Bayer AG
Financial Statements 2005

Management Report

Corporate structure

Bayer AG is the parent corporation of the Bayer Group and functions as a management holding company. The roles of the Bayer AG Board of Management (the Group Management Board) include deciding on the strategy of the Bayer Group, defining its business portfolio, conducting executive management and allocating resources. It is also responsible for financial management of the Bayer Group. It is supported in these tasks by the Corporate Center departments. Bayer AG also owns the real estate at the five German sites in Leverkusen, Dormagen, Krefeld-Uerdingen, Wuppertal-Elberfeld and Brunsbüttel. Facilities at these sites are leased to individual Group companies via Bayer Industry Services GmbH & Co. OHG.

The three subgroups – Bayer HealthCare, Bayer CropScience and Bayer MaterialScience – operate as independent entities within the Bayer Group. They have global responsibility for their business activities within the framework of the strategies, goals and directives defined by the Group Management Board. The Board of Management of each subgroup management company is responsible for the operational management of the respective subgroup. The subgroups are supported in their business operations by three service companies – Bayer Industry Services, Bayer Business Services and Bayer Technology Services – which offer their services primarily to companies in the Bayer Group, but also to external customers. The management companies of the subgroups and service companies were hived down from Bayer AG in 2002 and 2003.

The spin-off of LANXESS AG from Bayer AG was entered in the commercial register on January 28, 2005 and took legal effect retroactively as of July 1, 2004. The effects of the spin-off were reflected in the Bayer AG Financial Statements as of December 31, 2004.

Sales and earnings performance

Net sales declined in 2005 by €36 million to €197 million (2004: €233 million). €123 million (62 percent) of this relates to revenues from the leasing of real estate at the German sites to the parent companies of the subgroups and to the service companies. The remaining revenues of €74 million resulted from the rendering of other services, almost exclusively for Bayer Group companies. With minor exceptions, the sales revenues were generated in Germany.

The cost of goods sold totaled €134 million (2004: €184 million), including depreciation of €27 million on the leased real estate. After deducting these costs, gross profit amounted to €63 million (2004: €49 million), which was 32 percent (2004: 21 percent) of net sales and exceeded the prior-year figure by €14 million.

The operating result also increased, from minus €216 million in 2004 to minus €42 million in 2005, mainly due to a gain of €201 million from the sale of real estate used by LANXESS at Bayer's German sites to LANXESS Deutschland GmbH. After allocating €66 million to the special item with an equity component, €135 million of this gain was reflected in earnings. The increase in earnings was also due to €69 million lower costs related to the spin-off and stock-market listing of LANXESS than in the previous year.

The non-operating result – which is comprised of income and losses from investments in affiliated companies, interest income and expense and other non-operating income and expenses – increased by €211 million to €719 million (2004: €508 million).

The principal factor in this improvement was an increase of €396 million in income from investments from affiliated companies. Dividend payments and profit transfers from affiliates contributed €851 million to earnings in 2005 compared with €406 million in 2004. The dividend payments, mainly from Group companies outside Germany, and anticipated income from partnerships amounted to €223 million on aggregate, up €185 million from €38 million in the previous year. In addition, the income received from Group companies in Germany under profit transfer agreements was €260 million higher than in 2004. This primarily reflects the operating business of the three subgroup management companies: Bayer CropScience AG lifted earnings by €195 million, Bayer MaterialScience reported an increase of €123 million and Bayer HealthCare raised earnings by €49 million. Bayer Gesellschaft für Beteiligungen mbH, our holding company for foreign affiliates, reported a decline of €82 million in earnings. Write-downs of investments in affiliated companies came to €14 million in 2005 and thus showed little change from the previous year (2004: €10 million). A net loss of €6 million was recorded on the sale of investments in affiliated companies, compared with a net gain of €39 million in 2004.

Interest expense was virtually unchanged at €199 million (2004: €203 million), with the increase in interest income and expense almost balanced at €129 million and €125 million respectively. Interest swaps accounted for €78 million of the rise in interest income and €32 million consisted of interest on tax refunds receivable. On the expense side, interest payments on interest swaps accounted for €57 million of the increase, and interest on taxes payable relating to prior years for €21 million. Expense of €43 million was incurred for the repurchase of part of the €3 billion bond issued in 2002.

As in the previous year, the positive balance of other non-operating income and expenses, amounting to €87 million (2004: €276 million) was boosted by exchange gains, which came to €90 million (2004: €285 million). Foreign currency receivables and liabilities, forward exchange contracts and other currency derivatives were recognized using the limited mark-to-market method for the first time in 2005. This means that unrealized gains and losses on underlyings and hedges are netted in each currency and any resulting net unrealized losses are reflected in a provision. Until 2004 only direct hedges (micro-hedges) were netted. The change in the method of measurement impacted earnings by €23 million. Alongside exchange gains, the main item of other non-operating income comprised a €29 million gain from the repurchase by LANXESS AG of the mandatory convertible bond issued to Bayer in 2004. Other non-operating expenses included the annual interest on pension provisions. After amounts passed on to the subgroups and service companies hived down from Bayer AG in 2002 and 2003, these expenses came to €31 million (2004: €8 million).

