

Management of objectives and performance indicators



“Our self-commitment and increasing external requirements are, together, augmenting the meaningfulness of our performance indicators. This year, we have become one of the first companies to include indirect greenhouse gas emissions in our reporting and are thereby presenting a comprehensive climate balance sheet for our Group.”

Dr. Wolfgang Grosse Entrup, Head of Environment & Sustainability at Bayer AG

With our Sustainability Program and this data section, we detail the Group’s most important objectives and performance indicators in the 2006 reporting period. These indicators comprise data for environmental, social, and economic performance. Our self-commitment and increasing external requirements are, together, augmenting the meaningfulness of our performance indicators.

This year, we have become one of the first companies to include indirect greenhouse gas emissions in our reporting and are thereby presenting a comprehensive climate balance for our Group. We have also decided to newly include the social security coverage of our employees worldwide. Progress rather than stagnation is at the heart of our commitment. And the performance indicators are the yardstick against which we allow ourselves to be judged. The latter also entails the subjection of our data to an independent assurance process.

Bayer has captured data from all of the relevant organizational units and companies worldwide in which the Group held a participating interest of at least 51 percent in 2006. The performance data for these affiliated companies have been fully consolidated, regardless of the exact share held by Bayer in each company. We have based our selection and measurement of these indicators on the international recommendations and current guidelines of the Global Reporting Initiative (GRI), the World Business Council for Sustainable Development (WBCSD), and the European Chemical Industry Council (CEFIC).

As in previous years, HSE data were captured using an electronic questionnaire and consolidated in our Group-wide site information system, Baysis®. We have used various internal systems to compile employee-related data.

The auditing company Deloitte was commissioned by the Bayer Group to perform an audit of the data capture and reporting processes in order to confirm their quality and credibility (assurance process). The audit was performed between February and May 2007. The Assurance Statement issued by Deloitte has been included on page 81 of this Report.

Key changes in 2006

The acquisition of Schering AG, Berlin, Germany, was completed in spring 2006. In addition, a decision was taken to sell off the companies Wolff Walsrode and H.C. Starck belonging to Bayer MaterialScience, as well as Bayer HealthCare's Diagnostics Division. We have based our presentation of sustainability indicators on the requirements of financial reporting: Continuing operations are reported for 2006, meaning that Schering is included from June 23, 2006, while Wolff Walsrode, H.C. Starck and the Diagnostics Division are excluded. The values for the previous year 2005 have been similarly aligned.

To enable comparison with years prior to 2005 and to thereby increase the transparency of our reporting, we include for 2005 and 2006 an additional figure for the Group excluding Schering but including Wolff Walsrode, H.C. Starck and Diagnostics ("previous operations").

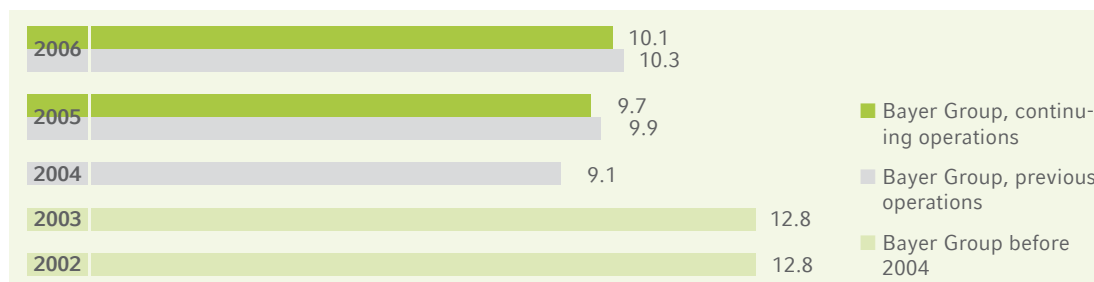
The effect of the carve-out of Lanxess AG on the development of HSE performance was shown in past Reports by presenting Lanxess's share separately for the reporting year 2004. In the following, we give figures for the Bayer Group for 2004 that exclude Lanxess but include Wolff Walsrode, H.C. Starck and Diagnostics.

Classifying performance indicators

When interpreting changes in the figures over time, it should be borne in mind that these changes depend on various influences. In addition to technical measures aimed at reducing emissions, waste levels and resource consumption, fluctuations in production volume and structural changes also play a part. The latter include the acquisition and sale of sites in full or in part, as well as the outsourcing of upstream production services.

Structural changes through adaptation of the portfolio are highlighted in the following diagrams through the separate indication of previous and continuing operations, as mentioned above. In addition, we place the performance indicators in the context of production volume: Since there is a causal relationship between emissions, waste levels and resource consumption on the one hand and production on the other, the development of production volume gives an indication of the reasons for the way performance indicators have changed over time. The production volume of Bayer AG's continuing operations rose in 2006 compared to 2005. In some cases therefore, there was an increase in performance indicator values.

Production volume (in million t/a)



Management systems

Our objective is to address health, safety, environmental protection and quality (HSEQ) to an appropriate degree and to achieve a consistent level of HSEQ management throughout the Group. We have therefore continued to improve our established HSEQ management systems in 2006. These systems are subject to regular audits as set out in a Group-wide Audit Directive; this Report presents additional data for the first time to illustrate the percentage of sites with management systems that are subject to independent Bayer audits. This was the case for almost two thirds of the production sites in the Group's continuing operations in 2006.

Where it makes sense in specific locations, the internal audits performed on our management systems are supplemented by external certification. For example, we will also in future arrange certification in accordance with the environmental management standard ISO 14001. We are in an increasing number of cases arranging for certification in accordance with the equivalent standard for health and safety management, OHSAS 18001 (Occupational Health and Safety Management System).

HSE audits (percentage of production sites)

	2004	2005	2005 cont.*	2006	2006 cont.*
Sites with a management system certified to ISO 14001 or EMAS standards	33	35	36	35	36
Sites with an environmental management system based on external standards**	38	39	40	43	43
Sites with a management system certified to OHSAS 18001	2	5	5	8	8
Sites with an HSE management system audited by Bayer personnel	-	-	-	56	62

* continuing operations

** "based on external standards" includes:

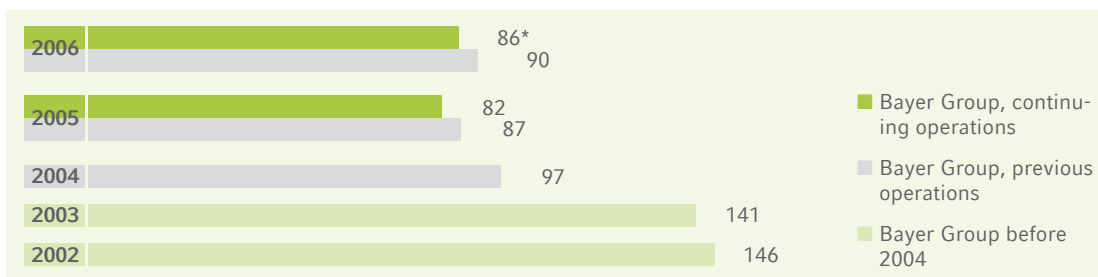
- management systems certified to ISO 14001 or EMAS
- systems and certifications in accordance with national standards, such as "Industria Limpia" in Mexico

