NOTICE

OF THE ANNUAL
STOCKHOLDERS’ MEETING

on Friday, April 29, 2011
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6. Election of the auditor of the financial statements and for the review of the half-yearly financial report

### Extracts from the Annual Report 2010

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### Cover Picture

Bayer is partnering with science and industry in the "Dream Production" project aimed at using climate-damaging carbon dioxide as a valuable raw material for sustainable industrial production. The idea is to chemically bind CO₂ and use it to partially replace conventional fossil raw materials in the manufacture of polymers. The picture shows chemist Dr. Christoph Gurtler, project manager at Bayer MaterialScience, and scientist Daniela d’Elia of RWTH Aachen University viewing a scanning electron micrograph of a polyurethane foam.
Notice of Meeting

Our stockholders are hereby invited to attend the Annual Stockholders’ Meeting to be held at 10.00 a.m. on April 29, 2011 at the Congress-Centrum Koelnmesse, North Entrance, Hall 7, Deutz-Mülheimer-Strasse 111, 50679 Cologne.

Agenda

1. Presentation of the adopted annual financial statements and the approved consolidated financial statements, the combined management report, the report of the Supervisory Board, the explanatory report by the Board of Management on takeover-related disclosures, and the proposal by the Board of Management on the appropriation of distributable profit for the fiscal year 2010, as well as the resolution on the appropriation of distributable profit.

The Board of Management and the Supervisory Board propose that the entire distributable profit of EUR 1,240,421,712 for the fiscal year 2010 be appropriated to pay a dividend of EUR 1.50 per share carrying dividend rights.

The amount of the dividend is determined by the Board of Management based on the number of shares carrying dividend rights on the date the annual financial statements were prepared. If the Company holds treasury shares on the date of the Annual Stockholders’ Meeting and the number of shares carrying dividend rights is therefore lower than the number on the date the annual financial statements were prepared, the Board of Management and Supervisory Board shall present an amended proposal on the appropriation of distributable profit to the Annual Stockholders’ Meeting to the effect that the proposed dividend shall remain unchanged at EUR 1.50 per share and the remainder of the distributable profit shall be carried forward.

The annual financial statements prepared by the Board of Management on February 15, 2011 were approved by the Supervisory Board on February 24, 2011 in accordance with section 172(1) of the German Stock Corporation Act (AktG); the annual financial statements are thus adopted. No resolution on the adoption of the annual financial statements by the Annual Stockholders’ Meeting is therefore required. The other documents mentioned above shall be made available to the Annual Stockholders’ Meeting in accordance with section 176(1) sentence 1 of the AktG without the need for adoption of a resolution, with the exception of the resolution on the appropriation of distributable profit.
2. Ratification of the actions of the members of the Board of Management
The Board of Management and the Supervisory Board propose that the actions of the members of the Board of Management who held office in the fiscal year 2010 be ratified for that year.

3. Ratification of the actions of the members of the Supervisory Board
The Board of Management and the Supervisory Board propose that the actions of the members of the Supervisory Board who held office in the fiscal year 2010 be ratified for that year.

4. Amendment to the Articles of Incorporation concerning the term of office of Supervisory Board members (Article 8(2) and (4) of the Articles of Incorporation)
Up to now, Article 8(2) of the Articles of Incorporation has provided for a standard term of office for members of the Supervisory Board, corresponding to a period of around five years. In the interests of achieving greater flexibility, the Annual Stockholders’ Meeting shall be given the opportunity to specify a shorter term of office for one or more of the stockholder representatives, while in principle maintaining the standard cycle, and to allow the term of office to begin or end as of a different date.

The Board of Management and the Supervisory Board therefore propose that Article 8(2) of the Articles of Incorporation be amended as follows:

Article 8(2):

“The members of the Supervisory Board shall be elected for a term extending to the end of the Stockholders’ Meeting that resolves on the ratification of the actions of the Supervisory Board in the fourth fiscal year after commencement of their terms of office, not counting the fiscal year in which the terms of office begin (standard term of office). The Annual Stockholders’ Meeting may specify a term of office that is shorter than the standard term of office for individual, but no more than five, Supervisory Board members at the time of their election and, subject to the statutory limits, specify differing start and end dates for their terms of office.”

Article 8(4):

“If a member of the Supervisory Board to be elected by the Stockholders’ Meeting ceases to be a member of the Supervisory Board before the end of his or her term of office and if no elected substitute is available, an election shall be held to determine a successor for the remainder of the term of office of the member who has left the Supervisory Board prematurely, unless the successor is specifically elected for a differing term.”

5. Spin-off of property holdings
On the basis of corresponding agreements, Bayer Real Estate GmbH, domiciled in Leverkusen, is currently responsible for the management of the portfolio of land and buildings of Bayer Aktiengesellschaft. The property management function and legal assignment of the property holdings shall be combined. For this purpose, the current separation of the property management tasks and functions undertaken by Bayer Real Estate GmbH and the legal assignment of the property holdings of Bayer will be eliminated in order to reduce complexity and simplify structures. Bayer therefore entered into a Spin-off and Takeover Agreement with Bayer Real Estate GmbH on February 17, 2011, under the terms of which the assets and liabilities that fall within the scope of bag’s property holdings and further assets and liabilities categorized as spin-off assets and liabilities in the Agreement shall be transferred to Bayer Real Estate GmbH by way of a spin-off in accordance with the Umwandlungsgesetz (German Reorganization Act – “UmwG”). It is intended that the Annual Stockholders’ Meeting of Bayer Real Estate GmbH shall approve the Spin-off and Transfer Agreement in March 2011. The Spin-off and Transfer Agreement shall only enter into effect after approval by the respective Annual Stockholders’ Meetings of Bayer and Bayer Real Estate GmbH and the spin-off shall only become effective once it is entered in the commercial register of Bayer.
The Board of Management and Supervisory Board propose the following resolution for adoption:

The Spin-off and Transfer Agreement entered into by Bayer and Bayer Real Estate GmbH on February 17, 2011, notarized by notary Dr. Thilo Weimer with registered offices in Leverkusen, shall be approved.

The Spin-off and Transfer Agreement – excluding the recitals, table of contents, list of schedules, and schedules – is worded as follows:

Spin-Off and Takeover Agreement
Between
Bayer Aktiengesellschaft, Leverkusen,
and Bayer Real Estate GmbH, Leverkusen

1. PARTIES TO THE AGREEMENT AND SCOPE OF THE AGREEMENT

1.1 Bayer Aktiengesellschaft (hereinafter “bag”) is domiciled in Leverkusen. It is registered in the commercial register of the Cologne District Court under number HRB 48248. When this Agreement was entered into, its capital stock amounted to EUR 2,716,986,388.48, composed of 826,947,808 no-par value registered shares.

1.2 Bayer Real Estate GmbH (hereinafter “bre”) is domiciled in Leverkusen. It is registered in the commercial register of the Cologne District Court under number HRB 48233. When this Agreement was entered into, its capital stock amounted to EUR 1,534,000.00 and was fully paid up. bag is the sole shareholder of bre.

1.3 On the basis of corresponding contracts, bre is currently responsible for the management of bag’s portfolio of land and buildings (hereinafter the “Property Holdings”). The Property Holdings mainly consist of: (i) land and buildings owned by bag, largely industrial land and facilities, as well as agricultural land and forests; (ii) land rights (heritable building rights) to land owned by third parties, and (iii) rented or leased land, buildings, and facilities owned by third parties. bag intends to harmonize the property management function with the legal assignment of bag’s Property Holdings. For this purpose, the current separation of the property management tasks and functions undertaken by bre and the legal assignment of bag’s Property Holdings will be removed in order to reduce complexity and simplify the structures. Under the terms of this Spin-off and Takeover Agreement, the assets and liabilities that fall within the scope of bag’s Property Holdings shall therefore be transferred to bre by way of a Spin-off in accordance with the Umwandlungsgesetz (German Reorganization Act – “UmwG”).

2. GENERAL TERMS AND CONDITIONS

2.1 Spin-off by Way of Acquisition

In accordance with section 123(3) no.1 of the UmwG, bag as the transferring legal entity shall transfer the portion of its assets and liabilities defined as Spin-off Assets and Liabilities under section 3 of this Agreement as a whole to bre as the receiving legal entity, against the grant of a new share of bre (hereinafter the “Spin-off”).
2.2 Closing Statement of Financial Position

The Spin-off shall be based on the audited statement of financial position of BAG as of December 31, 2010 as the Closing Statement of Financial Position (hereinafter the “Closing Statement of Financial Position”).

2.3 Effective Spin-off Date, Effective Transfer Date for Tax Purposes

The effective transfer between BAG and BRE shall take place at the beginning (0.00 hours) of January 1, 2011 (hereinafter the “Effective Spin-off Date”). As of January 1, 2011, 0.00 hours, BAG’s acts and transactions relating to the Spin-off Assets and Liabilities defined under section 3 shall be deemed to be for the account of BRE. BAG and BRE shall place each other in the position that they would be in if the Spin-off Assets and Liabilities had already been transferred to BRE at the Effective Spin-off Date. The effective transfer date for tax purposes shall be 24.00 hours on December 31, 2010 in accordance with section 20(6) sentence 2 of the UmwG.

3. SPIN-OFF ASSETS AND LIABILITIES

3.1 Subject Matter of the Spin-off

BAG shall transfer to BRE in their entirety:

(a) all tangible and intangible assets and liabilities, including contractual relationships and other legal relationships and legal interests of any kind, receivables and liabilities, and future and contingent receivables and liabilities the legal basis for which already exists, irrespective of whether these are required to be recognized or eligible for recognition or whether they are actually recognized or not (hereinabove and hereinafter “assets” or, where reference is made to an individual item, the “asset”) that fall within the scope of the Property Holdings of BAG, unless they are expressly exempted from the transfer hereinafter,

(b) including all assets expressly included in the Spin-off Assets and Liabilities hereinafter (a) and (b) referred to collectively hereinabove and hereinafter as the “Spin-off Assets and Liabilities”).

Unless expressly exempted from transfer hereinafter, the Spin-off Assets and Liabilities shall include:

(c) all rights and claims of BAG in rem and under the law of obligations to the land, buildings, and building areas in Germany covered by the “Agreement on the Use of Land and Buildings” of March 1, 2002, as amended by addendum 14 dated February 10, 2011, between BAG and BRE (hereinafter the “Agreement on the Use of Land and Buildings of March 1, 2002”).

(d) all assets allocated to the Property profit center (CSU 491000) in BAG’s accounting system at 0.00 hours on January 1, 2011,

(e) all assets and liabilities recognized in the Spin-off Statement of Financial Position based on the Closing Balance Sheet and appended as Schedule 3.1 (e).
3.2  Assets and Liabilities Exempt from Transfer

The following assets and liabilities are not included in the Spin-off Assets and Liabilities and shall therefore be exempt from transfer:

(a) BAG’s equity interest in BRE,

(b) the existing profit transfer agreement between BAG and BRE, including all the rights and obligations arising under that agreement,

(c) the “Site Agreement for the Chemical Park” notarized by notary public Dr. Dieter Janke, with registered offices in Leverkusen (deed no. 2632 of 2004), including all rights and obligations arising under that agreement, without prejudice to section 3.10,

(d) mortgages and land charges granted to BAG in connection with employee loans, development loans, or other agreements whose main subject matter is the grant of a loan or other financing by BAG,

(e) the partial areas still to be measured, which are described in detail as the “Partial Area – Group Headquarters” and illustrated in Schedule 3.2 (e) (hereinafter the “Partial Area – Group Headquarters”), of the land entered in the Wiesdorf land register (Leverkusen District Court), volume 2502 under the sequential numbers (last known to the parties to the Agreement) of 19, 10, and 148 (Wiesdorf subdistrict, cadastral section 15, plots 102, 103, and 272) (hereinafter the “site to be subdivided”),

(f) the “Agreement on the Use of Land and Buildings (Partial Area – Group Headquarters” dated February 10, 2011 between BAG and BRE concerning the Partial Area – Group Headquarters described under 3.2 (e), including all the rights and obligations arising under that agreement,

(g) all liabilities, irrespective of whether or not they are recognized, that arose prior to the Effective Spin-off Date, with the exception of those recognized as a liability in the Spin-off Balance Sheet appended to this Agreement as Schedule 3.1 (e) and therefore to be transferred to BRE in accordance with section 3.1 (e); the obligations arising due to contamination are specified separately under section 3.2 (h),

(h) all liabilities, uncertain liabilities, contingent liabilities, and future and conditional liabilities arising from official claims or claims under private law relating to any harmful changes to the soil, water or ground water pollution, or hazardous substances in the building structures (hereinafter collectively referred to as “contamination”), provided this contamination concerns the Spin-off Assets and Liabilities and occurred before the Execution Date; this shall specifically also include liabilities and charges arising from liability of the author in accordance with section 4(3) sentence 1 of the Bundesbodenschutzgesetz (Federal Soil Conservation Act, BBodSchG).

(i) all rights and legal interests, in particular claims against third parties by BAG that arise in connection with contamination that are expressly included in the Spin-off Assets and Liabilities hereinafter, provided that these do not originate from agreements with third parties.

(j) the “Location Agreement” between BAG and the Federal State of Schleswig-Holstein dated June 9, 1970, and the associated “Site Purchase Agreement” notarized by the notary public Dr. Peter Theede, with registered offices in Kiel (deed no. 920 of 1972), including all the rights and obligations arising under that agreement,
(k) structures used for promotional purposes erected on land and buildings owned by third parties, in particular the Bayer Crosses, as well as rental agreements, lease agreements, and other agreements on grant of use or transfer of use relating to the land and buildings in question, and the contractual and in rem rights and legal interests of BAG to erect, operate, and maintain these structures.

Where reference is made hereinafter to the “scope of BAG’s Property Holdings”, (a) to (k) under this section 3.2 shall be deemed exempt from transfer and the associated assets and liabilities shall not be deemed to fall within the scope of BAG’s Property Holdings.

3.3 Property Holdings

The Spin-off Assets and Liabilities shall include all land in Germany owned by BAG, in particular the land listed in Schedule 3.3, with the exception of the Partial Area – Group Headquarters specified under section 3.2 (e), with the following specific provisions applicable to the sites to be subdivided: If the subdivision of the site is effected by the Execution Date and the new sites created through the subdivision entered in the land register, the sites corresponding to the remaining areas after the division of the Partial Area – Group Headquarters, which may be assigned new plot numbers as appropriate, shall fall within the scope of the Spin-off Assets and Liabilities (hereinafter the “Remaining Areas”). If the subdivision of the site has not yet been effected by the Execution Date and the new sites created through the subdivision not entered in the land register, the sites corresponding to the remaining areas shall be included in the Spin-off Assets and Liabilities from an economic perspective, whereas from a legal perspective they shall be excluded from the assets and liabilities transferred to BRE when the Spin-off becomes effective. In this case, however, BAG shall transfer to BRE the new sites corresponding to the Remaining Areas without delay after the subdivision of the site enters into force, with economic effect as of the Effective Spin-off Date. The Spin-off Assets and Liabilities shall also include all material components of the sites included in the Spin-off Assets and Liabilities that are owned by BAG, in accordance with sentences 1 to 3 above.

