Notice of the Annual Stockholders' Meeting on Friday, April 28, 2006

Contents

COVER ILLUSTRATION Products and services that benefit humankind and help improve the quality of life – that's what the slogan "Bayer: Science For A Better Life" stands for. Our cover picture is a good example of what this means in practice. It shows part of the successful research and development team at Bayer's U.S. pharmaceutical research center in West Haven, Connecticut, that was involved in the development of the new cancer drug Nexavar® (active ingredient: sorafenib).

At the end of 2005 – sooner than expected – the U.S. Food and Drug Administration granted marketing authorization for Nexavar® in the treatment of advanced kidney cancer. For the German-American development team from Bayer HealthCare and Onyx Pharmaceuticals, this decision marks the climax of their extraordinary cooperation so far. The drug was developed in record time, three years faster than the industry average.

Bayer HealthCare has since applied to the European Medicines Evaluation Agency for approval to market Nexavar® within the European Union. If marketing authorization is granted, the product could be launched in the E.U., too, in the second half of 2006. Further studies are now under way to discover whether Nexavar® can be used to treat other malignant tumors, such as cancer of the liver, lungs or skin.

The picture shows some members of the team, representing the many employees involved in the entire project: Timothy Lowinger, Scott Wilhelm, Bernd Riedl, Susan Kelley and Edward Huguenel (bottom, from left), and Brian Schwartz and Christopher Carter (top, from left).

Further examples of "Bayer: Science For A Better Life" and more detailed information on the most important events and developments at Bayer in 2005 are contained in the complete version of our Annual Report, which you can order using the enclosed postcard.

This is to give Notice of our Annual Stockholders' Meeting to be held on Friday, April 28, 2006 at 10:00 hours (CEST) in the Congress Center North of the Cologne Exhibition Center, Hall 9, Deutz-Mülheimer-Straße 111, 50679 Cologne, Germany.

Agenda

1. Submission of the Approved Financial Statements and Consolidated Financial Statements, the Management Reports for the Bayer AG and the Bayer Group, and the Report of the Supervisory Board for Fiscal Year 2005; Resolution on Distribution of the Profit.

The Board of Management and the Supervisory Board propose that the balance sheet profit in the amount of Euro 693,824,824 be used to pay a dividend of Euro 0.95 per share entitled to dividends and that this be payable on May 2, 2006.

2. Ratification of the Actions of the Members of the Board of Management

The Board of Management and the Supervisory Board propose to ratify the actions of the members of the Board of Management holding office during the 2005 fiscal year with respect to that year.

3. Ratification of the Actions of the Members of the Supervisory Board

The Board of Management and the Supervisory Board propose to ratify the actions of the members of the Supervisory Board holding office during the 2005 fiscal year with respect to that year.

4. Revocation of Existing Authorized Capital, Creation of New Authorized Capital with the Option of Excluding Subscription Rights and Amendment of § 4 (2) and (3) of the Articles of Incorporation (Capital Stock)

The terms for the current Authorized Capital I (§ 4 (2) sentences 1 – 3 of the Articles of Incorporation) and the current Authorized Capital II (§ 4 (2) sentences 4-9 of the Articles of Incorporation) both expire on April 26, 2007 and therefore presumably before the planned 2007 Annual Stockholders' Meeting. The term for the Authorized Capital III (§ 4 (3) of the Articles of Incorporation) will have been expired at the time of this year's Annual Stockholders' Meeting since it is limited in time until April 27, 2006. The previously Authorized Capital shall therefore be renewed in terms of content and at the same time be restructured as Authorized Capital I and II.

The Board of Management and the Supervisory Board therefore propose to adopt both of the following resolutions, which are independent of each other:

(a) (1) The authorization of the Board of Management to increase with approval of the Supervisory Board the capital stock of the Company by up to Euro 150,000,000.00 until April 26, 2007 as provided in § 4 (2) sentences 1-3 of the Articles of Incorporation (Authorized Capital I) shall be revoked by deleting sentences 1 – 3 of § 4 (2) of the Articles of Incorporation.

(2) With approval of the Supervisory Board and until April 27, 2011, the Board of Management shall be authorized to increase the Capital Stock in one or more installments by up to a total amount of Euro 465,000,000.00 by issuing new bearer non-par stock. The issue of new bearer non-par stock may take place in exchange for cash and/or contributions in kind whereby a capital increase in exchange for contributions in kind may only take place for a total amount of up to Euro 370,000,000.00 (Authorized Capital I). In such cases, the stockholders shall be granted subscription rights. Subject to the approval of the Supervisory Board, the Board of Management shall however be authorized to exclude the subscription right of stockholders for any excess shares remaining after rights have been allocated (fractional amounts) and be authorized to exclude subscrip-

tion rights to the extent necessary to grant subscription rights for new stock to holders of bonds issued by the Company or its group companies having conversion rights or attached warrants or obligatory conversion rights to the extent bondholders were entitled to subscription rights upon exercise of their conversion right or warrant or obligatory conversion right. Moreover, the Board of Management shall be authorized subject to the approval of the Supervisory Board to exclude subscription rights if the increase in capital is in exchange for contributions in kind for purposes of acquiring companies, parts of companies, or participations in companies or other assets. Subject to the approval of the Supervisory Board, the Board of Management shall determine the rights to be embodied in such new shares and their conditions of issuance including the issue price.

(3) Upon entry into the commercial register of its deletion pursuant to agenda item 4 (a) (1) above, sentences 1 – 3 of § 4 (2) of the Articles of Incorporation shall be replaced with the following language:

“(2) With approval of the Supervisory Board and until April 27, 2011, the Board of Management is authorized to increase the Capital Stock in one or more installments by issuing new bearer non-par stock by up to a total amount of Euro 465,000,000.00. The issue of new bearer non-par stock may take place in exchange for cash and/or contributions in kind whereby a capital increase in exchange for contributions in kind may only take place for a total amount of up to Euro 370,000,000.00 (Authorized Capital I). In such cases, the stockholders shall be granted subscription rights. Subject to the approval of the Supervisory Board, the Board of Management shall however be authorized to exclude the subscription right of stockholders for any excess shares remaining after rights have been allocated (fractional amounts) and be authorized to exclude subscription rights to the extent necessary to grant subscription rights for new stock to holders of bonds issued by the Company or its group companies having conversion rights or attached warrants or obligatory conversion rights to the extent bondholders were entitled to subscription rights upon exercise of their conversion right or warrant or obligatory conversion right. Moreover, the Board of Management shall be authorized subject to the approval of the Supervisory Board to exclude subscription rights if the increase in capital is in exchange for contributions in kind for purposes of acquiring companies, parts of companies, or participations in companies or other assets. Subject to the approval of the Supervisory Board, the Board of Management shall determine the rights to be embodied in such new shares and their conditions of issuance including the issue price.”

(4) The Supervisory Board is authorized to amend § 4 (1) and (2) of the Articles of Incorporation to correspond to the current use of the Authorized Capital I or after expiration of the authorization term.

(5) The Board of Management is instructed to apply for entry into the commercial register of the above under agenda item no. 1 approved revocation of the Authorized Capital I contained in the current sentences 1-3 of § 4 (2) of the Articles of Incorporation only once it is ensured that, immediately after entry of the deletion of the current sentences 1-3 of § 4 (2) of the Articles of Incorporation, the approved creation of the new Authorized Capital I in the amount of Euro 465,000,000.00 with the corresponding amendment to the Articles of Incorporation pursuant to the above agenda item 4 (a) (2) and (3) is entered into the commercial register.

b) (1) The authorization of the Board of Management contained in § 4 (2) sentences 4-9 of the Articles of Incorporation to increase the capital stock of the Company, upon consent of the Supervisory Board and until April 26, 2007, by a maximum of Euro 100,000,000.00 in exchange for cash contributions shall be revoked and the sentences 4-9 of § 4 (2) of the Articles of Incorporation deleted. Section 4 (3) of the Articles of Incorporation containing Authorized Capital III limited in time until April 27, 2006 shall be deleted.

(2) The Board of Management shall be authorized, until April 27, 2011 and with approval of the Supervisory Board, to increase capital by up to a total amount of Euro 186,000,000.00 in one or more installments by issuing new bearer non-par stock in exchange for cash contributions (Authorized Capital II). In such case, the stockholders shall be granted subscription rights. In case of singular or repeated exercise of the Authorized Capital II and with approval of the Supervisory Board, the Board of Management shall however be authorized to exclude subscription rights of the stockholders in an amount of the capital increase not exceeding 10 % of the capital stock existing at the time this authorization becomes effective and existing at the time this authorization is exercised for purposes of issuing new stock in exchange for cash contributions at an issue price not materially below the market price of the company's stock already listed on the stock exchange at the time the issue price is finally determined. Stock which was acquired on the basis of an authorization of the Stockholders' Meeting and is sold pursuant to § 71 (1) No. 8 sentence 5 of the German Stock Corporation Act (Aktiengesetz) in conjunction with § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz) during the term of this authorization shall apply towards the above-mentioned 10 % limit. Moreover, those stocks shall be applied towards this limit which were or are to be issued in satisfaction of bonds with conversion rights or attached warrants or which are mandatorily convertible if the bond was issued during the term of this authorization subject to exclusion of the subscription rights under analogous application of § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz). Subject to the consent of the Supervisory Board, the Board of Management shall decide on the content of the stock rights and further conditions of the stock issuance including the issue price.

(3) Upon entry into the commercial register of the deletion of the current language pursuant to Agenda Item 4 (5) (b) (1), § 4 (3) of the Articles of Incorporation shall be replaced with the following language:

"(3) The Board of Management is authorized to increase capital up to a total amount of Euro 186,000,000.00 in one or more installments until April 27, 2011 with approval of the Supervisory Board by issuance of new bearer non-par stock in exchange for cash contributions (Authorized Capital II). In such case, the stockholders shall be granted subscription rights. In case of singular or repeated exercise of the Authorized Capital II and with approval of the Supervisory Board, the Board of Management is however authorized to exclude subscription rights of the stockholders in an amount of the capital increase not exceeding 10 % of the capital stock existing at the time this authorization becomes effective and existing at the time this authorization is exercised for purposes of issuing new stock in exchange for cash contributions at an issue price not materially below the market price of the Company's stock already listed on the stock exchange at the time the issue price is finally determined. Stock which was acquired on the basis of an authorization of the Stockholders' Meeting and is sold pursuant to § 71 (1) No. 8 sentence 5 of the German Stock Corporation Act (Aktiengesetz) in conjunction with § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz) during the term of this authorization shall apply towards the above-mentioned 10 % limit. Moreover, those stocks shall be applied towards this limit which were or are to be issued in satisfaction of bonds with conversion rights or attached warrants or which are obligatory conversion rights if the bond was issued during the term of this authorization subject to exclusion of the subscription rights under analogous application of § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz). Subject to consent of the Supervisory Board, the Board of Management shall decide on the content of the stock rights and further conditions of the stock issuance including the issue price."

(4) The Supervisory Board shall be authorized to amend § 4 (1) and (3) of the Articles of Incorporation to correspond to the current use of the Authorized Capital II or after expiration of the authorization term.

(5) The Board of Management is instructed to apply for entry into the commercial register of the above under agenda item no. 4 (b) (1) approved revocation of the Authorized Capital II contained in the current sentences 4 - 9 of § 4 (2) of the Articles of Incorporation only once it is ensured that, immediately after entry of the deletion of the current sentences 4 - 9 of § 4 (2) of the Articles of Incorporation, the approved creation of the new Authorized Capital II in the amount of Euro 186,000,000.00 with the corresponding amendments to the Articles of Incorporation pursuant to the above agenda item no. 4 (B) (2) and (3) are entered into the commercial register.