Ecological indicators

Energy use

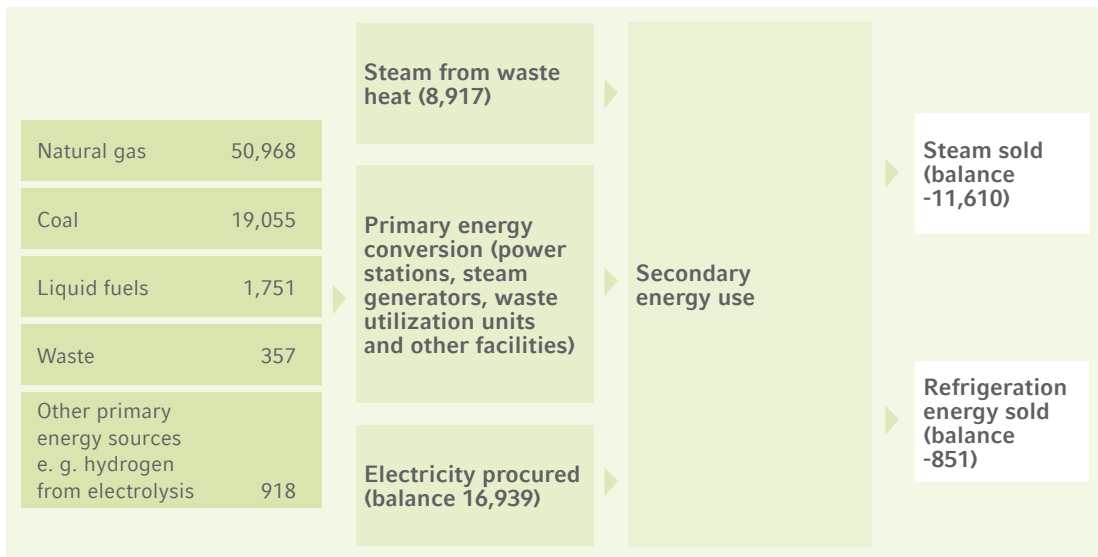
Energy use by the Bayer Group in 2006 increased by about five percent compared with the previous year (continuing operations). This correlates primarily with the production volume.

Energy use (in petajoule/a)



* This figure differs from the one given in the Annual Report owing to improved knowledge.

Energy balance sheet (in terajoule/a)

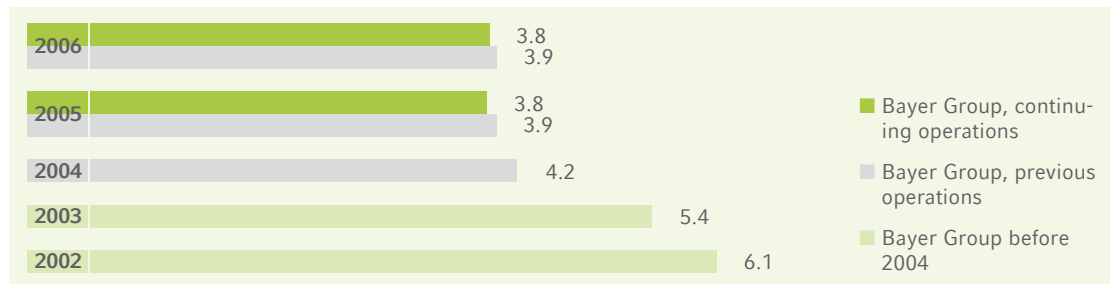


The total energy use for the Bayer Group of 86 petajoules (= 86,000 terajoules) is calculated from the sum of primary energy use, electricity procured and waste heat, minus the amount of steam and refrigeration energy sold on balance.

Direct greenhouse gas emissions

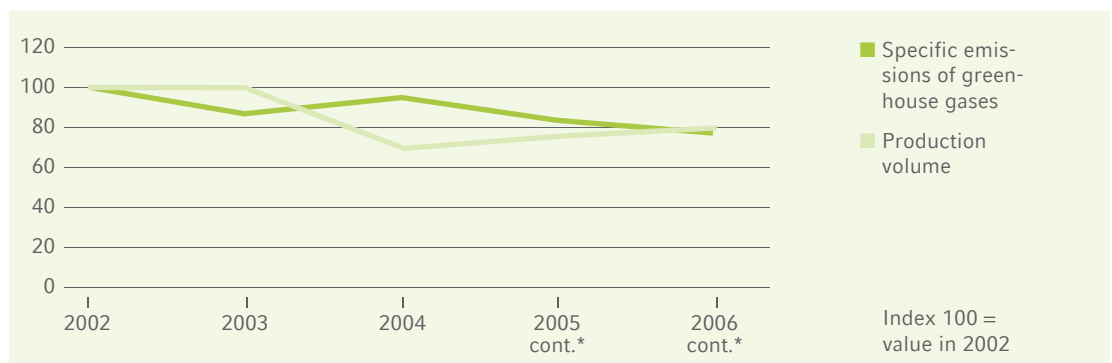
Direct emissions of greenhouse gases in 2006 remained at almost the same level as in 2005, despite an increase in production volume. Greenhouse gases include carbon dioxide (CO₂), methane (CH₄), dinitrogen monoxide (N₂O), halogenated hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF₆). Using substance-specific equivalence factors, non-CO₂ emissions are converted to CO₂ equivalents. In 2006, 98.6 percent of greenhouse gas emissions were CO₂ emissions. These emissions are composed of emissions from power stations and from production and waste incineration plants in which the Bayer Group holds a participating interest of at least 51 percent. Dinitrogen monoxide (laughing gas) accounted for 1.1 percent of the emissions.

Direct greenhouse gas emissions (in million t CO₂ equivalents/a)



In spite of an increase in production, specific greenhouse gas emissions have fallen by four percent (continuing operations). We are on course for our target of a ten percent reduction in specific emissions of greenhouse gases by 2015.

Specific greenhouse gas emissions/production volume



* cont. = continuing operations. For the sake of clarity, only data from continuing operations in 2005 and 2006 are presented in the above graph.

The figures from prior to 2004 include data from Lanxess, while Lanxess data are not included in the figures for 2004 and onwards. This is why the “Specific greenhouse gas emissions/production volume” graph shows a drop in production volume and an increase in specific emissions from 2003 to 2004. If Lanxess data had been included, the level of specific greenhouse gas emissions in 2004 would have been 75 percent.

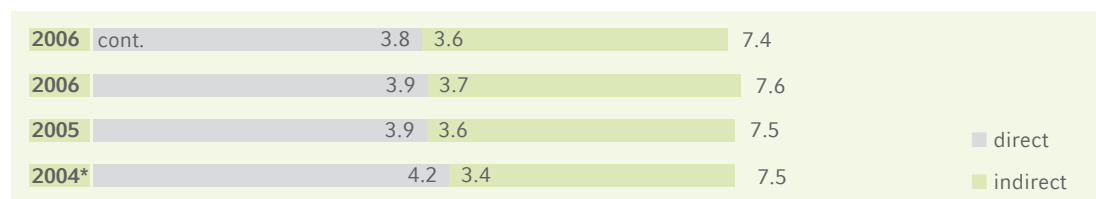
Indirect greenhouse gas emissions

Bayer procures some of its electricity and steam from external suppliers. At the same time, we also sell off large amounts of these types of energy to external purchasers. We are including so-called indirect emissions for the first time in this Report; these are emissions that result from the external production of electrical and steam energy. These indirect emissions are calculated from the amounts of electricity and steam purchased and sold (excluding steam generated from waste heat) at each individual Bayer production site. Greenhouse gas emissions from the generation of electricity and steam result predominantly from the incineration of fossil fuels such as coal, oil or gas. Typically, CO₂ comprises more than 99 percent of all greenhouse gas emissions resulting from such combustion processes in terms of CO₂ equivalents. We have therefore restricted ourselves to CO₂ emissions in the calculation. Data from the energy balance sheet are used as the basis for the calculations (see page 67). These energy figures are multiplied by a specific emission factor to obtain the level of CO₂ emissions from external electricity and steam generation. Thus, indirect CO₂ emission levels are determined for each individual production site. These are then added together in order to calculate the total indirect CO₂ emissions. In order to ensure that energy passed on to other users or sold on is not included in the balance sheet, this energy is subtracted from the Bayer energy balance sheet up to a maximum level equal to the amount of energy purchased. The methodology used to calculate indirect carbon dioxide emissions is based on "The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard, Revised Edition," published by the World Business Council for Sustainable Development (WBCSD) in collaboration with the World Resources Institute (WRI).

