

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 share 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

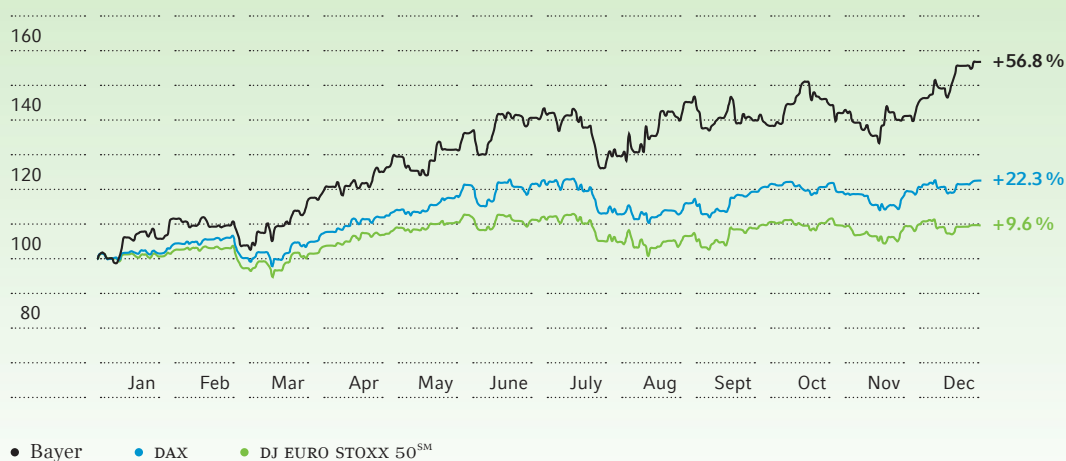
Bayer stock again developed very well in 2007, its price gaining 53.8 percent on the year. The €1.00 per share dividend paid in May 2007 brings the overall performance to 56.8 percent, putting Bayer in fourth place among DAX 30 stocks.

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).

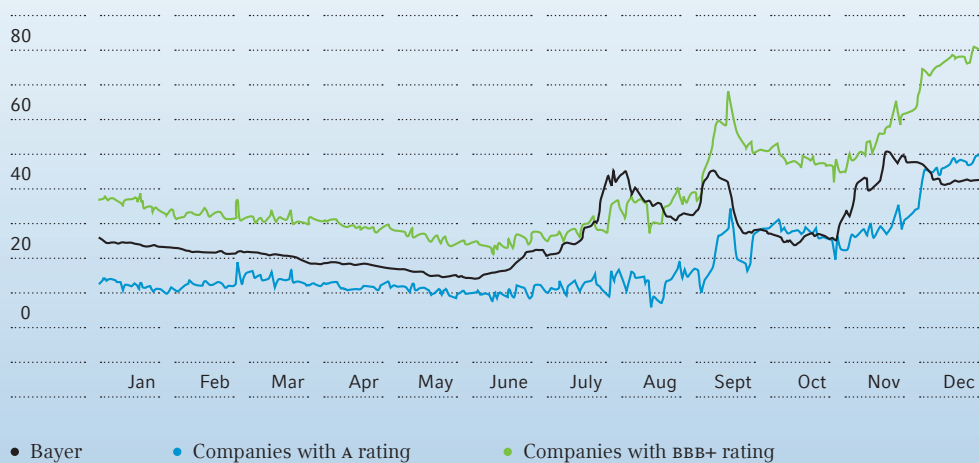
Performance of Bayer Stock in 2007

(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 SM	9.6	17.2	15.8

Bayer stock delisted from the New York Stock Exchange

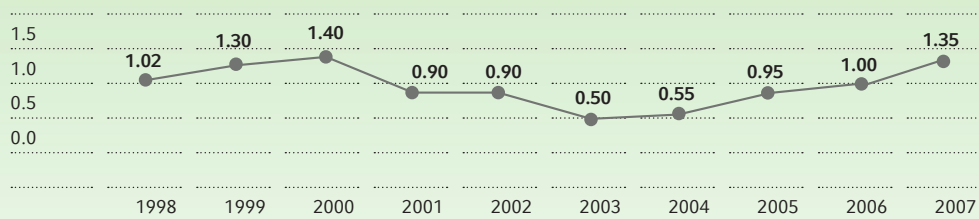
Bayer's American Depositary Shares (ADS) were delisted from the New York Stock Exchange on September 27, 2007. Since then, they have been traded in the U.S. over-the-counter market (ticker symbol BAYRY). Deregistration with the U.S. Securities and Exchange Commission (SEC) took effect at the end of December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

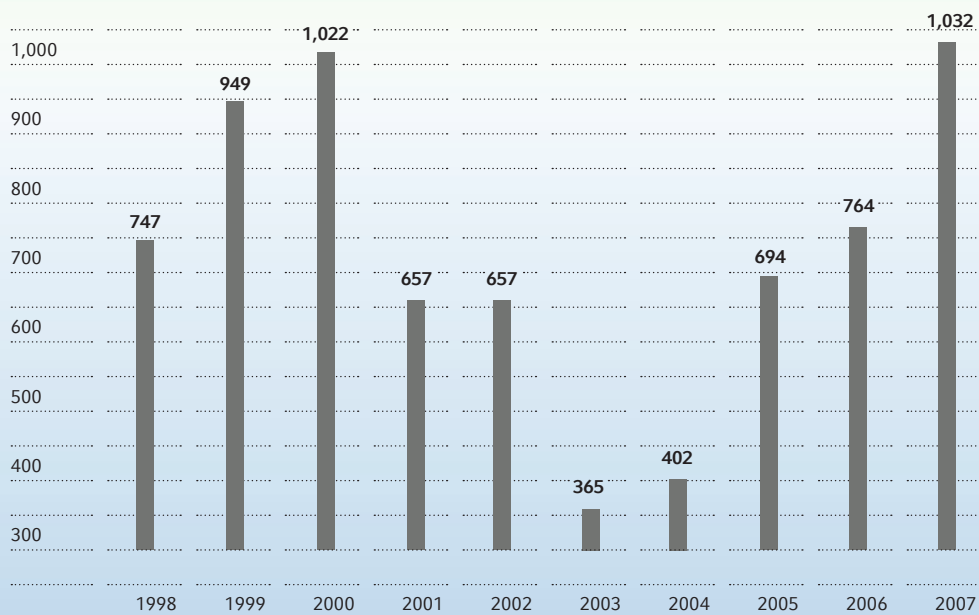
Dividends per share

€



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