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Reports of the Board of Management on Agenda Item 4

Concerning Agenda Item 4 Resolution a): Report of the Board of Management pursuant to § 203 (2) sentence 2 in conjunction with § 186 (4) sentence 2 of the German Stock Corporation Act (Aktiengesetz)

Generally, in the event that the Authorized Capital I is exercised, we want to grant our Stockholders subscription rights and only wish to be able to exclude such in the following cases:

The authorization to exclude subscription rights for fractional amounts serves the purpose of being able to show a practicable subscription ratio with respect to the amount of the respective capital increase. Without an exclusion of the subscription rights for fractional amounts, the technical execution of a capital increase in an even amount and the exercise of the subscription rights would be made significantly more difficult. The new stock created from the fractional amounts excluded from the subscription rights of the Stockholders shall be either sold on the stock market exchange or used in some other way, which is most beneficial for the Company.

The authorization to exclude subscription rights in favor of holders of bonds issued by the Company or its group companies having conversion rights or attached warrants or in cases of obligatory conversion rights serves the purpose of not having to reduce the option or conversion price in order to keep with the so-called dilution protection clause of the conversion or warrant conditions in the event the authorization is used. Rather, also the holders of bonds having conversion rights or attached warrants or obligatory conversion rights shall be granted subscription rights to the extent they would be entitled to such upon exercise of the conversion right or warrant or upon satisfaction of an obligatory conversion right. The authorization enables the Board of Management in the event of using the Authorized Capital I to choose between the two alternatives after careful consideration of the interests.

The authorization to exclude subscription rights in the event of capital increases in exchange for contributions in kind is limited to that portion of the Authorized Capital I, which may be used for the capital increases in exchange for contributions in kind; i.e., a maximum totaling Euro 370,000,000.00. Therefore, this authorization is limited to an amount equaling less than 20 % of the current Capital Stock of the Company. This authorization serves the purpose of enabling the acquisition of companies, parts of companies, or participations in companies or other assets in exchange for stock. If the acquisition of participations or the acquisition of other assets by way of increasing capital in exchange for contributions in kind results in tax savings for the seller or if for some other reason the seller is more inclined towards receiving stock in the company rather than cash payment, this option strengthens the Company's negotiating position. In isolated cases, special interests of the Company may require to offer the seller new stock as consideration for a participation in the company. The Authorized Capital I allows the company to act quickly and flexibly in the face of favorable opportunities to acquire companies, parts of companies or participations in companies or other assets in exchange for issuing new stock. The requested authorization allows in each individual case an optimal financing of the acquisition in exchange for the issuance of new stock with an increase of the Company's equity. In any case, the management only desires to exercise the option of using Authorized Capital I for purposes of increasing capital in exchange for contributions in kind under exclusion of the subscription rights if the value of the new stock and the value of the consideration (i.e., the value of the company, part of company or participation in the company, or other asset to be acquired) are in due proportion to each other. At the same time, the issue price of the new stock to be issued shall generally be aligned with the prevailing market price.

An economic disadvantage for the Stockholders excluded from the subscription rights is thus avoided. By limiting the possible volume to less than 20 % of the current Capital Stock of the Company, the voting right of the Stockholders would only be slightly diluted in the event that the authorization is exercised. After consideration of all aforementioned circumstances, the exclusion of subscription rights in the above-described amounts is necessary, suitable, reasonable, and demanded by the Company's interest.

The Board of Management shall in each case carefully examine the circumstances in order to ascertain whether the exercise of the Authorized Capital I and, as the case may be, the exclusion of subscription rights is in the interest of the Company and therefore the Stockholders. The Board of Management shall inform the Annual Stockholders' Meeting of each exercise of the Authorized Capital I.

Concerning Agenda Item No. 4 Resolution b): Report of the Board of Management pursuant to § 203 (2) sentence 2 in conjunction with § 186 (4) sentence 2 of the German Stock Corporation Act (Aktiengesetz)

Generally, in the event that the Authorized Capital II is exercised, we want to grant our Stockholders subscription rights but would like to have the option of excluding such rights in one particular case i.e., pursuant to § 203 (1) sentence 1, 203 (2), 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz):

This possibility serves the interest of the Company in reaching the best possible issue price when issuing new stock. The statutory option provided in § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz) puts the Board of Management in a position to respond quickly and flexibly as well economically to current favorable market opportunities, subject to the Supervisory Board's approval. In so doing a best possible increase in equity will be attained which is in the interests of the Company and all Stockholders. By waiving the time-consuming and costly procedure of subscription rights, the equity needs may be quickly covered using short-time market opportunities and new domestic and foreign stockholders will be gained. This option of increasing capital at optimum conditions and at a nominal expense to subscription rights is particularly important for the Company because it allows it to react quickly and flexibly to market opportunities in new and fast-changing markets and to cover any thus arising equity needs on a short term basis.

Stock issued under exclusion of subscription rights pursuant to § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz) may not exceed 10 % of the Capital Stock i.e. neither at the time that the authorization takes effect nor at the time the authorization is exercised. In calculating this limit, company stock sold during the term of authorization or company stock sold excluding subscription rights pursuant to § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz) will be included. Further included in this limited number of stock are those stocks which were or are to be issued in satisfaction of bonds having conversion rights or attached warrants or obligatory conversion rights if the bonds were issued during the term of this authorization or the authorization of the Company under exclusion of subscription rights in analogous application of § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz). These conditions take into account the interests of the Stockholders with respect to the protection against the dilution of their stockholdings in compliance with the respective statutory provisions.

The issue price and thus the funds flowing to the company for the new stock will orient itself to the market price of already floating stock and will not significantly fall short of the market price, the price expected to be not less than 3 % but in no case less than 5 % compared to the current market price.

In view of the fact that all stock issued in the past by the Company is admitted for trade in the official market of the German stock exchanges and that they are widely held, Stockholders desiring to maintain their percentage stockholdings may purchase additional stock of the Company on the stock market exchange without any problem in cases where the Authorized Capital II under exclusion of subscription rights pursuant to § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz) is utilized. In the calendar year 2005 more than a billion non-par stock of the company were traded on the German stock exchanges equaling 1.5 times the total number of Company stock.

Generally it is therefore ensured that in keeping with the statutory parameters of § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz), Stockholder capital interests as well as Stockholder voting rights are reasonably preserved in the event that Authorized Capital II is utilized under exclusion of subscription rights. Taking all of these circumstances into account, the authorization to exclude subscription rights subject to the above restrictions is necessary, suitable, reasonable and demanded by the interests of the Company.

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5. Amendment of § 16 of the Articles of Incorporation (Conduct of the Stockholders' Meeting)

Due to the Company Integrity and Modernization of the Right to Contest Act (Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts) which came into effect on November 1, 2005, the provisions concerning the conduct of Stockholders' Meetings were amended. According to the new § 131 (2) sentence 2 of the German Stock Corporation Act (Aktiengesetz), the meeting chairman is entitled to set reasonable time limits on the right of Stockholders to speak and pose questions. Thus, the legislature is pursuing the goal of avoiding misuses of the right to speak and pose questions and to ensure that the Stockholders' Meeting is conducted in a time-efficient manner with focus on the material strategic decisions.

The Board of Management and Supervisory Board therefore propose to adopt the following resolution:

§ 16 (3) of the Articles of Incorporation of the Company shall read as follows:

"The chairman is entitled to set reasonable time limits on the right of the stockholders to speak and pose questions. In particular, he may at the beginning or during the Stockholders' Meeting set reasonable time frames for the course of the Stockholders' Meeting, for the comments on the specific agenda items, or for the specific questions and speeches."

The former § 16 (3) of the Articles of Incorporation of the Company shall become § 16 (4).

6. Authorization to Purchase Company Shares and Sell Company Shares Subject to Exclusion of Subscription Rights

Due to the expiration of the authorization term adopted by the last Annual Stockholders' Meeting on October 28, 2006 subject to the revocation of this authorization, the Board of Management shall again be authorized to purchase Company shares. To the extent the shares will be utilized for stock compensation programs, these programs for the years 2000 to 2002 have already been the subject of Stockholders' Meeting resolutions in the past years for the shares to be issued in each of the respective years.

The Board of Management and the Supervisory Board propose adoption of the following resolution:

a) The Company is authorized until October 27, 2007 to purchase Company shares representing up to 10% of the Company's current capital stock. The purchase must be made on the stock exchange. The purchase price (excluding incidental costs of purchase) shall not be more than or less than 10 percent of the Company's share price calculated by the trading day opening auction on the XETRA-trading system (or corresponding successor system) of the Frankfurt Stock Exchange.

The current authorization to purchase Company shares, valid until October 28, 2006, will cease to be valid upon this new authorization coming into effect.

b) The authorization may be exercised for all shares in one or more installments. The authorization may be exercised for any legally permissible purpose and in pursuit of one or more of the purposes mentioned in paragraphs c), d), e) and f). Where it is used for one or more of the purposes mentioned in paragraphs c), d) or e), the subscription rights of the Stockholders are excluded.

c) The Board of Management is authorized to sell the shares acquired under this authorization other than through the stock exchange or through an offering to all Stockholders, provided that the sale is made for cash and at a price that is not significantly below the stock market value of the Company's shares at the time of sale. This authorization is limited to a total of 10 % of the Company's capital stock. The maximum 10 % limit of the capital stock shall be reduced by the pro rata amount of the capital stock attributable to those shares which were issued while this authorization is still valid in connection with a capital increase subject to an exclusion of subscription rights pursuant to § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz). The maximum 10 % limit of capital stock shall further be reduced by the pro rata amount of capital stock attributable to those shares which are issued for purposes of warrant bonds and /or convertible bonds to the extent the bonds are issued while the authorization is valid subject to the exclusion of subscription rights under analogous application of § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz).

d) The Board of Management is authorized to transfer to third parties the shares acquired under the above-described authorization, provided this is for the purpose of acquiring companies, parts of companies or interests in companies, or consummating company combinations.

e) In connection with stock option programs (hereinafter "Stock Compensation Programs"), the Board of Management is authorized to offer and transfer Company shares acquired under the above-described authorization to managerial and non-managerial employees of the Company and its subordinated affiliated companies in the manner described in paragraph h) below.

f) The Board of Management is authorized to redeem the shares acquired under the above authorization without a further resolution of the Stockholders' Meeting.

g) The Board of Management may only exercise the authorizations in paragraphs c) and d) with the consent of the Supervisory Board. Furthermore, the Supervisory Board may determine that actions of the Board of Management based on this resolution of this Stockholders' Meeting may be undertaken only with its consent.

h) Company shares acquired under this authorization may be used for two different types of Stock Compensation Programs of the years 2000-2002: Module 1 of the stock participation program (hereinafter, "SPP") and the stock incentive program (hereinafter, "SIP"). The essential conditions of these Stock Compensation Programs are as follows:

Stock Options

Each participant in either of the two Stock Compensation Programs is eligible to receive shares of the Company under the following terms and conditions. Any right to receive shares of the Company is hereinafter referred to as a "Stock Option".

Persons Eligible to Participate

Persons eligible to participate in the SPP were, in principle, all employees of the Company covered by collective bargaining agreements and managerial employees in contract levels 1 to 3, provided that, at the time of the commitment, they were permanently employed by the Company, not under notice, and, in the year previous to commitment, received a variable one-time compensation component. The same applied also to employees of subordinated affiliated companies, in so far as such companies also offered a SPP.

Persons eligible to participate in the SIP were all contract levels 4 and 5 managerial employees provided that, at the time of the commitment, they were permanently employed by the Company, not under notice, not members of a Group Leadership Circle and in the then respective previous year received a variable one-time compensation payment. The same also applied to managerial employees with comparable functions in subordinate affiliated companies taking part in the program.

Conditions of Participation

It was a condition of participation in the Stock Compensation Programs that the participant make a personal investment in shares of the Company (hereinafter, "Investment Shares"). The maximum number of Investment Shares depended on the individual variable compensation component of each eligible participant and on the share price at the respective time of the commitment.