3.4 Heritable Building Rights, Buildings Held by BAG

The Spin-off Assets and Liabilities shall include all heritable building rights to land in Germany held by BAG, in particular the heritable building rights listed in Schedule 3.4, as well as the associated heritable building right contracts, including all the rights and obligations arising under those contracts (within the context of section 3.2(g)). The Spin-off Assets and Liabilities shall therefore also include the buildings and other structures that represent material components of the heritable building rights described in sentence 1 above, including the material components of these buildings and other structures.

3.5 Relationships under Heritable Building Rights Concerning the Property Holdings Covered by Section 3.3

The Spin-off Assets and Liabilities shall include all heritable building right contracts relating to the land in Germany owned by BAG covered by section 3.3, in particular the heritable building right contracts relating to the heritable building rights listed in Schedule 3.5, including all the rights and obligations arising under each of those contracts (within the context of section 3.2(g)).

3.6 Other Land Register Entries Concerning the Property Holdings Covered by Section 3.3

The Property Holdings covered by section 3.3 and the heritable building rights covered by section 3.4 shall be transferred together with any charges entered in the land register or register of heritable building rights, as well as any rights enjoyed by the owner or
holder of the land or heritable building rights in question, including any easements or rights of preemption. The Spin-off Assets and Liabilities shall also include all contracts between BAG as the owner or holder of a heritable building right and third parties the subject matter of which is the charges and rights described in the sentence 1 above, including all the rights and obligations arising under those contracts (within the context of section 3.2(g)).

3.7 Rental and Lease Agreements, Grant of Use and Transfer for Use to BAG

With the exception of the contracts covered by section 3.2(k), the Spin-off Assets and Liabilities shall include all rental and lease agreements for land, buildings, or building areas in Germany or significant components of such, as well as other contracts concerning grant of use or transfer for use entered into between BAG as the tenant, lessee, or beneficiary of other rights to use the land, building, or building area and external third parties or Group companies other than BRE, including all the rights and obligations arising under those contracts (within the context of section 3.2(g)). The contracts covered by sentence 1 above and therefore included in the Spin-off Assets and Liabilities shall in particular include the contracts recorded in BRE’s contract database “Liegenschaftsinformationsystem” (Property Information System) under the document numbers listed in Schedule 3.7.

3.8 Rental and Lease Agreements, Grant of Use and Transfer for Use by BAG

The Spin-off Assets and Liabilities shall include all rental and lease agreements for land, buildings, or building areas in Germany, as well as other contracts concerning grant of use or transfer for use entered into between BAG as the landlord, lessor, or grantor of other rights to use the land, building, or building area and external third parties or Group companies other than BRE, including all the rights and obligations arising under those contracts (within the context of section 3.2(g)). The contracts covered by sentence 1 above and therefore included in the Spin-off Assets and Liabilities shall in particular include the contracts recorded in BRE’s contract database “Liegenschaftsinformationsystem” (Property Information System) under the document numbers listed in Schedule 3.8 (i) and the special contracts for the transfer of use of operating facilities within the meaning of section 68(2) of the Bewertungsgesetz (German Valuation Act) listed in Schedule 3.8 (ii).

3.9 Agreement on the Use of Land and Buildings

The Spin-off Assets and Liabilities shall also include the Agreement on the Use of Land and Buildings between BAG and BRE dated March 1, 2002, which shall expire upon transfer on the Effective Spin-off Date as a result of a confusion of rights.

3.10 Accession to the Site Agreement

Although the “Site Agreement for the Chemical Park” notarized by notary public Dr. Dieter Janke, with registered offices in Leverkusen (deed no. 2632 of 2004), shall not be included in the Spin-off Assets and Liabilities, BRE shall accede to this agreement with economic effect as of the Effective Spin-off Date and shall fully assume the legal interests of BAG in respect of the land to be transferred. BRE further agrees to impose a corresponding obligation on any legal successors with regard to the land in question.

3.11 Other Legal Interests in Land Owned by Third Parties

The Spin-off Assets and Liabilities shall include all existing rights of purchase (repurchase options), rights of way, emission rights, and tolerances relating to the land or heri-
table building rights of third parties enjoyed by BAG, in particular all rights of preemption and easements in favor of BAG entered in a land register or register of heritable building rights in Germany, as well as all contracts between BAG and third parties the subject matter of which is these legal interests, including all rights and obligations arising under those contracts (within the context of section 3.2(g)). The Spin-off Assets and Liabilities shall also include all site purchase agreements entered into by BAG as the purchaser, including all rights and obligations arising under those agreements (within the context of section 3.2(g)), in particular all rights to title and the associated liens, including priority notice in the land register, if applicable. In addition, the Spin-off Assets and Liabilities shall include all existing duties of purchase applicable to BAG in relation to the land or heritable building rights of third parties, as well as all contracts between BAG and third parties the subject matter of which is these legal interests, including all rights and obligations arising under those contracts (within the context of section 3.2(g)).

3.12 Payments on Account, Construction in Progress

The Spin-off Assets and Liabilities shall also include all rights and legal interests arising from payments on account that fall within the scope of BAG’s Property Holdings, in particular any claims arising thereunder.

3.13 Contracts under Public Law and Other Legal Relationships under Public Law

The Spin-off Assets and Liabilities shall include all

(a) contracts under public law,

(b) approvals, permits, licenses, authorizations under public law, and any other entitlements under public law (hereinafter “Entitlements under Public Law”), and

(c) other directives and decisions under public law, and other official measures (hereinafter “Other Measures under Public Law”)

of any kind that fall within the scope of BAG’s Property Holdings, including all the rights and obligations arising under these contracts subject to public law, Entitlements under Public Law, and Other Measures Under Public Law. The contracts under public law covered by this provision shall include monument conservation agreements and contracts under public law governing legacy contamination that relate to the land specified under section 3.3, as well as property exchange agreements with local authorities, in particular the contracts listed in Schedule 3.13 by subject matter, contractual partner, and contract date.

3.14 Relationships under Procedural Law

The Spin-off Assets and Liabilities shall include all

(a) legal interests under procedural law in respect of third parties, including those arising from administrative proceedings and arbitration proceedings, and all contractual agreements with third parties concerning the recognition or corresponding implementation of the results of court proceedings, administrative proceedings, or arbitration proceedings, or the assertion of rights reserved for the parties to the proceedings, and
3.15 Additions and Disposals Prior to the Execution Date

The portfolio of Spin-off Assets and Liabilities as of the Execution Date shall determine the scope of the transfer of assets and liabilities. The addition and disposal of assets in the period prior to the Execution Date, in particular purchases of land by BAG not yet completed by entry in the land register and the sale of land by BAG already completed by entry in the land register, shall be taken into account in the transfer. Accordingly, the Spin-off Assets and Liabilities shall also include all assets and liabilities that fall within the scope of BAG’s Property Holdings, including any substitutes, that were added to or arose within the scope of BAG’s Property Holdings before the Execution Date, unless otherwise expressly specified under section 3. Those Spin-off Assets that fall within the scope of the Property Holdings of BAG under this Agreement that are sold prior to the Execution Date or are not or no longer held by BAG as of the Execution Date shall not be transferred to BRE.

3.16 Retention of Title, Expectancies, Recovery Claims, and Co-ownership

If the Spin-off Assets and Liabilities are subject to the retention of title by third parties or if BAG has transferred title to third parties by way of security as of the Execution Date, the Spin-off Assets and Liabilities shall include all rights and obligations (within the context of section 3.2 (g)) accruing to BAG in this connection, including expectancies and recovery claims. If the items forming the Spin-off Assets and Liabilities are subject to co-ownership as of the Execution Date, the share of ownership held by BAG shall be included in the Spin-off Assets and Liabilities.

4. TERMS AND CONDITIONS OF TRANSFER

4.1 Execution of the Spin-off, Execution Date

The transfer of the Spin-off Assets and Liabilities shall take place with effect in rem when the Spin-off is recorded in the commercial register of BAG (referred to hereinafter as the “Execution Date”). Ownership of the immovable and movable items of the Spin-off Assets and Liabilities shall also be transferred to BRE as of the Execution Date. If the items included in the Spin-off are in the possession of third parties, BAG shall also transfer its recovery claims as of the Execution Date with effect in rem.

4.2 Business Documents, Confidentiality

BRE shall acquire possession of all business documents and records that concern BAG’s Property Holdings or that are maintained by BAG in connection with these holdings, in particular contractual and approval documents, and construction and building plans. BRE shall also acquire possession of all deeds required to assert the rights to be transferred to it. BRE shall keep these documents, records, and deeds for BAG for the statutory retention periods and shall ensure that BAG is able to inspect and make photocopies of them. All business and trade secrets shall be treated in confidence.
4.3 Obstacles to Transfer

If certain assets and liabilities that are to be transferred to BRE under this Spin-off and Transfer Agreement are not transferred to BRE upon entry of the Spin-off in the commercial register of BAG, BAG shall separately transfer these assets and liabilities in accordance with the provisions applicable in each case, provided that the transfer between BAG and BRE takes effect as of the Effective Spin-off Date. BRE shall be required to accept the transfer. Until the transfer becomes effective, BRE shall, at the request of BAG, undertake any necessary or expedient acts and measures and issue any necessary or expedient declarations that BRE would undertake or issue if the transfer had taken place as of the Execution Date, in particular any acts, measures, and declarations necessary or expedient for the fulfillment of the contractual or other obligations still applicable to BAG.

4.4 Third-party Approvals, Legal Acts and Measures under Public Law

Should third-party approval, authorization under public law, or other acts or measures under public law be required for the transfer of certain assets and liabilities, BAG and BRE shall endeavor to obtain or ensure them.

4.5 Catch-all Clause

If transfer to BRE is not possible externally, BAG and BRE shall place themselves in the positions internally that they would have been in if the transfer had taken place externally as of the Effective Spin-off Date. The same shall apply if the third-party approval or act or measure under public law described in section 4.4 is not granted or does not occur.

4.6 General Duties of Cooperation

BAG and BRE shall make any declarations, issue any deeds, and undertake any other measures or legal acts that are required or expedient in connection with the transfer of the Spin-off Assets and Liabilities.

4.7 Retransfer Obligation

If assets and liabilities that are not to be transferred to BRE under this Spin-off and Transfer Agreement are transferred to BRE for legal reasons, BRE shall be required to retransfer such assets and liabilities to BAG. BAG shall be required to accept the retransfer. The parties shall place themselves in the positions internally that they would have been in had the transfer not taken place as of the Execution Date. In this respect, the provisions of sections 4.3 to 4.6 shall apply, with the necessary modifications.

4.8 Creditor Protection and Internal Settlement

If and to the extent that creditors assert claims against BAG or BRE for liabilities or obligations based on the provisions of section 133 of the UmwG or other legal or contractual provisions, or based on liability relationships attributable to the other legal entity under the terms of this Spin-off and Takeover Agreement, the other legal entity shall upon first request indemnify the legal entity against which the claim has been asserted against such liabilities and obligations.
4.9 Exclusion of Liability

Any claims and rights of BRE against BAG based on the quality or existence of the Spin-off Assets and Liabilities to be transferred by BAG under the terms of this Spin-off and Transfer Agreement, or individual items of these assets and liabilities, are hereby excluded. This exclusion shall apply to all rights and claims of BRE, irrespective of their nature or legal basis, and regardless of whether they were known or unknown to BRE, whether they have fallen due, are unconditional or conditional, or whether they already exist or only arise in future. It shall apply in particular to claims arising from the breach of pre-contractual or contractual obligations or the breach of statutory obligations. The provisions of this section 4.9 shall be without prejudice to the claim to indemnification under section 4.10 below.

4.10 Claim to Indemnification

BAG shall be required to indemnify BRE against any official claims or claims under private law in connection with any contamination occurring prior to the Execution Date, provided that such claims relate to the Spin-off Assets and Liabilities, and any associated measures required, including investigation, safety, and decontamination measures. The following shall apply:

(a) The indemnification shall be subject to the requirement that BRE shall inform BAG without delay of any claim and BAG shall have the opportunity to contest the claim.

(b) The indemnification shall be limited to those investigation, decontamination, and safety measures that are required on the basis of statutory provisions and official directives or to prevent claims under civil or criminal law, or to comply with generally recognized principles regarding the necessity of investigation, decontamination, and safety measures. Agreements with the competent authorities and/or other third parties shall require the prior written approval of BAG.

(c) The entitlement to indemnification may not be transferred to third parties in whole or in part without the prior consent of BAG. The indemnification shall not apply to the contractual claims of third parties against BRE arising from agreements that did not receive prior written approval from BAG. Approval may be granted for an individual case or generally, for specific cases, or until cancellation.

(d) The indemnification shall not apply to contamination occurring after the Execution Date. If the parties concerned are unable to agree on the date that the contamination occurred, the parties shall appoint an independent expert to decide on the matter. If the parties are unable to agree on an appropriate expert within one month, the choice of expert shall be made by the president of the local chamber of commerce and industry upon application by only one of the parties.

(e) BRE shall notify BAG of any claims made by third parties under private or public law in a timely manner, i.e., before a loss of rights occurs. Upon BAG’s request and after assumption of the associated costs, BRE shall endeavor to refute the claim in cooperation with BAG. Agreements with any third parties under public or private law shall require the prior approval of BAG. Failure to comply with this procedure shall lead to the loss of the entitlement to indemnification described herein if this non-compliance may give rise to a loss of rights for one of the parties involved.
(f) BRE shall be obliged to give priority to asserting any existing indemnification, liability, or other claims against third parties, in particular tenants, lessees, or other beneficiaries of rights of use or transfers for use of the land, buildings, building areas, or structures concerned, and, if such claims are successful, to partly or fully reimburse BAG for any payments already received on the basis of this section 4.10, or, if the third party has not yet fulfilled its obligation, to assign to BAG the corresponding claims against the third party. This shall not apply to any claims against Lanxess Aktiengesellschaft or its affiliates if these claims may only be asserted by BAG in accordance with the “Master Agreement” between BAG and Lanxess Aktiengesellschaft of September 22, 2004. However, BRE shall support BAG in the assertion and enforcement of such claims as far as possible.

(g) The provisions of this section 4.0 shall not prevent the parties from making alternative provisions generally or on a case-by-case basis for future issues relating to contamination by means of separate agreements.

5. CONSIDERATION

5.1 Capital Increase to Implement the Spin-off

In order to execute the Spin-off, BRE shall increase its share capital by EUR 1,000.00, from EUR 1,534,000.00 to EUR 1,535,000.00, by creating a new share with a nominal value of EUR 1,000.00.

