wirtschaftsprüfer

Focus

Bayer Management Board Chairman Werner Wenning presented the integrated worldwide Bayer Climate Program, aimed at further reducing the Group's CO_2 emissions, to an international news conference.

Bayer launches Group-wide climate program

Leverkusen – In November Bayer launched an integrated, Group-wide "Bayer Climate Program" with the aim of further reducing CO_2 emissions from its production facilities and developing new solutions for climate protection and dealing with climate change. Covering a period of several years, it encompasses different measures based on the newly formulated "Bayer Policy on Climate Change."

"We are well aware that we are an emitter of greenhouse gases," said Bayer Management Board Chairman Werner Wenning, presenting the new climate program to more than 100 journalists at an international press conference in Leverkusen. "That was why in the past we had already focused attention on lowering CO_2 emissions." Between 1990 and 2006 the company reduced its absolute global greenhouse gas emissions by a significant 36 percent. In addition, specific emissions per product unit were lowered as a result of consistent improvements in energy efficiency.

New emissions targets

For the period from 2005 through 2020, Bayer has set new emissions targets that are particularly ambitious in light of the reductions in greenhouse gas emissions it has already achieved. The Bayer MaterialScience subgroup plans to cut its specific greenhouse gas emissions per ton of sales product by 25 percent globally. Bayer CropScience is targeting a reduction of 15 percent in its absolute global emissions, and Bayer HealthCare is aiming for 5 percent.

Lighthouse projects initiated

The "Bayer Climate Program" means the company is bundling its specific expertise as an inventor company. The first lighthouse projects are already under way. Working together with a number of partners, Bayer has developed the "Eco Commercial Building," a globally adaptable concept for zero-emission buildings. Bayer will launch the project with a building of its own. In the spring of 2008, it will begin the construction of a new company office building near New Delhi, India, thereby realizing the "Eco Commercial Building" concept for the first time.

At the same time, the company wants to make use of the possibilities offered by biotechnology to make plants more resistant to climatic conditions such as drought and heat, and is making an important contribution to the growing of crops as raw materials for biofuels.

Making production processes more climate-friendly

Bayer has developed a new tool for increasing energy efficiency and reducing CO_2 emissions from its production plants, known as the "Bayer Climate Check," to ensure climate protection aspects are taken into account when production processes are optimized. The climate check also includes the upstream stages of production – raw materials, energy and logistics – in the assessment. In addition, the company plans to employ the climate check to assess technology projects and major new investment plans. Through the end of 2008, 100 production facilities throughout the world, currently accounting for some 85 percent of Bayer's greenhouse gas emissions, will be scrutinized to identify emissions reduction potential.

New policy for vehicle fleets

Bayer is also involving its employees around the world in this integrated program. Incentive systems will be introduced, initially in Germany and then gradually in other countries, for using low-emission vehicles and natural gas-fueled company cars. In this way the Bayer Group aims to cut the emissions caused by company vehicles by 20 percent between 2007 and 2012. In addition, the increased use of modern telecommunications technologies is aimed at reducing business air travel.

Promoting innovation

In addition, Bayer is planning to introduce two initiatives to promote scientific innovation in the field of climate protection and encourage young people to take an interest in the topic. Firstly, the recently established "Bayer Science & Education Foundation" will present the "Bayer Climate Award," worth €50,000. The Foundation will also enable school students to attend seminars abroad on the subject of climate protection.

Named "Best in Class" again

"We want to continue growing, not least because we manufacture innovative products for efficient climate protection and for dealing with climate change," Wenning stressed at the news conference. Bayer products already contribute in many different ways to saving energy and conserving resources in everyday life. For example, polyurethane insulating materials in buildings and refrigerators help save large amounts of energy.

For these achievements, independent institutions like the Carbon Disclosure Project have voted Bayer "Best in Class" on numerous occasions. In 2007 the company was included for the third time in a row in the Climate Disclosure Leadership Index – the world's first climate protection index. Bayer is the only European company in the chemical industry to receive this honor.

"We at Bayer take climate change very seriously and regard it as an ecological and economic challenge," continued Wenning. In its mission statement "Bayer: Science For A Better Life," the company acknowledges and accepts the need for it to behave as a socially and ethically responsible corporate citizen. Said Dr. Wolfgang Plischke, Bayer Management Board spokesman for Innovation, Technology and Environment: "We will work consistently on implementing the integrated Group-wide 'Bayer Climate Program' in the coming years."

For more information, visit www.climate.bayer.com

News 2007/2008

German President Horst Köhler was the keynote speaker at the opening ceremony for the Bayer Cultural Affairs Department's centennial season. The event was held at the "Erholungshaus" in Leverkusen and attended by more than 600 guests. Köhler thanked the company for its commitment to the arts.

A century of culture at Bayer

Leverkusen – The 100th season of the Bayer Cultural Affairs Department was opened at the beginning of September 2007 at the "Erholungshaus" in Leverkusen in the presence of German President Horst Köhler and North Rhine-Westphalia State Premier Jürgen Rüttgers.

Bayer CEO Werner Wenning thanked the distinguished guests for the special appreciation they had shown for Bayer's cultural activities, and thus for the company itself, by attending the event. "A century of successful cultural activity also confers an obligation on us for the future," Wenning noted.

Said President Köhler in his address: "I would like to see a society in which art and culture are accessible to everyone. They are the elixir of life. And even if parents have no involvement with education or culture, then this should not be a barrier for their children." Premier Rüttgers also described the company's activities as exemplary.

Bayer has one of the longest traditions of cultural sponsorship in German industry. In December 2007, the company was honored for its program "A century of culture at Bayer" by the "Freedom and Responsibility" initiative, of which German President Köhler is patron. Each year, the company sponsors more than 100 cultural events in the areas of theater, music, dance and the fine arts. In addition, both employees at the German sites and people from nearby communities can develop their talents in 17 company clubs and societies.