For every ten (10) of his own Investment Shares, a participant in Module 1 of the SPP received five (5) Stock Options representing one Company share each. For every ten (10) of his own Investment Shares, a participant in the SIP receives ten (10) Stock Options representing one Company share each.

Term / Content of the Program

Both Stock Compensation Programs from the years 2000 to 2002 (SPP Module 1, SIP) have a 10-year term. The programs from the years 2003 and 2004 involve exclusively cash payments and are not covered by this resolution. The Employee Stock Compensation Program from the Year 2005 is also not subject of the resolution.

During the term of the program, each participant can receive further shares of the Company free of charge (hereinafter, "Incentive Shares") for every ten Investment Shares; under SPP, this is limited to a maximum of five Incentive Shares, under SIP, a maximum of ten Incentive Shares. It is a condition of the foregoing that the participant's own Investment Shares must remain in his special deposit account from the start of the program until the relevant distribution date. Under SIP, the distribution of Incentive Shares is subject to a further condition. Incentive Shares for tranches established before 2003 are only granted if the performance of the shares of the Company (measured as the total return) exceeds that of the reference index, the Dow Jones EURO STOXX 50SM (performance index). The performance of the share compared with the performance of the index is determined on the basis of the average prices over the ten trading days preceding the start of the program or the respective distribution date in the closing auction of XETRA trading system on the Frankfurt Stock Exchange (or a corresponding successor system). For tranches established before the year 2003 not only the trading price of stock of the Company, but also dividend payments, measures concerning the stock capital, the value of subscription rights and other special rights are to be taken into account according to the same criteria as in the Dow Jones EURO STOXX 50SM (performance index). In connection with the spin-off of the LANXESS subgroup, all currently running tranches of the Stock Option Programs have been adjusted to essentially offset the effects of dilution and loss of value resulting from the spin-off.

Stock options may be exercised after a two-year, six-year, and finally 10-year holding period, respectively. If the aforementioned conditions are met, participants are granted, for every ten deposited Investment Shares, the following Incentive Shares at the times indicated:

Distribution date	SPP	SIP
at end of:	[no. Incentive Shares]	[no. Incentive Shares]
• 2 years	1	2
• 6 years	2	4
• 10 years	2	4

Incentive Shares are granted to all eligible participants free of charge.

Non-transferability/Employee Status

The stock options, i.e. the rights to receive Incentive Shares, are legally non-transferable. In principle, they can only be granted provided that the participant is employed by the Company or by a subordinated affiliated company of the Company on the distribution date and is not under notice.

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Report by the Board of Management to the Annual Stockholders' Meeting pursuant to § 71 (1) no. 8 in conjunction with § 186 (4) sentence 2 German Stock Corporation Act (Aktiengesetz) regarding Item 6 of the Agenda

Section 71 (1) no. 8 of the German Stock Corporation Act (Aktiengesetz) allows stock corporations to purchase company shares representing up to 10 percent of the company's capital stock on the basis of an authorization from the Stockholders' Meeting. Item 6 of the Agenda contains a proposal to grant an appropriate authorization, limited to a term of 18 months. This will enable the Board of

Management, in the interest of the Company and of its stockholders, to purchase Company shares on the market representing up to 10 percent of the Company's current capital stock.

The Company shares purchased by the Company can be resold on the stock market or through a public offering to all stockholders. These possibilities ensure that the principle of equality of treatment of stockholders is respected both in the purchase and the reissue of the shares.

Furthermore, the Company may also sell the purchased Company shares off the market, without a public offering to all stockholders, provided that the price of the shares is not significantly lower than the trading price at the time of sale. This authorization makes use of the simplified exclusion of subscription rights allowed under § 71 (1) no. 8 of the German Stock Corporation Act (Aktiengesetz) in analogous application of § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz). In particular, in the interest of the Company, it will be possible to offer shares of the Company to institutional investors domestically and abroad and to broaden the stockholder base. The requested authorization will allow the Company to respond quickly and flexibly to favorable stock market conditions. The interests of stockholders with regard to their assets and voting rights will be duly respected. The authorization based on § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz) to exclude subscription rights upon the sale of the Company's own shares, including any authorizations to issue new shares or convertible bonds and excluding subscription rights under § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz) is limited to a maximum of 10 percent of the Company's capital stock. For these purposes, the capital stock is defined as the capital stock existing at the time the authorization is first exercised. The maximum amount shall include otherwise issued shares subject to exclusion of subscription rights pursuant to or analogously pursuant to § 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz). The aim of protecting stockholders from dilution is achieved by stipulating that the shares may only be sold for a price that is not significantly lower than the applicable trading price. The final selling price of the Company shares shall be determined immediately prior to the sale. The Board of Management shall endeavor – taking into account current market circumstances – to keep any discount on the trading price as low as possible. Interested stockholders can maintain their participation quota through purchases on the market at essentially identical conditions.

The Company shall furthermore be allowed to offer its own shares for consideration in the context of company combinations or the acquisition of companies or parts of companies or interests in companies. The proposed authorization should give the Company the necessary scope to use quickly and flexibly any acquisition opportunities that arise. The proposed exclusion of subscription rights will enhance this aim. When determining the valuation, the Board of Management will ensure that the interests of stockholders are duly protected. As a rule, it will base its assessment of the share value offered as consideration on the trading price of the Company shares. However, the intention is not to link the value rigidly to a trading price, particularly so as to prevent the outcome of negotiations, once achieved, from being jeopardized by fluctuations in the trading price. The Company is not planning any specific acquisitions at the present time.

Furthermore, under the provisions of paragraphs e) and h), the Company should be able to use its own Company shares for Stock Compensation Programs from the years 2000 to 2002. This option is not necessary for comparable Stock Compensation

Programs of the years 2003 and 2004 because these programs are not geared to the issue of shares but exclusively payment in cash. The employee stock compensation program launched in 2005 is also not subject of the resolution.

The grant of stock options or subscription rights to employees and managerial employees entitling them to buy Company stock under certain conditions is one of the customary internationally recognized methods of compensation. This creates incentive to increase the value of the company even more by outstanding work thereby promoting, in the interest of the Stockholders and the Company, the performance of the Company's shares on the stock market also in comparison to other companies. At the same time, qualified employees and management will be attracted to the Bayer Group and also stay long-term with the Company. In view of this goal, the shares purchased for purposes of satisfying the Stock Compensation Programs of 2000-2002 in the event of sale may not be offered to the Stockholders but only to the participants of the Stock Compensation Programs 2000–2002.

All of the material terms of the relevant Stock Compensation Programs are set forth in the proposed resolution. Therefore, only the most important provisions are outlined below:

The proposed authorization allows the Company to use its Company shares for satisfying claims of SPP Module 1 and the SIP.

The Stock Compensation Programs using the Company's own shares as proposed for Stockholders' Meeting authorization, have two or three main features which are of particular interest to the Company and its Stockholders:

The first main feature relates to the respective holding periods by which managerial and non-managerial employees are bound to the Bayer Group for the medium to long term. These holding periods are longer than those stipulated by the Stock Option Programs of other companies, in some cases significantly so.

The second main feature relates to the participant's personal investment. Only if eligible managerial and non-managerial employees invest on their own account and hence at their own risk in shares of the Company, can they participate in the Stock Compensation Programs as described above. This gives the Stock Compensation Programs particular significance and particular weight in a way that distinguishes them from many other stock compensation programs of other companies. Managerial and non-managerial employees not only have the opportunity to share in the growing value of the Company through their own individual performance. They also – like the stockholders – participate in the risk by investing their own money.

Finally, the third main feature relates to the further conditions for exercising the options.

Two modules are available to participants in the SPP. While Module 2, on which it is not necessary to pass a resolution here, has features of a typical employee stock compensation program and which under § 71(1) no. 2 of the German Stock Corporation Act (Aktiengesetz) uses the Company's own shares, acquired on the market by the Board of Management, Module 1 goes beyond § 71(1) no. 2 of the German Stock Corporation Act (Aktiengesetz) and is an innovative type of employee share ownership scheme which makes the granting of further shares in the Company conditional on the employee remaining with the Bayer Group and on making a personal investment.

Participants in the SIP only receive incentive shares for tranches up until including 2002 if the performance of the shares of the Company (based on the total return) exceeds that of the Dow Jones EURO STOXX 50SM (performance index) over the reference period. The managerial employees of the Bayer Group are therefore willing to measure their performance against that of other leading listed companies in the European Economic Area.

The Stock Compensation Programs represent remuneration elements, which, in the interest of enhancing motivation, increase the amount of existing flexible remuneration components and should help enhance Bayer's corporate value in the long term. At the time the Incentive Shares are granted, the managerial employee has already earned this remuneration, i.e. the shares of the Company, through his own efforts so that the shares are issued to him free of charge.

Calculation of the fair value (i.e., the market value of the incentive claims) is based on an international standard practice of using the option price theory (Black/Scholes Model) which takes into account the volatility of the stock returns, the due date of the incentive claim, the market interest rate, as well as the expected dividends of Bayer shares. Using this calculation method, the incentive claim amounts approximate as follows:

Program	Estimated Intrinsic Value (in Euro)
Module 1 of SPP	approximately 14 million
SIP	approximately 3.1 million

In 2005, no bonus stock was issued to employees or managerial employees under the SPP Module 1 incentive plan or the SIP incentive plan.

Finally, the authorization allows the Company to redeem Company shares without a further resolution of the Stockholders' Meeting. It is also common to grant such authorization. It allows the Company to react appropriately and flexibly in any particular capital market situation.

In the event the authorization is exercised, the Board of Management shall report such at the following Stockholders' Meeting.

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7. Approval of the Control and Profit Transfer Agreement between the Company and Bayfin GmbH

The Board of Management and the Supervisory Board propose to approve the Control and Profit Transfer Agreement between the Company and Bayfin GmbH dated March 2, 2006.

On March 2, 2006 the Company ("Bayer") and Bayfin GmbH ("Bayfin") entered into a Control and Profit Transfer Agreement. The Control and Profit Transfer Agreement has the following content:

§ 1

Management

(1) Bayfin shall subordinate the management of its company to Bayer. Bayer is thus entitled to instruct Bayfin's Management Board with respect to the management of the company.

(2) Bayer shall exercise its right to give instruction only through its Board of Management. Instructions must be in writing.

§ 2
Profit Transfer

(1) Bayfin agrees to transfer its entire profit to Bayer. This obligation becomes first effective for the entire profit of the fiscal year beginning on January 1, 2006. Except for the setting up or reversal of retained earnings pursuant to § 2 (2) below, the year's net income before transfer of profit less any losses carried forward from the previous year is to be transferred.

(2) Upon consent by Bayer, Bayfin may appropriate funds from the year's net income to other retained earnings (§ 272 (3) German Commercial Code (Handelgesetzbuch)) if this is permissible under the German Commercial Code and would be considered commercially reasonable by a prudent businessman. Upon Bayer's request, other retained earnings pursuant to § 272 (3) of the German Commercial Code (Handelgesetzbuch) set up during the life of this Agreement shall be reversed and applied against any year's net losses or be transferred as profits. There shall be no transfer of funds from the reversal of other retained earnings pursuant to § 272 (3) of the German Commercial Code (Handelgesetzbuch) existing before this Agreement becomes effective or from capital reserves. § 301 of the German Stock Corporation Act (Aktiengesetz) shall apply analogously.

§ 3
Assumption of Loss

Bayer has a duty towards Bayfin to assume losses under analogous application of the provisions of § 302 of the German Stock Corporation Act (Aktiengesetz) concerning profit transfer agreements.

§ 4
Effective Date and Term

(1) This Agreement requires the approval of the Shareholders' Meeting of Bayfin and the Stockholders' Meeting of Bayer.