5.2 Grant of a Share

As compensation for the transfer of the Spin-off Assets and Liabilities, BRE shall grant BAG the new share with a nominal value of EUR 1,000.00. The share shall be granted free of charge and shall entitle BAG to a share of profits as of January 1, 2011. If the Effective Spin-off Date specified in section 8.1 is deferred, the start date of the entitlement to a share in profits arising from the new share shall be deferred accordingly. The share shall be provided with its own number in the list of stockholders.

5.3 Appropriation to Capital Reserves

The amount by which the carrying amount of the net assets transferred by BAG to BRE as a result of the Spin-off exceeds the notional interest in the share capital of the share granted in compensation shall be allocated to BRE’s capital reserves in accordance with section 272(2) no. 1 of the Handelsgesetzbuch (German Commercial Code).

6. SPECIAL RIGHTS AND BENEFITS

6.1 No Special Rights

No rights or other measures for individual stockholders or special rights holders within the meaning of section 126(1) no. 7 of the UmwG shall be granted.

6.2 No Special Benefits

No special benefits as defined by section 126(1) no. 8 of the UmwG for members of the Board of Management, executives, or the Supervisory Board of either of the companies involved in the Spin-off or an auditor of either of the companies involved shall be granted.
7. IMPLICATIONS OF THE SPIN-OFF FOR EMPLOYEES AND EMPLOYEE REPRESENTATION

No employees are allocated to BAG’s Property Holdings. Consequently, no employment relationships, operations, or business units as defined by labor law shall be transferred to BRE. The existing collective agreements and works agreements within the BAG Group shall not be affected by the Spin-off. The Spin-off shall not affect the existing protection against termination of employment provided by law, collective agreements, or other means. Finally, the Spin-off shall not affect employee representative bodies.

8. MISCELLANEOUS

8.1 Change of Execution Date

If the Spin-off is not entered in the commercial register of BAG by December 31, 2011, the Effective Spin-off Date shall be January 1, 2012, contrary to section 2.3. In this case, the Spin-off shall be based on the statement of financial position of BAG to be prepared as of December 31, 2011 as the Closing Statement of Financial Position. If the entry is further delayed beyond December 31 of the following year, the effective Spin-off Date and the Closing Statement of Financial Position date shall each be deferred by one year in accordance with the above provision. The same shall apply to the effective transfer date for tax purposes as defined by sentence 1 of section 2.3.

8.2 Applicable Law, Legal Venue

This Agreement shall be subject to German law. The legal venue for any disputes arising from this Spin-off and Transfer Agreement is Leverkusen.

8.3 Costs and Taxes

BAG and BRE shall each bear half of the costs arising in connection with the preparation, conclusion, and implementation of this Spin-off and Transfer Agreement and the measures required for it to take effect, as well as any taxes payable upon its implementation. This shall not apply to the costs associated with the capital increase of BRE, which shall be borne solely by BRE. In addition, it shall not apply to the costs of the respective stockholder meetings or the costs of applying for entry and entry in the commercial register, which shall be borne individually by each of the parties.

8.4 Severability Clause

If one or more of the provisions of this Spin-off and Transfer Agreement is or becomes invalid, unenforceable, or ineligible for entry in the commercial register, this shall be without prejudice to the remaining provisions of the Agreement. The same shall apply if this Agreement is found to contain an omission. The invalid or unenforceable provision or provision ineligible for entry in the commercial register and any omissions shall be replaced with a legally valid provision that reflects as closely as possible the intentions of the parties at the time of entering into this Spin-off and Transfer Agreement or that they would have had if they had considered the issue at that time.

8.5 Entry into Effect, Termination

This Spin-off and Transfer Agreement shall only enter into effect upon approval by the Stockholders’ Meeting of BAG and the Stockholders’ Meeting of BRE. The Spin-off shall also require entry in the commercial register of BAG in order to take effect. This may only take place after entry in the commercial register of BRE. If the entry in the commercial
register of BAG is not made by the end of March 31, 2012, each of the parties shall be entitled to terminate this Spin-off and Transfer Agreement with one month’s notice. Termination must be notified in writing. The notice of termination in the required form and within the prescribed period shall become invalid if entry in the commercial register of BAG is made before the end of the notice period.

8.6 Schedules

The Schedules to this Agreement form an integral part of this Agreement.

6. Election of the auditor of the financial statements and for the review of the half-yearly financial report

Based on the recommendation of the Audit Committee, the Supervisory Board proposes the election of PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Essen, as the auditor of the annual and consolidated financial statements for fiscal year 2011 and to review the condensed financial statements and interim management report in fiscal year 2011.

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From the date of the notice convening the Annual Stockholders’ Meeting, the following documents in particular shall be available together with this notice at www.asm2011.bayer.com:


These documents shall also be available during the Annual Stockholders’ Meeting. In addition, a copy of these documents shall be provided to each stockholder free of charge upon request; in the case of Agenda Item 5, this shall apply only to the Spin-off and Transfer Agreement, excluding schedules and the Joint Report on the agreement.

Total number of shares and voting rights

On the date of the notice convening the Annual Stockholders’ Meeting, the Company’s capital stock was composed of 826,947,808 registered shares (no-par-value shares), each of which conveys one vote.

Attendance at the Annual Stockholders’ Meeting and exercise of voting rights

Only those shareholders who are entered in the share register and have registered by the required date are eligible to attend the Annual Stockholders’ Meeting and exercise voting rights. Registration must be received by the Company at the latest by 24.00 hours on Friday, April 22, 2010 at the following address:
Bayer Aktiengesellschaft  
Stockholder Services  
Postfach 14 60  
61365 Friedrichsdorf  
Germany  
Fax: +49 (0)69 / 2222 -34280  
E-mail: bayer hv@rsgmbh.com

or submitted electronically by accessing the password-protected Annual Stockholders’ Meeting Internet service at www.asm2011.bayer.com and following the instructions there.

Access authorization is necessary to use the password-protected Internet service. The information required to access the password-protected Internet service (stockholder number and personal access number) will be sent with the Invitation (including the registration form). Users who have already registered can use the user id and password that they have defined. The password-protected Internet service is expected to be available from April 5, 2011. This service can only be used by stockholders entered in the share register by no later than Thursday April 14, 2011 (entry status according to the last transfer entry for this date). However, there are other registration options for stockholders entered in the register at a later date. Stockholders who have already agreed to the Annual Stockholders’ Meeting documents being sent by e-mail will receive an e-mail with the Notice of Meeting as an attachment and a link to the Internet service for stockholders at the e-mail address they specified.

In accordance with section 67(2)(1) of the AktG, only those stockholders registered as such in the share register shall be deemed to be stockholders of the Company. The entry status of the stockholders in the share register on the date of the Annual Stockholders’ Meeting therefore determines eligibility to attend and the number of voting rights they are entitled to exercise. For technical processing reasons, no transfer entries will be made in the share register in the period from Saturday, April 23, 2011 up to and including Friday April 29, 2011. Consequently, the entry status of the share register on the date of the Annual Stockholders’ Meeting will be the status after the last transfer entry on Friday, April 22, 2011.

Credit institutions and stockholder associations, as well as persons or associations with equivalent status under section 135 of the AktG, may only exercise the voting rights for shares that do not belong to them, but of which they are registered as the holder in the share register, with the relevant authorization. Details relating to this authorization are provided in section 135 of the AktG.

Further information on the registration process can be found on the registration form sent to stockholders and at www.asm2011.bayer.com.

Admission tickets to the Annual Stockholders’ Meeting will be issued by the required date after receipt of registration unless the stockholders have previously decided to issue a proxy to a proxy holder designated by the Company, or have registered for absentee voting.

Registration to attend the Annual Stockholders’ Meeting shall not block the shares for trading. Stockholders shall therefore remain free to dispose of their shares even after registration. Since only those stockholders who are entered in the share register on the date of the Annual Stockholders’ Meeting shall be deemed to be stockholders of the Company, the disposal of shares may affect eligibility to attend and the entitlement to exercise voting rights.

Stockholders are requested to note that, owing to the large number of registrations expected for our Annual Stockholders’ Meeting, we can generally only send out a maximum of two admission tickets per stockholder. This shall not apply to the authorization of holders of American Depositary Shares of the Company by the Custodian.
Exercise of voting rights by a proxy
Stockholders’ voting rights may be exercised by proxy, including by a stockholders’ association. Registration by the required date shall also be required in these cases (see “Attendance at the Annual Stockholders’ Meeting and exercise of voting rights” above). The issue of a proxy is permissible both before and during the Annual Stockholders’ Meeting. To issue a proxy, declarations can be made both to the proxy holder and to the Company. In particular, stockholders may declare at the time of registration that they do not intend to attend the Annual Stockholders’ Meeting personally, but wish to be represented by a particular proxy.

Together with the Invitation to the Stockholders’ Meeting, stockholders will receive a registration form that can be used to issue a proxy and issue voting instructions to the proxy holders designated by the Company or to order admission tickets for a proxy holder. A sample registration form will be made accessible to stockholders at www.asm2011.bayer.com. The voting card packet issued on admission to the Annual Stockholders’ Meeting will also include cards for issuing a proxy and, if applicable, issuing voting instructions during the Annual Stockholders’ Meeting. The password-protected Internet service also includes an (on-screen) form that allows stockholders to issue a proxy and issue voting instructions to proxy holders designated by the Company either when registering or at a later date. The admission tickets issued by the Company also include a form for issuing a proxy.

Stockholders who wish to make use of proxy voting should note the following in particular:

Proxy holders designated by the Company
The Company offers its stockholders an opportunity to appoint proxy holders whom it has designated. The proxy holders designated by the Company will only exercise voting rights on the basis of the issued proxy if they have been issued voting instructions; they are obliged to vote in accordance with the instructions. However, instructions may only be issued regarding resolutions proposed by the Board of Management and/or the Supervisory Board (including any amendments) and resolutions proposed by stockholders announced by means of an addition to the agenda in accordance with section 122(2) of the AktG.

Proxies and voting instructions may be issued to proxy holders designated by the Company before the Annual Stockholders’ Meeting by returning the registration form included with the Invitation to the Meeting by mail, or during the Annual Stockholders’ Meeting by using the proxy card included with the voting card packet. Without prejudice to the requirement to register by 24.00 on Friday April 22, 2011 (see “Attendance at the Annual Stockholders’ Meeting and exercise of voting rights” above), if a proxy is issued by mail, it must be received at the mail address specified above by Thursday, April 28, 2011 (date of mail delivery).

Proxies and voting instructions may also be issued to proxy holders designated by the Company by fax sent to the above-mentioned fax number or electronically using the (on-screen) form available via the password-protected Annual Stockholders’ Meeting Internet service (see “Attendance at the Annual Stockholders’ Meeting and exercise of voting rights” above) at www.asm2011.bayer.com. Without prejudice to the requirement to register by 24.00 hours on Friday April 22, 2011 (see “Attendance at the Annual Stockholders’ Meeting and exercise of voting rights” above), proxies and voting instructions issued by fax or via the Internet must be received by 12.00 hours on Thursday, April 28, 2011.

Additional information on the issue of proxies and voting instructions to proxy holders designated by the Company can also be found on the registration form sent to stockholders. The information is also available at www.asm2011.bayer.com. The authorization granted to proxy holders designated by the Company may be cancelled in text form (section 126b of the BGB).
Authorization of other persons
The following shall apply if a proxy is issued to a person other than a proxy holder designated by the Company and is not subject to the provisions of section 135 of the AktG (in particular the authorization of credit institutions and stockholder representatives): The issue and cancellation of proxies and the notification to the Company must be made in text form (section 126b of the BGB). If the issue or cancellation of proxy is made by means of a declaration to the Company, this may be sent to the above-mentioned address or using the Internet service (see "Attendance at the Annual Stockholders’ Meeting and exercise of voting rights").

In the case of proxies issued within the scope of section 135 of the AktG (in particular the issue of proxy to credit institutions and stockholder associations), text form is not required under section 134(3) sentence 3 of the AktG, nor do the Articles of Incorporation contain specific provisions for such a case. Consequently, the form in which credit institutions and persons or associations of equivalent status under section 135 of the AktG are issued a proxy need only comply with the statutory provisions applicable to this specific type of proxy, in particular the provisions of section 135 of the AktG.

Provision of evidence
If the proxy is issued by means of a declaration to the Company or if the proxy holder designated by the Company is authorized, additional evidence of authorization shall not be required. However, if the proxy is issued by means of a declaration to the proxy holder, the Company may require evidence of the authorization unless otherwise specified under section 135 of the AktG. Evidence of the authorization may be provided to the Company before the Annual Stockholders’ Meeting.

We offer the following electronic communication methods: Evidence of the appointment of a proxy can be provided to the Company by accessing the password-protected Internet service (see "Attendance at the Annual Meeting of Stockholders and exercise of voting rights" above) at www.asm2011.bayer.com and following the instructions there, or by e-mail to bayer.hv@rsgmbh.com. Evidence of authorization sent by e-mail must include either the name, date of birth, and address of the stockholder, or the stockholder number, so that it can be correctly allocated. The name and address of the designated proxy should also be provided so that the proxy holder may be sent admission tickets.

Absentee voting
Stockholders may also cast their votes by mail or electronically without attending the Annual Stockholders’ Meeting ("postal voting"). Registration by the required date is also required in these cases (see "Attendance at the Annual Stockholders’ Meeting and exercise of voting rights" above). Postal voting shall be limited to resolutions proposed by the Board of Management and/or the Supervisory Board (including any amendments) and resolutions proposed by stockholders announced by means of an addition to the agenda in accordance with section 122(2) of the AktG.

Postal votes may be cast by mail or electronically.
For votes cast by mail, the registration form sent with the Notice of the Annual Stockholders’ Meeting can be returned to the above-mentioned mail address (see "Attendance at the Annual Stockholders’ Meeting and exercise of voting rights") by Friday, April 22, 2011 (date of mail delivery).

Without prejudice to the requirement to register by 24.00 hours on Friday April 22, 2011 (see "Attendance at the Annual Stockholders’ Meeting and exercise of voting rights" above), the postal vote cast by mail must be received at the above address (see "Attendance at the Annual Stockholders’ Meeting and exercise of voting rights") by 12.00 hours on Thursday, April 28, 2011 (date of mail delivery).

Postal votes may also be cast by fax to fax number (+49(0)69/2222-34280) or electronically using the (on-screen) form available in the password-protected Annual Stockholders’ Meeting Internet service (see "Attendance at the Annual Stockholders’ Meeting and exercise of voting rights")
above) at www.asm2011.bayer.com. Without prejudice to the requirement to register by 24.00 hours on Friday April 22, 2011 (see “Attendance at the Annual Stockholders’ Meeting and exercise of voting rights” above), votes cast by fax or via the Internet must be received by 12.00 hours on Thursday, April 28, 2011.

The above-mentioned requirements regarding the notification options and deadlines shall apply accordingly to the cancellation of postal voting. If a stockholder wishes to attend the Annual Stockholders’ Meeting despite having already cast a postal vote, attendance is possible, but will be deemed to be cancellation of the postal vote.

