

Responding to challenges

Health care, nutrition and high-tech materials are our core competencies. Although the major challenges of sustainable development differ in each of these areas, Bayer has a clear goal for all three: to provide innovative products that benefit people, improve the quality of life and create value.

Bayer AG has always been dedicated to the goal of ensuring sustainable development. Founded in 1863, the Bayer Group is headquartered in Leverkusen, Germany, and has around 350 companies on five continents. Including last year's acquisition of Schering AG, Berlin, Germany, the Group had roughly 106,000 employees worldwide at year-end 2006.

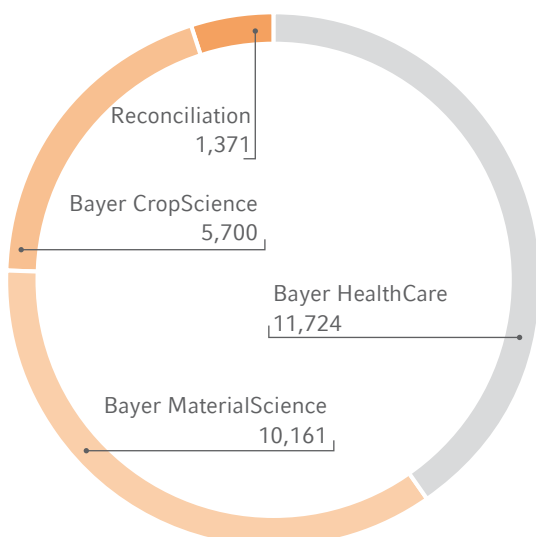
The Bayer Group is headed by a management holding company. This sets the strategic framework for the subgroups and service companies, which operate as independent entities. The operational business is performed by three subgroups:

Bayer HealthCare AG, Bayer CropScience AG and Bayer MaterialScience AG, while central service functions are grouped at three service companies: Bayer Business Services GmbH, Bayer Technology Services GmbH and Bayer Industry Services GmbH & Co. OHG. One of the main changes that took place in 2006 was Bayer HealthCare's acquisition of Schering, which now operates as Bayer Schering Pharma AG (see page 34).

The Bayer Group generated sales of around €29 billion with its portfolio of around 5,000 products in 2006 and Group net income increased five percent to €1.7 billion. That was good for the company's stock: The share price rose 15.2 percent during the year. Including the dividend of €0.95 per share paid in 2006, our stock achieved an overall performance of more than 18 percent. In the first quarter of 2007 too, Bayer stock made positive progress, with the share price on March 31, 2007 being 17.7 percent higher than the closing price on December 31, 2006.

A recent survey established that 73 percent of the capital stock identified was held by foreign investors, underlining the international orientation of the Group and the importance of Bayer stock on international finance markets. The countries with the most Bayer stock held were the United States and the United Kingdom.

Sales by subgroup in 2006 (in € million)
Total 28,956



Bayer HealthCare:
Focusing on people



Arthur Higgins,
Chairman of the
Executive Committee
of Bayer HealthCare AG

Bayer HealthCare believes that sustainable business means taking account of the needs of both present and future generations. This applies especially in health care, but also in environmental protection, safety and comprehensive product stewardship. Yet the social responsibility of our research-based company, which is one of the world's leading specialty pharmaceutical companies, goes well beyond these considerations.

Bayer HealthCare believes that it has an obligation to consider in full the ethical aspects of using modern biotechnology in medical applications, and to find solutions to enable as many people as possible to have access to life-saving drugs, particularly in developing countries. Another, increasingly important challenge facing the subgroup is the growing life expectancy in many societies and the associated increase in medical needs.

Headquarters: Leverkusen (Germany)

Headcount: 51,400 (2006), 28,200 (2005)

Sites: in over 100 countries

Sales: €11.7 billion (2006), €8 billion (2005)

Specific directives: "Policy on Health, Safety, Environment and Quality," 2004

Management systems: HSE systems for health, safety and environmental matters are in place at all sites worldwide. Our drug products are manufactured and monitored in compliance with GMP (Good Manufacturing Practice) standards.

Website: www.bayerhealthcare.com

Bayer CropScience:
For sustainable and efficient agriculture



Professor Friedrich
Berschauer, Chair-
man of the Board of
Management of Bayer
CropScience AG

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 biotechnologically optimized properties.

Bayer CropScience's technologies provide the basis for healthy nutrition and contribute to efficiency improvement and yield security of agricultural crops worldwide. Through various initiatives in rural areas, we promote good agricultural practices, for instance in capacity building initiatives or through partnerships.

Aspects such as environmental protection and human rights are integral components, in as far as they are within the subgroup's sphere of influence.

Headquarters: Monheim (Germany)

Headcount: 17,900 (2006), approx. 18,500 (2005)

Sites: in over 120 countries

Sales: €5.7 billion (2006), €5.9 billion (2005)

Specific directives: Bayer CropScience's voluntary self-commitment to quality, health, safety and environmental protection (QHSE), 2002; Policy guidelines and key requirements for responsible product stewardship, 2004

Management systems: Bayer CropScience has introduced an integrated management system for quality, health protection, safety and the environment that is in line with the global principles of Responsible Care and sustainable development. This system is continuously being developed further.