(2) The Agreement shall become effective upon its entry into the commercial register at Bayfin's registered office and, except for the right to give instructions, shall apply retroactively as of January 1, 2006. The right to instruct may be first exercised upon entry of the Agreement in the commercial register located at the registered office of Bayfin.

(3) The Agreement may be terminated by giving six-months notice as of the end of any fiscal year however not before expiration of December 31, 2010. If the Agreement is not terminated, then, subject to the same notice period, it is automatically extended for one year respectively.

(4) The right to terminate the Agreement for cause without notice shall remains unaffected. In particular, Bayer shall be entitled to terminate for cause if it no longer owns a majority interest in Bayfin or if another person acquires a shareholding interest in Bayfin.

§ 5
Miscellaneous

The invalidity or infeasibility of one or more provisions of this Agreement shall not affect the validity of the remaining provisions.

The Control and Profit Transfer Agreement is described and explained in more detail in the Joint Agreement Report of the Management Board of the Company and the Management of Bayfin GmbH.

8. Appointment of Auditors

The Supervisory Board proposes that PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Essen, Germany be appointed as auditors for the 2006 fiscal year.

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Upon giving notice of the Stockholders' Meeting, in particular the documents listed below will be available for inspection by the Stockholders on the Company's business premises Building Q 26 (Legal Department), Kaiser-Wilhelm-Allee, 51368 Leverkusen, Germany. Upon request of any Stockholder, copies of the same will be provided without undue delay and without charge. They may also be viewed in the internet under www.asm2006.bayer.com:

- Annual Financial Statements, Bayer Group Financial Statements, the Management Reports of Bayer AG and the Bayer Group, report of the Supervisory Board, proposal by the Board of Management for distribution of the balance sheet profit (Agenda Item 1)

- Report of the Board of Management pursuant to § 203 (2) sentence 2 in conjunction with § 186 (4) sentence 2 of the German Stock Corporation Act (Aktiengesetz) (Agenda Item 4 Resolution a))

- Report of the Board of Management pursuant to § 203 (2) in conjunction with § 186 (4) sentence 2 of the German Stock Corporation Act (Aktiengesetz) (Agenda Item 4 Resolution b)

- Report of the Board of Management pursuant to § 71 (1) no. 8 of the German Stock Corporation Act (Aktiengesetz) in conjunction with § 186 (4) sentence 2 German Stock Corporation Act (Aktiengesetz) (Agenda Item 6)

- Control and Profit Transfer Agreement between the Company and Bayfin GmbH, Joint Agreement Report concerning the Control and Profit Transfer Agreement between the Company and Bayfin GmbH, Annual Statements, and Management Report of the Company as well as the Annual Financial Statements of Bayfin GmbH for the last 3 fiscal years respectively (Agenda Item 7)

Stockholders' Meeting Attendance

Requirements for entitlement of Stockholders to attend the Stockholders' Meeting and to exercise voting rights have been amended by the Company Integrity and Modernization of the Right to Contest Act (UMAG), which became effective on November 1, 2005 and the corresponding amendments to the Company's Articles of Incorporation.

Accordingly, those Stockholders are entitled to attend the Stockholders' Meeting and exercise voting rights who, at latest, upon expiration of April 21, 2006 (24:00 hours CEST) are registered at the Company under the following address

Bayer Aktiengesellschaft
c/o Deutsche Bank AG
General Meetings
60272 Frankfurt am Main
Facsimile: +49 (0)69 / 910-86045
E-Mail: wp.hv@etb-ag.com

and have showed under such address certification issued by a depositary institution showing stock ownership in the Company at the beginning of April 7, 2006 (00:00 hours CEST). The registration and certification of stock ownership must be in text form and in the German or English language.

Registration does not restrict Stockholders to transfer its shares or block its shares.

Proxy

Stockholders may appoint an individual or a stockholders' association as proxy to exercise their voting rights.

The Company is offering its Stockholders the opportunity to appoint a Company-nominated proxy who is bound by instructions of the Stockholders before the Stockholders' Meeting. In order to appoint Company-nominated proxies, Stockholders need an admission ticket to the Stockholders' Meeting. To ensure that the admission ticket is received in good time, Stockholders should place their order with the depositary institutions as early as possible.

If Company-nominated proxies are appointed, they must be given instructions on exercising voting rights. Without such instructions the authorization is invalid. The proxies are obligated to vote as instructed.

Authorization of, and instructions to the Company-nominated proxies may be given in writing or alternatively, in a manner specified by the Company, electronically via the internet.

Detailed information on authorizing and instructing Company-nominated proxies can be found on the admission ticket to the Stockholders' Meeting. This information may also be viewed on the internet at www.asm2006.bayer.com.

Partial Broadcast of the Stockholders' Meeting in the Internet

All Stockholders of the Company as well as the interested public may view Board of Management Chairman's speech at the Stockholders' Meeting on April 28, 2006 at approximately 10:15 hours live in the internet under www.asm2006.bayer.com. There will be no further picture and sound broadcast of the Stockholders' Meeting.

Stockholder Counter-Motions and Election Nominations

Counter-motions or election nominations duly submitted by Stockholders regarding specific items of the Agenda must be submitted exclusively to the following address:

Bayer Aktiengesellschaft
Gebäude Q 26
(Legal Department/Rechtsabteilung)
Kaiser-Wilhelm-Allee
51368 Leverkusen, Germany
Facsimile: + 49 (0) 214 / 30-56524

Counter-motions or election nominations submitted by Stockholders that are received by the expiration of April 13, 2006 (24:00 hours CEST) at the aforesaid address will be published promptly on the internet at www.asm2006.bayer.com. Counter-motions or nominations for election submitted by Stockholders sent to different addresses or received late will not be considered.

Leverkusen, March 2006

Bayer Aktiengesellschaft

The Board of Management

This notice is a convenience translation. For the relevant legal document, please refer to the original German version which is published in the Internet under www.ebundesanzeiger.de.

"Our efforts have paid off"

Dear Stockholders:

I look back on 2005 with the greatest satisfaction I have felt since becoming Chairman. Last year was among the most successful in Bayer's history. We had forecasted a 20 percent rise in earnings, but actually far exceeded those expectations, ending 2005 with underlying EBIT up 56 percent from the previous year, at €3.3 billion.

Our underlying EBITDA margin of 18.6 percent already put us very close to our 2006 target of 19 percent, a year ahead of schedule.

The other key data also underscore our focus on growth:

- Sales rose 18 percent to €27.4 billion
- Net income jumped 133 percent to €1.6 billion
- Net cash flow advanced 57 percent to €3.5 billion
- Cash flow return on investment (CFROI) reached the record level of 12.4 percent

That last number is particularly important for me. It means we have created substantial value for you, our stockholders.

We are pleased that the capital market is rewarding our success. With a 51 percent increase in the share price in 2005, Bayer was among the best-performing equities in the German stock index DAX. Our market capitalization rose by €8.7 billion in the space of twelve months.

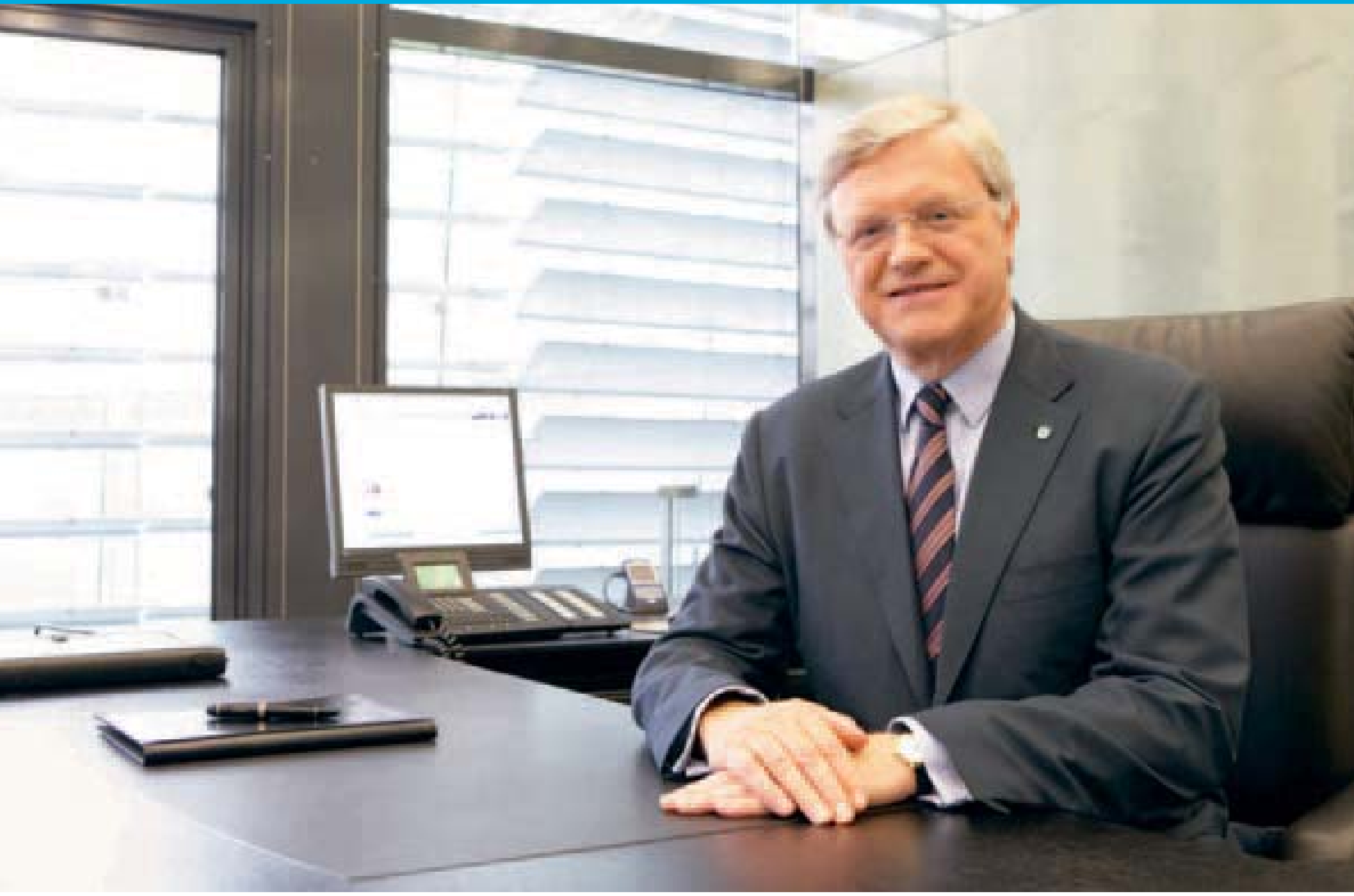
All this clearly illustrates that our strategic realignment toward innovation and growth has lastingly improved the Bayer Group's performance capability.

We made further progress last year not only operationally, but also strategically – from the LANXESS spin-off through the successful integration of the Roche consumer health business to the repositioning of our Pharmaceuticals Division.

We completed the most extensive restructuring process in Bayer's history within an extremely short period, the final step in that process being the successful listing of LANXESS on the stock market early in the year. The strong upward trend in the price of both companies' shares shows that we made the right decisions.

Our new strategy not only laid the foundation for a successful 2005, but has also put the entire enterprise on track for the future.

Let me start with Bayer HealthCare – Germany's biggest health care company, with sales of €9.4 billion. We gave this subgroup a new focus, and it fared outstandingly last year. The aim is to continue matching or outpacing market growth in all areas.



Werner Wenning, Chairman of the Board of Management of Bayer AG

The Pharmaceuticals Division has a new identity, with a stronger concentration on the specialties business and on a restructured and optimized primary care business. The division's performance in recent months has been very encouraging.