Authorized credit institutions, stockholder associations, and persons of equivalent status under section 135 of the AktG may also cast postal votes.

Additions to the agenda

Stockholders whose shares together account for one-twentieth of the capital stock or a proportionate interest of EUR 500,000 (corresponding to 195,313 shares) may request that items be added to the agenda and announced, in accordance with section 122(2) of the AktG. Each new item must be accompanied by the reasons for it or a proposed resolution. The request must be directed to the Board of Management in writing and may be sent to the following address:

Bayer Aktiengesellschaft
Board of Management
Building w 11
Kaiser-Wilhelm-Allee 1
51373 Leverkusen
Germany

Instructions requiring additions to the agenda must be received by the Company at least 30 days before the Meeting, i.e., by 24.00 hours on March 29, 2011. Additions to the agenda to be announced will be published in the electronic Bundesanzeiger (Federal Gazette) without delay, unless already announced with the Notice of the Meeting. They will also be made available online at www.asm2011.bayer.com without delay.

Right to submit counter-motions and proposals for election

Each stockholder has the right to submit motions and proposals for election relating to items of the agenda or the rules of procedure during the Annual Stockholders’ Meeting without the need for announcement, publication, or any other special action before the Annual Stockholders’ Meeting.

The Company will make available any counter-motions within the meaning of section 126 of the AktG and proposals for election within the meaning of section 127 of the AktG including the name of the stockholder, the reasons (although this is not required for proposals for election), and any statement by the management, at www.asm2011.bayer.com, provided the stockholder has sent the information to the Company at least 14 days before the Meeting, i.e., by 24.00 hours on April 14, 2011, to the following address:

Bayer Aktiengesellschaft
Building q 26 (Legal Department)
Kaiser-Wilhelm-Allee 20
51373 Leverkusen
Germany
Fax: + 49 (0) 214/30 - 56524
E-mail: hv2011.gegenantraege@bayer.com

and the other requirements regarding the duty to make available under sections 126 and 127 of the AktG have been met.
Right of information
In accordance with section 131(1) of the AktG, each stockholder is entitled to verbally request and receive information from the Board of Management during the Annual Stockholders’ Meeting on issues relating to the Company, provided that the information is required for the due and proper assessment of an item on the agenda and there is no right to refuse disclosure. The duty of disclosure extends to the legal and business relationships of the Company with an affiliated company and the position of the Group and the companies included in the consolidated financial statements.

Further explanations
This and further information on the stockholders’ rights under section 122(2), section 126(1), section 127, and section 131(1) of the AktG is available on the Annual Stockholders’ Meeting website at www.asm2011.bayer.com.

Partial transmission
All stockholders of the Company and any interested members of the public can follow live streaming of the speech by the Chairman of the Board of Management at the Annual Stockholders’ Meeting on April 29, 2011 at www.asm2011.bayer.com from around 10.15 a.m. There will be no other video or audio transmission of the Annual Stockholders’ Meeting.

Leverkusen, February 2011
Bayer Aktiengesellschaft

The Board of Management
Good growth prospects for our businesses

As the new Chairman of the Board of Management, I am pleased to present Bayer’s Annual Report for 2010. First, I would like to take the opportunity to make a personal statement: Bayer is a strong, world-class enterprise, and I am very proud to be a part of it.

We all know that my predecessor Werner Wenning rendered outstanding service to Bayer. Until the change of leadership on October 1, 2010, I had the opportunity to work closely with him – and I am very grateful to him for his support.

The other new members of our management team have also started their tasks with great dedication: Sandra Peterson at the helm of Bayer CropScience, Jörg Reinhardt at Bayer HealthCare, and of course Werner Baumann, the new Chief Financial Officer of Bayer AG. We are confident that together with Wolfgang Plischke and Richard Pott – our existing colleagues on the Bayer AG Board of Management – and Bayer MaterialScience Chairman Patrick Thomas, we will prove to be a strong team.

Now let’s look at fiscal 2010. Although the effects of the crisis could still be felt, the global economy recovered surprisingly quickly from the deep recession. Total economic output continued to grow in the second half of 2010, albeit at a slower pace.

In this environment, we raised Group sales by 12.6 percent to an all-time high of €35.1 billion. Adjusted for currency and portfolio effects, sales advanced by 8.0 percent. EBITDA before special items came in at €7.1 billion, which means we improved our operating performance by 9.7 percent. And with core earnings per share up by 15.1 percent, we achieved the targets we communicated for 2010. We also reduced net financial debt by €1.8 billion to €7.9 billion by further increasing our operating cash flow.

This performance was largely due to the tremendous expertise and the hard work of our employees, for which I would like to thank them on behalf of the entire Board of Management.

We are facing new challenges in 2011 and beyond, however. Earnings in 2010 were partly supported by unexpected developments. For example, the MaterialScience subgroup returned to the pre-crisis level more quickly than anticipated, and currency effects were also clearly in our favor. However, the performance of the CropScience
and HealthCare subgroups did not meet our expectations. In HealthCare, generic competition had a very noticeable effect. A particularly negative factor is the pressure on *yaz*/Yasmin®, the best-selling product line of our Pharmaceuticals Division. Sales — and especially earnings — are also being weighed down by health system reforms that are impacting prices in many countries. In addition, we raised both our marketing and r&d expenditures. In the CropScience subgroup, strong generic competition — particularly for herbicides — led to a sharp decline in prices. Last year was also characterized by adverse weather conditions in nearly all of the subgroup’s principal markets.

Aside from these challenges, however, we believe our businesses have good growth prospects. That is because the products and solutions offered by our three subgroups address some of today’s most significant global trends in the areas of health care, nutrition and high-tech materials. To take advantage of the growth opportunities these trends present, we must continue to focus on our core competency: the development of innovative products. This is summed up by our mission “Bayer: Science For A Better Life.”
Specifically, that means that in HealthCare we must continue to invest in our active-substance pipeline and market our new products more effectively in the future. A product that holds great promise is the anticoagulant Xarelto®. In early 2011, applications were submitted both in Europe and the United States for marketing authorization for stroke prevention in non-valvular atrial fibrillation. We stand by our forecast that Xarelto® has a peak sales potential of more than €2 billion. Other examples from our well-stocked pipeline are VEGF Trap-Eye (ophthalmology), Qlaira® and yaz® Plus (gynecology), Alpharadin™ and new indications for Nexavar® (both oncology), and finally riociguat (cardiology).

In CropScience, too, we intend to commercialize our innovations as fast as possible. Our R&D pipeline in the conventional crop protection segment is among the best in the world, and we will continue investing in this area. We plan to bring six new products to market by 2012. In addition, we aim to progress more quickly in the area of seeds and plant traits, which also will require further funding. This is because our customers, the farmers, will increasingly be looking to purchase conventional crop protection products and the new technologies – seeds and plant traits – as a complete package.

Bayer MaterialScience is developing many new products and applications that make major contributions to resource efficiency and climate protection. The fact that MaterialScience generates more than 20 percent of sales with products introduced to the market since 2005 illustrates this subgroup’s success. However, with commoditization increasing in some parts of the portfolio, MaterialScience has a clear focus: it must achieve cost and technology leadership. This, however, it can only do by maintaining a high level of capital investment.

All three subgroups must continue to expand their presence in the emerging markets, because that is where our customer industries are expanding fastest. This demands significant investment in local production and research facilities – and in human resources development.

Thus conflicting demands are being made by the challenges facing our business and by the need to invest in our innovative capability and in the emerging markets that hold the key to our future growth and competitiveness. It is crucial that we set the right course today so that we can exploit tomorrow’s opportunities.

In 2010 we already raised our research and development expenditures by 11.2 percent to a new high of €3.1 billion – about €300 million more than in the previous year. We expect to invest the same amount in R&D again in 2011, and will also continue to increase our capital spending in the emerging markets.

At the same time, we must enhance our financial flexibility to make this investment possible despite the challenges I have mentioned. As announced in November last year, we will raise the necessary funds through a targeted transfer of resources, sup-
ported by efficiency and cost-containment measures. The goal here is more innovation and less administration.

This ambitious course requires that we exercise even greater care in developing our human resources worldwide, and that our employees understand exactly what our company does and why. Bayer has always stood for good values – the right values. However, we have simplified these to make them a practical framework for our actions. The result is the word life, which is directly based on our mission “Science For A Better Life.” For us, “science” represents our status as an inventor company and our clear commitment to research and innovation. “Life” describes our conduct toward our stakeholders.

The “L” in life stands for “Leadership.” By this we mean the willingness to perform, inspire and be accountable. “I” as in “Integrity” means that we balance the expectations of all stakeholders and comply with all laws and regulations without exception. That is the only way to give our business a stable and credible foundation. The “F” in life stands for the “Flexibility” to accept change, view it as an opportunity and adapt accordingly. The final letter is an “E” for “Efficiency.” We aim to manage resources smartly and do things as simply and effectively as possible.

In short, we are pursuing an evolutionary goal. We will improve our people development and, through the efficiency measures we have announced, create the financial headroom we need to systematically invest in our future.

With a solid post-crisis year behind us, we have created the conditions for capitalizing on our future opportunities in the global arena. On behalf of the Board of Management and the entire company, I would like to thank you for your trust. I hope you will continue to support our endeavors on behalf of Bayer.

Sincerely,

Marijn Dekkers

DR. MARIJN DEKKERS
Chairman of the Board of Management of Bayer AG
Investor Information

Performance of Bayer Stock in 2010

(indexed, 100 = closing price on December 31, 2009)

Bayer +1.8%
DAX +16.1%
DJ Euro Stoxx 50 -2.8%

Jan Feb Mar Apr May June July Aug Sept Oct Nov Dec
• Bayer stock performance in 2010: approx. 2 percent

• Five-year annual return: approx. 12 percent

• Board of Management and Supervisory Board propose dividend increase to €1.50 per share for 2010
The stock market in 2010

SIGNIFICANT MARKET RECOVERY
Starting in the spring, the markets were dominated by the debate over the debt crisis in certain eurozone countries. However, thanks to the robust economic recovery in Germany the DAX maintained the upward trend that began in 2009, closing 2010 up 16 percent on the year. Following a highly volatile sideways trend in the first three quarters of the year, the DAX made significant gains in the fourth quarter and topped 7,000 points at the beginning of December before closing the year at 6,914 points.

The European equities index EURO STOXX 50 (performance index) slipped by roughly 3 percent, partly because of the problems in some countries of the European Union. Share price trends in the United States and Japan diverged, with the S&P 500 gaining some 13 percent but the Nikkei 225 losing about 3 percent.

SLIGHT IMPROVEMENT IN BAYER STOCK
Including the dividend of €1.40 per share paid in May 2010, the performance of Bayer stock came to nearly 2 percent for the year. It closed 2010 at €55.30, having reached a year high of €58.62 a short time earlier. Bayer stock thus outperformed the EURO STOXX 50 (performance index) for the fourth year in a row.

The trading volume in our shares receded by about 16 percent from the previous year to an average 3.6 million per day.

GOOD, STABLE CREDIT STANDING ON THE BOND MARKET
The risk premium required by investors for corporate bonds with a good credit rating rose slightly in 2010. Since long-term interest rates declined during the year, Bayer’s refinancing terms on the capital market remained favorable.

The increase in risk premiums during the year can be seen from the trend in credit default swaps (CDS) shown in the graphic on page 29. The market price of these tradable insurance contracts, which are used to hedge against default of a borrower, depends on the underlying credit risk and thus helps to determine the credit margin when raising debt.

The rise in Bayer’s CDS during the year was relatively moderate. Bayer utilized the favorable conditions on the corporate bond market to make a JPY 10 billion private placement in Japan. The company had no further refinancing requirements in 2010. On the contrary, Bayer’s good liquidity position allowed early repayment of the remaining €885 million of the syndicated loan raised to partly finance the acquisition of Schering, Berlin, Germany.

A list of the bonds issued by Bayer can be found in Note [27] to the consolidated financial statements on page 227ff. of the Bayer Annual Report 2010.

LONG-TERM RETURN ON BAYER STOCK REMAINS AHEAD OF THE MARKET
A long-term investor who purchased Bayer shares for €10,000 five years ago and reinvested all dividends would have seen the value of the position grow to €17,965 as of December 31, 2010, giving an average annual return of 12.4 percent.

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<tr>
<th>Long-Term Returns on Bayer Stock in % p. a. (Dividends Reinvested)</th>
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<tbody>
<tr>
<td>Annual returns</td>
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<td>Bayer</td>
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</tbody>
</table>
A SUSTAINABLE INVESTMENT

Bayer stock is included in many stock indices and investment funds that list companies with sustainable and responsible corporate strategies, such as the Dow Jones Sustainability World and Europe indices, the FTSE4Good Global and Europe indices, the Advanced Sustainable Performance Indices Eurozone and the Nyse Euronext Low Carbon Europe Index. Storebrand, a Norwegian financial services provider focusing on sustainable investment, classifies Bayer as a best-in-class company in the pharmaceutical sector.

Bayer Stock Data

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share</td>
<td>€ 1.70</td>
<td>1.57</td>
</tr>
<tr>
<td>Core earnings per share *</td>
<td>€ 3.64</td>
<td>4.19</td>
</tr>
<tr>
<td>Gross cash flow per share</td>
<td>€ 5.63</td>
<td>5.77</td>
</tr>
<tr>
<td>Equity per share</td>
<td>€ 22.92</td>
<td>22.85</td>
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<tr>
<td>Dividend per share</td>
<td>€ 1.40</td>
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<tr>
<td>Year-end price **</td>
<td>€ 55.96</td>
<td>55.30</td>
</tr>
<tr>
<td>High for the year **</td>
<td>€ 56.45</td>
<td>58.62</td>
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<tr>
<td>Low for the year **</td>
<td>€ 32.69</td>
<td>44.12</td>
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<tr>
<td>Total dividend payment</td>
<td>€ million 1,158</td>
<td>1,240</td>
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<tr>
<td>Number of shares entitled to the dividend (Dec. 31)</td>
<td>826.95</td>
<td>826.95</td>
</tr>
<tr>
<td>Market capitalization (Dec. 31)</td>
<td>€ billion 46.3</td>
<td>45.8</td>
</tr>
<tr>
<td>Average daily share turnover on German stock exchanges</td>
<td>million 4.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Price/EPS **</td>
<td>32.9</td>
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<tr>
<td>Price/core EPS **</td>
<td>15.4</td>
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<td>Price/cash flow **</td>
<td>9.9</td>
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<tr>
<td>Dividend yield %</td>
<td>2.5</td>
<td>2.7</td>
</tr>
</tbody>
</table>

* For details on the calculation of core earnings per share, see Combined Management Report, Chapter 4.3, on page 75 of the Bayer Annual Report 2010.
** Xetra closing prices (source: Bloomberg)

Rates for Five-Year Credit Default Swaps (CDS) 2010

in basis points 1

1 Source: Bloomberg

1 Traxx Europe is a CDS index comprising the CDS of 125 companies (including financial institutions) with investment-grade ratings.
In 2010 the Carbon Disclosure Project (CDP) included Bayer in its Carbon Disclosure Leadership Index (CDLI) for the sixth consecutive year. Bayer was also represented in 2010 in the newly established Carbon Performance Leadership Index (CPLI), which honors detailed reporting of climate goals and strategy along with specific actions and achievements in emissions reduction.