Rivaroxaban submitted for approval

Leverkusen – In October 2007 Bayer HealthCare submitted a Marketing Authorization Application for the European Union to the European Medicines Agency (EMEA) for rivaroxaban (Xarelto®) in the prevention of venous thromboembolism (VTE) after major orthopedic surgery of the lower limbs. Upon regulatory approval, Xarelto® will be marketed in Europe by Bayer Schering Pharma. The company plans to file for approval of the product by the U.S. Food and Drug Administration in 2008. Rivaroxaban is a once-daily direct Factor Xa inhibitor in tablet form.

Data from the RECORD1-3 studies presented at the 49th Annual Meeting of the American Society of Hematology (ASH) revealed that rivaroxaban significantly reduces the risk of VTE in patients undergoing hip or knee replacement surgery compared with enoxaparin, the current standard-of-care therapy. Bleeding rates were low and similar in all arms of the study.

Group plans to expand polyurethane capacities

Leverkusen – Bayer MaterialScience is considering building a world-scale production facility for methylene diphenyl diisocyanate (MDI) in Europe. A decision on the construction of the plant is due to be made this year. It would have an annual capacity of 400,000 tons and could be commissioned in 2012. Realization of this project would raise the annual global MDI capacity of Bayer MaterialScience to 1,850,000 tons, including the new 350,000-ton plant due on stream later in 2008 at the integrated site in Shanghai. Operating a world-scale MDI facility in Europe would help Bayer MaterialScience to further expand its leading position in the polyurethane industry.

Former Bayer CFO Helmut Loehr dies

Leverkusen – Helmut Loehr, former Chief Financial Officer of Bayer AG, died in Leverkusen on January 7, 2008 at the age of 72. He was a member of the company's Board of Management from 1986 until 1997. In a tribute Werner Wenning, Chairman of the Board of Management of Bayer AG, said: "Helmut Loehr rendered dedicated and outstanding service to Bayer. He contributed decisively to major developments, particularly in the field of finance. He displayed an exemplary commitment to our company and was a man of outstanding competence, honesty and absolute reliability."

New crop protection active ingredients approved

Monheim – Bayer CropScience has received marketing authorization from the relevant authorities for four innovative active ingredients featured in its launch program, which has been under way since 2000.

The herbicidal active ingredient tembotrione received its first registration worldwide, enabling the corn herbicide Laudis® to be introduced in Austria in time for the spring 2007 season. The novel cereal herbicide active ingredient pyrasulfotole received its first marketing authorization from the United States Environmental Protection Agency and is currently being introduced to the U.S. market under the brand name Huskie™. The third active ingredient to receive marketing approval was flubendiamide (Belt®/Fenos®) for insecticides in India. This substance is already registered in the Philippines and Pakistan. The fourth active ingredient, spirotetramat (Movento®), protects crops against numerous sucking insects. Bayer CropScience plans to have launched a total of 26 new active ingredients between 2000 and 2011.

Werner Wenning named "2007 Manager of the Year"

Hamburg – Bayer CEO Werner Wenning is "2007 Manager of the Year." A prominent jury from the German publication *manager magazin* presented the Bayer AG Management Board Chairman with this award in honor of his outstanding achievements in realigning the Bayer Group. The jury was particularly impressed by the focused manner in which Wenning drove forward the reorganization process at Bayer. According to the jury, he succeeded in getting Bayer strategically back on track. Since taking over as Management Board Chairman in April 2002, Wenning has realigned Bayer's health care operations, spun off the low-earning chemicals activities into the new company LANXESS, and in March 2006 acquired Berlin, Germany-based pharmaceutical company Schering, the magazine writes.

2008 Otto Bayer Prize goes to DNA scientist

Leverkusen – At a ceremony in Berlin at the end of January 2008, the Otto Bayer Prize for 2008 was awarded to Professor Thomas Carell of the Institute for Chemistry and Pharmacy at Ludwig Maximilian University in Munich. The Board of Trustees and the Executive Committee of the "Bayer Science & Education Foundation" honored Carell with this valuable prize for his pioneering research into DNA repair, which can prevent cell mutation, spontaneous cancer formation and aging processes.

The Otto Bayer Prize is one of Germany's most prestigious and coveted scientific accolades. The "Bayer Science & Education Foundation" supports outstanding research work and promotes scientific talent. It also provides some €500,000 in funding each year for sustainable educational projects in schools.

Nexavar® approved in the U.S. to treat liver cancer

Leverkusen – The cancer drug Nexavar® has become the first product to receive marketing authorization in the United States for the treatment of liver cancer. The U.S. Food and Drug Administration (FDA) has approved a supplemental New Drug Application for Nexavar® (sorafenib) tablets for the treatment of patients with hepatocellular carcinoma (HCC), the most common form of liver cancer. In Europe, Nexavar® was approved for the treatment of HCC in October 2007. It is the only drug therapy shown to significantly improve overall survival in patients with the disease.

In late 2005, after a development time of only ten years, Nexavar® was introduced to the market as the first new treatment for advanced kidney cancer. It is now approved for this indication in more than 60 countries. The product is being jointly developed by Bayer HealthCare AG and Onyx Pharmaceuticals, Inc.

Bayer tower to be converted into a media facade

Leverkusen – Bayer plans to convert its former headquarters building into a media sculpture visible for miles around, creating a contemporary visualization of the company at its global headquarters in Leverkusen. The 122-meter tower will be used as an impressive communications tool, with LEDs enabling large-format animated images. Using the latest technology, it will also be possible to display a Bayer Cross approximately 40 meters in diameter on the east and west facades of the tower, irrespective of the time of day. All this will make Bayer's high-rise a prominent landmark throughout the area, proclaiming the location of the company's global headquarters. The new media facade is due for completion in the spring of 2009.

The conference attendees were impressed by the new Tunza logo, created by Bayer for UNEP. The logo was presented at the opening ceremony held at the "Erholungshaus" in Leverkusen.

Tunza youth environmental conference focuses on international climate debate

Leverkusen – Climate protection, regenerative energies and modern environmental protection technologies were the topics taking center stage at the Tunza International Youth Conference held in Leverkusen at the end of August 2007. The youth environment summit was hosted by Bayer in the context of its partnership with the United Nations Environment Programme (UNEP), marking the first time that the event has been held in western Europe. For four days, 180 young environmentalists between the ages of 15 and 24 discussed the topic of "Technology in Service of the Environment."