Our specialty products, including in particular the biotechnologically manufactured hemophilia drug Kogenate, have considerable growth potential. We believe our new cancer drug, Nexavar, could eventually exceed €1 billion in annual sales. The same applies to our oral antithrombotic Factor Xa inhibitor, which entered phase III clinical testing at the end of 2005 for the prevention of venous thromboembolism. Our Pharmaceuticals Division also has twelve projects in phase I trials and another eleven in preclinical development. We plan to further support the business with external growth, for example through inlicensing.

We have strengthened the other parts of the HealthCare subgroup as well. Following the acquisition of the Roche consumer health activities, our Consumer Care Division is now among the world's top three suppliers in the self-medication business. The newly acquired products Bepanthen, Rennie and Supradyn have performed particularly well, bringing us a significant step closer to our goal of becoming the leading supplier in this segment. We integrated the acquisition more quickly than we had previously thought possible.

And the other HealthCare divisions – Animal Health, Diagnostics and Diabetes Care – also hold strong positions in their respective markets. We plan to expand all of these businesses faster than the market average.

We continue to see considerable potential at Bayer CropScience. This company is the world market leader in conventional crop protection and in the environmental science and seed treatment businesses. While it is on the right track in terms of performance, we have not yet reached our goal. We nevertheless believe that we can set the industry standard in the medium term.

In a market characterized by only moderate expansion, we consider our own innovative capability to be the main factor for organic growth in this area. The years since 2000 have seen the launch of sixteen new active ingredients. Including ten further substances that we plan to introduce by 2011, we anticipate total sales potential of up to €2 billion from our CropScience pipeline. We also expect to achieve faster-than-average growth through the expansion of our environmental science, seed treatment and plant biotechnology franchises.

Regarding MaterialScience, we remain in confident mood following a record-breaking year. This subgroup is a global leader in terms of market positions and technologies, occupying first place in both polyurethanes and coating raw materials, and the number two slot in polycarbonates. We envisage a major opportunity in the development of the Asian markets, and therefore plan to invest about US$ 1.8 billion in world-scale polymer facilities in China alone through 2009.

At MaterialScience, too, we are pursuing a strategy of growth through innovation. Some 20 percent of this subgroup's total revenues already come from new products and applications introduced within the past five years, and that ratio is set to increase.

To expedite growth and foster a high level of innovation in the future, we have earmarked €1.5 billion for capital expenditures on property, plant and equipment this year and, as in 2005, we plan to spend roughly €1.9 billion on research and development. This is by far the largest research budget of any chemical and pharmaceutical company in Germany.

To further support the innovation process, we have launched a global initiative named "Triple-i" – the three i's standing for inspiration, ideas and innovation. The initiative is designed to boost our employees' willingness and ability to submit creative ideas and suggestions for consideration and possible commercialization by units of the Bayer Group. To this end a special innovation support procedure has been developed. The first part of the money to be made available under this program will go for our project to manufacture plant-based pharmaceutical active ingredients.

I firmly believe that innovation and growth are the key success factors in the globalized business arena, and I am therefore certain that our realignment ha
company.

The efforts we put into restructuring the Bayer Group have paid off. Since the beginning of 2003, we have steadily improved year-on-year earnings before special items – our actual operating performance – in twelve consecutive quarters.

Of course we want you, our stockholders, to benefit from our economic success. We therefore propose to raise the dividend for 2005 by more than 70 percent to €0.95.

And what do we have planned for the current year?

We aim to continue expanding and to further improve our operating performance. Our goal is to grow with, or faster than, all of our markets, and to achieve total Group sales in excess of €28 billion.

We are targeting a small further improvement in underlying EBIT and underlying EBITDA, and thus a record earnings level.

While we remain oriented toward profitability, I am also personally committed to ensuring that Bayer embraces the principle of good corporate citizenship. For example, we are involved in more than 300 social responsibility projects worldwide – from initiatives to combat hunger in Brazil through our joint environmental efforts with the United Nations to the fight against AIDS and sleeping sickness in Africa. We play a pioneering role in such activities throughout the world, and intend to expand that role in the future.

My colleagues and I on the Board of Management would like to thank you for the trust you have placed in Bayer. Our special thanks also go to our employees. Together, we have achieved a great deal over the past year. I am very pleased that the broad majority of respondents to our most recent managerial employees' survey said they are proud to work for Bayer. I agree with them: we can all be proud that we have put Bayer back on track following difficult years of reorganization and realignment.

We will continue to work very hard to remain on the successful course we have set for our company, at the same time helping to sustainably improve people's health, nutrition and quality of life through our products – true to the slogan we chose for our new mission statement: "Bayer: Science For A Better Life."

Sincerely,

Bayer stock posts record performance of 54 percent

Bayer ranked among the best equities in the DAX index in 2005, with a performance* of 54 percent on the year. The stock closed the year at €35.29, its highest year-end price since 2000. The dividend of €0.95 per share for 2005 to be proposed to the Annual Stockholders' Meeting represents a 73 percent increase from the previous year.

A very good year on the stock market

2005 was a very good year for equity investors. On December 30, 2005, the German stock index DAX closed up 27.1 percent at 5,408 points. Until May, the DAX moved mainly sideways against a background of uncertainty caused by rising oil prices and other factors. The turning point came in May when the German government announced an early parliamentary election. In the weeks that followed, the DAX showed a marked upward trend, temporarily dampened by the terrorist attacks in London in July. On September 7 the DAX reached 5,000 points for the first time since May 2002. The EURO STOXX 50, which contains the 50 leading blue chips in the euro zone, including Bayer, ended the year up 24.3 percent.

Bayer stock clearly outperformed the DAX in 2005

Bayer stock significantly outperformed the DAX index in 2005, ending the year up 50.5 percent at €35.29, the highest year-end price since 2000. Including the 2004 dividend of €0.55 per share paid in 2005, our stock achieved a performance of 53.7 percent. Market capitalization (the number of shares multiplied by the year-end price) was €25.8 billion, €8.7 billion higher than the year before.

Having hit its low for the year in January (closing price on January 12, 2005: €22.11), the price of Bayer stock advanced more or less steadily throughout 2005. In the early part of the year the improvement was mainly driven by the spin-off of LANXESS. The first quarter's results were very well received by the capital market, bolstering the upward trend, with further support coming from the release of positive data on the clinical trials for our cancer drug Nexavar®. The alliance with Johnson & Johnson for our Factor Xa inhibitor, along with very strong third-quarter figures, provided a further sharp boost to the share price toward the end of the year.

High demand for innovative hybrid bond

To finance its activities, Bayer issues bonds under rule 144a in the U.S. and under a European Medium Term Notes (EMTN) program. The larger bond issues of Bayer AG under the EMTN program are listed in major bond indices in light of their high issuance volume and liquidity.

Last year the Bayer Group once again offered bond investors attractive investment opportunities, including an innovative hybrid bond. This

* growth in share price plus reinvested dividend

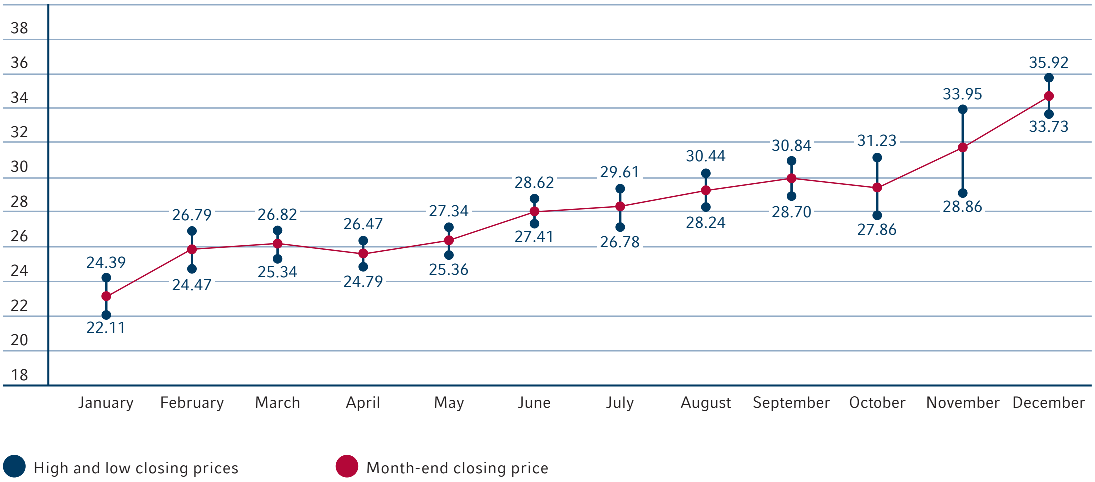
Bayer Stock Data		2004	2005
Dividend	€	0.55	0.95
Earnings per share	€	0.94	2.19
Gross cash flow per share	€	3.95	4.76
Equity per share	€	14.98	15.28
Year-end price*	€	23.45**	35.29
High for the year*	€	23.92**	35.92
Low for the year*	€	18.33**	22.11
Shares issued as of year end	million	730.34	730.34
Average daily share turnover on German stock exchanges	million	3.9	4.1
Market capitalization at year end	€ billion	17.1	25.8
Total dividend payment	€ million	402	694
Price/earnings ratio		24.9	16.1
Price/cash flow ratio		5.9	7.4
Dividend yield	%	2.3	2.7

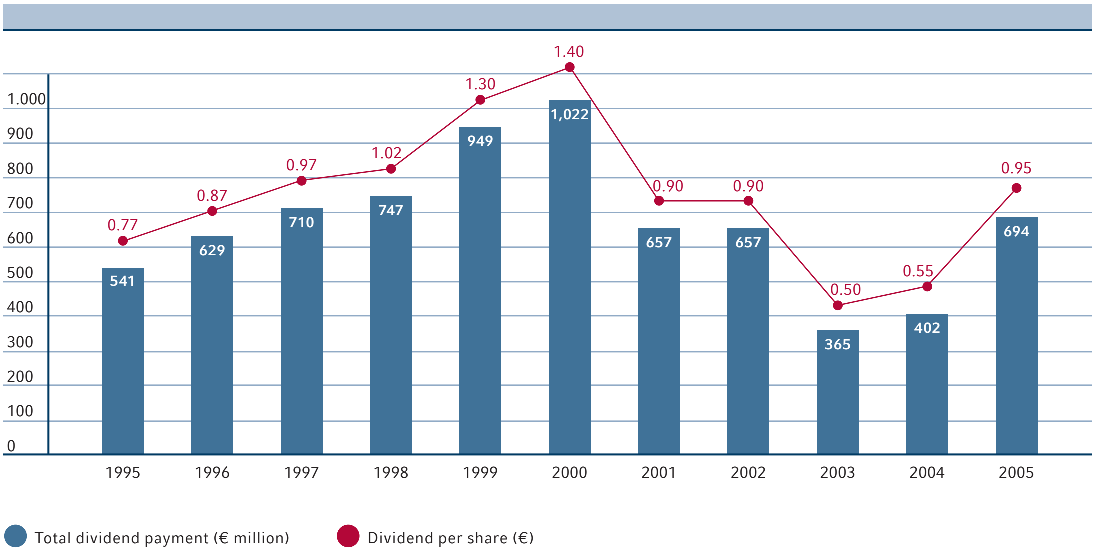
* XETRA closing prices; Source: Bloomberg
** 2004 prices adjusted for the spin-off of LANXESS

subordinated bond has a 100-year term, and Bayer has a quarterly call option at par after ten years. In addition the bond contains certain coupon deferral mechanisms. In return, investors were offered a high nominal interest rate of 5 percent p.a. This hybrid bond is treated as debt for accounting purposes but is regarded mainly as equity by the rating agencies and thus improves the Group's debt coverage ratios. Demand for the bond was so high that an issuance volume of €1.3 billion was placed at the lowest new issue spread achieved to date for any corporate hybrid bond.

Bayer Stock Highs and Lows in 2005 — 2005

Prices in €





For the successful structuring and placement of this hybrid bond, Bayer received awards for the best corporate bond issue of 2005 from both the International Financing Review (ifr) and the financial journal EuroWeek.