Our sustainability reporting is based on the guidelines of the Global Reporting Initiative. During the year we also explained Bayer’s commitment to sustainability at numerous one-on-one meetings with investors and analysts.

DIVIDEND INCREASE TO €1.50 PER SHARE

The Board of Management and the Supervisory Board will propose to the Annual Stockholders’ Meeting that a dividend of €1.50 per share be paid for 2010. This results in a payout ratio of approximately 36 percent calculated on core earnings per share, which is within the target corridor of 30 to 40 percent (for details on the calculation of core earnings per share, see Chapter 4.3 of the Combined Management Report on page 75 of the Bayer Annual Report 2010).

The dividend yield calculated on the share price of €55.30 at year end 2010 amounts to 2.7 percent and the total dividend payment to €1,240 million.

STOCKHOLDERS’ PORTAL WELL RECEIVED

Since the Annual Stockholders’ Meeting in 2010, we have offered an online stockholders’ portal on our ir website. Here investors can view their entries in the share register, amend their address data or register to receive invitations to future stockholders’ meetings by email. Our stockholders are making good use of this service, which will already reduce printing and mailing costs for the notice of the next Annual Stockholders’ Meeting.
During the period prior to the Meeting, stockholders can use the portal to register to attend the meeting, order admission tickets for themselves or a proxy, or issue a power of attorney and voting instructions to one of the proxies designated by the company. For our next Annual Stockholders’ Meeting we will offer stockholders a postal vote option, which will also be available via the stockholders’ portal.

**INTERNATIONAL OWNERSHIP STRUCTURE**

At the end of 2010, approximately 306,000 stockholders were listed in our share register. The following graphic shows the geographical distribution of our stockholders, based on the results of an international survey conducted in November 2010:

**COMMUNICATION WITH THE CAPITAL MARKET**

Intensive dialogue with the capital market has traditionally been a high priority for Bayer. In 2010 our Investor Relations team visited 26 financial centers – mostly accompanied by the Chairman of the Board of Management or the Chief Financial Officer – and held more than 400 one-on-one meetings.

In addition to our regular quarterly and annual reporting, we held IR conference calls to update stockholders on the development status of rivaroxaban.

Our annual “Meet Management” event, which was held for the fifth time in 2010, is now an established part of our IR program for the capital market. This platform gives investors and analysts the opportunity for detailed discussions on the company’s development and future prospects at smaller meetings with members of the Group and subgroup management boards.

**AWARDS FOR INVESTOR RELATIONS ACTIVITIES**

According to a report published by the German Investor Relations Association (DIRK) and the German business magazine *WirtschaftsWoche*, Bayer’s investor relations activities are the best of all the DAX companies. For this we were honored with the German Investor Relations Award 2010.

Bayer also took second place among Euro Stoxx 50 companies in the Capital Investor Relations Award 2010. We are delighted to have received this recognition from the capital market for our IR work over the past year (see also page 35).

In addition, Bayer’s IR website was ranked best in the health care sector and third in Europe in the IR Global Rankings conducted by MZ Consult of the United States, based on an evaluation of more than 500 companies in 35 countries.
Another milestone in the history of the Bayer Group was reached on October 1, when Werner Wenning handed over the chairmanship of the Bayer AG Board of Management to Dr. Marijn Dekkers. “Bayer was and is my company. And my heart will continue to beat for Bayer,” Wenning admitted at a ceremony attended by some 300 people from industry, politics, sports and society. Declared Dekkers: “My goal is the same as that of all my predecessors. We want the best for Bayer and Bayer’s stakeholders.”

There were moving moments for the guests invited to the event at Bayer’s “Kasino” hotel in Leverkusen. Looking back at the nearly 45 years he worked for Bayer, Wenning said: “There were many things that inspired and fascinated me.” For Wenning, it was the company’s internationalism, its people and its research that made Bayer so fascinating. “Bayer is and will remain an inventor company. That is something we can all be proud of.”

Wenning thanked the Supervisory Board and its Chairman for their effective cooperation, his colleagues on the Board of Management for their unity in all decision-making, and the works councils for being fair and dependable partners. “I would like to thank all the company’s employees worldwide, without whose active support we would never have reached the goals we set for ourselves,” he said.

In keeping with tradition, the departing CEO presented the new leader with a relay baton containing all the notes handwritten by each CEO to his successor. Wenning’s message to Dr. Dekkers was: “To be truly happy you need three things: someone you love, a challenging task and a great deal of hope. I believe you have all these things. Your predecessor Werner Wenning.”

Supervisory Board Chairman Dr. Manfred Schneider honored Werner Wenning as a man “who has made an enormous contribution to Bayer’s evolution. That’s why we owe him a special debt of gratitude and recognition for his highly successful work on behalf of the entire Bayer Group.” He said that Wenning had strategically realigned the company, focused on Bayer’s own innovative capability and committed it to the principle of sustainability. Said Schneider: “We know Bayer as a healthy, well positioned company that can look to the future with confidence.”

Werner Wenning handed over chairmanship to Dr. Marijn Dekkers
Bayer HealthCare expands competencies in biologicals

In another major step toward fighting serious diseases such as cancer, Bayer HealthCare is building a new facility center in Wuppertal, occupying an area of more than 1,000 square meters, for the biotechnological production of pharmaceutical substances used in clinical trials. The €15 million investment in this center will enable Bayer to expand its competencies in the area of biological products.

“For a research-based pharmaceutical and chemical company like Bayer, innovation is the key to future growth. The new cell biology facility center represents an investment in our long-term success. Wuppertal provides the right conditions for these activities,” said Dr. Wolfgang Plischke, the member of the Bayer AG Board of Management responsible for Technology, Innovation and Environment, at the groundbreaking ceremony in the city’s pharmaceutical and chemical park. The center is due to start operating in late 2012.

In the area of Biologicals – medicines manufactured by biotechnological methods – Bayer HealthCare is concentrating mainly on antibodies, coagulation factors and other therapeutic proteins. “This enhances our ability to offer new drugs to treat serious diseases such as cancer,” said Professor Andreas Busch, member of the Bayer HealthCare Executive Committee. In the past few years, the company has steadily added to its expertise in biologicals research. “The new facility center enlarges our production capacities so that we can manufacture a larger number of potential active ingredients in sufficient quantities even for the late stages of clinical development,” said Busch.

Support for sustainable development in the Middle East

Bayer CropScience has received the first registration for its new herbicidal active ingredient indaziflam. The product will be launched in the United States in 2011 under the brand name Specticle™ for professional users in the turf segment. It is planned to introduce it later in the ornamentals and industrial vegetation management segments as well.

Bayer CropScience also plans to offer do-it-yourself gardeners a range of indaziflam-based products under the Bayer Advanced™ brand. “Registration in the U.S. paves the way for the global use of indaziflam as the new base herbicide Alion in crops such as fruits, vines, nuts, citrus, olives and sugar-cane,” said Dr. Rüdiger Scheitz, member of the Board of Management of Bayer CropScience. The company anticipates global annual peak sales potential of more than €150 million for products based on indaziflam.
**UNEP youth and environmental partnership extended**

The global youth and environment partnership between the United Nations Environment Programme (UNEP) and Bayer has been extended through the end of 2013. Since the partnership was launched in 2004, millions of young people have benefited from numerous projects ranging from tree planting, the development of educational materials and creative competitions to the organization of major children’s and youth conferences and the strengthening of youth representation at important global events. Bayer will support the joint activities to the tune of €1.2 million annually.

“Young people and children make up over 37 percent of the world’s population. Their future will be shaped by our action to protect the planet,” said United Nations Under-Secretary General and UNEP Executive Director Achim Steiner. “The partnership with Bayer aims to improve young people’s access to vital information about the state of the planet, support their initiatives and ensure their voices are heard in the international arena.”

Said Bayer AG Management Board Chairman Dr. Marijn Dekkers: “We are looking forward to continuing this successful partnership with UNEP that strikes such a chord with young people throughout the world. We are committed to initiating constructive dialogue with and supporting young people who are interested in environmental issues. After all, they can make a valuable contribution through their justified interest, critical awareness, commitment and passion for environmental protection.”

**Success of climate strategy confirmed**

Bayer’s leading position in climate protection and sustainable development was again confirmed by its renewed inclusion in 2010 in the Carbon Disclosure Leadership Index (CDLI) – as the best company in its sector. The listing was announced in New York by the Carbon Disclosure Project (CDP) investor group. As a result, Bayer is the only European chemical and pharmaceutical company to be included for the sixth consecutive year in the world’s first global climate index. The CDLI includes 51 of the world’s 500 biggest listed companies (Global 500 Index) that display the greatest transparency in reporting on greenhouse gas emissions and climate strategy.

Bayer is also included in the newly established Carbon Performance Leadership Index (CPLI) and has been awarded the “A” rating. The CPLI evaluates the companies’ specific measures and achievements in protecting the climate and dealing with the impact of climate change. Currently, 48 companies from the Global 500 Index are included in the CPLI. Both the CDLI and the CPLI were compiled following detailed investigation and analysis of climate-relevant corporate data by the auditing firm PricewaterhouseCoopers (PwC) on behalf of the CDP. This database is the largest of its kind in the world. The CDP initiative now includes 534 institutional investors managing combined assets of US$6.4 trillion. These investors expect companies to provide comprehensive climate-relevant information so that they can base their investment decisions on companies’ contributions to climate protection and how they address the challenges posed by climate change.

“We are delighted by our renewed listing in the CDLI and the listing in the new CPLI, both of which we regard as confirmation of the success of our climate strategy,” says Dr. Wolfgang Plischke, member of the Board of Management of Bayer AG responsible for Technology, Innovation and Environment.

Bayer stock has been included once again in the Dow Jones Sustainability World Index (DJSI World) and re-included in the Dow Jones Sustainability Europe Index (DJSI Europe), providing renewed proof of the company’s standing as an international leader in sustainability.
Bayer: well-stocked product pipeline

At the press forum entitled “Bayer’s Perspective on Innovation 2010,” the company showed 3D movies for the first time to more graphically illustrate its innovative capability. Management Board Chairman Dr. Marijn Dekkers and Board research spokesman Dr. Wolfgang Plischke used the event, held at BayKomm in Leverkusen, to outline the company’s research potential to an audience of some 140 journalists.

“We have an excellent track record of innovation,” said Dekkers, explaining that the company’s products help patients, farmers and other customers all over the world. “And we as a company need these innovations. They are our lifeblood. We must innovate – and commercialize the results – if we are to compete successfully.”

However, Dekkers also expressed concern at certain trends. First, he said, there is the question of whether society remains willing to pay a reasonable price for innovations, particularly in the field of health care. Dekkers also said the lack of acceptance for new technologies poses problems, appealing to politicians and authorities to ensure objectivity and transparency in appraising new developments.

Dr. Plischke, the member of the Board of Management responsible for research, presented successful projects from the three subgroups’ pipelines. Among the outstanding developments he mentioned for Bayer HealthCare is the anticoagulant Xarelto®. Bayer CropScience plans to introduce six more crop protection active ingredients to the market by 2012, representing an added sales potential of more than €1 billion. And Bayer MaterialScience is developing new products and applications along with leading-edge technologies and production processes – while at the same time reducing its energy consumption and using alternative raw materials.

Top marks for investor relations

Dual accolade for Bayer: according to a survey by the German Investor Relations Association DIK and the financial magazine WirtschaftsWoche, Bayer does the best investor relations work of all DAX companies. For this the company won the German Investor Relations Award 2010. In addition, Bayer garnered second place among EURO STOXX 50 companies in the Capital Investor Relations Award 2010.

DIK joined with the researchers at London-based Thomson-Reuters-Extel to survey more than 800 fund managers and analysts from 17 European countries. The financial market professionals awarded points to investor relations departments and managers in categories such as the transparency and accuracy of annual and quarterly reports, the reliability of forecasts, and specialist and industry knowledge. They singled out Bayer’s “consistently well informed team and high quality of reporting.”

Capital magazine and the German Association for Financial Analysis and Asset Management bestow the Capital Investor Relations Award to rate the quality of capital market communications by the most important German and European companies. To this end, they polled around 400 analysts and fund managers from international financial institutions.

Expansion of research on vegetable varieties

New facilities for faster and more efficient development of vegetable varieties: Bayer CropScience’s vegetable seed business Nunhems is investing €12 million in the expansion and modernization of its research center at Leudal in the Netherlands. The new facilities should be operational by the end of 2011. In addition, Nunhems has invested some US$30 million in a new vegetable seed processing facility and the modernization of existing seed processing and storage capacities at its site in Parma, Idaho, United States.
Strengthening the product portfolio for cereals

Bayer CropScience has received registrations for the new cereal fungicide bixafen in its first markets, the United Kingdom and Germany. The approvals strengthen the company’s product portfolio for use in cereal crops. From the start of the 2011 growing season, farmers in both countries can thus benefit from the new fungicide’s advantages in the fight against fungal diseases in wheat and barley. Bayer CropScience is marketing the product under the main brand name Aviator® Xpro® and anticipates global annual peak sales potential of about €300 million. Registrations in other European countries for products based on the new active ingredient are expected to follow soon.

The company is also investing considerable resources in research and development to increase the productivity of wheat cultivation and develop outstanding new varieties. For example, Bayer CropScience and Israeli company Evogene have entered into a five-year collaboration to accelerate the development and commercialization of improved wheat varieties. Improvements will be pursued for wheat yield, drought tolerance and fertilizer use efficiency.

Bayer has also acquired the wheat breeding programs of two Ukrainian breeding companies, Sort and EuroSort, based in Mironivka near the capital Kiev. The agreement will give Bayer CropScience access to outstanding wheat lines with excellent winter hardiness and drought tolerance. Bayer CropScience has already established wheat-breeding programs on the site of the renowned Mironivka Institute.

To improve wheat breeding and generate new wheat varieties, the company has signed a non-exclusive agreement with the University of Nebraska-Lincoln in the United States. This public-private partnership will allow both parties to expand their wheat breeding programs and make innovative solutions available to wheat growers.

New animal health products

Bayer has strengthened its worldwide animal health business by acquiring the Bomac Group, a New Zealand-based supplier of animal health products, and concluding an agreement with specialty pharmaceuticals company Piedmont Pharmaceuticals LLC, based in the U.S. state of North Carolina.

Bomac has a broad range of 290 products for the livestock sector, focusing particularly on the treatment of mastitis in dairy cattle and on parasiticides for sheep. Bayer aims to benefit from Bomac’s research and development expertise, especially with respect to mastitis management and parasite control, using these products to expand its presence in the Asia/Pacific and Latin America regions.

