

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