Bayer's high credit standing maintained

Both Standard & Poor's and Moody's confirmed the company's high creditworthiness on several occasions last year, upholding their previous ratings.

	Long-term rating	Short-term rating	Outlook	Since
Moody´s	A3	P-2	stable	June 2003
S&P	A	A-1	stable	July 2004

Dividend raised to €0.95

The Board of Management and the Supervisory Board will propose to the Annual Stockholders' Meeting that a dividend of €0.95 per share be paid for fiscal 2005 – up €0.40, or 73 percent, from the previous year. The dividend yield calculated on the year-end price of the stock is 2.7 percent.

This substantial increase in the dividend is intended to ensure that our stockholders benefit appropriately from our very pleasing results for 2005 and expresses our confidence in the future development of the enterprise.

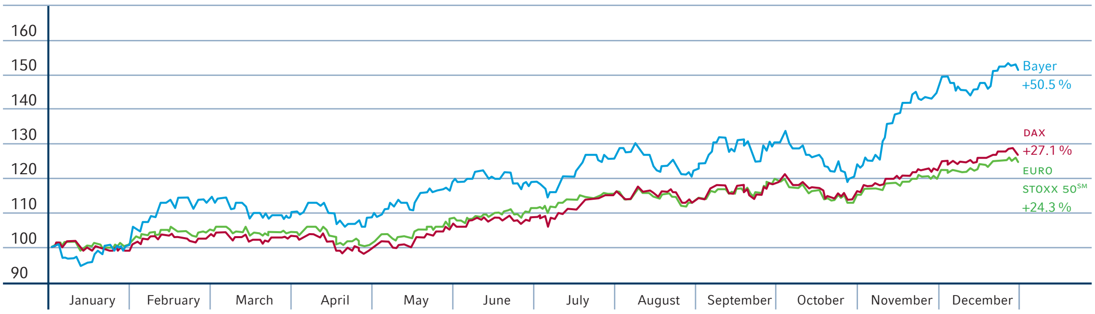
Dialogue with the capital market stepped up further

In 2005 our investor relations activities continued to focus on providing timely and reliable information to financial analysts, institutional investors, rating agencies and private investors.

We addressed analysts and institutional investors and responded to their questions at more than 40 roadshows and investor conferences in the financial centers of Europe, North America and Asia. Principal topics included the status of the development candidates in our pharmaceutical pipeline, Bayer's role in the bidding for the Boots OTC business, our assessment of the chemicals cycle and trends on the global agrochemicals market.

Prices of Bayer Stock **2005**

Index (100 = closing price on Dec. 30, 2004)



XETRA closing prices; Source: Bloomberg

Bayer DAX 30 EURO STOXX 50SM

We also organized two special conferences in 2005 to give analysts and investors even deeper insight into the Bayer Group's business activities.

The first of these was held at the European headquarters of Bayer CropScience in Lyon, France, in September, and provided detailed information on all aspects of that subgroup's business. Then in December, we invited investors to a research and development conference in London to explain the entire spectrum of research taking place in the Bayer Group. Both events were broadcast live on the Internet, and on-demand versions remain available on our website.

Moreover, we held a total of seven telephone conference calls, which were also streamed live over the Internet, to provide additional background to our quarterly results and key events at Bayer.

Buoyant demand for Bayer stock

Bayer shares are listed on all stock exchanges in Germany, on the New York Stock Exchange, and also in Spain, Japan, the U.K. and Switzerland. In the United States, Bayer stock is traded in the form of American Depositary Receipts (ADRs).

In early 2006 we delisted our stock in Italy, Luxembourg, the Netherlands, Belgium and France, largely because of low trading volumes in these markets.

The average daily trading volume in Bayer stock on the German stock exchanges was about 4.1 million shares (2004: 3.9 million). There were some 37.3 million ADRs outstanding at the end of December 2005, with each ADR representing one share.

WWW.INVESTOR.BAYER.COM

Highlights 2005/2006

"Triple-i" stands for inspiration, ideas and innovation. Bayer CEO Werner Wenning is pictured here in a photomontage with three "i" columns in the background.

Bayer launches global "Triple-i" initiative

LEVERKUSEN Why does wet grass clog the cutting mechanism of a lawn mower? Would it help if the blades and the inner housing were coated with a moisture-repellent material? Pioneering innovations are often sparked by simple ideas that benefit people and contribute to the quality of life. Developing such ideas is the aim of a new, Group-wide innovation initiative called "Inspiration, Ideas, Innovation" – or "Triple-i" for short.

All Bayer employees worldwide are invited to develop new business ideas. Some €50 million has already been earmarked for 2006 alone to implement innovation projects resulting from this initiative. "Triple-i" is intended to further strengthen Bayer's innovative culture and capability – without, of course, neglecting existing businesses or research activities.

"Anyone can think about whether there are important needs in the workplace, at home or elsewhere for which satisfactory solutions do not yet exist," says Werner Wenning, Chairman of the Management Board of Bayer AG, explaining the basis of the new initiative. Wenning points out that many successful Bayer inventions have been sparked by unique ideas or driven by the personal commitment of individuals.

The company wants all employees throughout the Group to participate in the initiative and submit their ideas. "We have thousands of well-trained, creative experts in many areas," says Wenning. "We want 'Triple-i' to arouse everyone's enthusiasm and create a new culture of innovation throughout the enterprise."

New production facility for fuel cell prototypes

GOSLAR At its site in Selb, Germany, Bayer MaterialScience subsidiary H.C. Starck has commissioned a pilot plant for the industrial production of solid oxide fuel cells (SOFCs), which generate heat as well as electricity. SOFC-based energy systems are capable of converting a variety of fuels, such as diesel, gasoline, hydrogen, methane or biogas, into electricity and heat by a process that is efficient, environmentally friendly and silent.

Further activities strengthen the pharmaceuticals business

LEVERKUSEN Bayer HealthCare has added two further activities to its pharmaceuticals business. The company has purchased the co-marketing rights for the blood pressure treatment telmisartan (tradenames: Pritor® and PritorPlus®) in numerous European countries from GlaxoSmithKline plc (GSK). The products had been co-marketed by GSK in these countries under an agreement with Boehringer Ingelheim, generating sales of approximately €65 million in 2005. Telmisartan is a long-acting anti-hypertensive treatment that provides powerful 24-hour blood pressure control.

In addition, Bayer HealthCare has entered into a collaboration agreement with Nuvelo Inc. for the development and commercialization of the blood clot dissolver alfimeprase, which is currently in clinical phase III development. The transactions significantly strengthen Bayer HealthCare's cardiology and hematology businesses, respectively.

New anticancer drug granted U.S. approval sooner than expected

LEVERKUSEN In December 2005 – sooner than expected – the U.S. Food and Drug Administration (FDA) granted marketing authorization for sorafenib (tradename: Nexavar®), which was developed jointly by Bayer HealthCare and U.S. company Onyx Pharmaceuticals, Inc. for the treatment of advanced renal cell carcinoma (see cover picture). The oral multi-kinase inhibitor is the first new treatment option for this type of kidney cancer in more than a decade. Bayer HealthCare has also filed for regulatory approval with the European Medicines Evaluation Agency (EMEA), where drugs can be granted marketing authorization for all countries in the European Union through a centralized procedure. If the review is favorable, Nexavar® could be on the market in the European Union, too, by late 2006. Filings have also been completed in Switzerland, Australia, Brazil, Canada, Mexico and other countries. The substance is currently in phase III clinical trials for advanced liver and skin cancer and, since February 2006, for non-small-cell lung cancer (NSCLC).

Rice harvests in Japan are threatened by diseases.

Innovative fungicide to protect rice harvest in Japan

MONHEIM Bayer CropScience and Japanese-based Sumitomo Chemical Co., Ltd. signed a co-development agreement in March 2005 for a new compound to combat rice blast. The fungicide BYF1047 was identified by scientists at Bayer CropScience. It is effective against the Pyricularia fungus, which causes rice blast, one of the world's most economically significant diseases in rice. Bayer CropScience and Sumitomo Chemical are jointly developing BYF1047 for use in Japan, where its launch is planned for 2010/2011.

In addition, Bayer CropScience received the first registrations for another fungicide in the United Kingdom and China: its highly effective fungicide fluopicolide is intended for the control of downy mildew diseases in vegetables, ornamentals and grapes, and late blight in potatoes. The innovative compound is based on a novel mode of action that enables long-lasting disease control.

Dr. Wolfgang Plischke appointed to Bayer AG Management Board

LEVERKUSEN The Supervisory Board of Bayer AG appointed Dr. Wolfgang Plischke, previously a member of the Bayer HealthCare Executive Committee and Head of the Pharmaceuticals Division, to the Board of Management of Bayer AG, effective March 1, 2006. Dr. Plischke is to succeed Dr. Udo Oels, who will end his active duty following the Annual Stockholders' Meeting on April 28, 2006. Plischke was born in Stuttgart, Germany, on September 15, 1951. He studied biology at Hohenheim University, obtaining his doctorate in plant physiology at the Institute for Genetics. Plischke began his career in 1980 with Bayer subsidiary Miles Diagnostics. In 1988 he became pharmaceuticals marketing manager for Germany, and in 1991 he was named head of international strategic marketing. Four years later he was appointed managing director of Bayer Yakuhin Ltd. in Japan.

In 2000 Plischke took charge of the Pharmaceuticals Business Group in North America and became a member of the Executive Committee of Bayer Corporation. In January 2002 he returned to Germany to become General Manager of the former Pharmaceuticals Business Group of Bayer AG. In July 2002, as Head of the Pharmaceuticals Division, he became a member of the Bayer HealthCare Executive Committee.

Highlights 2005/2006

The photo collage shows researcher Dr. Elisabeth Perzborn with an image of a thrombotic occlusion in the background.

Promising antithrombosis drug in the pipeline

LEVERKUSEN Bayer HealthCare and Ortho-McNeil Pharmaceutical, Inc., a subsidiary of Johnson & Johnson, announced in October 2005 that they have concluded an agreement to jointly develop and market BAY 59-7939, a promising active substance for the prevention and treatment of thrombosis. Under the terms of the agreement, Johnson & Johnson will share the global development costs of the new drug and will make payments totaling some US$ 290 million. Following the product's launch, Johnson & Johnson will pay royalties in the United States depending on the achievement of sales thresholds. Bayer HealthCare holds the option of marketing the product to U.S. hospitals and specialist physicians under a co-promotion agreement, and retains exclusive rights to the product outside the United States.

Phase III clinical trials with a once-daily 10 mg dose for the prevention of venous thromboembolism after major orthopedic surgery began in the fourth quarter of 2005. Bayer HealthCare currently plans to file for approval for this indication by the end of 2007. Parallel phase IIb dose-finding studies with twice- and once-daily dosing for venous thromboembolism treatment and stroke prevention in atrial fibrillation are currently ongoing. Submission of a marketing application for these indications is anticipated for 2009.

Pioneering formulation technology for cereal herbicides

MONHEIM In 2005 Bayer CropScience launched ODesi®, a new class of herbicide formulations, in Poland and Ukraine, the first countries in which these products have been introduced. ODesi® combines the advantages of solid and liquid formulations and improves spreading and uptake on the plant leaves. This technology is expected to become an important value driver for Bayer's cereal herbicide business in the coming years.

New manufacturing process for carbon nanotubes

LEVERKUSEN Researchers at Bayer Technology Services and Bayer MaterialScience have succeeded in manufacturing high-quality carbon nanotubes at considerably lower cost than before. By adding the new multi-walled Baytubes®, which have a mean diameter of only 20 nanometers, plastics can be made so electrically conductive that they can be painted without any further pretreatment using waterborne or powder coatings. The microscopic carbon tubes can also be used in the manufacture of antistatic packaging materials for electronic components or to shield computer or cellphone housings against electromagnetic interference. Bayer Technology Services is the Bayer Group's competence center for process technology.