In 2006, Bayer met about 20 percent of its energy requirements by purchasing electricity from external suppliers. Bayer is a net exporter of steam (excluding steam generated from waste heat¹): In relation to its total energy use, Bayer supplies on balance around 13 percent in the form of steam to external purchasers.

It is clear from the results that total greenhouse gas emissions have remained more or less constant over the past three years. Since this was achieved during a period in which production volume was growing, specific emissions actually fell 13 percent between 2004 and 2006. To put it more simply, indirect emissions from the consumption of externally generated electricity and steam account for about the same amount of emissions again as Bayer's own direct emissions. In order to achieve our goal of further reducing greenhouse gas emissions, we have developed a climate strategy, further details of which are presented on page 38 et seq.

Sum of direct and indirect greenhouse gas emissions (in million t CO₂ equivalents/a*)



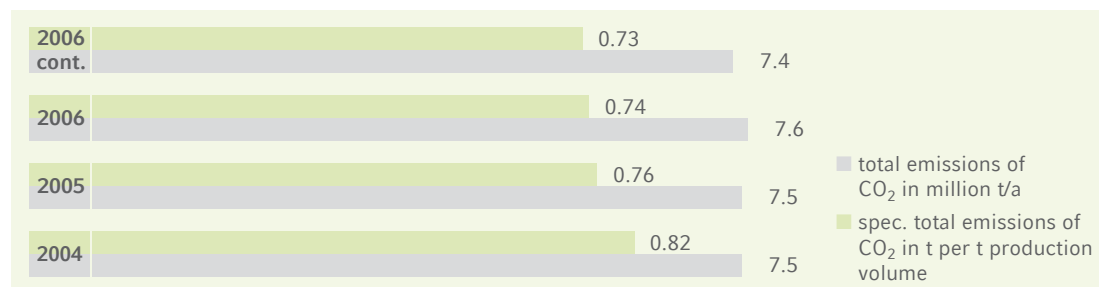
* The summary parameters shown may differ from the sum of the partial amounts indicated owing to rounding-up effects.

WWW

40 Detailed description of the methodology used for calculation, including the applicable emission factors

¹ Steam from waste heat is a separate item in the balance sheet, as this steam is generated by processes not primarily intended for energy generation (such as exothermic chemical reactions).

Specific and absolute greenhouse gas emissions (direct and indirect)

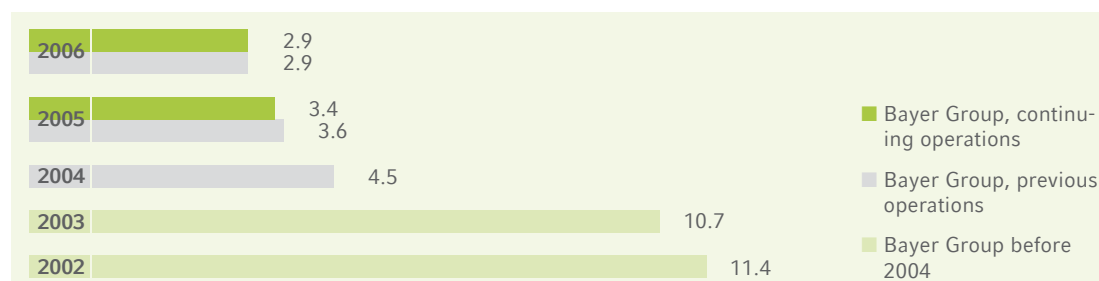


Emissions of volatile organic compounds

Volatile organic compounds (VOCs) are organic chemicals with a specific vapor pressure that contribute to the formation of smog and ground-level ozone.

The downward trend identified in 2005 has continued. During the reporting year, VOC emissions fell by 15 percent in continuing operations. This positive development is primarily attributable to the continued efforts at the Vapi site in India.

VOC emissions (in 1,000 t/a)



Other air emissions

Other emissions primarily include sulfur dioxide (SO₂) and nitrogen oxides (NO_x), most of which originate from incineration processes, but some of which are also generated during production processes. Particulates are released both during energy generation and during production processes such as the pneumatic extraction of solid granules.

In order to be able to record comparative data regarding the harmful effect of substances on the ozone layer, each of these substances is categorized in terms of its ozone depletion potential and is presented as a relative quantity compared with the control substance trichlorofluoromethane (CFC-11) (equivalent). All of the substances that have the potential to cause damage to the ozone layer are then added together to give the total number of CFC-11 equivalents. In 2006, this figure fell by just under 25 percent. This reduction is attributable to process optimization measures, above all at the Vapi site.

Further air emissions (in 1,000 t/a)

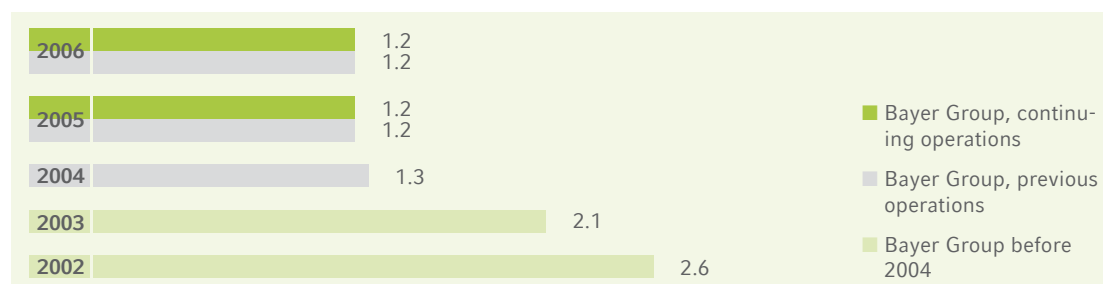
	2002	2003	2004	2005	2005 cont.*	2006	2006 cont.*
CO	3.0	-	1.9	1.9	1.7	2.4	2.2
NO _x	9.4	6.7	4.3	4.5	4.3	4.1	4.0
SO ₂	7.4	5.9	4.2	4.5	4.5	3.8	3,8
Particulates	0.8	0.9	0.5	0.3	0.3	0.2	0.2
Ozone-damaging substances**	0.038	0.041	0.019	0.017	0.017	0.013	0.013

* Bayer Group, continuing operations

** in CFC-11 equivalents

Water

Water use by the Bayer Group in 2006 remained at the same level as in the previous year. Cooling water fed into production accounted for the highest share of this use at 0.75 million cubic meters (m³) per day. Since this water is merely heated up and not affected in any other way when used within the Group, it can subsequently be discharged back into the water supply without any further treatment, provided that the water is kept below a maximum safe ecological temperature. The sites take more than half of the water they need from surface water, with around one third being drawn from underground sources (generally groundwater).

Water use (in million m³/d)**Water use according to origin**

Bayer Group, continuing operations	2004	2005	2006*
Water use in million m ³ /d	1.3	1.2	1.2
of which from surface water	60 %	54 %	53 %
of which from bore holes/springs	33 %	35 %	35 %
of which from the public drinking water supply	5 %	2 %	2 %
of which from other sources (e.g. rainwater)	2 %	9 %	9 %

* Since the individual entries are rounded off, the total does not equal 100 percent.