In workshops and plenary sessions, the participants debated key global environmental issues and their own countries' environmental agendas. The attendees were also given the opportunity to expand their environmental knowledge through excursions to model environmental projects and facilities in Germany and visits to the waste management facilities at Bayer's Leverkusen and Dormagen sites. At the end of the conference, the first such event to be organized by a private-sector company, each of the participants planted a tree as a symbolic, personal contribution to the UNEP initiative "Plant for the Planet: Billion Tree Campaign."

In this initiative, UNEP called on governments, organizations and private individuals to actively help tackle climate change by planting a total of one billion trees in 2007. The campaign was a big success, with approximately 1.5 billion trees planted worldwide by the end of the year. Bayer contributed by planting a total of 300,000 trees in several countries.

To continue the successful alliance between the United Nations Environment Programme and Bayer, UNEP Executive Director Achim Steiner and Bayer Management Board Chairman Werner Wenning signed a new cooperation agreement that extends the collaboration by another three years. Bayer will support UNEP's activities with its own programs and by increasing its annual funding of the partnership by €200,000 to €1.2 million.

Supervisory Board and Board of Management

Supervisory Board

Hermann Josef Strenger
Honorary Chairman, Leverkusen

Members of the Supervisory Board held offices as members of the supervisory board or a comparable supervising body of the corporations listed (as at December 31, 2007 or the date on which they ceased to be members of the Supervisory Board of Bayer AG):

Dr. Manfred Schneider
Chairman of the Supervisory Board, Leverkusen
* December 21, 1938
Daimler AG
Linde AG (Chairman)
Metro AG
RWE AG
TUI AG

Thomas de Win
Vice Chairman of the Supervisory Board, Leverkusen;
Chairman of the Bayer Central Works Council
* November 21, 1958
Bayer MaterialScience AG

Dr. Paul Achleitner
Member of the Board of Management of Allianz SE, Munich
* September 28, 1956
Allianz Deutschland AG
Allianz Elementar Lebensversicherungs-AG (Chairman)
Allianz Elementar Versicherungs-AG (Chairman)
Allianz Global Investors AG
Allianz Investment Bank (Vice Chairman)
Allianz Lebensversicherungs-AG
RWE AG

Dr. Josef Ackermann
(until April 27, 2007)
Chairman of the Board of Managing Directors of Deutsche Bank AG, Frankfurt am Main
* February 7, 1948
Siemens AG

Andreas Becker
(until February 1, 2007)
Chairman of the Works Council of H. C. Starck, Laufenburg
* March 1, 1959

Willy Beumann
(effective February 20, 2007)
Chairman of the Works Council of the Wuppertal site of Bayer AG
* April 12, 1956
Bayer HealthCare AG

Dr. Clemens Börsig
(effective April 27, 2007)
Chairman of the Supervisory Board of Deutsche Bank AG, Frankfurt am Main
* July 27, 1948
Daimler AG (effective April 4, 2007)
Deutsche Bank AG (Chairman)
Deutsche Lufthansa AG
Foreign & Colonial Eurotrust PLC (until December 13, 2007)
Linde AG

Karl-Josef Ellrich
Chairman of the Dormagen Works Council of Bayer AG;
Chairman of the Bayer Group Works Council
* October 5, 1949
Bayer CropScience AG

Dr.-Ing. Thomas Fischer
Chairman of the Group Managerial Employees’ Committee of Bayer AG
* August 27, 1955
Bayer MaterialScience AG

Peter Hausmann
North Rhine District Secretary of the German Mining, Chemical and Energy Industrial Union, Düsseldorf
* February 13, 1954
Evonik Services GmbH

Thomas Hellmuth
(until April 27, 2007)
Agricultural Engineer, Langenfeld
* May 29, 1956

Prof. Dr.-Ing. e.h. Hans-Olaf Henkel
Honorary Professor at the University of Mannheim, Mannheim
* March 14, 1940
Brambles Industries Ltd.
(until November 15, 2007)
Continental AG
Daimler Luft- und Raumfahrt Holding AG
EPG AG
Orange SA (until February 2, 2007)
Ringier AG
SMS GmbH

Reiner Hoffmann
Deputy General Secretary of the European Trade Union Confederation (ETUC), Brussels
* May 30, 1955
SASOL Germany GmbH

Gregor Jüsten
(until April 27, 2007)
Chemical Production Technician, Member of the Leverkusen Works Council of Bayer
* December 13, 1948

Dr. rer. pol. Klaus Kleinfeld
Chief Operating Officer of ALCOA Inc., New York, USA
* November 6, 1957
Citigroup Inc. (until August 2007)

Dr. h.c. Martin Kohlhaussen
(until April 27, 2007)
Chairman of the Supervisory Board of Commerzbank AG, Frankfurt am Main
* November 6, 1935
Hochtief AG (Chairman)
ThyssenKrupp AG

John Christian Kornblum
(until April 27, 2007)
Senior Advisor at Nörr Stiefenhofer Lutz, Berlin
* February 6, 1943
Motorola GmbH

André Krejcik
(effective April 27, 2007)
Member of the Works Council of Bayer Schering Pharma AG
* February 17, 1969

Petra Kronen
Chairwoman of the Uerdingen Works Council of Bayer AG
* August 22, 1964
Bayer MaterialScience AG

Dr. rer. nat. Helmut Panke
(effective April 27, 2007)
Former Chairman of the Board of Management of BMW AG, Munich
* August 31, 1946
Microsoft Corporation
UBS AG

Hubertus Schmoldt
Chairman of the German Mining, Chemical and Energy Industrial Union, Hannover
* January 14, 1945
Deutsche BP AG
DOW Olefinverbund GmbH
E.ON AG
RAG AG

Standing committees of the Supervisory Board of Bayer AG as at December 31, 2007	
Presidial Committee/Mediation Committee	Schneider (Chairman), Achleitner, Schmoldt, de Win
Audit Committee	Sturany (Chairman), Fischer, Hausmann, Henkel, Schneider, de Win
Human Resources Committee	Schneider (Chairman), Ellrich, Kronen, Weber
Nominations Committee	Schneider (Chairman), Achleitner