Bayer AG recorded an increase of €385 million in pre-tax income to €677 million in 2005 (2004: €292 million). After deducting income taxes of €64 million (2004: €18 million), net income of €613 million remained (2004: €274 million). Together with a transfer of €81 million from retained earnings, the balance sheet profit amounted to €694 million (2004: €402 million).

Proposal for distribution of the profit

The Board of Management and Supervisory Board will propose to the Annual Stockholders' Meeting on April 28, 2006 that the balance sheet profit of €694 million be used to pay a dividend of €0.95 (2004: €0.55) per share (730,341,920 shares) on the capital stock of €1,870 million entitled to the dividend for 2005.

Asset and capital structure

Total assets of Bayer AG increased in 2005 by €1.4 billion, or 5.5 percent, to €26.9 billion (2004: €25.5 billion).

Noncurrent assets accounted for €0.6 billion of the increase, this amount being almost entirely attributable to affiliated companies. In particular, investments in affiliated companies grew as a result of capital increases of €319 million at Bayer (China) Ltd., €175 million at Bayer B.V., Netherlands, and €170 million at Bayer Hispania, S.L. Reflecting Bayer AG's function as a holding company, investments totaling €15.5 billion (2004: €14.9 billion) accounted for 58 percent of total assets, as in the previous year. There was only a slight change in other investments during the year. An addition of €52 million, chiefly in connection with the €50 million in profit-participating capital granted to Bayer-Pensionskasse VvAG, was offset by a retirement of €38 million. This chiefly comprised the repayment of a €30 million vendor note by Soros Private Equity Investors, USA. This vendor note was granted in 2003 in connection with the sale of the PolymerLatex Group. Intangible assets, property, plant and equipment decreased by €73 million, mainly as a result of the retirement of the €55 million net carrying amount of certain real estate at Bayer's German sites upon its sale to LANXESS Deutschland GmbH.

Current assets rose by €0.8 billion during the year to €8.7 billion (2004: €7.9 billion), accounting for about one-third of total assets. Liquid assets, comprising €226 million in a segregated fund and cash and cash equivalents of €2,481 million, increased to €2,707 million (2004: €1,261 million). Also included here is an amount of €253 million set aside in connection with civil claims for damages in the United States and Canada alleging antitrust violations in the fields of rubber, polyester polyols and urethanes. Bayer has placed this amount in an escrow account administered in the U.S. pending acceptance or judicial confirmation of settlements. Other receivables totaled €854 million (2004: €730 million). The increase of €124 million compared with the previous year comprises €84 million in accrued interest, €60 million in tax assets and €59 million in capitalized option premiums. A further €40 million relates to an amount prepaid by Bayer AG in connection with the above antitrust proceedings but not yet derecognized which is to be borne by LANXESS under the spin-off agreements. At the same time, short-term loans declined by €72 million. Receivables from subsidiaries declined year-on-year to €748 million. €623 million of this decline relates to receivables from companies in the LANXESS Group which have now been paid; this amount also includes the repurchase by LANXESS AG of the €200 million mandatory convertible bond issued in 2004. Overall, receivables from subsidiaries amounted to €5,119 million on December 31, 2005 (2004: €5,867 million). Together with intragroup liabilities of €9,547 million (2004: €8,951 million), they reflect Bayer AG's special function as financing company for the Bayer Group.

Of the total assets of €26.9 billion (2004: €25.5 billion) reported in the balance sheet, €19.1 billion (2004: €18.0 billion), or 71 percent (2004: 70 percent), was debt-financed. Of the latter amount, provisions accounted for €3.2 billion (2004: €2.9 billion) and other liabilities for €15.9 billion (2004: €15.0 billion).

The €258 million, or 9 percent, increase in provisions mainly related to the obligations of €286 million incurred as a result of the civil lawsuits in the United States concerning violations of antitrust law in the areas of rubber, polyester polyols and urethanes. Provisions of €45 million were recorded in 2005 in connection with antitrust proceedings instituted by the E.U. Commission. Bayer AG is liable to the third parties for both of these amounts. €40 million is to be borne by LANXESS under the agreements concluded in connection with last year's spin-off. The remainder has been allocated to other Group companies, so Bayer AG itself has no expenses for this item. Further provisions of €57 million were set up for expected loss transfers from affiliated companies. By contrast, the provision for impending losses from interest and currency derivatives is €60 million less than in the previous year. This is mainly due to increased recognition of hedging relationships on the balance sheet. Provisions for pensions and other post-employment benefits fell by €33 million due to lower obligations to retirees and former employees with vested pension rights following the hive-downs of the subgroups and service companies. Provisions for income taxes shrank by €31 million as a result of utilization.