Separately, Bayer has acquired an innovative oral application technology for veterinary medicines from Piedmont Pharmaceuticals. The agreement reached also gives Bayer access to two further products in late-stage development at Piedmont.

“This agreement with Piedmont complements our internal R&D efforts and expands our portfolio of offerings to veterinarians and pet-owners,” says Dr. Jean-Luc Lowinski, Head of Bayer Healthcare’s Animal Health Division.

“This novel technology will enable us to provide a number of new products to improve the health of companion animals.”

The innovative dosage form – a chewable tablet – is well received and well tolerated by cats and dogs. The formulation technology will allow easy administration of different active ingredients to animals.

Screen fields that “respond”

Bayer MaterialScience has acquired Artificial Muscle, Inc. of Sunnyvale, California, United States, a technology leader in the field of electroactive polymer films. These films are attached beneath the touchscreens of devices such as smartphones. They create a vibration that the user perceives as tactile feedback when touching the screen. This innovative technology is marketed under the name Bayfol Reflex™.
Bayer intends to significantly expand its capacities for the production of high-performance materials in China by 2016. Investment totaling some €1 billion is planned at the Shanghai site. Bayer is thus sharpening its focus on the Asia/Pacific region, where it predicts steady growth in its customer industries.

Capacities for the polyurethane raw material MDI are to be more than doubled to one million tons a year and for polycarbonate engineering plastics to 500,000 tons per year. The company also plans to considerably expand its research and development activities there. The headquarters of the Polycarbonates business unit will be relocated from company headquarters in Leverkusen to Shanghai to achieve even greater proximity to the booming polycarbonates market of Asia.

“The expansion of our capacities in China is a major step toward greatly strengthening our presence in the emerging economies,” explained Bayer AG Management Board Chairman Dr. Marijn Dekkers. “We aim to increase Group sales in Greater China to around €5 billion by 2015, with MaterialScience accounting for more than half of this amount.” In fiscal 2009, the Bayer Group in Greater China had sales of €2.1 billion, including MaterialScience sales of €1.2 billion. “The strong economic growth in China and the entire Asia/Pacific region presents us with outstanding opportunities that we intend to maximize,” added Patrick Thomas, Chairman of the Board of Management of Bayer MaterialScience. “It’s strategically important for us to have the necessary capacities in the region to meet rising demand.”

Grabbing malaria mosquitoes “by the nose”

New approaches to fighting malaria: Bayer CropScience and SentiSearch Inc. plan to work together with leading U.S.-based scientists to “grab insects by the nose.” The two companies have entered into a two-year research collaboration aimed at identifying new molecules to target odorant receptors in insects. Such substances could prevent disease-transmitting insects from being able to “smell” people.

Millions of olfactory receptor neurons help the insects not only to locate food, but also to home in on a host where they can lay their eggs. These insects are more than just bothersome to people: they can also be very dangerous. One example is the malaria-transmitting Anopheles mosquito, which identifies its hosts partly by the CO₂ content of their breath. The aim is for the new molecules to block the relevant receptors so that the insects can no longer perceive human odors.

“Bayer CropScience is the market leader in vector control in the public health and agricultural settings, including animal health. Our activities include playing a significant role in the prevention of malaria,” said Dr. Alexander Klausener, Head of Research at Bayer CropScience. According to Klausener, this new cooperation with leading scientists from Columbia and The Rockefeller University in New York will give the company access to a new and innovative approach to insect control.

Contraceptive pills registered in the United States

The U.S. Food and Drug Administration (FDA) has approved Bayer Healthcare’s new oral contraceptives Safyral™, Beyaz® and Natazia™. Safyral™ combines the hormone ingredients of the birth control pill Yasmin® – and Beyaz® those of the pill yaz® – with metafolin, a stable form of folate, which is a vitamin B also found in food. Folate levels are raised in women who take Safyral™ or Beyaz®. The product is designed to reduce the risk of a neural tube defect should pregnancy occur shortly after a woman stops taking the pill. Natazia™ is available in many countries outside the United States as Qlaira®. It is the first product in a new class of oral contraceptives whose estrogen component is based on estradiol.

Bayer employee Gary Xi at the polycarbonate production plant in Shanghai
Fiscal 2010:

Bayer: operating performance on track

Progress in research and development spurs optimism

- Group targets achieved
- Strong year at MaterialScience – HealthCare and CropScience below expectations
- Over €3 billion for research and development
- Net income diminished by high special charges
- Strong operating cash flow – net financial debt below €8 billion
- Confidence for 2011: core earnings per share expected to grow by about 10%
Overview of Sales, Earnings and Financial Position

Bayer achieved its targets for the Group in 2010. Sales rose by 12.6% – or by 8.0% on a currency-and portfolio-adjusted basis (Fx & portfolio adj.) – to a record €35.1 billion. EBITDA before special items improved by 9.7% to €7.1 billion. Core earnings per share advanced by 15.1% to €4.19. These increases were attributable to the strong recovery in the Material Science business and to positive currency effects. However, Health Care did slightly less well than expected, while Crop Science was well below our expectations, particularly in the first half of the year. We have adopted a package of selected measures to strengthen Health Care and Crop Science for the long term and enhance our innovative capability. At the same time we significantly raised our research and development (R&D) spending in 2010 to €3.1 billion (2009: €2.7 billion) to support our R&D pipeline, which continues to develop positively.

Net income, however, receded by 4.3% to €1,301 million (2009: €1,359 million), greatly hampered in 2010 by special charges of €1.7 billion, mainly for impairments and litigations. Earnings per share thus came in at only €1.57 (2009: €1.70).

Net financial debt declined by €1.8 billion to €7.9 billion, thanks to a further improvement in operating cash flow.

### Change in Sales

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<th></th>
<th>2009</th>
<th>2010</th>
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</thead>
<tbody>
<tr>
<td>Volume</td>
<td>–2.9</td>
<td>+6.7</td>
</tr>
<tr>
<td>Price</td>
<td>–2.8</td>
<td>+1.3</td>
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<tr>
<td>Currency</td>
<td>+0.6</td>
<td>+4.9</td>
</tr>
<tr>
<td>Portfolio</td>
<td>–0.2</td>
<td>–0.3</td>
</tr>
<tr>
<td>Total</td>
<td>–5.3</td>
<td>+12.6</td>
</tr>
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Group sales rose to €35,088 million (2009: €31,168 million). On a currency- and portfolio-adjusted basis, business at Health Care edged forward by 1.7%. Sales of Crop Science came in slightly below the prior year (Fx & portfolio adj. –1.3%) due to the weak first-half performance. By contrast, business expanded by a substantial 30.1% (Fx & portfolio adj.) at Material Science due to the economic recovery, with volumes already back to 2008 levels by the second quarter.

### Bayer Group Quarterly Sales

<table>
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<tr>
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<th>Total</th>
</tr>
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<tr>
<td></td>
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<td>Q2</td>
<td>3,113</td>
<td>1,156</td>
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<tr>
<td>Total</td>
<td>4,147</td>
<td>4,432</td>
<td>31,168</td>
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<tr>
<td></td>
<td>27,021</td>
<td>30,656</td>
<td>57,677</td>
</tr>
</tbody>
</table>

Germany | Other countries
Despite the positive business development at MaterialScience, EBIT of the Bayer Group fell by 9.2% to €2,730 million (2009: €3,006 million). Earnings were diminished by special charges of €1,722 million (2009: €766 million). Of the special charges for 2010, impairments accounted for €957 million, litigations for €703 million and restructuring for €62 million. EBIT before special items amounted to €4,452 million (2009: €3,772 million). EBITDA before special items advanced by 9.7% to €7,101 million (2009: €6,472 million) buoyed by some €0.4 billion in positive currency effects. EBITDA before special items of MaterialScience tripled to €1,356 million, largely on account of significantly higher volumes and selling prices. By contrast, EBITDA before special items of CropScience fell by 14.3% to €1,293 million (2009: €1,508 million) in a weak, fiercely contested market. At HealthCare, EBITDA before special items dipped to €4,405 million (2009: €4,468 million), mainly as a result of higher selling and R&D expenses, negative effects of the health system reforms in various countries, and the effects of the early genericization of Yaz® in the United States.

Gross cash flow in 2010 improved by 2.4% to €4,771 million (2009: €4,658 million). After a significant reduction in tied-up funds thanks to a further improvement in our working capital management, net cash flow advanced by 7.4% to €5,773 million (2009: €5,375 million). Net financial debt fell by €1.8 billion compared to December 31, 2009, amounting to €7.9 billion at the end of 2010. The net pension liability – the aggregate of pension obligations and plan assets – rose by €0.8 billion compared with December 31, 2009, to €7.2 billion, mainly because of lower long-term interest rates on the capital market.
Sales and Earnings Forecast

BAYER GROUP
The Bayer Group is confident for 2011. Provided that the economy continues to improve, we expect to see growth in sales and *EBITDA* before special items in all subgroups. For the full year 2011, we are targeting a currency- and portfolio-adjusted sales increase of between 4% and 6%. Based on our currency assumptions – including a rate of US$1.40 (2010 average: US$1.32) to the euro – we therefore expect to report Group sales of between €35 billion and €36 billion.

We aim to increase *EBITDA* before special items toward €7.5 billion. Core earnings per share (calculated as explained in Chapter 4.3) are expected to improve by about 10%. We anticipate taking special charges of about €0.5 billion for ongoing restructuring programs.

We are planning capital expenditures of €1.5 billion for property, plant and equipment and €0.3 billion for intangible assets. Depreciation and amortization are expected to total about €2.5 billion, including €1.3 billion in amortization of intangible assets. We expect our research and development expenditures to match the record level of 2010 (€3.1 billion).

We can confirm our targets for 2012. If the economic environment remains positive, we continue to expect Bayer Group sales to grow by approximately 5% – after adjusting for currency and portfolio changes – in 2012. We plan to achieve *EBITDA* before special items in 2012 of approximately €8 billion and core earnings per share of around €5.

HEALTHCARE
In 2011 HealthCare plans to increase sales by a low- to mid-single-digit percentage after adjusting for currency and portfolio effects and to achieve a small improvement in *EBITDA* before special items.

In the Pharmaceuticals segment, we do not yet expect sales to resume growing with the market in 2011. We plan to increase sales by a low- to mid-single-digit percentage after adjusting for currency and portfolio effects and to raise the *EBITDA* margin before special items.

In the Consumer Health segment, we anticipate above-market growth in sales after adjusting for currency and portfolio effects. We expect sales and *EBITDA* before special items to increase by mid-single-digit percentages.

In 2012 we aim to accelerate the pace of growth, especially in Pharmaceuticals, thanks to our new products and to improve *EBITDA* before special items in both HealthCare segments.
CROPSCIENCE
Following a difficult year in 2010, we now anticipate more favorable market conditions for CropScience and are therefore optimistic for 2011. We expect to improve sales in both CropScience segments on a currency- and portfolio-adjusted basis and to grow by at least a mid-single-digit percentage overall. We intend to further reinforce our market positions in Environmental Science, BioScience, and we expect to at least maintain our existing position in Crop Protection. We plan to expand EBITDA before special items at a higher rate than sales.

In 2012 we again aim to grow sales at least with the market and further improve EBITDA before special items.

MATERIALSCIENCE
We expect that the business environment for MaterialScience will continue to recover. Against this background we plan to raise sales in 2011 by a mid-single-digit percentage on a currency- and portfolio-adjusted basis, and to increase EBITDA before special items at a higher rate than sales.

We expect sales in the first quarter of 2011 to be roughly in line with the fourth quarter of 2010 on a currency- and portfolio-adjusted basis. Despite higher raw material prices, we expect EBITDA before special items in the first quarter of 2011 to exceed the level of the fourth quarter of 2010.

Provided that the market environment remains favorable, we plan to further increase sales and EBITDA before special items in 2012.

BAYER AG
As the holding company for the Bayer Group, Bayer AG derives most of its income from its subsidiaries. Under profit and loss transfer agreements with the major operating subsidiaries in Germany, their earnings are transferred directly to Bayer AG. The positive expectations for the Group’s business development outlined above are also likely to be reflected in the earnings of Bayer AG. In addition, the net interest position should continue to improve in light of the reduction in financial debt. We therefore expect to maintain a level of after-tax income that allows the payment of an appropriate dividend.
Bayer Group Consolidated Income Statements

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ million</td>
<td>€ million</td>
</tr>
<tr>
<td>Net sales</td>
<td>31,168</td>
<td>35,088</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>(15,135)</td>
<td>(17,103)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>16,033</td>
<td>17,985</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>(7,923)</td>
<td>(8,803)</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>(2,746)</td>
<td>(3,053)</td>
</tr>
<tr>
<td>General administration expenses</td>
<td>(1,623)</td>
<td>(1,647)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>922</td>
<td>714</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(1,657)</td>
<td>(2,466)</td>
</tr>
<tr>
<td>Operating result (EBIT)</td>
<td>3,006</td>
<td>2,730</td>
</tr>
<tr>
<td>Equity-method loss</td>
<td>(48)</td>
<td>(56)</td>
</tr>
<tr>
<td>Non-operating income</td>
<td>789</td>
<td>384</td>
</tr>
<tr>
<td>Non-operating expenses</td>
<td>(1,877)</td>
<td>(1,337)</td>
</tr>
<tr>
<td>Non-operating result</td>
<td>(1,136)</td>
<td>(1,009)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>1,870</td>
<td>1,721</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(511)</td>
<td>(411)</td>
</tr>
<tr>
<td>Income after taxes</td>
<td>1,359</td>
<td>1,310</td>
</tr>
<tr>
<td>of which attributable to non-controlling interest</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td>of which attributable to Bayer AG stockholders (net income)</td>
<td>1,359</td>
<td>1,301</td>
</tr>
</tbody>
</table>

Earnings per share

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic*</td>
<td>Diluted*</td>
</tr>
<tr>
<td></td>
<td>1.70</td>
<td>1.57</td>
</tr>
</tbody>
</table>

* The ordinary shares that resulted from conversion of the mandatory convertible bond were treated as already issued shares since the issuance of the bond.
Bayer Group Consolidated Statements of Comprehensive Income