Dr.-Ing. Ekkehard D. Schulz
Chairman of the Executive Board of ThyssenKrupp AG, Duisburg/Essen
* July 24, 1941
AXA Konzern AG
MAN AG (Chairman until May 10, 2007, Vice Chairman effective May 11, 2007)
RAG AG (Vice Chairman)
(until November 30, 2007)
RAG Beteiligungs-AG (Vice Chairman)
(until November 30, 2007)
RWE AG
ThyssenKrupp Elevator AG (Chairman)
(until August 31, 2007)
ThyssenKrupp Services AG (Chairman)
ThyssenKrupp Steel AG (Chairman)
(effective September 1, 2007)
ThyssenKrupp Technologies AG
(Chairman)

Dr. Klaus Sturany
(effective April 27, 2007)
Member of the Board of Management of RWE AG, Essen (until April 30, 2007)
* October 23, 1946
Commerzbank AG
Hannover Rückversicherung AG
Heidelberger Druckmaschinen AG
Österreichische Industrieholding AG

Dipl.-Ing. Dr.-Ing. e.h. Jürgen Weber
Chairman of the Supervisory Board of Deutsche Lufthansa AG, Köln
* October 17, 1941
Allianz Lebensversicherungs-AG
Deutsche Bank AG
Deutsche Post AG (Chairman)
LP Holding GmbH (Chairman)
Tetra Laval Group
Voith AG
Willy Bogner GmbH & Co. KGaA

Prof. Dr. Dr. h.c. Ernst-Ludwig Winnacker
Special Adviser to the European Commission, Brussels
* July 26, 1941
KWS Saat AG (until December 13, 2007)
Medigene AG (Chairman)
Wacker Chemie AG

Oliver Zühlke
(effective April 27, 2007)
Vice Chairman of the Works Council of Bayer AG
* December 11, 1968
Bayer HealthCare AG

Board of Management

Members of the Board of Management held offices as members of the supervisory board or a comparable supervising body of the corporations listed (as at December 31, 2007):

Werner Wenning
Chairman of the Board of Management
* October 21, 1946
Bayer Schering Pharma AG (Chairman)
Evonik Industries AG
(effective December 3, 2007)
Henkel KGaA

Klaus Kühn
* February 11, 1952
Bayer Business Services GmbH
(Chairman)
Bayer CropScience AG (Chairman)
Bayer Schering Pharma AG
Symrise AG
(effective July 16, 2007)

Dr. Wolfgang Plischke
* September 15, 1951
ARK Therapeutics, Non-Executive Director
Bayer Innovation GmbH (Chairman of the Shareholders' Committee)
Bayer MaterialScience AG (Chairman)
Bayer Technology Services GmbH
(Chairman)
Bayern LB, Economic Advisory Board

Dr. Richard Pott
Labor Director
* May 11, 1953
Bayer HealthCare AG (Chairman)
Currenta Geschäftsführungs-GmbH
(formerly Bayer Industry Services Geschäftsführungs-GmbH)
(Chairman)

Organization Chart

as of February 1, 2008

Bayer AG (holding company)

Group Management Board

Werner Wenning
Chairman

Richard Pott*
Strategy & Human Resources

Klaus Kühn
Finance

Wolfgang Plischke
Innovation, Technology & Environment

Corporate Center

Corporate Office	**J. Krell**
Communications	**H. Springer**
Investor Relations	**A. Rosar**
Corporate Auditing	**R. Meyer**
Corporate Human Resources & Organization	**J. Peters**
Finance	**J. Dietsch**
Corporate Development	**M. Mangold**
Law & Patents, Insurance	**R. Hartwig**
Environment & Sustainability	**W. Grosse Entrup**
Group Accounting & Controlling	**U. Hauck**
Regional Coordination & Advocacy	**F.-J. Berners**

Business Areas

Bayer HealthCare

A. J. Higgins (photo)
Chairman
L. van der Broek
Animal Health
G. Balkema
Consumer Care
S. E. Peterson
Diabetes Care
U. Köstlin
Bayer Schering Pharma
Business Units & Regions I
G. Riemann
Bayer Schering Pharma
Business Units & Regions II
W. Baumann*
Central Administration
& Organization
H. Klusik
Product Supply
A. Busch
Bayer Schering Pharma
Global Drug Discovery
K. Malik
Bayer Schering Pharma
Global Development

Bayer CropScience

F. Berschauer (photo)
Chairman
R. Scheitza*
Portfolio Management
A. Klausener
Research
F. J. Placke
Development
W. Welter
Industrial Operations
& QHSE
D. Suwelack
Business Planning
& Administration
B. Naaf
Crop Protection
Asia Pacific
J. du Puy
Crop Protection
Europe & TAMECIS
W. Buckner
Crop Protection
North America
M. Reichardt
Crop Protection
Latin America
P. Housset
Environmental Science
J. Schneider
BioScience

Bayer MaterialScience

P. Thomas (photo)
Chairman
A. Steiger-Bagel
Administration
T. Van Osselaer*
Industrial Operations
G. Hilken
Polycarbonates
P. Vanacker
Polyurethanes
J. Wolff
Coatings, Adhesives,
Sealants
T. Bielfeldt
Thermoplastic
Polyurethanes

Service Areas

Bayer Business Services

Executive Board

A. Resch (photo)
Chairman

N. Fieseler*

Bayer Technology Services

A. Noack (photo)
Managing Director

Currenta

Executive Board

K. Schäfer (photo)
Chairman

J. Waldi*

* Labor Director

Group Leadership Circle

as of February 1, 2008

The Group Leadership Circle consists of managers in the holding company, subgroups and service companies whose functions are particularly important for the Bayer Group as a whole.