Other liabilities rose by €0.9 billion, of which €0.6 billion resulted from an increase in the allocation of funds to subsidiaries. After offsetting intragroup receivables, net debt increased by €1.3 billion. External financial liabilities increased by €0.1 billion. The greater part of the proceeds from the €1.3 billion hybrid bond issued in July 2005, namely €863 million, were used to partially redeem the 5-year Eurobond issued in 2002. A further €314 million was used to repay liabilities under a commercial paper program.

Stockholders' equity was €0.2 billion higher than at the end of the previous year. An increase of €613 million out of 2005 net income was partly offset by a decrease of €402 for the dividend payment for 2004. Due to the increase in total assets, equity coverage of total assets declined by 0.7 percentage points to 28.8 percent (2004: 29.5 percent).

Employees

Bayer AG had 560 employees on December 31, 2005, 12 more than at year-end 2004 (548). Personnel expenses came to €106 million (2004: €88 million).

Risk report

Risk management

Risk management is an integral part of all decisions and business processes in the Bayer Group. The management structure, the planning system, and the detailed reporting and information systems, in particular, form the basis for the organizational integration of risk management into business processes.

As the parent of a global group of companies, Bayer AG is exposed to a wide variety of risks in the course of its worldwide activities. Even before Germany's "Law on Corporate Supervision and Transparency" came into force on May 1, 1998, Bayer AG operated an effective system for identifying, communicating and dealing with risks at an early stage. The principles behind that system are spelled out in the Risk Management Guidelines valid throughout the Bayer Group. The goal is to identify the potential risks associated with our activities as early as possible by recording them in a central database, evaluate them according to set criteria, assess the possible quantitative and qualitative consequences of their occurrence, and take suitable measures to mitigate them. The various processes and instruments used, depending on the respective risk profile, are constantly being improved, supplemented and optimized in line with statutory requirements.

Reporting plays a key role in monitoring the economic risks of our everyday business. It must ensure that the business performance of individual Group companies is described and explained according to uniform guidelines. In addition to the data on which external reports are based, internal reports are produced each month to ensure that the Board of Management and the various management levels are fully alerted to possible risks in a timely fashion. Corporate accounting and controlling functions support these activities and work to increase the responsiveness and efficiency of the reporting system. Our risk management system is supported by monitoring and control mechanisms based on established standard software. These mechanisms are the subject of continuous improvement and are adjusted to changes in circumstances.

The internal audit department examines at regular intervals the risk management system's efficiency and functionality. Additionally, our external auditors regularly evaluate the system's functionality and brief the Board of Management and the Supervisory Board on the results of these evaluations. The Audit Committee of the Supervisory Board consults regularly on risk management.

To counter risks that could arise from the numerous tax, competition, patent, antitrust, capital market and environmental regulations and laws, we make our decisions and engineer our business processes on the basis of comprehensive legal advice provided both by our own experts and by acknowledged external specialists. We establish provisions in the balance sheet, and regularly evaluate the adequacy thereof, for legal risks relating to past events.

Legal risks

As the parent company of a global enterprise with a diverse business portfolio, Bayer AG is exposed to numerous legal risks, particularly in the areas of product liability, patent disputes, tax assessments, competition and antitrust law, and environmental matters. The outcome of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments or settlement agreements could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could significantly affect our revenues and earnings.

Legal proceedings currently considered to involve material risks to Bayer AG, either directly, or indirectly through subsidiaries, are outlined below. The litigation referred to does not necessarily represent an exhaustive list.

Lipobay/Baycol: As of January 13, 2006, the number of Lipobay/Baycol cases pending against Bayer worldwide was approximately 6,000 (approximately 5,900 of them in the United States, including several class actions). As of January 13, 2006, Bayer had settled 3,082 Lipobay/Baycol cases worldwide without acknowledging any liability and resulting in settlement payments of approximately US$ 1,147 million. Bayer will continue to offer fair compensation to people who experienced serious side effects while taking Lipobay/Baycol on a voluntary basis and without concession of liability. In the United States five cases have been tried to date all of which were found in Bayer's favor.

After more than four years of litigation we are currently aware of fewer than 50 pending cases in the United States that in our opinion hold a potential for settlement, although we cannot rule out the possibility that additional cases involving serious side effects from Lipobay/Baycol may come to our attention. In addition, there could be further settlements of cases outside of the United States.

In the fiscal years 2003 and 2004, Bayer recorded a total €347 million charge to the operating result beyond the insurance coverage. A further €43 million charge to the operating result was recorded in 2005, in respect of settlements already concluded or expected to be concluded and anticipated defense costs.