Wastewater

The most important parameters used to record water pollution caused by Bayer are the total loads of phosphorus, nitrogen and organic compounds. In 2006, phosphorus discharge levels increased by about eight percent over the previous year (continuing operations). This increase is attributable to increased sales and a changed product mix.

The nitrogen load (nitrates and ammonium nitrogen) also increased in 2006, but continued to remain in a low range as previously. This increase can be explained by a capacity expansion at our Dormagen site and by the fact that more wastewater containing nitrogen has been generated by the waste air treatment system in one waste incineration plant in Leverkusen.

During the past year, the discharge of organic compounds into wastewater has remained at the same level as in the previous year. We have been using a different method of analysis since 2003: Because it is easier to determine the level of organic compounds in wastewater as total organic carbon (TOC), we no longer use chemical oxygen demand (COD) as an indicator.

Wastewater heavy metal levels fell during the reporting period. Discharge levels of inorganic salts remained roughly at the same level as in the previous year (all data regarding changes are taken from continuing operations).

Emissions into wastewater

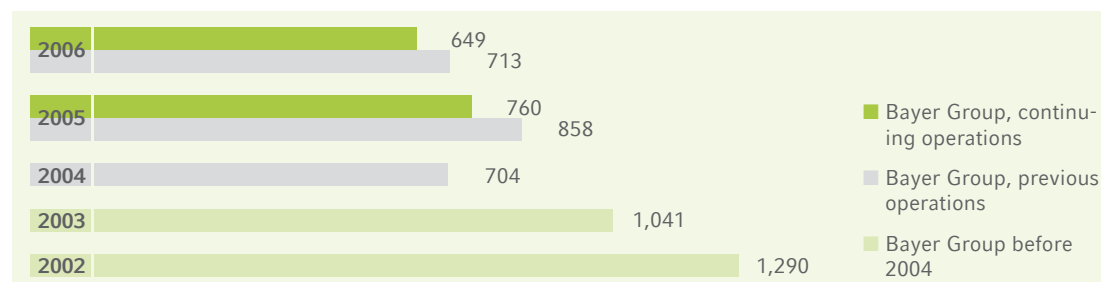
	2002	2003	2004	2005	2005 cont.*	2006	2006 cont.*
Phosphorus, 1,000 t/a	0.6	0.6	0.76	0.75	0.74	0.81	0.81
Nitrogen, 1,000 t/a	3.4	3.2	0.9	0.7	0.6	0.8	0.7
TOC, 1,000 t/a of total organic carbon	–	6.4	2.2	1.75	1.49	1.7	1.49
Heavy metals, t/a	30	29	28.2	12.0	11.6	9.3	8.0
Inorganic salts, million t/a	1.5	1.6	–	0.8	0.8	0.9	0.8

* Bayer Group, continuing operations

Waste

After the comparatively large amount of waste generated in 2005 resulting from large quantities of construction waste and excavated soil, the amount of waste generated in 2006 fell back to the 2004 level.

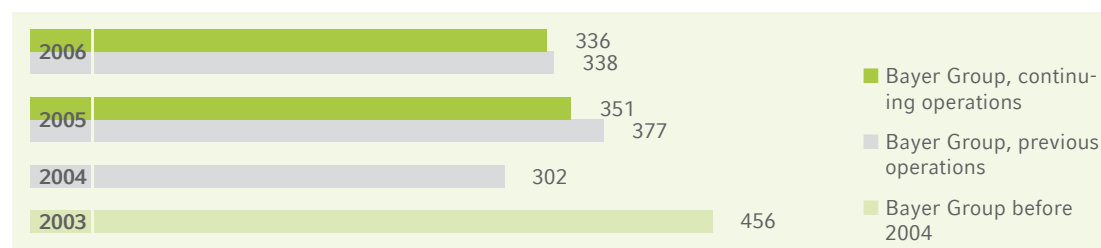
Total waste generated (in 1,000 t/a)



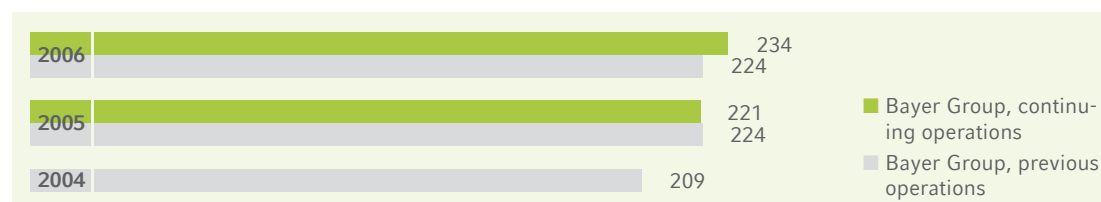
Hazardous waste generated

We have been keeping Group-wide records of the amount of “hazardous waste” generated since 2003². The definition of hazardous waste differs from one to country to another; the data captured for the Bayer balance sheet are therefore calculated in accordance with national definitions. In Germany, hazardous waste includes items such as sludge from the company’s own wastewater treatment processes, as well as distillation and solvent residues. After an increase in 2005 compared to 2004 due to isolated large amounts of excavated soil and construction waste, levels fell again in 2006. The increase in the amount of hazardous waste generated by production operations since 2004 can be attributed to the change in product mix.

Generation of hazardous waste (in 1,000 t/a)



Generation of hazardous waste in production processes (in 1,000 t/a)



² From 2003 the data capture procedure has been revised on successive occasions to bring it into line with current requirements.

Waste disposal

The proportion of waste from Bayer's continuing operations removed to landfill sites fell. The proportions of incinerated and recycled waste each increased.

Waste disposed of according to means of disposal

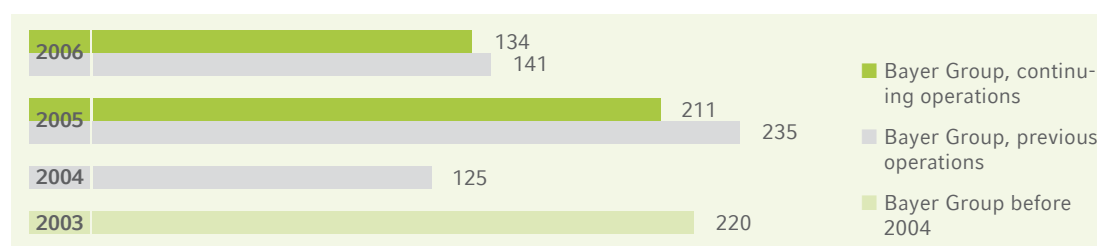
Bayer Group, continuing operations	2005	2006
Total amount of waste disposed of in 1,000 t	848	654
Removal to landfill sites	52 %	44 %
Incineration	28 %	32 %
Recycling	18 %	22 %
Waste that cannot be categorized definitively*	1 %	3 %

* It was not possible to assign this waste to a specific category or the means of disposal could not be recorded. Proper disposal is also ensured in this case. In 2006, a large amount of wastewater containing a high degree of salt was generated at a former Schering site. This wastewater was subjected to chemical and physical treatment and was therefore not assigned to one of the categories recorded to date. We shall review the definition of means of disposal and thereby the allocation for future years.

Hazardous waste removed to landfill sites

The amount of hazardous waste removed to landfill sites fell by almost 40 percent compared with the previous year. The figures for 2005 were affected by a comparatively large amount of mineral materials removed to landfill sites in excavated soil and construction waste.