A

Abreu, Claudio
Achenbaum, Jon
Allen, Christopher
Amling, Andreas
Angerbauer, Rolf
Apel, Daniel
Applegate, Jacqueline
Arnold, Markus
Asboth, Christian
Atzor, Michael

B

Babe, Gregory
Bachlechner, Guenter
Backhaus, Dirk
Balkema, Gary
Baltzer, Markus
Baumann, Werner
Bechem, Martin
Beck, Carlos-Alberto
Becker, Ludger
Behrens, Jens
Beier, Andreas
Benecke, Lars
Berners, Franz-Josef
Bernhardt, Michael
Berschauer, Friedrich
Bertram, Frank
Bey, Alexander
Bielfeldt, Tim
Bier, Bernd-Peter
Bieringer, Thomas
Binda, Maria-Luisa
Bishop, Hans
Blake, Philip
Bomann, Werner
Bostian, Arlin
Braunleder, Georg
Broué, Jean
Brüll, Ludger
Bruhn, Burghardt
Buckner, William
Buehner, Klaus
Burck, Alexander
Busch, Andreas

C

Cardinal von Widdern, Lutz
Cetnarowski, Wes
Chenet, Thierry
Cherny, Margaret
Chiassarini, Mauro
Coppens, Ernst
Cremers, Hans Josef
Crosby, Nick

D

Dannapel, Bruno
Dawkins, Martin
De Cleyn, Rene
De Jonge, Maarten
De Prins, Werner
Deall, Michael
Decker-Conradi, Jörg
Deege, Rolf
DeLong, James
Dennehy, Paul
Devoy, Michael
Dietrich, Frank
Dietsch, Johannes
Dini, Alain
Döllinger, Lothar
Doerholt, Hermann-Josef
Donahoe, Steve
Dorison, Dominique
Du Puy, Jacques
Dumont, Christophe
Dumont, Philippe

E

Echterhoff, Ralf
Ehemann-Schneider, Christel
Eiki, Norikazu
Eldem, Cenk
Engels, Hans-Wilhelm
Evans, Christopher

F

Fairhurst, Margaret Mary
Fenu, Giovanni
Fey, Claus
Fieseler, Norbert
Firl, Rolf-Reiner
Fischer, Meredith
Flechtner, Helmut
Franzen, Reinhard
Freytag, Michael
Friel, John
Fritz, Reinhard
Funk, Rolf

G

Garnier, Franck
Gasche, Hans-Erich
Gause, Friedrich
Gauthier, Philippe
Gerlach, Martin
Gerlich, Stephan

Geyer, Edgar
Graney, Robert
Gray, John
Gross, Dietmar
Große Entrup, Wolfgang
Gruber, Friedrich
Grunert, Frank
Günther, Andreas

H

Hakert, Hubertus
Hansen, Ralf
Hartwig, Roland
Hauck, Ulrich
Haug, Matthias
Haug, Michael
Haumesser, Winfried
Hayes, Timothy
Heiden, Paul-Gerd
Heider, Wilfried
Heidrich, Joerg
Held, Christian
Higgins, Arthur
Hilken, Günter
Hinderer, Jürgen
Höhl, Hans-Walter
Hoever, Franz-Peter
Hotop, Reiner
Housset, Pascal
Houston, John
Hummel, Donald

I

Inkmann-Koch, Anette

J

Jahn, Alexander
Jelich, Klaus
Jesse, Ralf Rüdiger
Johnson, Michael
Juhnke, Andreas
Jungblut, Wolfgang

K

Kalinowski, Hans-Stefan
Kastner, Thomas Karl
Kaushik, Vidya Sagar
Klausener, Alexander
Klebert, Ulrich
Klusik, Hartmut
Knapp, Frank
Kneen, Geoffrey
Knights, Ian
Knors, Armin
Köhler, Gregor
Köhler, Jürgen
König, Michael
Köplin, Wilfried
Koersvelt, Adri
Köstlin, Ulrich
Kolpon, Jay
Kopp, Wilfried
Krause, Rainer
Krauskopf, Birgit
Krell, Jörg
Kreuzburg, Christa
Krüger, Bernd-Wieland
Kühling, Steffen
Kumpf, Robert-Joseph
Kuschnerus, Norbert

L

Läpple, Horstfried
Lafeuille, Marc
Lauff, Peter
Leidemann, Burkhardt
Leidinger, Walter
Lengerich, Hartmut
Leroux, Bernard
Leucker, Hermann
Löwer, Hartmut
Lohkamp, Gudrun
Londershausen, Michael
Louvel, Erik
Lowinski, Jean-Luc
Loyd, William
Lukas, Frank
Lykos, George

M

MacCleary, Gerald
Mackintosh, Bruce
Maier, Hans
Main, Alan
Malik, Kemal
Mangold, Matthias
Marchand, Gerhart
Marchand, Tobias
Marchant, Gavin
Mathews, Michael
Maul, Jürgen
McCahon, Peter
McCullough, Dennis
Metzner, Bernd
Meuten, Hans-Peter
Meyer, Rainer
Michaelis, Johannes
Miebach, Wolfgang
Milon, Jean-Philippe
Mirgel, Volker
Möller, Jörg
Molnar, Attila
Moritz, Matthias
Moscho, Alexander
Mothes, Helmut
Müller, Michael
Müller, Peter
Murek, Udo

N

Naaf, Bernd
Nagy, Paul
Nehoda-Hahn, Vera
Nellshen, Stefan
Nestler, Andrew
Noack, Achim

O

Oehlschläger, Gabriele
Oehlschläger, Wilhelm
Oelrich, Stefan
Ohle, Jörg
Ohst, Holger
Orme, Andrew
Ott, Jürgen
Owlia, Azita

P

Parotelli, Roberto
Pascoletti, Karl-Heinz
Paterson, Ian
Percy, Adrian
Perne, Rainer
Peters, Jan H.
Peterson-Buengeler, Sandra
Phillips, Barry-Allen
Pickel, Markus
Pilgram, Frank
Placke, Franz-Josef
Portoff, Michael
Prenzel, Jürgen
Preuß, Rainer
Pucci, Paolo