A group of stockholders has filed a class-action lawsuit claiming damages against Bayer AG and Bayer Corporation and two current or former managers. The suit alleges that Bayer violated U.S. securities laws by making misleading statements, prior to the withdrawal of Lipobay/Baycol from the market, about the product's commercial prospects and, after its withdrawal, about the related potential financial liability. In September 2005 the court dismissed with prejudice the claims of non-U.S. purchasers of Bayer AG stock on non-U.S. exchanges. Bayer believes it has meritorious defenses and will defend itself vigorously.

PPA: Bayer is a defendant in numerous product liability lawsuits relating to phenylpropanolamine (PPA), which was previously contained in a cough/cold product of the company supplied in effervescent-tablet form. The first PPA lawsuits were filed after the U.S. Food and Drug Administration recommended in the fall of 2000 that manufacturers voluntarily cease marketing products containing this active ingredient. Plaintiffs are alleging injuries related to the claimed ingestion of PPA.

As of January 13, 2006, 286 lawsuits were pending in U.S. federal and state courts against Bayer, of which 136 name Bayer as the only manufacturing defendant. An additional 295 cases are on appeal in federal court after the plaintiffs' claims had been dismissed for failure to comply with procedural requirements. No lawsuits have been filed outside the United States.

Three state cases have proceeded to trial. Two have resulted in defense verdicts for Bayer. In one case, the plaintiff was awarded damages of US$ 400,000. This case was settled in July 2005 while on appeal.

As of January 13, 2006, Bayer had settled 247 cases resulting in payments of approximately US$ 42 million, without acknowledging any liability. In the fiscal year 2005, Bayer recorded expenses in the amount of €62 million for settlements already concluded or expected to be concluded and expected defense costs.

Bayer will defend itself vigorously in all Lipobay/Baycol and PPA cases in which in our view no potential for settlement exists or where an appropriate settlement cannot be achieved. Due to the considerable uncertainty associated with these proceedings, it is currently not possible to further estimate potential liability.

Since the existing insurance coverage is exhausted (insurance coverage for PPA exists for up to 5 percent of future costs), it is possible – depending on the future progress of the litigation – that Bayer could face further payments that are not covered by the accounting measures already taken. We will regularly review the possibility of further accounting measures depending on the progress of the litigation.

Cipro®: 39 putative class action lawsuits, one individual lawsuit and one consumer protection group lawsuit (which has been dismissed) against Bayer involving the medication Cipro® have been filed since July 2000 in the United States. The plaintiffs are suing Bayer and other companies also named as defendants, alleging that a settlement to end patent litigation reached in 1997 between Bayer and Barr Laboratories, Inc. violated antitrust regulations. The plaintiffs claim the alleged violation prevented the marketing of generic ciprofloxacin as of 1997. In particular, they are seeking triple damages under U.S. law. After the settlement with Barr the patent was the subject of a successful re-examination by the U.S. Patent and Trademark Office and of successful defenses in U.S. Federal Courts. It has since expired.

All the actions pending in federal court were consolidated in federal district court in New York in a multidistrict litigation (MDL) proceeding. On March 31, 2005, the court granted Bayer's motion for summary judgment and dismissed all of plaintiffs' claims in the MDL proceeding. The plaintiffs are appealing this decision. Further cases are pending before various state courts. Bayer believes that it has meritorious defenses and intends to defend these cases vigorously.

Rubber, polyester polyols, urethane:

Proceedings involving the former rubber-related lines of business

Investigations by the E.U. Commission and the U.S. and Canadian antitrust authorities for alleged anti-competitive conduct involving certain products in the rubber field are pending. In two cases Bayer AG has already reached agreements with the U.S. Department of Justice to pay fines, amounting to US$ 66 million for antitrust violations relating to rubber chemicals and US$ 4.7 million for those relating to acrylonitrile-butadiene rubber (NBR). In December 2005, the E.U. Commission imposed a fine of €58.9 million for antitrust violations in the area of rubber chemicals. Further investigations by the named authorities are ongoing.

Numerous civil claims for damages including class actions are pending in the United States and Canada against Bayer AG and certain of its subsidiaries as well as other companies. The lawsuits involve rubber chemicals, EPDM, NBR and polychloroprene rubber (CR). Bayer has reached agreements or agreements in principle to settle a number of these court actions. Some of these agreements or agreements in principle remain subject to court approval. These settlements do not resolve all of the pending civil litigation with respect to the aforementioned products, nor do they preclude the bringing of additional claims.

Proceedings involving polyester polyols, urethanes and urethane chemicals

Bayer Corporation has reached agreement with the U.S. Department of Justice to pay a fine of US$ 33 million for antitrust violations in the United States relating to adipic-based polyester polyols. A similar investigation is pending in Canada.