Removal of hazardous waste to landfill sites (in 1,000 t/a)



Reportable environmental incidents

Since the reporting year 2003, we have described environmental incidents of a specific level of severity collectively as "reportable environmental incidents," based on a unified set of criteria. This designation covers incidents resulting in materials being released into the environment. Depending on the amount and nature of the material, the level of resultant damage, the impact on the local population, and press reporting, these incidents are divided into two categories:

Level 1 incidents (severe environmental incidents): This category is based on criteria such as costs in excess of €2 million resulting from damage to plants, rehabilitation costs, etc.

Level 2 incidents (significant environmental incidents): Examples of level 2 incidents include those that have resulted in costs of at least €100,000 and up to €2 million.

Up to 2002, we reported data on those incidents at production sites that had to be notified to the authorities based on local regulations. For example, in 2002, we recorded 53 “notifiable environmental incidents” and four “incidents resulting in damage.” Due to different definitions, comparisons with earlier years can only be made to a limited extent.

In 2006, there was a considerable increase in the number of environmental incidents from two to eight. These included two level 1 incidents and six level 2 incidents. All incidents have been subjected to a detailed analysis and appropriate measures have been implemented to avoid similar damage in the future.

Environmental incidents and incidents resulting in damage (number per year)

	2002	2003	2004	2005*	2006*
Notifiable environmental incidents	53	-	-	-	-
Incidents resulting in damage	4	-	-	-	-
Reportable environmental incidents	-	21	6	2	8

* Bayer Group, continuing operations

Transportation incidents

We define transportation accidents as incidents if they occur during paid shipments of chemicals originating from Bayer while these shipments are outside Bayer sites³. Incidents are described as transportation incidents if they result in death or serious injury, if specified amounts of the chemicals being shipped are released into the environment, or if the incident results in severe traffic delays. Since the reporting year 2003, data for this parameter have been captured at all of the Group’s sites, including in locations such as warehouses.

The number of transportation incidents in 2006 was up from 2005, with nine incidents occurring in 2006 against three in 2005. The analysis of each individual case does not reveal any pattern that would suggest that any individual causes or circumstances behind transportation incidents are occurring more frequently than others. In this case, too, all incidents were analyzed and the appropriate steps taken.

Transportation incidents according to means of transport (number per year)

	2002	2003	2004	2005*	2006*
Road	23	28	10	2	6
Rail	2	0	0	1	3
Inland waterways	0	0	0	0	0
Sea	0	0	0	0	0
Air	0	0	1	0	0
Pipeline	1	-	-	0	0
Total	26	28	11	3	9

* Bayer Group, continuing operations

³ Prior to the reporting year 2005, the definition of a transportation incident was based on the ownership of the goods being shipped. Accidents during shipments were only classed as transportation incidents if the goods being shipped were owned by Bayer.

Social indicators

For the first time, we have collected data for the social security systems covering our employees (last updated on March 31, 2007). Data have been collected for 98,093 FTEs (full-time equivalents), that is 93 percent of 106,000 FTEs. All of our employees worldwide from whom data were collected using the questionnaire have contractually established work hours of at most 48 hours per week and health insurance. 85 percent of the employees are entitled to participate in a company pension program and 63 percent of the employees for whom data were collected are subject to collective agreements with regard to their working conditions (see page 54).

It has been established that not all employees in the various regions benefit equally from the generally high social standards of the Group. The task in the coming months will be to analyze the reasons for this and, if necessary, to formulate suitable objectives and measures.

Regional distribution of social security indicators (in percent)

Region/Area	Percentage of full-time employees with contractually agreed working time of max. 48 hours per week*	Percentage of employees with health insurance**	Percentage of employees entitled to a company pension program or a pension program financed by the company***	Percentage of employees who are covered by collective agreements****, especially on wages and working conditions
Europe	100	100	91.2	92.6
North America	100	91	100	10
Latin America/ Africa/Middle East	100	100	53.4	42.4
Asia/Pacific	100	100	67	20.8
Total for Bayer Group	100	98.6	84.6	63.3

* standard contract, excluding exempts, ** statutory or employer/employee-funded, *** also in addition to the statutory pension program, **** tariff or wage or shop agreements

Since 2005, we have been collecting data for indicators in the categories of diversity and opportunity, and of training and continuing education. Personnel expenditure in 2006 amounted to approximately €6,630 million, with 2.2 percent of this total, about €146 million, being devoted to employee training and continuing education, which equates to approximately €1,400 for each individual. The increase in personnel numbers seen in all regions can be attributed to the transfer of former Schering employees. Without the inclusion of the latter, staff numbers would have fallen in all regions.

Further social indicators

Category	Indicator	2005	2005 cont.	2006 cont.
Diversity and opportunity	Percentage of women in senior management* within the Bayer Group	3.9	3.9	3.8
	Number of different nationalities in senior management within the Bayer Group	17	17	17
Training and continuing education	Training and continuing education costs as a percentage of total personnel expenditure	2.3	2.3	2.2
Employment	Number of employees per region (permanent and fixed term job contracts) as of the cut-off date (December 31, 2006)			
	Total for the Bayer Group	93,700	82,600	106,000
	Europe	52,400	45,700	57,800
	North America	16,200	13,100	17,200
	Asia/Pacific	13,900	13,200	17,300
	Latin America/Africa/Middle East	11,200	10,600	13,700

* All positions in the Group Leadership Circle are classed as belonging to senior management. This equates to approximately 340 positions within the Bayer Group. The Group Leadership Circle consists of managers who perform a prominent function for the Group in the holding company, subgroups or service companies.

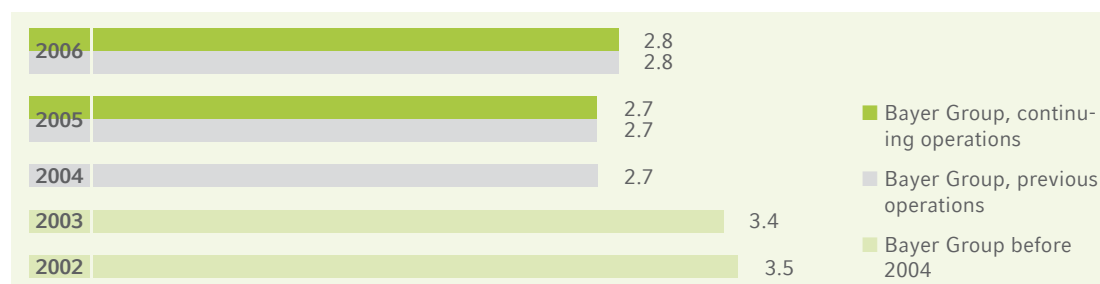
Occupational injuries

The number of injuries resulting in days lost (MAQ, the number of occupational injuries resulting in days lost for every one million hours worked) is a key indicator. In 2006, this number increased slightly over the previous year to 2.8 injuries for every one million hours worked. This statistic includes injuries involving staff on fixed-term contracts, part-time employees and contractors reporting directly to Bayer personnel.

Reportable injuries include all injuries requiring medical treatment beyond first aid measures. These injuries are counted regardless of whether or not they resulted in days lost. This figure, which has been recorded for all sites since 2003, was 4.3 in 2006 (2005: 4.1).

For contractors⁴, the MAQ increased, returning to about the 2004 level. We shall carefully examine the reasons for this increase and work to further improve our safety management procedures for contractors.