Bayer and UNEP organize projects for young people

SAN FRANCISCO/LEVERKUSEN More than 10,000 children from 60 countries took part in the 14th International Children's Painting Competition on the Environment, organized jointly by the United Nations Environment Programme (UNEP) and Bayer. The winners were honored in June 2005 during World Environment Day celebrations in San Francisco. The pictures vividly reflect the hopes and fears of children regarding the environment. Together with UNEP, Bayer has implemented a dozen youth environmental projects worldwide since 2004. One of these projects is the Young Environmental Envoy Program, under which 45 young people from 14 countries spent a week in Germany in November 2005 learning about environmental protection at Bayer.

Bayer acquires Icon Genetics AG

LEVERKUSEN Bayer Innovation GmbH (BIG), a subsidiary of the Bayer Group engaged in developing new fields of business, acquired Icon Genetics AG, a biotech company headquartered in Munich, Germany, at the beginning of 2006. Icon Genetics discovers innovative methods for developing and using engineered plants. The acquisition will strengthen Bayer's activities aimed at producing specific pharmaceutical substances in plants (plant-made pharmaceuticals, or PMPs). This technology uses the plants' natural protein generation process to produce therapeutically effective substances.

Icon Genetics conducts research into engineered plants.

25 billion tablets produced in Bitterfeld

BITTERFELD A milestone has been reached in Bitterfeld, Germany: since production started in 1995, Bayer has turned out 25 billion tablets of the pain reliever Aspirin® and the antacids Talcid® and Alka-Seltzer® at its site there. All packs of these tablets found in stores in Europe, and some of those sold in America and Asia too, come from Bitterfeld in the state of Saxony-Anhalt. Bayer has invested €630 million and created more than 700 jobs here since 1992 as part of the measures to rebuild the economy of eastern Germany.

A production facility for polycarbonate blends was inaugurated at the Caojing site.

New production facility for polycarbonate blends in China

SHANGHAI At the end of June 2005, Bayer started up a new compounding plant for polycarbonate blends in Caojing, China. This marks the completion of the first project under the company's investment program at the site, located near Shanghai. The compounding plant, with an annual capacity of 40,000 tons, complements a polycarbonate production facility of Bayer MaterialScience that is scheduled for completion in the first half of 2006 and is planned to have an annual capacity of 200,000 tons by 2008. This facility will manufacture Bayer's high-tech Makrolon® plastic, which has applications ranging from CDs and DVDs through car headlamp diffusers to transparent roofing. Bayer already has a significant, and growing, share of the Chinese polycarbonate market. Also in Caojing, the company is currently building the world's largest production plant for the polyurethane raw material MDI. Due on stream in 2008, the plant will have a capacity of some 350,000 tons a year. Bayer plans to invest a total of about US$ 1.8 billion in China through 2009.

Research to protect drinking water

LEVERKUSEN National Geographic Germany and Bayer have joined forces to promote innovative research into the global protection of drinking water. Through the "National Geographic Exploration Fund," the partners have committed a total of €250,000 to scientific projects researching the exploitation, distribution and responsible use of freshwater. Satisfying the growing demand for water is currently one of the major global challenges.

Top Honors for Bayer

Aspirin® Effect was honored as a groundbreaking product innovation with the Columbus' Egg award.

Bayer Corp. CEO Dr. A. Molnar (right) accepts the Ron Brown Award from U.S. Secretary of Commerce C. M. Gutierrez.

Bayer's image campaign took a top prize in the Corporate Media 2005 competition.

Bayer enjoys an excellent reputation worldwide and is internationally renowned for its expertise – as was confirmed again by numerous prizes presented to the company in 2005 and in early 2006. "These honors underscore our outstanding expertise and innovation potential in the core areas of our business," says Bayer Management Board Chairman Werner Wenning. "We are particularly pleased whenever the knowledge and work of our employees are recognized in this way by independent external experts in Germany and around the world." Some of the most important accolades are described below.

Bayer received several prizes for its best-known medicine Aspirin®. The Innovation Foundation, which recognizes groundbreaking product innovations, honored Aspirin® Effect as an exemplary, particularly innovative product, presenting Bayer with the **Columbus' Egg** award. Furthermore, for the fifth time in a row, Bayer HealthCare's Aspirin® brand received the **Pegasus Award** in acknowledgement of the high level of consumer trust it enjoys. In what is probably Europe's biggest consumer study to date, Reader's Digest determined the most trustworthy brands in 14 European countries. In the pain-reliever category, Aspirin® is the clear number one in Germany with 44 percent of all votes. Bayer also received an important accolade at the beginning of 2006 for its Aspirin® production: the company's tablet plant in Bitterfeld, Germany, was declared a "Selected Place 2006" by **Germany – Land of Ideas,** a joint campaign mounted by the German government and the business community. The aim is to highlight Germany's role as a center of innovation as the country hosts the soccer World Cup.

Innovation is also the focus of the **Hermes Award,** which recognizes particularly novel products. Bayer Technology Services received a prize at the Hanover Trade Fair for its multipoint thermometer. The "SpectroBay MultiTemp®" uses fiberoptics to simultaneously measure both substance concentrations and temperature profiles in industrial plants.

The company also garnered high praise for its excellent communication of the corporate reorganization. Bayer AG received the **German PR Prize 2005** in the category "Communications Management." This award, the highest such accolade bestowed in the German-speaking countries, is presented by the German Public Relations Society (DPRG) and the F.A.Z. Institute for "outstandingly implemented PR planning, strategy-based communication processes and exemplary public relations." In addition, Bayer and LANXESS received the **Gold Award** from PR-Report magazine for the best PR campaign of the year in recognition of the public relations activities for the LANXESS spin-off. Bayer also received two other first-place awards in the categories "Internal Communication and Change Management" and "Financial Communication and M&A Communication."

Bayer's corporate image film entitled "Bayer: Science For A Better Life" received the **CINE Special Jury Award** in the category "Professional Non-Telecast Division/Business – Sales & Promotion" at the 46th Annual CINE Golden Eagle Film and Video Awards Gala.

The company's image campaign was also honored in the **Corporate Media 2005** competition held by the Medienreport Verlag publishing house. The concept for "Bayer: Science For A Better Life" received the "Master of Excellence" award – the top prize in its category. The campaign's television commercial and the online version of the Annual Report each received the "Award of Master."

Bayer was honored for its achievements in the field of climate protection. The photo shows the power plant at Dormagen.

Award for hybrid bond issue (from left): P. Müller, J. Dietsch (Head of Corporate Finance) and H. Wuppermann.

Prize for training activities (from left): U. Menzen, German Vice Chancellor F. Müntefering and J. Peters (Head of HR).

Bayer's efforts in the areas of sustainable development and environmental protection have received numerous accolades: at the Climate Summit in Montreal, Bayer received the **Low Carbon Leaders Award** for its achievements over the past ten years in the field of climate protection. The company was rated "Best in Class" by an international jury of experts made up of representatives from politics, non-governmental organizations and industry, and appointed by The Climate Group, a climate protection organization. Bayer was the only German company to receive this rating, which is given to the five top-ranked companies. In the global climate protection ranking, Bayer was rated third among the 500 largest companies.

Bayer has also been included in the **Climate Leadership Index,** the first global stock index for climate protection, in recognition of its efforts to reduce greenhouse gas emissions. In addition, Bayer stock is consistently listed in other sustainability indices, including the Dow Jones Sustainability World Index (DJSI World) and the European Dow Jones STOXX Sustainability Index (DJSI STOXX).

Bayer was presented with the **Ron Brown Award,** a U.S. presidential honor bestowed for social commitment. The company received this accolade for its "Making Science Make Sense" program, an employee initiative launched more than ten years ago to advance scientific literacy among school students.

Two renowned financial publications honored Bayer AG for its hybrid bond issue in 2005, which received high praise from experts: the magazine *International Financing Review* presented the company with the **ifr Award 2005** in the category "Euro Investment-Grade Corporate Bond". The British financial magazine *EuroWeek* honored Bayer with the illustrious **Corporate Bond of the Year** designation.

Bayer's investor relations activities received a number of awards. The annual **BIRD Ranking** for the best investor relations in Germany, performed by German business publication Börse Online, placed Bayer second in the "Blue Chips" category. The company was also among the top three in the category "Most Improved Investor Relations" at the **Continental Europe Awards 2005** sponsored by *IR Magazine*. At the annual **IR Best Practice Awards** presented by Britain's Investor Relations Society, Bayer received the European Website Award 2005. As in the previous year, Bayer ranked ahead of all the other DAX, MDAX and SDAX companies with its investor relations website in the **IR Benchmark Analysis** conducted by German IT communications consulting firm NetFederation Interactive Media. For the third consecutive year, the website achieved the highest overall position among 145 contenders in the **IR Global Rankings** compiled by MZ Consult, a U.S.-Brazilian financial communications company. In the IR Global Rankings 2006, Bayer took first place ahead of other German companies in the categories "Corporate Governance" and "Disclosure Procedure".

Our companies in Argentina, Australia, New Zealand and Belgium were listed among the **top employers** in those countries by respected financial magazines and human resources consultants. In the United States, Bayer in 2005 was named one of the best employers for working mothers for the third time. And in Germany, Vice Chancellor Franz Müntefering awarded Bayer the **Shaping Employment – Companies Demonstrate Responsibility** award in the category "Prospects for Young People" in recognition of Bayer's exceptional commitment to vocational training. The jury singled out Bayer for the award because of the special training program operated by the Training and Development Division of Bayer Industry Services for young people who lack basic educational qualifications.

Bayer Group Consolidated Statements of Income

€ million	2004[1]	2005
Net sales	**23,278**	**27,383**
Cost of goods sold	(12,421)	(15,027)
Gross profit	**10,857**	**12,356**
Selling expenses	(5,240)	(5,713)
Research and development expenses	(1,927)	(1,886)
General administration expenses	(1,421)	(1,444)
Other operating income	740	794
Other operating expenses	(1,134)	(1,295)
Operating result [EBIT]	**1,875**	**2,812**
Equity-method loss	(139)	(10)
Non-operating income	483	634
Non-operating expenses	(997)	(1,237)
Non-operating result	**(653)**	**(613)**
Income before income taxes	**1,222**	**2,199**
Income taxes	**(473)**	**(641)**
Income from continuing operations after taxes	**749**	**1,558**
Income (loss) from discontinued operations after taxes	**(67)**	**37**
Income after taxes	**682**	**1,595**
of which attributable to minority interest	*(3)*	*(2)*
of which attributable to Bayer AG stockholders (net income)	*685*	*1,597*
Earnings per share (€)	0.94	2.19
From continuing operations	1.03	2.14
Basic	1.03	2.14
Diluted	1.03	2.14
From continuing and discontinued operations	0.94	2.19
Basic	0.94	2.19
Diluted	0.94	2.19