A number of civil claims for damages including class actions have been filed in the United States against Bayer involving allegations of unlawful collusion on prices for certain polyester polyols, urethanes and urethane chemicals product lines. Similar actions are pending in Canada with respect to polyester polyols.

Proceedings involving polyether polyols and other precursors for urethane end-use products

Bayer has been named as a defendant in multiple putative class action lawsuits involving allegations of price fixing of, inter alia, polyether polyols and certain other precursors for urethane end-use products. Bayer has reached an agreement in principle, subject to court approval, to settle all of the class action cases relating to claims from direct purchasers of polyether polyols, MDI or TDI (and related systems). The foregoing settlements do not resolve all of the pending civil litigation with respect to the aforementioned products, nor do they preclude the bringing of additional claims. Bayer was served with a subpoena from the U.S. Department of Justice seeking information relating to the manufacture and sale of these products.

Impact of antitrust proceedings on Bayer
In consideration of the portion allocated to LANXESS, expenses in the amount of €336 million were accrued in the course of 2005 which led to the establishment of a provision for the previously described civil proceedings in the amount of €285 million as of December 31, 2005. Bayer created a provision of €80 million as of December 31, 2005 in respect of the rubber-related E.U. proceedings noted above, although a reliable estimate cannot be made as to the actual amount of any expected additional fines.

These provisions taken may not be sufficient to cover the ultimate outcome of the above-described matters. The amount of provisions established in 2005 for civil proceedings was based on the expected payments under the settlement agreements described above. In the case of proposed settlements in civil matters which have been asserted as class actions, members of the putative classes have the right to "opt out" of the class, meaning that they elect not to participate in the settlement. Plaintiffs that opt out are not bound by the terms of the settlement and have the right to independently bring individual actions in their own names to recover damages they allegedly suffered. We cannot predict the size or impact of the opt-out groups on the settlement agreements.

Bayer will continue to pursue settlements that in its view are warranted. In cases where settlement is not achievable, Bayer will continue to defend itself vigorously.

The financial risk associated with the proceedings described above beyond the amounts already paid and the financial provisions already established is currently not quantifiable due to the considerable uncertainty associated with these proceedings. Consequently, no provisions other than those described above have been established. The Company expects that, in the course of the regulatory proceedings and civil damages suits, additional charges will become necessary.

Patent and contractual disputes:
Further risks arise from patent disputes in the United States. Bayer is alleged to have infringed third-party patents relating to the blood coagulation factor Kogenate®. In another dispute, Bayer has filed suit against several companies, alleging patent infringement in connection with moxifloxacin. These companies are defending the action, claiming, among other things, that the patents are invalid and not enforceable.

In August 2005, Abbott filed suit against, among others, Bayer for alleged patent infringement in connection with blood glucose monitors. The Japanese manufacturer of the product Ascensia® Contour® system is contractually obligated to indemnify Bayer against the potential liability.

Risks also exist in connection with court or out-of-court proceedings in which Bayer is alleged to have violated contractual or pre-contractual obligations. For example, Aventis Behring LLC alleges that Bayer violated contractual obligations relating to the supply of Helixate® and is seeking damages.

Limagrain Genetics Corporation has filed suit against Bayer – as legal successor to Rhône-Poulenc – for indemnity against liabilities to third parties arising from breach of contract.

Bayer and Lyondell Group have asserted claims against each other in a binding arbitration proceeding arising from a joint venture agreement in the manufacture of propylene oxide generally relating to differences in contractual interpretation.

Bayer believes it has meritorious defenses in these patent and contractual disputes and will defend itself vigorously.

Product liability and other litigation:
Legal risks also arise from product liability lawsuits other than those concerning Lipobay/Baycol and PPA. Numerous actions are pending against Bayer seeking damages for plaintiffs resident outside of the United States who claim to have been become infected with HIV or HCV (hepatitis C virus) through blood plasma products. Further actions have been filed by U.S. residents who claim to have become infected with HCV. Bayer is also a defendant in cases in which plaintiffs are asserting claims alleging damage to health from the substance thimoseral, used especially in immunoglobulin therapies.

Bayer, together with other manufacturers, wholesalers and users is a defendant in the U.S. state of Alabama in cases seeking damages, including one nationwide putative class action, for personal injuries alleging health damages through exposure to diphenylmethane diisocyanate (MDI) used in coal mines.

Bayer, like a number of other pharmaceutical companies in the United States, has several lawsuits pending against it in which plaintiffs, including states, are seeking damages, punitive damages and/or disgorgement of profits, alleging manipulation in the reporting of wholesale prices and/or best prices.

A further risk may arise from asbestos litigation in the United States. In the majority of these cases, the plaintiffs allege that Bayer and co-defendants employed third parties on their sites in past decades without providing them with sufficient warnings or protection against the known dangers of asbestos. One Bayer affiliate in the United States is the legal successor to companies that sold asbestos products until 1976. Should liability be established, Union Carbide has to completely indemnify Bayer.