<table>
<thead>
<tr>
<th></th>
<th>€ million</th>
<th>€ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income after taxes</strong></td>
<td>1,359</td>
<td>1,310</td>
</tr>
<tr>
<td>of which attributable to non-controlling interest</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td>of which attributable to Bayer AG stockholders</td>
<td>1,359</td>
<td>1,301</td>
</tr>
<tr>
<td><strong>Changes in fair values of derivatives designated as cash flow hedges</strong></td>
<td>89</td>
<td>(108)</td>
</tr>
<tr>
<td>Recognized in profit or loss</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td><strong>Changes recognized outside profit or loss</strong></td>
<td>(38)</td>
<td>27</td>
</tr>
<tr>
<td><strong>Changes in fair values of available-for-sale financial assets</strong></td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Recognized in profit or loss</td>
<td>-</td>
<td>(2)</td>
</tr>
<tr>
<td><strong>Changes recognized outside profit or loss</strong></td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>(available-for-sale financial assets)</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td><strong>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</strong></td>
<td>(437)</td>
<td>(966)</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>117</td>
<td>258</td>
</tr>
<tr>
<td><strong>Changes recognized outside profit or loss</strong></td>
<td>(320)</td>
<td>(708)</td>
</tr>
<tr>
<td>(actuarial gains/losses on defined benefit obligations for pensions and other post-employment benefits and effects of the limitation on pension plan assets)</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td><strong>Exchange differences on translation of operations outside the eurozone</strong></td>
<td>284</td>
<td>627</td>
</tr>
<tr>
<td>Recognized in profit or loss</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td><strong>Changes recognized outside profit or loss</strong></td>
<td>284</td>
<td>630</td>
</tr>
<tr>
<td>(exchange differences)</td>
<td><strong>Total changes recognized outside profit or loss</strong></td>
<td>48</td>
</tr>
<tr>
<td>of which attributable to non-controlling interest</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>of which attributable to Bayer AG stockholders</td>
<td>46</td>
<td>(126)</td>
</tr>
<tr>
<td><strong>Total comprehensive income</strong></td>
<td>1,407</td>
<td>1,190</td>
</tr>
<tr>
<td>of which attributable to non-controlling interest</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>of which attributable to Bayer AG stockholders</td>
<td>1,405</td>
<td>1,175</td>
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### Bayer Group Consolidated Statements of Financial Position

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Noncurrent assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>8,704</td>
<td>9,002</td>
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<tr>
<td>Other intangible assets</td>
<td>12,842</td>
<td>11,161</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>9,409</td>
<td>9,835</td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>395</td>
<td>354</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>1,200</td>
<td>1,164</td>
</tr>
<tr>
<td>Other receivables</td>
<td>549</td>
<td>498</td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>950</td>
<td>1,174</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>34,049</td>
<td>33,188</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>6,091</td>
<td>6,104</td>
</tr>
<tr>
<td>Trade accounts receivable</td>
<td>6,106</td>
<td>6,668</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>367</td>
<td>1,008</td>
</tr>
<tr>
<td>Other receivables</td>
<td>1,357</td>
<td>1,336</td>
</tr>
<tr>
<td>Claims for income tax refunds</td>
<td>347</td>
<td>362</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>2,725</td>
<td>2,840</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>16,993</td>
<td>18,318</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>51,042</td>
<td>51,506</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital stock of Bayer AG</td>
<td>2,117</td>
<td>2,117</td>
</tr>
<tr>
<td>Capital reserves of Bayer AG</td>
<td>6,167</td>
<td>6,167</td>
</tr>
<tr>
<td>Other reserves</td>
<td>10,613</td>
<td>10,549</td>
</tr>
<tr>
<td><strong>Equity attributable to Bayer AG stockholders</strong></td>
<td>18,897</td>
<td>18,833</td>
</tr>
<tr>
<td>Equity attributable to non-controlling interest</td>
<td>54</td>
<td>63</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>18,951</td>
<td>18,896</td>
</tr>
<tr>
<td><strong>Noncurrent liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for pensions and other post-employment benefits</td>
<td>6,517</td>
<td>7,305</td>
</tr>
<tr>
<td>Other provisions</td>
<td>1,516</td>
<td>1,478</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>11,460</td>
<td>9,944</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>415</td>
<td>471</td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>3,210</td>
<td>2,577</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>23,118</td>
<td>21,775</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>51,042</td>
<td>51,506</td>
</tr>
</tbody>
</table>

Bayer Group Consolidated Statements of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ million</td>
<td>€ million</td>
</tr>
<tr>
<td>Income after taxes</td>
<td>1,359</td>
<td>1,310</td>
</tr>
<tr>
<td>Income taxes</td>
<td>511</td>
<td>411</td>
</tr>
<tr>
<td>Non-operating result</td>
<td>1,136</td>
<td>1,009</td>
</tr>
<tr>
<td>Income taxes paid or accrued</td>
<td>(636)</td>
<td>(897)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>2,809</td>
<td>3,556</td>
</tr>
<tr>
<td>Change in pension provisions</td>
<td>(366)</td>
<td>(590)</td>
</tr>
<tr>
<td>(Gains) losses on retirements of noncurrent assets</td>
<td>(155)</td>
<td>(28)</td>
</tr>
<tr>
<td><strong>Gross cash flow</strong></td>
<td>4,658</td>
<td>4,771</td>
</tr>
<tr>
<td>Decrease (increase) in inventories</td>
<td>604</td>
<td>211</td>
</tr>
<tr>
<td>Decrease (increase) in trade accounts receivable</td>
<td>(28)</td>
<td>(153)</td>
</tr>
<tr>
<td>(Decrease) increase in trade accounts payable</td>
<td>235</td>
<td>566</td>
</tr>
<tr>
<td>Changes in other working capital, other non-cash items</td>
<td>(94)</td>
<td>378</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities (net cash flow)</strong></td>
<td>5,375</td>
<td>5,773</td>
</tr>
<tr>
<td>Cash outflows for additions to property, plant, equipment and intangible assets</td>
<td>(1,575)</td>
<td>(1,514)</td>
</tr>
<tr>
<td>Cash inflows from sales of property, plant, equipment and other assets</td>
<td>98</td>
<td>61</td>
</tr>
<tr>
<td>Cash inflows from (outflows for) divestitures</td>
<td>70</td>
<td>101</td>
</tr>
<tr>
<td>Cash inflows from (outflows for) noncurrent financial assets</td>
<td>169</td>
<td>(461)</td>
</tr>
<tr>
<td>Cash outflows for acquisitions less acquired cash</td>
<td>(308)</td>
<td>(31)</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>56</td>
<td>53</td>
</tr>
<tr>
<td>Cash inflows from (outflows for) current financial assets</td>
<td>(11)</td>
<td>(623)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) investing activities</strong></td>
<td>(1,501)</td>
<td>(2,414)</td>
</tr>
<tr>
<td>Dividend payments and withholding tax on dividends</td>
<td>(973)</td>
<td>(1,160)</td>
</tr>
<tr>
<td>Issuances of debt</td>
<td>2,798</td>
<td>965</td>
</tr>
<tr>
<td>Retirements of debt</td>
<td>(4,240)</td>
<td>(2,509)</td>
</tr>
<tr>
<td>Interest paid including interest rate swaps</td>
<td>(1,206)</td>
<td>(915)</td>
</tr>
<tr>
<td>Interest received from interest rate swaps</td>
<td>421</td>
<td>398</td>
</tr>
<tr>
<td>Cash outflows for the purchase of additional interests in subsidiaries</td>
<td>(46)</td>
<td>(9)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td>(3,246)</td>
<td>(3,230)</td>
</tr>
<tr>
<td>Change in cash and cash equivalents due to business activities</td>
<td>628</td>
<td>129</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>2,094</td>
<td>2,725</td>
</tr>
<tr>
<td>Change in cash and cash equivalents due to changes in scope of consolidation</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Change in cash and cash equivalents due to exchange rate movements</td>
<td>-</td>
<td>(14)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>2,725</td>
<td>2,840</td>
</tr>
</tbody>
</table>

2009 figures restated
## Bayer Group Consolidated Statements of Changes in Equity

<table>
<thead>
<tr>
<th>Date</th>
<th>Capital stock of Bayer AG</th>
<th>Capital reserves of Bayer AG</th>
<th>Retained earnings incl. net income</th>
<th>Exchange differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 31, 2008</td>
<td>1,957</td>
<td>4,028</td>
<td>13,014</td>
<td>(2,733)</td>
</tr>
<tr>
<td>Equity transactions with owners</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital increase/decrease</td>
<td>160</td>
<td>2,139</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend payments</td>
<td></td>
<td>(1,070)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other changes</td>
<td></td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes recognized outside profit or loss ***</td>
<td>(306)</td>
<td>282</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income 2009</td>
<td></td>
<td>1,359</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec. 31, 2009</td>
<td>2,117</td>
<td>6,167</td>
<td>13,003</td>
<td>(2,451)</td>
</tr>
<tr>
<td>Restatement **</td>
<td></td>
<td>(77)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity transactions with owners</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital increase/decrease</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend payments</td>
<td></td>
<td>(1,158)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other changes</td>
<td></td>
<td>(34)</td>
<td></td>
<td></td>
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<tr>
<td>Changes recognized outside profit or loss ***</td>
<td>(690)</td>
<td>624</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income 2010</td>
<td></td>
<td>1,301</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec. 31, 2010</td>
<td>2,117</td>
<td>6,167</td>
<td>12,345</td>
<td>(1,827)</td>
</tr>
</tbody>
</table>

* OCI = other comprehensive income
*** Net of tax
<table>
<thead>
<tr>
<th>Year</th>
<th>Fair-value measurement of securities</th>
<th>Cash flow hedges</th>
<th>Revaluation surplus</th>
<th>Equity attributable to Bayer AG stockholders</th>
<th>Equity attributable to non-controlling interest incl. OCI*</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>€ million</td>
<td>€ million</td>
<td>€ million</td>
<td>€ million</td>
<td>€ million</td>
<td>€ million</td>
</tr>
<tr>
<td>2011</td>
<td>10</td>
<td>(71)</td>
<td>58</td>
<td>16,263</td>
<td>77</td>
<td>16,340</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,299</td>
<td></td>
<td>2,299</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,070)</td>
<td>(4)</td>
<td>(1,074)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(6)</td>
<td>(21)</td>
<td>(21)</td>
</tr>
<tr>
<td>2010</td>
<td>9</td>
<td>61</td>
<td>46</td>
<td>2</td>
<td>1,359</td>
<td>1,359</td>
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<tr>
<td>2009</td>
<td>19</td>
<td>(10)</td>
<td>52</td>
<td>18,897</td>
<td>54</td>
<td>18,951</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(77)</td>
<td></td>
<td>(77)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,158)</td>
<td>(3)</td>
<td>(1,161)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(35)</td>
<td>(4)</td>
<td>(3)</td>
</tr>
<tr>
<td></td>
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<td>(5)</td>
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<td>(63)</td>
<td>(120)</td>
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<tr>
<td>2007</td>
<td>3</td>
<td>(63)</td>
<td>(126)</td>
<td>6</td>
<td>1,301</td>
<td>1,310</td>
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<tr>
<td>2006</td>
<td>22</td>
<td>(38)</td>
<td>47</td>
<td>18,833</td>
<td>63</td>
<td>18,896</td>
</tr>
</tbody>
</table>
Governance Bodies

HERMANN JOSEF STRENGER
Honorary Chairman of the Supervisory Board of Bayer AG, Leverkusen

Supervisory Board

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, 2010 or the date on which they ceased to be members of the Supervisory Board of Bayer AG):

DR. MANFRED SCHNEIDER
Cologne, Germany
born December 21, 1938
Chairman of the Supervisory Board effective April 2002
- Daimler AG
- Linde AG (Chairman)
- RWE AG (Chairman)
- TUI AG

THOMAS DE WIN
Cologne, Germany
born November 21, 1958
Vice Chairman of the Supervisory Board, Member of the Supervisory Board effective April 2002
Chairman of the Bayer Group Works Council
Chairman of the Bayer Central Works Council
- Bayer MaterialScience AG

DR. PAUL ACHLEITNER
Munich, Germany
born September 28, 1956
Member of the Supervisory Board effective April 2002
Member of the Board of Management of Allianz SE
- Allianz Deutschland AG (until the end of June 2010)
- Allianz Global Investors AG
- Allianz Investment Management SE, Chairman of the Board of Directors
- Daimler AG (effective April 2010)
- RWE AG
- Henkel AG & Co. KGaA, Shareholders’ Committee

ANDRÉ AICH
Berlin, Germany
born February 17, 1969
Member of the Supervisory Board effective April 2007
Member of the Works Council of Bayer Schering Pharma AG*

WILLY BEUMANN
Wuppertal, Germany
born April 12, 1956
Member of the Supervisory Board effective February 2007
Chairman of the Works Council of the Wuppertal site of Bayer
- Bayer Schering Pharma AG*

DR. CLEMENS BÖRSIG
Frankfurt am Main, Germany
born July 27, 1948
Member of the Supervisory Board effective October 2007
Chairman of the Supervisory Board of Deutsche Bank AG
- Daimler AG
- Deutsche Bank AG (Chairman)
- Emerson Electric Co.
- Linde AG

DR.-ING. THOMAS FISCHER
Krefeld, Germany
born August 27, 1955
Member of the Supervisory Board effective October 2005
Chairman of the Group Managerial Employees’ Committee of Bayer
- Bayer MaterialScience AG

PETER HAUSMANN
Winsen an der Aller, Germany
born February 13, 1954
Member of the Supervisory Board effective April 2006
Member of the Executive Committee of the German Mining, Chemical and Energy Industrial Union
- Evonik Services GmbH

PROF. DR.-ING. E.H. HANS-OLAF HENKEL
Berlin, Germany
born March 14, 1940
Member of the Supervisory Board effective April 2002
Honorary Professor at the University of Mannheim
- Continental AG
- Daimler Luft- und Raumfahrt Holding AG
- Heliad Equity Partners GmbH & Co. KGaA
- Ringier AG
- SMS GmbH

REINER HOFFMANN
Brussels, Belgium
born May 30, 1955
Member of the Supervisory Board effective October 2006
North Rhine District Secretary of the German Mining, Chemical and Energy Industrial Union
- Evonik Services GmbH (effective September 2010)
- SASOL Germany GmbH

DR. RER. POL. KLAUS KLEINFELD
New York, U.S.A.
born November 6, 1957
Member of the Supervisory Board effective April 2005
Chairman and Chief Executive Officer of ALCOA Inc.