[1] 2004 figures restated

Bayer Group Consolidated Balance Sheets

€ million	Dec. 31, 2004[1]	Dec. 31, 2005
Noncurrent assets		
Goodwill and other intangible assets	5,952	7,688
Property, plant and equipment	7,662	8,321
Investments in associates	744	795
Other financial assets	1,169	1,429
Other receivables	113	199
Deferred taxes	1,219	1,698
	16,859	**20,130**
Current assets		
Inventories	4,738	5,504
Trade accounts receivable	4,475	5,204
Other financial assets	794	214
Other receivables	1,543	1,421
Claims for tax refunds	823	726
Liquid assets		
Marketable securities and other instruments	**29**	**233**
Cash and cash equivalents	**3,570**	**3,290**
	15,972	**16,592**
Assets held for sale and discontinued operations	4,757	–
Total current assets	**20,729**	**16,592**
Assets	**37,588**	**36,722**
Equity attributable to Bayer AG stockholders		
Capital stock of Bayer AG	1,870	1,870
Capital reserves of Bayer AG	2,942	2,942
Other reserves	6,399	6,265
Accumulated other comprehensive income (loss) from discontinued operations	(379)	–
	10,832	**11,077**
Equity attributable to minority interest	111	80
Stockholders' equity	**10,943**	**11,157**
Noncurrent liabilities		
Provisions for pensions and other post-employment benefits	6,219	7,174
Other provisions	1,204	1,340
Financial liabilities	7,025	7,185
Miscellaneous liabilities	203	516
Deferred taxes	644	280
	15,295	**16,495**
Current liabilities		
Other provisions	2,707	3,009
Financial liabilities	2,166	1,767
Trade accounts payable	1,759	1,974
Tax liabilities	413	304
Miscellaneous liabilities	1,918	2,016
	8,963	**9,070**
Liabilities directly related to assets held for sale and discontinued operations	2,387	–
Total current liabilities	**11,350**	**9,070**
Liabilities	**26,645**	**25,565**
Stockholders' equity and liabilities	**37,588**	**36,722**

[1] 2004 figures restated

Bayer Group Consolidated Statements of Cash Flows

	2004[1]	2005
€ million		
Operating result [EBIT]	1,875	2,812
Income taxes	(490)	(541)
Depreciation and amortization	1,959	1,835
Change in pension provisions	(424)	(586)
(Gains) losses on retirements of noncurrent assets	(35)	(43)
Gross cash flow[2]	**2,885**	**3,477**
Decrease (increase) in inventories	(425)	(181)
Decrease (increase) in trade accounts receivable	(404)	156
Decrease (increase) in trade accounts payable	(5)	(115)
Changes in other working capital, other non-cash items	211	205
Net cash provided by (used in) operating activities (net cash flow, continuing operations)	**2,262**	**3,542**
Net cash provided by (used in) operating activities (net cash flow, discontinued operations)	188	(40)
Net cash provided by (used in) operating activities (net cash flow, total)	**2,450**	**3,502**
Cash outflows for additions to property, plant, equipment and intangible assets	(1,251)	(1,389)
Cash inflows from sales of property, plant, equipment and other assets	200	398
Cash inflows from sales of investments	90	1,189
Cash outflows for acquisitions less acquired cash	(358)	(2,188)
Interest and dividends received	400	451
Cash inflows from (outflows for) marketable securities	105	(202)
Net cash provided by (used in) investing activities (total)	**(814)**	**(1,741)**
Capital contributions	10	0
Bayer AG dividend and dividend payments to minority stockholders	(559)	(440)
Issuances of debt	1,393	2,005
Retirements of debt	(881)	(2,659)
Interest paid	(724)	(787)
Net cash provided by (used in) financing activities (total)	**(761)**	**(1,881)**
Change in cash and cash equivalents due to business activities (total)	**875**	**(120)**
Cash and cash equivalents at beginning of year	**2,734**	**3,570**
Change in cash and cash equivalents due to changes in scope of consolidation	6	(196)
Change in cash and cash equivalents due to exchange rate movements	(45)	36
Cash and cash equivalents at end of year	**3,570**	**3,290**
Marketable securities and other instruments	29	233
Liquid assets as per balance sheets	**3,599**	**3,523**

[1] 2004 figures restated
[2] For definition see Bayer Group Key Data on page 37

Bayer Group Consolidated Statements of Recognized Income and Expense

€ million	2004	2005
Changes in fair values of hedging instruments, recognized in stockholders' equity	64	(15)
Gains (losses) on hedging instruments, recognized in the income statement	*4*	*3*
Changes in fair values of available-for-sale securities, recognized in stockholders' equity	12	9
Gains (losses) on available-for-sale securities, recognized in the income statement	*(6)*	–
Revaluation surplus (IFRS 3)	66	–
Actuarial gains (losses) on defined benefit obligations for pensions and other post-employment benefits	(740)	(1,207)
Exchange differences on translation of operations outside the euro zone	(304)	857
Deferred taxes on valuation adjustments, recognized directly in stockholders' equity	251	470
Deferred taxes on valuation adjustments, removed from stockholders' equity and recognized in the income statement	*(2)*	–
Valuation adjustments recognized directly in stockholders' equity	(655)	117
Income after taxes	682	1,595
Total income and expense recognized in the financial statements	27	1,712
of which attributable to minority interest	*(3)*	*6*
of which attributable to Bayer AG stockholders	*30*	*1,706*

Supervisory Board and Board of Management

Supervisory Board

Hermann Josef Strenger
Honorary Chairman, Leverkusen

Dr. Manfred Schneider
Chairman of the Supervisory Board

Erhard Gipperich
(until January 31, 2006)
Vice Chairman of the Supervisory Board

Dr. Paul Achleitner

Dr. Josef Ackermann

Andreas Becker
(effective April 29, 2005)

Karl-Josef Ellrich

Dr. Thomas Fischer
(effective October 1, 2005)

Thomas Hellmuth

**Prof. Dr.-Ing. e. h.
Hans-Olaf Henkel**

Gregor Jüsten
(effective February 1, 2006)

**Dr. rer. pol. Dipl.-Kfm.
Klaus Kleinfeld**
(effective April 29, 2005)

Dr. h. c. Martin Kohlhaussen

John Christian Kornblum

Petra Kronen

Dr. Heinrich von Pierer
(until April 29, 2005)

Wolfgang Schenk
(until September 30, 2005)

Hubertus Schmoldt

Dieter Schulte

Dr.-Ing. Ekkehard D. Schulz
(effective April 29, 2005)

**Dipl.-Ing. Dr.-Ing. e. h.
Jürgen Weber**

Siegfried Wendlandt

Reinhard Wendt
(until April 29, 2005)

Thomas de Win

**Prof. Dr. Dr. h. c.
Ernst-Ludwig Winnacker**

Dr. Hermann Wunderlich
(until April 29, 2005)

Board of Management

Werner Wenning
Chairman of the Board of Management

Klaus Kühn

Dr. Wolfgang Plischke
(effective March 1, 2006)

Dr. Udo Oels

Dr. Richard Pott

Organization Chart

as at March 1, 2006

Bayer AG (holding company)

Group Management Board

Werner Wenning	Chairman
Richard Pott*	Strategy & Human Resources
Klaus Kühn	Finance
Udo Oels **Wolfgang Plischke****	Innovation, Technology & Environment

Corporate Center

Corporate Office	**J. Krell**
Communications	**H. Springer**
Investor Relations	**A. Rosar**
Corporate Auditing	**R. Meyer**
Corporate Human Resources & Organization	**J. Peters**
Finance	**J. Dietsch**
Corporate Development	**M. Mangold**
Law & Patents, Insurance	**R. Hartwig**
Governmental & Product Affairs	**W. Grosse Entrup**
Group Accounting & Controlling	**U. Hauck**
Regional Coordination	**F.-J. Berners**

Business Areas

Bayer HealthCare

A. J. Higgins
Chairman
P. Nicklin
Animal Health
G. Balkema
Consumer Care
T. Bihl
Diagnostics
S. E. Peterson
Diabetes Care
G. Riemann
Pharmaceuticals
W. Baumann*
Central Administration & Organization/Business Development & Licensing
H. Klusik
Product Supply

Bayer CropScience

F. Berschauer
Chairman
D. Suwelack
Business Planning & Administration
R. Scheitza*
Portfolio and Supply Chain Management
B. Garthoff
R&D; Cooperations/Licensing; QHSE
W. Welter
Industrial Operations
J. du Puy
Region Europe & TAMECIS
E. Zirakparvar
Region Americas
B. Naaf
Region Asia Pacific
P. Housset
Environmental Science
L. van der Broek
BioScience

Bayer MaterialScience

H. Noerenberg
Chairman
T. Van Osselaer
Production & Technology
I. Paterson
Marketing & Innovation
G. Plumpe*
Administration

Service Areas

Bayer Business Services

A. Resch
Chairman
H. Läpple*
IT Community, Human Resources

Bayer Technology Services

A. Noack
Managing Director

Bayer Industry Services

J. Hinz
Chairman
H. Bahnmüller*
B. Blankemeyer-Menge

* Labor Director
** Wolfgang Plischke is the successor to Udo Oels, who will end his active duty after the Annual Stockholders' Meeting on April 28, 2006. Wolfgang Plischke will assume Udo Oels' current duties on that date.

2005 Annual Report
Monday, March 6, 2006

Q1 2006 Interim Report
Thursday, April 27, 2006

Annual Stockholders' Meeting 2006
Friday, April 28, 2006

Payment of Dividend
Tuesday, May 2, 2006

Q2 2006 Interim Report
Tuesday, August 1, 2006

Q3 2006 Interim Report
Tuesday, October 31, 2006

Annual Stockholders' Meeting 2007
Friday, April 27, 2007

Payment of Dividend
Monday, April 30, 2007

MASTHEAD

The complete financial statements of the Bayer Group have been examined by the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, who have issued an unqualified opinion. The complete Annual Report, which includes the financial statements of the Bayer Group, is published in English and German. The financial statements of Bayer AG are published separately in both languages. These publications and lists of Bayer's direct and indirect holdings may be obtained on request from Bayer AG, Communications, 51368 Leverkusen, Germany.

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Forward-Looking Statements
This publication contains forward-looking statements. These statements use words like "believes", "assumes", "expects" or similar formulations. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of our company and those either expressed or implied by these statements. These factors include, among other things:

- downturns in the business cycle of the industries in which we compete;
- new regulations, or changes to existing regulations, that increase our operating costs or otherwise reduce our profitability;
- increases in the price of our raw materials, especially if we are unable to pass these costs along to customers;
- loss or reduction of patent protection for our products;
- liabilities, especially those incurred as a result of environmental laws or product liability litigation;
- fluctuation in international currency exchange rates as well as changes in the general economic climate; and
- other factors identified in this publication.

These factors include those discussed in our public reports filed with the Frankfurt Stock Exchange and with the U.S. Securities and Exchange Commission (including our Form 20-F). In view of these uncertainties, we caution readers not to place undue reliance on these forward-looking statements. We assume no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

Bayer Group	2004	2005	Change
€ million			%
Net sales	23,278	27,383	+ 17.6
EBITDA[1]	3,834	4,647	+ 21.2
Operating result [EBIT]	1,875	2,812	+ 50.0
Income before income taxes	1,222	2,199	+ 80.0
Net income	685	1,597	+ 133.1
Earnings per share[2]	0.94	2.19	+ 133.1
Gross cash flow[3]	2,885	3,477	+ 20.5
Net cash flow[4]	2,262	3,542	+ 56.6
Stockholders' equity (total, i.e. including discontinued operations)	10,943	11,157	+ 2.0
Total assets (total, i.e. including discontinued operations)	37,588	36,722	– 2.3
Debt/equity ratio (total, i.e. including discontinued operations	2.43	2.29	– 5.9
Capital expenditures	977	1,388	+ 42.1
Employees at year end	91,700	93,700	+ 2.2
Personnel expenses	6,026	5,912	– 1.9
Research and development expenses	1,927	1,886	– 2.1

Bayer AG	2004	2005	Change
			%
Total dividend payment in € million	402	694	+ 72.6
Dividend per share in €	0.55	0.95	+ 72.6

1 EBITDA = operating result (EBIT) plus depreciation and amortization
2 Earnings per share = as defined in IAS 33: net income divided by the average number of shares outstanding (730.34 million shares)
3 Gross cash flow = operating result (EBIT) plus depreciation and amortization, minus income taxes, minus gains/plus losses on retirements of noncurrent assets, plus/minus changes in pension provisions. The latter item includes the elimination of non-cash components of the operating result. It also contains benefit payments during the year.
4 Net cash flow = cash flow from operating activities according to IAS 7