Bayer, among others, is named as a defendant in a putative nationwide class action pending in federal court in North Carolina in the United States which alleges violations of antitrust laws in the marketing of the pest control product Premise®.

Bayer believes it has meritorious defenses in these product liability and other proceedings and will defend itself vigorously.

Liability considerations following the LANXESS spin-off

The liability situation following the spin-off of the LANXESS subgroup is governed by both statutory and contractual provisions.

Under the German Transformation Act, all entities that are parties to a spin-off are jointly and severally liable for obligations of the transferor entity that are established prior to the spin-off date. Bayer AG and LANXESS AG are thus jointly and severally liable for all obligations of Bayer AG that existed on January 28, 2005. The company to which the respective obligations were not assigned under the Spin-Off and Acquisition Agreement ceases to be liable for such obligations after a five-year period.

Under the Master Agreement, Bayer AG and LANXESS AG shall release the other party from those liabilities each has assumed as principal debtor according to the Spin-Off Agreement and Acquisition Agreement.

The Master Agreement contains provisions for the general apportionment of liability as well as special provisions relating to the apportionment of product liability and of liability for environmental contamination and antitrust violations between Bayer AG and LANXESS AG. The Master Agreement applies to all activities of Bayer AG and LANXESS AG units throughout the world, subject to certain conditions for the United States.

Financial instruments

In the course of its business, Bayer AG is exposed to foreign exchange, interest rate and equity price risks, which it hedges principally by using derivative financial instruments. It mainly uses over-the-counter (OTC) instruments, particularly forward rate contracts, currency options, interest rate options, interest rate swaps, interest and principal currency swaps, and stock options. Their use is generally confined to hedging the operating business and the related investments and financing transactions. The main objective is to reduce fluctuations in cash flows and earnings associated with changes in interest rates, foreign exchange rates and share prices.

There is a risk that the value of derivative financial instruments could decline as a result of fluctuations in related parameters such as exchange rates, interest rates or share prices. Where derivatives are used as hedges, possible declines in their value are offset by contrary movements in the value of the hedged transactions.

Where derivatives have a positive fair value, there is a credit or default risk arising from the fact that the counterparties may not be able to meet their obligations. To minimize this risk, all transactions are executed with banks of high credit standing. We also impose limit on the volume of business in derivative financial instruments transacted with individual parties.

In addition to the risks described above, further risks could exist for our business that we are currently unaware of or currently regard as negligible.

Outlook

Fiscal 2005 was among the most successful years in Bayer's history, with Group EBIT at a record high. Our underlying EBITDA margin of 18.6 percent already put us very close to our 2006 target a year ahead of schedule. We intend to build on this positive development.

In 2006 we aim to grow at least with the market in all parts of the Group and again improve our overall operating performance. We expect Group sales in 2006 to exceed €28 billion, which would mean an increase of about 5 percent on a currency- and portfolio-adjusted basis. The high earnings level of 2005 will be the yardstick for our performance in 2006. We plan to achieve a slight further improvement in EBIT before special items and in underlying EBITDA. Earnings growth is likely to come mainly from the HealthCare and CropScience subgroups, while profitability in MaterialScience could fall short of the excellent 2005 level. We are budgeting for special charges of less than €100 million. This amount does not include potential litigation-related expenses or charges for possible further restructuring in the CropScience subgroup.

As a result of efforts to further raise Group earnings, we anticipate that Bayer AG will receive higher income from investments in affiliated companies in 2006 than in 2005. Under profit-and-loss transfer agreements with the major operating subsidiaries in Germany, these earnings will be transferred directly to Bayer AG. Moreover, through appropriate dividend management we expect to receive sufficient income from investments in affiliated companies to enable us to cover the costs that Bayer AG incurs for the performance of its function as a management holding company and generate additional income enabling us to pay a dividend in line with Group net income.

Subsequent events

There were no events of particular significance after the closing date.

Auditor´s Report

We have audited the annual financial statements – comprising the balance sheet, income statement and notes – together with the accounting system, and the management report of Bayer Aktiengesellschaft, Leverkusen, Germany, for the financial year from January 1 to December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Board of Management of Bayer AG. Our responsibility is to express an opinion on the annual financial statements, together with the accounting system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (Handelsgesetzbuch – German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German generally accepted accounting principles and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German generally accepted accounting principles. The management report is consistent with the financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Essen, March 1, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