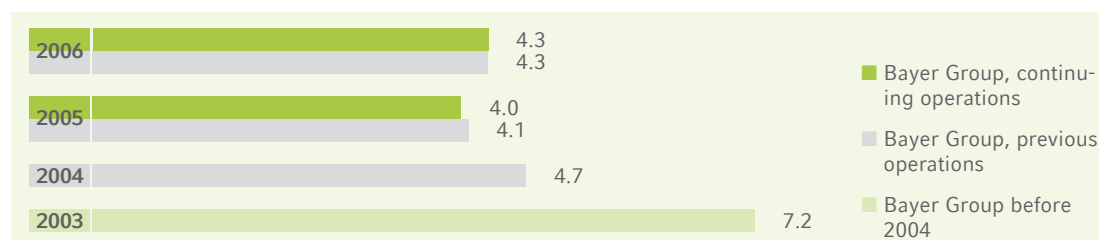
Occupational injuries affecting Bayer personnel resulting in days lost (MAQ*)



* MAQ = injuries resulting in days lost for every one million hours worked (million working hour quota)

⁴ The data provide information about occupational injuries involving employees of contractors who do not report directly to Bayer personnel. In order to be counted, injuries must have resulted in at least one day lost.

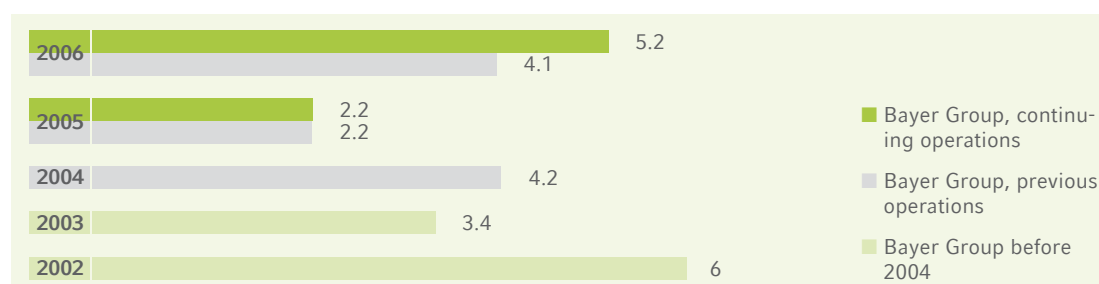
Reportable occupational injuries affecting Bayer personnel (MAQ*)



* MAQ = injuries resulting in days lost for every one million hours worked (million working hour quota)

These data were first collected in the reporting year 2003.

Injuries involving contractors resulting in days lost (MAQ*)



* MAQ = injuries resulting in days lost for every one million hours worked (million working hour quota)

Fatal occupational injuries

Unfortunately, Bayer suffered nine fatal occupational injuries in 2006, five of which involved Bayer employees and four of which involved employees of contractors.

A total of five employees and contractors were killed in traffic accidents in various countries. The circumstances of the other four fatal accidents were as follows:

- An employee was killed in a forklift accident in a warehouse in Indonesia.
- A security guard working for a contractor was killed during a raid on a Bayer site in Pakistan.
- In Colombia, an employee working for a contractor fell from a 15-meter scaffold.
- In India, an employee working for a contractor died as the result of a snake bite he suffered while working.

None of the injuries was attributable to factors specific to the chemical industry.

Fatal occupational injuries

	2002	2003	2004	2005	2006
Fatal occupational injuries	1	2	5	4	9
Bayer employees	0	1	4	3	5
Contractor employees	1	1	1	1	4

Economic indicators

Business sustainability

The significant increase in sales in fiscal 2006 was primarily due to the acquisition of Schering, Berlin, Germany. 2006 was also a particularly successful year in terms of after-tax income, with a 14.1 percent return on stockholders' equity. Moreover, important parameters for mid- and long-term business sustainability, such as personnel expenses and pension obligations, remained at a constant and healthy level. As a result of the Schering acquisition, net debt increased to €17.5 billion. However, despite the purchase price of approximately €17 billion for Schering, net debt rose by only €12 billion from the previous year.

Economic indicators (in € million)

	2002	2003	2004	2005	2006
Net sales	29,624	28,567	23,278	24,701	28,956
Sales outside Germany	86.4 %	85.8 %	86.9 %	84.4 %	84.4 %
Income (loss) before income taxes	956	-1,994	1,222	1,912	1,980
Income (loss) after taxes	1,063	-1,349	682	1,595	1,695
Return on stockholders' equity	6.5 %	-9.7 %	6.1 %	14.4 %	14.1 %
Personnel expenses of which pension expenses	8,176 544	7,906 531	6,026 771	5,318 1,009	6,630 1,414
Pension obligations*	13,375	14,192	15,025	15,561	16,708
Net debt	8,861	5,952	5,422	5,494	17,539

Figures for 2002 – 2004 as reported, 2005 figures restated (continuing operations).

* present value of the defined benefit obligation for pensions and other post-employment benefits

Income taxes

Included under income taxes are those paid or accrued in the individual countries, plus deferred taxes. The reduction in tax expense was principally due to the first-time recognition of deferred tax assets on loss carryforwards relating to structural changes in the Bayer Group, which were agreed with the relevant tax authorities.

Bayer Group income taxes (in € million)

Income taxes paid or accrued	(763)	(463)	2006	2005
Deferred taxes		(75)	2006	2005
Income taxes	(454)	(538)	2006	2005

Net sales by subgroup and segment

The rise in sales in fiscal 2006 due the Schering acquisition also contributed to substantial growth at Bayer HealthCare. This subgroup's sales from continuing operations grew by €3.7 billion (+46.6 percent) in 2006. The marked rise in the relative importance of the Pharmaceuticals segment was also attributable to the Schering acquisition and made Bayer HealthCare the largest subgroup in terms of sales. Following the Schering acquisition the pharmaceuticals business also gained significantly in importance for Bayer HealthCare, accounting for about two thirds of subgroup sales, compared to one half in 2005. Bayer HealthCare's stronger position did not mean, however, that this subgroup dominated the Bayer Group as a whole.

Net sales by subgroup and segment (in € million)

	2005*	2005 share of Group	2006*	2006 share of Group
HealthCare	7,996	32	11,724	40
Pharmaceuticals	4,067	16	7,478	26
Consumer Health	3,929	16	4,246	14
CropScience	5,896	24	5,700	20
Crop Protection	4,874	20	4,644	16
Environmental Science, BioScience	1,022	4	1,056	4
MaterialScience	9,446	38	10,161	35
Materials	2,837	11	2,925	10
Systems	6,609	27	7,236	25
Reconciliation	1,363	6	1,371	5
Group	24,701	100	28,956	100

* continuing operations

In 2006, the Bayer Group invested a total of €2,297 million in research and development (compared with €1,729 million for continuing operations in 2005). Of this amount, Bayer HealthCare accounted for 62 percent, Bayer CropScience for 27 percent and Bayer MaterialScience for 10 percent. Here, too, the increase at Bayer HealthCare is largely attributable to the acquisition of Schering.

Research and development expenses (in € million)

Total	2006	2,297	2005	1,729
of which Bayer HealthCare	2006	1,426	2005	834
of which Bayer CropScience	2006	614	2005	664
of which Bayer MaterialScience*	2006	227	2005	214
of which reconciliation	2006	30	2005	17

* without R&D together with customers

ASSURANCE



Independent Assurance Statement to Bayer AG Group Management

Introduction

We have reviewed the data collection procedure and certain chapters of the Bayer AG Sustainable Development Report 2006 (the 'Report'). The Report and the subject matters reported are the responsibility of the Management of the Company. Our responsibility is to draw a conclusion based on our review.

We have based our approach on emerging best practice for independent assurance of Sustainability Reports, including ISAE 3000 ("Assurance Engagements other than Audits or Reviews of Historical Financial Information"), issued by the International Auditing and Assurance Standards Board (IAASB). The objective and scope of the engagement were agreed with the Management of the Company and included those subject matters on which we have concluded below.