PETRA KRONEN
Krefeld, Germany
born August 22, 1964
Member of the Supervisory Board effective July 2000
Chairman of the Works Council of the Uerdingen site of Bayer
- Bayer MaterialScience AG (Vice Chairman)

* company to be renamed Bayer Pharma AG
DR. RER. NAT. HELMUT PANKE
Munich, Germany
born August 31, 1946
Member of the Supervisory Board
effective April 2007
Member of various supervisory boards
• Microsoft Corporation
• Singapore Airlines Limited
• UBS AG

DR. KLAUS STURANY**
Dortmund, Germany
born October 23, 1946
Member of the Supervisory Board
effective April 2007
Member of various supervisory boards
• Hannover Rückversicherung AG
• Heidelberger Druckmaschinen AG
• Österreichische Industrieholding AG
• Sulzer AG

OLIVER ZÜHLKE
Solingen, Germany
born December 11, 1968
Member of the Supervisory Board
effective April 2007
Chairman of the Works Council of the Leverkusen site of Bayer
Chairman of the Bayer European Forum

HUBERTUS SCHMOLDT
Soltau, Germany
born January 14, 1945
Member of the Supervisory Board
effective January 1995
Member of various supervisory boards
• BP Europe SE (formerly Deutsche BP AG) (Vice Chairman until May 2010)
• Dow Olefinverbund GmbH (Vice Chairman)
• E.ON AG
• RAG AG (Vice Chairman)
• RAG Deutsche Steinkohle AG (Vice Chairman)

KI ROSWITHA SÜSSELBECK
Leichlingen, Germany
born March 19, 1954
Member of the Supervisory Board
effective July 2010
Vice Chairman of the Works Council of the Leverkusen site of Bayer
• Bayer CropScience AG (Vice Chairman effective December 2010)

DIPL.-ING. DR.-ING. E.H. JÜRGEN WEBER
Hamburg, Germany
born October 17, 1941
Member of the Supervisory Board
effective April 2003
Chairman of the Supervisory Board of Deutsche Lufthansa AG
• Allianz Lebensversicherungs-AG
• Deutsche Lufthansa AG (Chairman)
• Loyalty Partner GmbH (Chairman)
• Tetra Laval Group
• Voith GmbH
• Willy Bogner GmbH & Co. KG aA (Chairman)

KARL-JOSEF ELLRICH
Dormagen, Germany
born October 5, 1949
Member of the Supervisory Board
until the end of June 2010
Chairman of the Bayer Group Works Council (until the end of May 2010)
Chairman of the Works Council of the Dormagen site of Bayer
(under January 2010)
• Bayer CropScience AG (Vice Chairman until the end of June 2010)

DR.-ING. EKKEHARD D. SCHULZ
Krefeld, Germany
born July 24, 1941
Member of the Supervisory Board
effective January 1995
Chairman of the Executive Board of ThyssenKrupp AG
• AXA Konzern AG
• MAN SE (Vice Chairman)
• RWE AG
• ThyssenKrupp Elevator AG (Chairman)
• ThyssenKrupp Steel Europe AG (Chairman)

PROF. DR. DR. H.C. ERNST-LUDWIG WINNACKER
Munich, Germany
born July 26, 1941
Member of the Supervisory Board
effective April 1997
Secretary General of the Human Frontier Science Program, Strasbourg
• Medigene AG (Chairman)
• Wacker Chemie AG

** independent expert member pursuant to Section 100 Paragraph 5 of the German Stock Corporation Act (AktG)
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, 2010):

**DR. MARIJN DEKKERS**
born September 22, 1957
Chairman (effective October 1, 2010)
Member of the Board of Management effective January 1, 2010, appointed until December 31, 2014

**WERNER BAUMANN**
born October 6, 1962
Member of the Board of Management effective January 1, 2010, appointed until December 31, 2012
- Bayer Business Services GmbH (Chairman effective May 1, 2010)
- Bayer CropScience AG (Chairman effective May 1, 2010)

**DR. WOLFGANG PLISCHKE**
born September 15, 1951
Member of the Board of Management effective March 1, 2006, appointed until February 28, 2014
- ARK Therapeutics, Non-Executive Director (until August 16, 2010)
- Bayer MaterialScience AG (Chairman)
- Bayer Technology Services GmbH (Chairman)
- Bayer Innovation GmbH, Shareholders’ Committee (Chairman)
- Bayer Real Estate GmbH, Shareholders’ Committee (Chairman)

**KLAUS KÜHN**
born February 11, 1952
Member of the Board of Management until April 30, 2010
- Bayer Business Services GmbH (Chairman until April 30, 2010)
- Bayer CropScience AG (Chairman until April 30, 2010)

**WERNER WENNING**
born October 21, 1946
Member of the Board of Management (Chairman) until September 30, 2010
- Deutsche Bank AG
- E.ON AG
- HDI V.a.G
- Talanx AG
- Henkel AG & Co. KGaA, Shareholders’ Committee

**DR. RICHARD POTT**
born May 11, 1953
Member of the Board of Management effective May 1, 2002, appointed until April 30, 2012
Labor Director
- Bayer Chemicals AG (Chairman)
- Bayer HealthCare AG (Chairman)
- Bayer Schering Pharma AG* (Chairman)
- Currenta Geschäftsführungs-GmbH (Chairman)
- Bayer Innovation GmbH, Shareholders’ Committee

* company to be renamed Bayer Pharma AG
Organization Chart

as of March 1, 2011

BAYER AG (HOLDING COMPANY)

Group Management Board

Marijn Dekkers  
Chairman  

Werner Baumann  
Finance  

Wolfgang Plischke  
Technology, Innovation 
& Environment  

Richard Pott*  
Strategy & Human Resources  

Corporate Center

Corporate Office  
J. Krell  
Communications  
M. Schade  
Investor Relations  
A. Rosar  
Corporate Auditing  
R. Meyer  

Corporate Human Resources & Organization  
H. -U. Groh  
Finance  
J. Dietsch  
Corporate Development  
A. Moscho  

Law & Patents, Insurance  
R. Hartwig  
Environment & Sustainability  
W. Grosse Entrup  
Group Accounting & Controlling  
U. Hauck  
Regional Coordination  
I. Paterson  

BUSINESS AREAS

Bayer HealthCare  
J. Reinhardt (photo)  
Chairman  
J.-L. Lowinski  
Animal Health  
G. Balkema**  
Consumer Care  
A. Main  
Medical Care  
A. Fibig  
Pharmaceuticals  
A. Busch  
Global Drug Discovery  
K. Malik  
Global Development  
M. Vehreschild  
Chief Administration Officer  
H. Klusik*  
Product Supply  
A. Bey  
General Counsel  
A. Günther  
Human Resources  
M. Pickel  
Communications  
N.N.  
Business Development 
& Licensing  

Bayer CropScience  
S. E. Peterson (photo)  
Chairman  
L. van der Broek  
Chief Operating Officer  
M. Haug  
Human Resources  
A. Klausener  
Research  
S. Kurzawa  
Communications  
G. Marchand  
General Counsel  
A. Noack  
Industrial Operations  
F. J. Placke  
Development  
G. Riemann  
Environmental Science  
R. Scheitza*  
Strategy & Business Management  
D. Suwelack  
Business Planning 
& Administration  

Bayer MaterialScience  
P. Thomas (photo)  
Chairman  
A. Steiger-Bagel  
Administration  
T. Van Osselaer*  
Industrial Operations  
G. Hiiken  
Polycarbonates  
P. Vanacker  
Polyurethanes  
J. Wolff  
Coatings, Adhesives, Specialties  

SERVICE AREAS

Bayer Business Services

Executive Board  
D. Hartert (photo)  
Chairman  
N. Fieseler*  

Bayer Technology Services

D. Van Meirvenne (photo)  
Managing Director  

Currenta

Executive Board  
K. Schäfer (photo)  
Chairman  
J. Waldi*  

*  Labor Director  
**  E. L. Mann effective March 14, 2011
Financial Calendar

Q1 2011 Interim Report  APRIL 28, 2011
Annual Stockholders’ Meeting 2011  APRIL 29, 2011
Payment of Dividend  MAY 2, 2011
Q2 2011 Interim Report  JULY 28, 2011
Q3 2011 Interim Report  OCTOBER 27, 2011
Q1 2012 Interim Report  APRIL 26, 2012
Annual Stockholders’ Meeting 2012  APRIL 27, 2012
### Key Data

#### Bayer Group

<table>
<thead>
<tr>
<th>Category</th>
<th>2009 (€ million)</th>
<th>2010 (€ million)</th>
<th>Change (€ million)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>31,168</td>
<td>35,088</td>
<td>+ 12.6</td>
<td></td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>3,006</td>
<td>2,730</td>
<td>− 9.2</td>
<td></td>
</tr>
<tr>
<td><strong>EBIT before special items</strong></td>
<td>3,772</td>
<td>4,452</td>
<td>+ 18.0</td>
<td></td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>5,815</td>
<td>6,286</td>
<td>+ 8.1</td>
<td></td>
</tr>
<tr>
<td><strong>EBITDA before special items</strong></td>
<td>6,472</td>
<td>7,101</td>
<td>+ 9.7</td>
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</tr>
<tr>
<td><strong>EBITDA margin before special items</strong></td>
<td>20.8%</td>
<td>20.2%</td>
<td></td>
<td></td>
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<tr>
<td><strong>Income before income taxes</strong></td>
<td>1,870</td>
<td>1,721</td>
<td>− 8.0</td>
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<tr>
<td><strong>Net income</strong></td>
<td>1,359</td>
<td>1,301</td>
<td>− 4.3</td>
<td></td>
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<tr>
<td><strong>Earnings per share (€)</strong></td>
<td>1.70</td>
<td>1.57</td>
<td>− 7.6</td>
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<tr>
<td><strong>Core earnings per share (€)</strong></td>
<td>3.64</td>
<td>4.19</td>
<td>+ 15.1</td>
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</tr>
<tr>
<td><strong>Gross cash flow</strong></td>
<td>4,658</td>
<td>4,771</td>
<td>+ 2.4</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flow</strong></td>
<td>5,375</td>
<td>5,773</td>
<td>+ 7.4</td>
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<tr>
<td><strong>Net financial debt</strong></td>
<td>9,691</td>
<td>7,917</td>
<td>− 18.3</td>
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<tr>
<td><strong>Capital expenditures as per segment table</strong></td>
<td>1,669</td>
<td>1,621</td>
<td>− 2.9</td>
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</tr>
<tr>
<td><strong>Research and development expenses</strong></td>
<td>2,746</td>
<td>3,053</td>
<td>+ 11.2</td>
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<tr>
<td><strong>Dividend per Bayer AG share (€)</strong></td>
<td>1.40</td>
<td>1.50</td>
<td>+ 7.1</td>
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</table>

#### HealthCare

<table>
<thead>
<tr>
<th>Category</th>
<th>2009 (€ million)</th>
<th>2010 (€ million)</th>
<th>Change (€ million)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>15,988</td>
<td>16,913</td>
<td>+ 5.8</td>
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<tr>
<td><strong>EBIT</strong></td>
<td>2,640</td>
<td>1,861</td>
<td>− 29.5</td>
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<tr>
<td><strong>EBIT before special items</strong></td>
<td>3,012</td>
<td>3,030</td>
<td>+ 0.6</td>
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<tr>
<td><strong>EBITDA</strong></td>
<td>4,148</td>
<td>4,116</td>
<td>− 0.8</td>
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<tr>
<td><strong>EBITDA before special items</strong></td>
<td>4,468</td>
<td>4,405</td>
<td>− 1.4</td>
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<tr>
<td><strong>EBITDA margin before special items</strong></td>
<td>27.9%</td>
<td>26.0%</td>
<td></td>
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</tr>
<tr>
<td><strong>Gross cash flow</strong></td>
<td>3,153</td>
<td>2,948</td>
<td>− 6.5</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash flow</strong></td>
<td>3,431</td>
<td>3,320</td>
<td>− 3.2</td>
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</table>

#### CropScience

<table>
<thead>
<tr>
<th>Category</th>
<th>2009 (€ million)</th>
<th>2010 (€ million)</th>
<th>Change (€ million)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>6,510</td>
<td>6,830</td>
<td>+ 4.9</td>
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</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>798</td>
<td>261</td>
<td>− 67.3</td>
<td></td>
</tr>
<tr>
<td><strong>EBIT before special items</strong></td>
<td>1,017</td>
<td>787</td>
<td>− 22.6</td>
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<tr>
<td><strong>EBITDA</strong></td>
<td>1,311</td>
<td>767</td>
<td>− 41.5</td>
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<tr>
<td><strong>EBITDA before special items</strong></td>
<td>1,508</td>
<td>1,293</td>
<td>− 14.3</td>
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</tr>
<tr>
<td><strong>EBITDA margin before special items</strong></td>
<td>23.2%</td>
<td>19.0%</td>
<td></td>
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<tr>
<td><strong>Gross cash flow</strong></td>
<td>1,043</td>
<td>546</td>
<td>− 47.7</td>
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</tr>
<tr>
<td><strong>Net cash flow</strong></td>
<td>745</td>
<td>1,399</td>
<td>+ 87.8</td>
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</tbody>
</table>

#### MaterialScience

<table>
<thead>
<tr>
<th>Category</th>
<th>2009 (€ million)</th>
<th>2010 (€ million)</th>
<th>Change (€ million)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>7,520</td>
<td>10,154</td>
<td>+ 35.0</td>
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<tr>
<td><strong>EBIT</strong></td>
<td>266</td>
<td>780</td>
<td>− 64.5</td>
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<tr>
<td><strong>EBIT before special items</strong></td>
<td>126</td>
<td>780</td>
<td>− 100.0</td>
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<tr>
<td><strong>EBITDA</strong></td>
<td>341</td>
<td>1,356</td>
<td>− 74.8</td>
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<tr>
<td><strong>EBITDA before special items</strong></td>
<td>446</td>
<td>1,356</td>
<td>− 67.0</td>
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</tr>
<tr>
<td><strong>EBITDA margin before special items</strong></td>
<td>5.9%</td>
<td>13.4%</td>
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<tr>
<td><strong>Gross cash flow</strong></td>
<td>319</td>
<td>1,058</td>
<td>− 95.9</td>
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</tr>
<tr>
<td><strong>Net cash flow</strong></td>
<td>849</td>
<td>763</td>
<td>− 10.1</td>
<td></td>
</tr>
</tbody>
</table>

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1. EBIT = operating result as shown in the income statement
2. EBIT(DA) before special items is not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. The company considers EBITDA before special items to be a more suitable indicator of operating performance since it is not affected by depreciation, amortization, impairments or special items. By reporting this indicator, the company aims to give readers a clearer picture of the results of operations and ensures greater comparability of data over time. See also Combined Management Report, Chapter 4.2 “Calculation of EBIT(DA) Before Special Items” on page 74 of the Bayer Annual Report 2010.
3. EBITDA = EBIT plus amortization and impairment losses on intangible assets and depreciation and impairment losses on property, plant and equipment, minus impairment loss reversals.
4. The EBITDA margin before special items is calculated by dividing EBITDA before special items by sales.
5. Earnings per share as defined in IAS 33 is adjusted net income divided by the average number of shares. For details see Note (16) to the consolidated financial statements on page 195 of the Bayer Annual Report 2010.
6. Core earnings per share are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. The company considers that this indicator gives readers a clearer picture of the results of operations and ensures greater comparability of data over time. The calculation of core earnings per share is explained in the Combined Management Report, Chapter 4.3 on page 75 of the Bayer Annual Report 2010.
7. Gross cash flow = income after taxes, plus income taxes, plus non-operating result, minus income taxes paid or accrued, plus depreciation, amortization and impairment losses, minus impairment loss reversals, plus/minus changes in pension provisions, minus gains/plus losses on retirements of noncurrent assets, minus gains from the remeasurement of already held assets in step acquisitions. 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. For details see Combined Management Report, Chapter 4.5 “Liquidity and Capital Expenditures of the Bayer Group” on page 78 of the Bayer Annual Report 2010.
8. Net cash flow = cash flow from operating activities according to IAS 7.