P. Albrecht	V. Linke
(Wirtschaftsprüfer)	(Wirtschaftsprüfer)

Statements of Income

	Note	2004	2005
€ million			
Net sales	[1]	**233**	**197**
Cost of goods sold		(184)	(134)
Gross profit		**49**	**63**
Selling expenses		(16)	(21)
General administration expenses		(173)	(194)
Other operating income	[2]	27	216
Other operating expenses	[3]	(103)	(106)
Operating result		**(216)**	**(42)**
Income from investments in affiliated companies – net	[4]	435	831
Interest expense – net	[5]	(203)	(199)
Other non-operating income – net	[6]	276	87
Non-operating result		**508**	**719**
Income before income taxes		**292**	**677**
Income taxes	[7]	(18)	(64)
Net income		**274**	**613**
Decline in assets due to the spin-off		(836)	–
Allocation from retained earnings		964	81
Balance sheet profit		**402**	**694**

Balance Sheets

	Note	Dec. 31, 2004	Dec. 31, 2005
€ million			
Assets			
Noncurrent assets			
Intangible assets	[14]	38	35
Property, plant and equipment	[15]	466	396
Investments	[16]	17,092	17,758
		17,596	**18,189**
Current assets			
Receivables and other assets			
Trade accounts receivable	[17]	28	20
Receivables from subsidiaries		5,867	5,119
Other receivables and other assets	[18]	730	854
	[19]	**6,625**	**5,993**
Marketable securities	[20]	10	226
Cash and cash equivalents	[21]	1,251	2,481
		7,886	**8,700**
Deferred charges	[22]	**42**	**46**
		25,524	**26,935**
Stockholders' equity and liabilities			
Stockholders' equity	[23]		
Capital stock		1,870	1,870
Capital reserves		2,942	2,942
Other retained earnings		2,326	2,245
Balance sheet profit		402	694
		7,540	**7,751**
Special item with an equity component	[24]	**25**	**112**
Provisions			
Provisions for pensions and other post-employment benefits	[25]	2,536	2,503
Other provisions	[26]	392	683
		2,928	**3,186**
Other liabilities			
Debentures	[27]	5,360	5,793
Liabilities to banks		39	27
Trade accounts payable	[28]	35	25
Payables to subsidiaries	[29]	8,951	9,547
Miscellaneous liabilities	[30]	643	492
	[31]	**15,028**	**15,884**
Deferred income		**3**	**2**
		25,524	**26,935**

Notes to the Financial Statements

Spin-off of LANXESS

Under the Spin-Off and Acquisition Agreement of September 22, 2004, Bayer AG as the transferring entity and LANXESS AG as the acquiring entity agreed to carve out the assets and liabilities allocated to LANXESS from Bayer AG to LANXESS AG. The spin-off was entered in the commercial register for Bayer AG on January 28, 2005 and took effect retroactively as of July 1, 2004. The impact of the spin-off was reflected in the annual financial statements of Bayer AG for 2004. The assets, liabilities, income and expenses allocated to LANXESS were not included in the financial statements of Bayer AG for 2004 so the financial statements for 2005 are fully comparable with the financial statements for the previous year.

Accounting policies

The financial statements of Bayer AG are prepared in accordance with the German Commercial Code (Handelsgesetzbuch) and Stock Corporation Act (Aktiengesetz).

Certain income statement and balance sheet items are combined for the sake of clarity, as explained in the Notes.

The income statement is drawn up by the cost-of-sales method. Non-operating income and expenses whose disclosure is not covered by a mandatory item are stated under other non-operating income or expenses.

A Declaration of Conformity with the German Corporate Governance Code has been issued pursuant to Article 161 of the German Stock Corporation Act and made available to stockholders.

Recognition and valuation principles

Intangible assets that have been acquired are recognized at cost and amortized on a straight-line basis over their estimated useful lives.

Property, plant and equipment is carried at the cost of acquisition or construction. Assets subject to depletion are depreciated. Write-downs are made for any declines in value that go beyond the depletion reflected in depreciation. Where permitted under the tax laws, depreciation is made by the declining-balance method at the highest rates possible, switching to the straight-line method as soon as this leads to higher depreciation.

Useful Life of Property, Plant and Equipment				
Factory, commercial and residential buildings	25	to	50	years
Outdoor infrastructure	10	to	20	years
Plant installations	7	to	20	years
Vehicles			5	years
Computer equipment	3	to	4	years
Furniture and fixtures	4	to	10	years

The cost of construction of self-constructed property, plant and equipment comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads, and an appropriate share of the depreciation of assets used in construction.

Investments in subsidiaries and affiliated companies are carried at cost, less write-downs for any decline in value that is expected to be permanent.

Loans receivable that are interest-free or bear low rates of interest are carried at present value; other loans receivable are carried at nominal value.

Receivables and other assets are stated at nominal value, less any necessary write-downs for amounts unlikely to be recovered.

Where the redemption value of liabilities exceeds their issue price, the difference is capitalized and amortized over the term of the liabilities.

Marketable securities are shown at the lower of cost or market as of the closing date.

Allocations to the special item with an equity component are made at the amounts permitted for tax purposes where tax recognition is subject to their inclusion in the accounting balance sheet.