Procedures

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters. We have performed interviews with management representatives and employees at Bayer AG Group headquarters and sub-group levels; and with respect to the HSE data procedures, at 10 reporting objects: Bayer Industry Services Dormagen (Germany), Bayer MaterialScience Dormagen (Germany), Bayer CropScience Dormagen (Germany), Bayer MaterialScience Niihama (Japan), Bayer Schering Pharma Bergkamen (Germany), Bayer Schering Pharma Berlin (Germany), Bayer CropScience Institute (United States), Bayer Business Services Leverkusen (Germany), Bayer Technology Services Caojing (China) and Bayer HealthCare Gaillard (France).

We believe that our work provides an appropriate basis for us to conclude, with a limited level of assurance, on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

Conclusions

In conclusion, in all material respects, nothing has come to our attention that causes us not to believe that:

1. Bayer AG at Group level has applied detailed and systematic procedures, as described in 'Management of objectives and performance indicators' (pages 64-65), for the purpose of collecting, compiling and validating:
 - a. Health, Safety, and Environment (HSE) 2006 performance data from reporting objects,
 - b. Human Resources (HR) 2006 data on the total number, gender and nationality of the Group Leadership Circle; training and development cost; and total number of employees.
2. The HSE performance data and the HR data mentioned above have been appropriately presented in the Report (pages 65-78) in accordance with principles stated in 'Management of Objectives and Performance Indicators.'

3. HSE performance data from the reporting objects that we have tested has been reported according to the procedures noted in item 1 and is consistent with source documentation presented to us.
4. Bayer AG at Group level is implementing its Sustainable Development (SD) Policy as asserted by Management on the following subject matters:
 - a. Supply Chain Management (pages 22-23): The development and implementation of a management practice in accordance with stated policies and programs.
 - b. Integration of Schering AG (pages 34-35): The integration with Bayer HealthCare to Bayer Schering Pharma with respect to HR and HSEQ in accordance with the stated objectives.
 - c. Energy Efficiency and Climate Protection (pages 46-47): The Bayer AG position, 2015 objective, and actions stated with respect to Bayer MaterialScience assert the current SD Policy implementation level.
 - d. Food Chain Management aspects (pages 60-61): The development and implementation within Bayer CropScience of a management practice for customer training, product communication, and against illegal trade assert the current SD Policy implementation level.
5. Bayer at Group level applies a Sustainability Reporting practice in accordance with its objectives and principles for reporting, as described in the 'Sustainable Development Report 2006' at the front flap, and aligned with the GRI reporting principles. The GRI Index presented on the back flap appropriately reflects the extent to which the Report aligns with the indicators in the GRI Sustainability Reporting Guidelines. The references made in the "Global Compact Reporting" table on page 88 are consistent with the Report.

Copenhagen, June 4, 2007

Deloitte
Statsautoriseret Revisionsaktieselskab

Preben J. Soerensen
State Authorized Public Accountant
Environment & Sustainability Services

Group Sustainability Program for 2006 onwards

Our Sustainability Program is based around the key areas of innovation, product stewardship, excellence in corporate management, social responsibility and responsibility for the environment. Within each of these areas of action, specific measures are assigned to each objective to ensure that it is achieved by the deadline. The objectives of all the subgroups and service companies have been incorporated into the Group Sustainability Program. Their Boards of Management and Executive Committees are responsible for the successful implementation of the objectives.

Our objectives by 2010 (unless indicated otherwise)

Objective	Measure	State of implementation*)
Area of action: Innovation		
Promotion of a culture of innovation so that creative business ideas beyond existing areas of work can become utilizable for the Group.	Long-term, Group-wide innovation initiative: Implementation of the "Triple-i" program (Inspiration, Ideas and Innovations).	
Promotion of research projects on protecting drinking water and freshwater.	Provision of funding and participation in project management for the National Geographic Global Exploration Fund set up by Bayer and National Geographic; in 2006/2007 initiation of socially relevant and innovative projects by external research groups on the new recovery, conservation and fair distribution of water resources.	Nine funded projects involving field research in Latin America, Europe, Africa and Asia initiated and supported with €250,000.
Contribution to safeguarding the food supply of a growing world population.	Further development of plant biotechnology; development of plants with improved stress tolerance of dry conditions and creation of health-promoting types of canola.	First results from field tests with stress-tolerant canola plants show a clear increase in yield. Market launch of hybrid rice (Arize®) in Asia (key countries). 20 percent increase in yield compared with the best non-hybrid variety.
Tapping potential of renewable resources.	Research work and technological developments for promising applications.	

*) We report on the state of implementation for those objectives regarding which we have already achieved significant progress in the first year of the five year period.

Objective	Measure	State of implementation ^{*)}
Selective, resource-optimized production of active pharmaceutical ingredients.	Creation and preparation of therapeutic proteins from plants (plant-made pharmaceuticals).	
Provision of improved anticancer drugs.	Extension of indications of the anticancer drug Nexavar [®] to include liver, skin and lung cancer.	A Phase III study has shown that Nexavar [®] increases overall survival in patients with liver cell carcinoma or primary liver cancer by 44 percent. BHC is preparing applications for approval of the indication liver cancer for submission to the FDA and the European regulatory authority. Further studies in other indications such as NSCLC and breast cancer are ongoing.
Provision of a drug to combat dangerous circulatory disorders.	Provision of thrombosis prophylaxis in the form of the oral Factor Xa inhibitor (BAY 59-7939).	An extensive Phase III program with a total of around 35,000 patients is ongoing. The aim is to investigate the efficacy and safety of rivaroxaban in the prevention and treatment of venous thromboembolism and the therapy of stroke in patients with atrial fibrillation.
Extension of the duration of efficacy of Kogenate [®] , a drug recombinant to treat hemophilia.	New formulation based on liposome technology.	Clinical development (Phase I) in progress.
Molecular imaging.	Joint research and development within a partnership network to develop new methods for early detection of cancer, inflammatory processes in the nervous system, and Alzheimer's disease.	New objective.
Research into new methods of treating multiple sclerosis.	Development of Campath [®] to treat multiple sclerosis.	New objective.
Identification of new mechanisms of action for fertility control.	New approaches to non-hormonal contraception.	New objective.
Energy conservation by reducing the weight in vehicles using polymer materials, e.g. for windows and structural parts.	Pilot projects with selected car makers and suppliers, for example for roof modules.	Introduction of mass production for enhanced polycarbonate roof modules with a surface area of over 1 m ² .
Preservation of vital resources by developing innovative polyurethane systems.	Ensuring the availability and high quality of water through the use of innovative and high-quality polyurethane systems for the simple, economical and time-saving rehabilitation of drinking water pipes.	Launch of the system in towns within a total of five European countries.

*) We report on the state of implementation for those objectives regarding which we have already achieved significant progress in the first year of the five year period.

Objective	Measure	State of implementation*)
Energy conservation in production processes.	Optimization of a production process for monomeric MDI (MDI = methylene diphenyl diisocyanate, a raw material used to make polyurethane) for a new large-scale plant in China with a target energy saving of approx. 15 percent.	Construction is underway on a facility for the production of MDI compounds on a global scale, with an annual capacity of 350,000 metric tons. Commissioning of this Shanghai plant, which will be the largest of its type anywhere in the world, is scheduled for 2008.
Development of solutions for infectious tropical diseases such as malaria, dengue fever, etc.	Cooperation with stakeholders who are following holistic approaches, in order to broaden our spectrum.	New objective.