R

Raab, Jürgen
Rahenbrock, Udo
Raubach, Hans-Joachim
Reichardt, Marc
Reiff, Felix
Reilly, Shona
Renneke, Franz-Josef
Resch, Andreas
Rettig, Rainer
Riemann, Gunnar
Rittgen, Frank
Rosar, Alexander
Rosenberg, Dirk
Rothe, Hans-Joachim
Ryan, Mark

S

Saez, Antonio
Salge, Andreas
Schade, Michael
Schäfer, Klaus
Schaefer, Michael
Scheeren, Joseph
Scheitza, Rüdiger
Schenk, Wolfgang
Schepers, Walter
Scherf, Willy
Schill, Hans-Josef
Schlegel, Günter
Schlieper, Henner
Schmeer, Hubert
Schmeer, Norbert
Schmelzer, Peter
Schmieder, Wilfried
Schmitz, Jörg-Rainer
Schmuck, Richard
Schneider, Joachim
Schneider, Martin
Schneider, Reiner
Schneider, Stephan
Schöneseiffen, Josef
Schorr, Rainer
Schramm, Helmut
Schubmehl, Johannes
Schwartz, Michael
Schwarz, Rainer
Seaton, R. Christopher
Sick-Sonntag, Ralf
Sieler, Miguel-Heriberto
Simons, Gerhard
Smits, Philip
Soland, Kurt
Sommer, Klaus
Spagnol, Tracy
Spinks, Ian
Springer, Heiner
Stadterman, Richard
Steenblock, Roland
Stegmüller, Roland
Steiger-Bagel, Axel
Steilemann, Markus
Steiling, Lothar
Stein, Ulrich
Steinhilber, Bernd
Stillings, Herbert
Stracke, Hubert
Struck, Werner
Stübler, Hermann
Sturm, Klaus
Suwelack, Dirk

T

Terhorst, Frank
Thomaier, Jörg
Thomas, Patrick
Tiemann, Volker
Trebels, Wolfgang
Turck, Roland

V

Van der Broek, Lykele
Van der Loo, Theodorus
Van der Merwe, Richard-Ewald
Van der Stouwe, Claus
Van Laak, Kai
Van Lookeren Campagne, Michiel
Van Meirvenne, Dirk
Van Nooy, Michael
Van Osselaer, Tony
Vanacker, Peter
Vehreschild, Manfred
Von Keutz, Eckhard
Von Koss, Henning
Von Pescatore, Dominikus
Von Podewils, Hans-Christoph

W

Waite, Stephen
Walker, David
Walker, Philippe
Warmbier, Peter
Weber, Benno
Weber, Thomas
Weeks, Joshua
Weissmueller, Joachim
Welter, Wolfgang
Wild, Hanno
Wilson, Kirk
Wingen, Franz-Josef
Witasek, Frank
Wolff, Joachim
Wollweber, Detlef
Wozniewski, Thomas
Wright, Paul

Y

Yim, Marcus

Z

Zervoudis, Demetrios
Zijp, Douwe
Zumbaum, Arne

Glossary

A

Adalat® Drug product for the treatment of hypertension; active ingredient: nifedipine
Admire® Insecticide; active ingredient: imidacloprid; main applications: vegetables, rice, fruit, potatoes
Advantage® Antiflea product for dogs and cats; active ingredient: imidacloprid
Advantan® Drug product for the treatment of endogenous and exogenous eczema; active ingredient: methylprednisolone aceponate
Advocate® Antiparaciticide for dogs and cats; active ingredients: imidacloprid and moxidectin
Aleve® Analgesic; active ingredient: naproxen
Alka-Seltzer® Drug product that binds excess gastric acid and reduces pain and fever
Amikacin Antibiotic for treatment of pneumonia caused by gram-negative bacteria
Arize® Seed for hybrid rice
Ascensia® Umbrella brand for blood glucose metering systems and services
Aspirin® One of the most famous analgesics in the world; active ingredient: acetylsalicylic acid
Aspirin® Cardio Drug product for protection against myocardial infarction; active ingredient: acetylsalicylic acid
Atento® Fungicide; active ingredient: fluquinconazole; main application: seed treatment in soybeans
Atlantis® Herbicide; active ingredients: mesosulfuron and others; main applications: wheat, triticale, rye
Avelox® Drug product for the treatment of respiratory tract infections; active ingredient: moxifloxacin

B

Basta® Herbicide; active ingredient: glufosinate-ammonium; main applications: plantation crops, potatoes and vegetables
Bayblend® Brand name for polymer blends based on polycarbonate and acrylonitrile butadiene styrene
Baytril® Chemotherapeutic agent for the treatment of severe veterinary infectious diseases; active ingredient: enrofloxacin
Baytubes® Brand name for multi-wall carbon nanotubes
Belt® Insecticide; active ingredient: flubendiamide; main applications: vegetables, cotton, rice, grapes, apples
Bepanthen® Range of skin care and wound-healing products; active ingredient: dexpanthenol
Bepanthol® Range of care products to treat dry, irritated skin; active ingredient: panthenol
Berocca® Dietary supplement containing eight B group vitamins, vitamin C, calcium, magnesium and zinc
Betaferon®/Betaseron® Drug product for the treatment of multiple sclerosis; active ingredient: interferon beta-1b
Betanal® Herbicide; active ingredients: phenmedipham, desmedipham and ethofumesate; main application: beets
Biscaya® Insecticide; active ingredient: thiacloprid; main applications: canola, potatoes, cereals

C

Campath® Drug product for the treatment of patients with chronic lymphocytic leukemia using monoclonal antibodies
Canesten® Antifungal drug for infections of the skin; active ingredient: clotrimazole or bifonazole
Ciprobay®/Cipro® Drug product for the treatment of infectious diseases; active ingredient: ciprofloxacin
Citracal® Dietary supplement
Confidor® Insecticide; active ingredient: imidacloprid; main applications: vegetables, rice, fruit, potatoes
CropStar® Insecticide; active ingredients: imidacloprid and thiodicarb; main application: seed treatment in corn