Website: www.bayercropscience.com

**Bayer MaterialScience:
Energy efficiency as an area of business**



Patrick W. Thomas,
Chairman of the
Board of Management
of Bayer Material-
Science AG

Like the other subgroups, Bayer MaterialScience holds to the belief that safety, environmental protection, product and process quality and economic efficiency are factors of equal importance in the drive for commercial success. Sustainability is therefore seen as a fundamental principle for all employees and characterizes both our production and our product portfolio. For example, materials from Bayer MaterialScience make a significant contribution to the improvement of energy efficiency in both building insulation and automotive construction.

Climate protection has become a major challenge for all sectors of industry. In the past Bayer MaterialScience has already endeavored to increase the energy efficiency of its production processes. At the same time, climate protection opens up new growth opportunities for Bayer MaterialScience, which it wants to utilize with innovative and energy-efficient solutions. In this way the subgroup can also make an important contribution to sustainable development.

Headquarters: Leverkusen (Germany)

Headcount: 14,900 (2006), approx. 14,100 (2005)

Sites: in over 30 countries

Sales: €10.2 billion (2006), €9.4 billion (2005)

Specific directives: "Policy for Health, Safety, Environment and Quality," 2004

Management systems: Based on the principles set out in the Responsible Care Global Charter, the company has an integrated management system in place covering all aspects of health protection, safety, environmental protection and quality.

Website: www.bayermaterialscience.com

**Bayer Business Services:
IT-based services**



Dr. Andreas Resch,
Chairman of the
Executive Board of
Bayer Business
Services GmbH

Bayer Business Services, as a Shared Service Center, performs IT-based services for the Group all over the world. It also offers these services to external companies and public authorities. Bayer Business Services focuses on the core areas of IT infrastructure and applications, procurement and logistics, human resources and executive personnel services, and finance and accounting. One of the services provided is the Bayer Site Information System (Baysis®) that Bayer Business Services has developed itself. This is a universal program for recording and evaluating environmental and safety data.

Headquarters: Leverkusen (Germany)

Headcount: 4,400 (2006), 4,300 (2005; figures excluding local services and trainee pool)

Sites: Argentina, Brazil, PR China, Germany, Singapore, Spain, United Kingdom, United States

Specific directives: Voluntary undertaking of Responsible Care by Bayer Business Services, 2003

Website: www.bayerbbs.com

Bayer Technology Services: Technological backbone



Achim Noack,
Managing Director
of Bayer Technology
Services GmbH

Bayer Technology Services forms the Bayer Group's global technological backbone for process development and the planning, construction and optimization of processes and plant. Bayer Technology Services plays a role in meeting the responsibility for Group-wide ecological and social concerns throughout the world. This includes implementing international standards at all sites, investing in state-of-the-art technology and planning and building facilities.

Headquarters: Leverkusen (Germany)

Headcount: 2,200 (2006), 2,100 (2005)

Sites: Belgium, PR China, Germany, Mexico, Switzerland, United States

Specific directives: Policy: "Health protection, safety, environmental protection and quality at BTS GmbH"; HSEQ management system for health protection, safety, environmental protection and quality

Website: www.bayertechnology.com

Bayer Industry Services: Chemical Park operator



Dr. Klaus Schäfer,
Chairman of the
Executive Board of
Bayer Industry Services
GmbH & Co. OHG

Bayer Industry Services – a joint venture between Bayer and Lanxess – is the operator of Germany's largest Chemical Park network, with sites at Leverkusen, Dormagen and Krefeld-Uerdingen. Bayer Industry Services offers chemical and technical services such as utilities, waste management, infrastructure, safety and security, technical services, analytics and training. The company serves more than 60 companies that have set up business in the Bayer Chemical Parks. In addition, the Bayer Chemical Start-Up Initiative helps young entrepreneurs to successfully implement their business ideas at one of the Chemical Parks. Among other tasks connected with personnel management in the Bayer Group, Bayer Industry Services handles the company suggestion plan, the "Bayer Ideas Pool."

Headquarters: Leverkusen (Germany)

Headcount: 6,600 (2006), 7,400 (2005; both figures excluding trainees)

Sites: Leverkusen, Dormagen, Krefeld-Uerdingen (all Germany)

Specific directives: "Policy on Health Protection, Safety, Environmental Protection and Quality," 2004, "RC Commitment of Bayer Industry Services," 2003

Management systems: An integrated management system for health protection, safety, environmental protection and quality has been introduced. This system is continually optimized.

Website: www.bayerindustry.com

WWW

1 Certifications and memberships of the sub-groups and service companies



Success.

It is an incredibly good feeling when the first functional test for some newly developed apparatus is successful, especially when it is witnessed by the renowned German physicist Prof. Richter, who teaches in Rome. I am writing my degree thesis in his working group without having to worry about how to pay my rent. Ideally, later on I would like to develop products in industry that derive their value from the service they provide and not from their price.

BENJAMIN BUICK

Physics student,
scholarship from the Bayer Foundations for an internship
at the Tor Vergata University of Rome, Italy