Area of action: Product stewardship

Ongoing work to secure substance information and its availability for all of our products.	Continuous updating of data records for own production > 1 metric ton, in line with changes to the product portfolio.	
Implementation of the objective formulated at the United Nations' World Summit on Sustainable Development in Johannesburg on the globally harmonized classification and labeling of substances and preparations.	Support of political interpretation and implementation in conjunction with other relevant regulations (GHS = globally harmonized system).	Implementation within Europe is supported by the committed cooperation of industry associations.
Improvement in biological effectiveness of crop protection products, coupled with a favorable environmental and health profile.	Management and further development of the Bayer CropScience product portfolio.	Market launch of innovative products <ul style="list-style-type: none"> • Infinito® (fungicide): New active mechanism, high effectiveness against major potato diseases. • Atlantis® (herbicide): Dose is 1 percent of that required with the current alternatives. • Oberon® and Envidor® (insecticides): Do not harm useful insects. • New products that replace WHO class I chemicals (in this case carbamates and organophosphates).
Permanent ongoing safeguarding of compliance with regulations on drug safety and quality assurance with regard to human drugs.	Implementation and monitoring of the policy on detailed information obligations, procedures and contact partners for drug safety and quality assurance.	
Ensuring environmental compatibility of pharmaceuticals.	Several measures, including a study program to assess the ecotoxicological characteristics of leavenogestrol.	New objective. Involvement in various projects, such as "ERAPharm." Development of methods for analyzing pharmaceuticals residue in (ground)water.

*) We report on the state of implementation for those objectives regarding which we have already achieved significant progress in the first year of the five year period.

Objective	Measure	State of implementation ^{*)}
Timely implementation of the REACH Regulation in the Group.	Implementation of the Regulation in the subgroups; establishment of a Group-wide REACH platform.	New objective.

Area of action: Excellence in corporate management

Employment: Ongoing improvement of internal work processes and employee motivation.	Continuation of regular worldwide satisfaction analysis of managerial staff; implementation of global leadership principles coupled with performance assessment, utilization of the experience gained from country piloted.	Setting of annual leadership objectives. Basis: Company-wide leadership principles. Target group: Entire management sector. Consequence: Evaluation of the extent to which principles have been achieved.
Management of process to implement the Directive on Health, Safety, Environment and Quality (HSEQ) Audits.	Implementation of subgroup-specific HSEQ management systems and complete auditing of these in all regions.	BCS: Continuous expansion and updating of HSEQ directives. Worldwide auditing of management system and other specific HSEQ aspects. BHC: Measurement of HSE performance by means of Group-wide indicators extended to acquired areas. BMS: Large-scale HSEQ audit measures in accordance with a set audit plan are routinely carried out.
Improvement of communication within the global Bayer organization.	Full implementation of English as Group working language among managers including through the introduction of broadly based training programs.	
Improvement of performance of all managers.	Further extension of 360° Feedback processes to include employees with managerial responsibility.	Continuous use of 360° Feedback processes for employees with managerial responsibility, targeted use of management audits by external consultants as an objective selection procedure for filling management positions (e.g. following reorganization or acquisitions such as of Roche and Schering).

^{*)} We report on the state of implementation for those objectives regarding which we have already achieved significant progress in the first year of the five year period.

Objective	Measure	State of implementation*)
Area of action: Social responsibility		
Worldwide promotion of environmental knowledge among young people.	Expansion of cooperation with the United Nations Environment Programme (UNEP), including strengthening of youth environmental networks and capacity building programs in Latin America and Africa.	Support for the establishment of the first UNEP youth environment networks in Latin America and Africa and two additional networks in Asia; expansion of the Young Environmental Envoy Program to include Malaysia, Vietnam and Turkey so that a total of 17 countries now participate.
Strengthening of basic understanding of natural science in schools.	Establishment in other countries of the “Making Science Make Sense” program founded in the United States.	Established in France, Ireland, Italy, Japan and United Kingdom.
Promotion of access to school and vocational education for children and young people, particularly in newly industrializing and developing nations.	Cooperation with regional organizations, initiating programs to protect and educate young people. Raising of awareness in relevant locations, such as India.	Launch of the “Learning for Life” program at Bayer CropScience in Andhra Pradesh (India): Integration of former child laborers into the public school system. Expansion of the program to include children of pre-school age.
Promotion of education in sustainable development and improvement of environmental awareness in newly industrializing countries (capacity building) in line with voluntary undertaking by the chemical industry based on the Johannesburg Declaration and the ICCM (SAICM).	Development of a training program and financial and HR support for the establishment of a Chair for Sustainable Development at Tongji University in Shanghai, China.	Memorandum of Understanding signed between Bayer and Tongji University.
Support for education, science and research.	Reorganization of Bayer Foundations focusing more strongly on promoting knowledge and increasing the budget.	Pooling of foundation activities through the establishment of the Bayer Science & Education Foundation and the Bayer Cares Foundation and boosting of the total foundation budget by Bayer.
Investigation whether the duration of treatment for tuberculosis can be reduced by around half by using the active substance moxifloxacin.	Bayer is collaborating with The Global TB Alliance to supply the active substance moxifloxacin free of charge for a global study program. If the trials are successful, the intention is to have moxifloxacin approved for the indication TB and to make it available to patients in developing countries at affordable prices.	Clinical study programs in progress in cooperation with the TB Alliance.
Responsible approach to genetic engineering.	Implementation of new Bayer position on genetic engineering and specific regulations in the subgroups and service companies.	

*) We report on the state of implementation for those objectives regarding which we have already achieved significant progress in the first year of the five year period.

Objective	Measure	State of implementation ^{*)}
Occupational safety: Reduction in number of occupational injuries with lost days per 1 million hours worked (MAQ < 2).	Continuation of our consistent safety management approach.	
Diversity: Consistent implementation of our corporate values in the area of equal opportunities for all, regardless of gender, nationality, color, religion, sexual persuasion or age.	Consistent implementation of Group-wide Program for Legal Compliance and Corporate Responsibility of May 2004; full implementation of a globally harmonized compensation system for Group Leadership Circles 1 to 3.	Adoption of a joint declaration from employers' and employees' representatives in Bayer European Forum for continuation of commitment to diversity and equal opportunities within the company; survey of behavior with regard to diversity as part of the 360° Feedback process. Bayer HealthCare working group for implementation of equal opportunities policies set up.

Area of action: Responsibility for the environment

Water emissions: Ten percent reduction in discharge of TOCs (total organic carbon) and nitrogen into receiving waters per metric ton of sales product.		TOC reduction compared with 2005: Five percent in continuing operations.
Air emissions: 30 percent reduction in VOC emissions per metric ton of sales product.		Reduction compared with 2005: 20 percent in continuing operations.
Air emissions: Further ongoing optimization of energy efficiency in our production plants with the goal of reducing emissions of greenhouse gases by ten percent per metric ton of sales product (by 2015).	For competition reasons we do not publicize our measures in this area.	Reduction compared with 2005: Four percent in continuing operations.
Air emissions: Compliance with a maximum limit for ODS emissions (Ozone Depleting Substances) of less than 20 metric tons per year (CFC-11 equivalents).		Gross value 2006: 13 metric tons in continuing operations.
Waste: Reduction in the volume of hazardous production waste to less than 2.5 percent per metric ton of sales product.		Gross value 2006: 2.3 percent in continuing operations.
Energy consumption: Ten percent reduction in specific energy consumption per metric ton of sold product by 2015.		

^{*)} We report on the state of implementation for those objectives regarding which we have already achieved significant progress in the first year of the five year period.