D

Decis® Insecticide; active ingredient: deltamethrin; main applications: cotton, vegetables, cereals
Desmodur® Brand name for various isocyanates
Desmopan® Brand name for thermoplastic polyurethanes
Desmophen® Brand name for a range of polyesters and polyols used in the formulation of polyurethanes
Destiny® Herbicide; active ingredient: iodosulfuron; main application: lawncare
Diane® Acne therapy with additional contraceptive action; active ingredients: cyproteronacetate and ethinyl estradiol

E

EfA® Fungicide; active ingredients: fluoxastrobin, prothioconazole, tebuconazole, triazoxide; main application: cereal seed treatment
Exemptor® Insecticide; active ingredient: thiacloprid; main application: commercial horticulture

F

Fandango® Fungicide; active ingredients: fluoxastrobin and prothioconazole; main application: cereals
Flint® Fungicide; active ingredient: trifloxystrobin; main applications: cereals, soybeans, fruit
Fludara® Drug product for the treatment of patients with chronic lymphocytic leukemia; active ingredient: fludarabine phosphate
Folicur® Fungicide; active ingredient: tebuconazole; main applications: cereals, soybeans, canola, peanuts

G

Gaucho® Insecticide; active ingredient: imidacloprid; main applications: seed dressing for sugar beet, corn, cereals, cotton, canola
Glucobay® Drug product for the treatment of diabetes; active ingredient: acarbose

H

Huskie™ Herbicide; active ingredients: pyrasulfotole, bromoxynil and mefenpyr; main application: cereals

I

Infinito® Fungicide; active ingredients: fluopicolide and propamocarb HCl; main applications: potatoes, vegetables, ornamental plants
InVigor® Seed for summer canola
Iopamiron® Non-ionic intravascular contrast agent for all common X-ray analyses

K

K-Othrine® Insecticide; active ingredient: deltamethrin; main applications: insects that transmit malaria, sleeping sickness and Chagas' disease
Kogenate® Drug product for the treatment of hemophilia; active ingredient: recombinant Factor VIII

L

Lampit® Drug product to fight the causative agent of Chagas' disease; active ingredient: nifurtimox
Laudis® Herbicide; active ingredient: tembotrione; main application: corn
Leukine® A recombinant human granulocyte macrophage colony stimulating factor (GM-CSF) used in cancer supportive care to strengthen or recover the immune cell function; active ingredient: sargramostin
Levitra® Drug product for the treatment of erectile dysfunction; active ingredient: vardenafil
Liberty® Herbicide; active ingredient: glufosinate-ammonium; main applications: corn, canola, cotton, soybeans, rice in conjunction with herbicide-tolerant technology

M

Magnevist® Contrast agent for diagnosis in the central nervous system and body; active ingredient: dimeglumine gadopentetate
Makrofol® Films made from Makrolon®
Makrolon® Brand name for polycarbonate
Menostar® Micro-dose patch for osteoporosis prevention in women; active ingredient: estradiol
Merit® Insecticide; active ingredient: imidacloprid; main applications: broad-spectrum insecticide for non-agricultural grass lawns
Mirena® Intrauterine contraceptive; active ingredient: levonorgestrel

Movento® Insecticide; active ingredient: spirotetramat; main applications: vegetables, fruit including grapes, cotton and soybeans

N

Nexavar® Drug product to treat kidney and liver cancer; active ingredient: sorafenib

O

One-A-Day® Multivitamin product

P

Poncho® Insecticide; active ingredient: clothianidine; main applications: seed treatment for corn, canola, sugar beet, cereals
Premise® Insecticide; active ingredient: imidacloprid; main application: termite control
Proline® Fungicide; active ingredient: prothioconazole; main applications: cereals, canola
Puma® Herbicide; active ingredient: fenoxa-prop-P-ethyl; main applications: cereals, rice, soybeans, canola

R

Raxil® Fungicide; active ingredient: tebuconazole; main applications: seed treatment for wheat and barley
Recothrom™ A recombinant form of human thrombin used to control bleeding during surgery; active ingredient: recombinant thrombin, topical
Redigo® Fungicide; active ingredient: prothioconazole; main application: seed treatment in cereals
Rennie® Medicine to treat heartburn and acid-related stomach disorders; active ingredients: calcium carbonate and magnesium carbonate

S

Sekator® OD Herbicide; active ingredients: iodosulfuron and amidosulfuron in liquid formulation; main application: cereals
Skinoren® Drug product for the treatment of acne; active ingredient: azelaic acid
Sphere® Fungicide; active ingredients: trifloxystrobin and cyproconazole; main applications: coffee, soybeans, cereals, sugar beet
Stratego® Fungicide; active ingredients: trifloxystrobin, propiconazole; main applications: soybeans, cereals, rice, corn
Supradyn® Multivitamin and mineral supplement with trace elements

T

Trasylol® Drug product used during open-heart surgery; active ingredient: aprotinin

U

Ultravist® Contrast agent for X-ray examinations including computer tomography; active ingredient: iopromide

V

Vulkollan® Brand name for a high-performance polyurethane elastomer

X

Xarelto® A novel, oral, once-daily direct Factor Xa inhibitor in advanced clinical development for a wide range of indications to prevent and treat thrombosis; active ingredient: rivaroxaban

Y

Yasmin®/Yasminelle®/YAZ® Contraceptive drug products; active ingredients: ethinyl estradiol and drospirenone

Z

Zetia® Cholesterol-lowering drug from Schering-Plough marketed jointly in Japan with Bayer; active ingredient: ezetimib
Zevalin® An yttrium-90 labeled monoclonal antibody being developed as radioimmunotherapy in Non-Hodgkin's lymphoma; active ingredient: ibritumomab tiuxetan

Explanations of further specialist terminology can be found at:

www.investor.bayer.com
> Stock
> Glossary

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Global commitment to sustainability

Social responsibility and sustainability are integral to Bayer's corporate policy. This commitment is also evidenced by the company's participation in numerous initiatives and projects around the world. Logos relating to a selection of these activities appear in the left margin.

Bayer has long practiced the concept of Responsible Care. A member of the World Business Council for Sustainable Development since 1997, Bayer is also among the founding members of German industry's sustainable development forum "econsense." Bayer was one of the first companies to sign the new "Responsible Care Global Charter" in 2006.

Bayer is listed in major indices and represented in investment funds that focus on companies pursuing responsible and sustainable corporate strategies. Examples are the Dow Jones Sustainability Indices, the FTSE4Good index series, the Storebrand Principal Funds and the Advanced Sustainable Performance Indices (ASPI) Eurozone. Bayer actively supports the Global Reporting Initiative as an organizational stakeholder.

The company places maximum importance on climate protection. For example, in 2007 Bayer again received the "Best in Class" award of the Carbon Disclosure Project and was the only European company in its industry sector to be included in the Climate Disclosure Leadership Index. Bayer is one of the 17 founding members of the climate protection initiative "3C: Combat Climate Change."

Bayer is also a founding member of the Global Compact initiative of the United Nations, actively promoting its principles through numerous projects. In Brazil, for example, Bayer supports the Abrinq Foundation in its efforts to combat child labor and cooperates with the non-governmental organization Agência Mandalla in the fight against hunger and poverty. Bayer's partnership with the United Nations Environment Programme (UNEP) is widely regarded as setting a new trend in public-private partnerships. One of the joint activities is the "Bayer Young Environmental Envoy" program, in which young environmental activists are invited to Germany to give them greater insight into the related issues. This has now been extended to 17 countries on four continents.

Bayer set up the Global Exploration Fund together with National Geographic, the world's largest non-profit scientific organization. Since 2007 this fund has supported nine research projects aimed at protecting the quality of drinking water worldwide and enhancing supplies.

For years, Bayer has also been an active member of the Global Business Coalition on HIV/AIDS, Tuberculosis and Malaria, which is committed to the fight against these three epidemic diseases. The company is cooperating with the Global Alliance for TB Drug Development, a U.S. non-profit organization, on the development of a new remedy for tuberculosis.

Masthead

Publisher
Bayer AG, 51368 Leverkusen, Germany

Editor
Ute Bode, phone + 49 214 30 58992
Email: ute.bode.ub@bayer-ag.de

English edition
CURRENTA GmbH & Co. OHG
Language Service

Investor Relations
Peter Dahlhoff, phone + 49 214 30 33022
Email: peter.dahlhoff@bayer-ag.de

Date of publication
February 28, 2008

Bayer on the Internet
www.bayer.com

This Annual Report was printed on paper made from at least 70 percent PEFC-certified cellulose or wood from sustainable forestry. PEFC is an organization dedicated to the global promotion and documentation of sustainably managed forests in light of economic, ecological and social standards. Compliance with its program is ensured through third-party certification.

ISSN 0343/1975

Five-Year Financial Summary

Bayer Group	2003	2004	2005	2006	**2007**
€ million					
Net sales	28,567	23,278	24,701	28,956	32,385
Sales outside Germany	85.8 %	86.9 %	84.4 %	84.4 %	85.1%
EBIT[1]	(1,119)	1,875	2,514	2,762	3,154
Income (loss) before income taxes	(1,994)	1,222	1,912	1,980	2,234
Income (loss) after taxes	(1,349)	682	1,595	1,695	4,716
Noncurrent assets	**18,232**	**16,859**	**20,130**	**35,897**	**34,712**
of which goodwill and other intangible assets	6,514	5,952	7,688	24,034	22,770
of which property, plant and equipment	9,937	7,662	8,321	8,867	8,819
Current assets[2]	**17,673**	**15,972**	**16,592**	**17,069**	**16,582**
Inventories	5,885	4,738	5,504	6,153	6,217
Receivables and other current assets	9,054	7,664	7,798	8,001	7,834
Cash and cash equivalents	2,734	3,570	3,290	2,915	2,531
Financial liabilities	**9,426**	**9,191**	**8,952**	**19,801**	**14,198**
Noncurrent	7,378	7,025	7,185	14,723	12,911
Current	2,048	2,166	1,767	5,078	1,287
Interest expense – net	(353)	(229)	(338)	(728)	(701)
Return on stockholders' equity	(9.7) %	6.1 %	14.4 %	14.1 %	31.8%
Gross cash flow[1]	2,864	2,885	3,114	3,913	4,784
Capital expenditures (total)	1,739	1,275	1,400	1,939	1,905
Depreciation and amortization	2,634	1,933	1,758	2,086	2,478
Personnel expenses (including pension expenses)	7,906	6,026	5,318	6,630	7,571
Number of employees (Dec. 31)[3]	115,400	91,700	82,600	106,000	106,200
Research and development expenses	2,404	1,927	1,729	2,297	2,578
Stockholders' equity including minority interest (total)	**12,336**	**10,943**	**11,157**	**12,851**	**16,821**
Capital stock	1,870	1,870	1,870	1,957	1,957
Reserves	11,704	8,227	9,287	10,894	14,864
Net income (loss)	(1,361)	685	1,597	1,683	4,711
Minority interest	123	111	80	84	87
Liabilities (total)	**23,013**	**26,645**	**25,565**	**43,040**	**34,557**
Total assets	**37,445**	**37,588**	**36,722**	**55,891**	**51,378**
Equity ratio	**32.9 %**	**29.1 %**	**30.4 %**	**23.0 %**	**32.7%**

Bayer AG					
Net income (loss)	(185)	274	613	1,250	1,928
Allocation to (from) retained earnings	(550)	(128)	(81)	486	896
Total dividend payment	365	402	694	764	1,032
Dividend per share (€)	0.50	0.55	0.95	1.00	1.35

figures for 2003 through 2005 as reported, 2006 figures restated
[1] for definition see footnotes to Bayer Group Key Data table inside front flap
[2] excluding discontinued operations
[3] 2003 – 2004: headcount
2005 – 2007: full-time equivalents

Financial Calendar

2007 Annual Report	February 28, 2008
Q1 2008 Interim Report	April 24, 2008
Annual Stockholders' Meeting 2008	April 25, 2008
Payment of Dividend	April 28, 2008
Q2 2008 Interim Report	July 30, 2008
Q3 2008 Interim Report	October 29, 2008
Annual Stockholders' Meeting 2009	May 12, 2009
Payment of Dividend 2009	May 13, 2009