Provisions for pensions and other post-employment benefits are computed by the actuarial method that takes tax regulations into consideration, based on a statutory discount factor of 6 percent and the reference tables published by Prof. Klaus Heubeck in 2005 (2005 G).

Other provisions are established to cover all foreseeable risks and uncertain liabilities, based on reasonable estimates of such commitments as of the closing date. Provisions for expenses pursuant to Article 249, Paragraph 2 of the German Commercial Code are not established.

Other liabilities are carried at nominal or redemption value, whichever is higher.

Foreign currency receivables and liabilities, forward rate agreements and other currency derivatives were recognized using the limited mark-to-market method for the first time in 2005. For this purpose, foreign currency receivables and payables are valued using spot rates on the reporting date and the fair value of currency derivatives on the reporting date is determined. Unrealized gains and losses are than offset in each currency. Provisions are set up for any net unrealized losses; net unrealized gains are not recognized. The actual receivables and payables are translated using the exchange rate at which they are originally recorded.

Cash and cash equivalents and bank balances held in foreign currencies are translated at the rate on the reporting date.

Contingent liabilities arising from sureties and debt guarantees, and amounts pledged as security for other parties' liabilities, are shown at the amounts equivalent to the loans or commitments actually outstanding as of the closing date.

Notes to the Statements of Income

1. Net sales

Sales comprise €123 million (2004: €139 million) from the leasing of real estate belonging to Bayer AG and €74 million (2004: €94 million) from the provision of certain services.

Germany accounted for €193 million of the sales generated in 2005 (2004: €231 million).

2. Other operating income

	2004	2005
€ million		
Gains from retirements of noncurrent assets	4	206
Reversals of unutilized provisions	10	3
Miscellaneous income	13	7
	27	**216**

Effective January 29, 2005, Bayer AG sold the real estate used by LANXESS at the sites in Leverkusen, Dormagen, Krefeld-Uerdingen and Brunsbüttel in Germany to LANXESS Deutschland GmbH. Bayer AG recorded a €201 million gain on the sale.

The revenues from sideline operations are offset against the corresponding cost of goods sold to more clearly reflect the earnings position. Net operating income from sideline operations was €3 million (2004: €1 million).

3. Other operating expenses

Included in other operating expenses are those for allocations to provisions, write-downs of accounts receivable and various accrued expenses. €18 million of the other operating expenses (2004: €87 million) was incurred in connection with the carve-out of LANXESS AG and preparations for its stock market listing.

Allocations to the special item with an equity component pursuant to Article 6b of the German Income Tax Act (Einkommensteuergesetz) resulted in expenses of €66 million (2004: €1 million).

4. Income (loss) from investments in affiliated companies – net

	2004	2005
€ million		
Dividends and similar income	38	223
of which €223 million (2004: €38 million) from subsidiaries		
Income from profit and loss transfer agreements	792	744
Expenses from profit and loss transfer agreements	(424)	(116)
Write-downs of investments in affiliated companies	(10)	(14)
Gains from the sale of investments in affiliated companies	46	2
Losses from the sale of investments in affiliated companies	(7)	(8)
	435	**831**

The write-downs of investments in affiliated companies include €10 million for CuraGen Corporation, U.S.A. and €4 million for Bayer Middle East Ltd., Egypt. In 2004 they mainly comprised €7 million for Lion Bioscience AG.

Gains from the sale of investments in affiliated companies totaling €46 million in 2004 consisted mainly of €21 million from the divestment of LANXESS Distribution GmbH to LANXESS Deutschland GmbH and €17 million from the liquidation of Bayer Trading Pte Ltd., Singapore.

The loss of €8 million from the sale of investments in affiliated companies in 2005 mainly comprised €7 million for the divestment of LANXESS India Private Limited, India, to LANXESS Deutschland GmbH.

5. Interest expense – net

	2004	2005
€ million		
Income from other securities and loans included in investments	3	4
Other interest and similar income	542	670
of which €236 million (2004: €233 million) from subsidiaries		
Interest and similar expenses	(748)	(873)
of which €208 million (2004: €220 million) to subsidiaries		
	(203)	**(199)**

6. Other non-operating income – net

	2004	2005
€ million		
Interest portion of the allocation to personnel-related provisions	(167)	(146)
Interest portion of the allocation to personnel-related provisions assigned to subsidiaries	159	115
Miscellaneous non-operating expenses	(19)	(12)
Miscellaneous non-operating income	303	130
	276	**87**

The interest portion of allocations to personnel-related provisions, calculated on the basis of actuarial assumptions, was assigned proportionately to the subsidiaries hived down from Bayer AG in 2002 and 2003. This was agreed with these subsidiaries in the respective hive-down and transfer agreements and relates to retirees whose pensions continue to be paid by Bayer AG and to former employees with vested pension rights.

€10 million of the miscellaneous non-operating expenses related to bank charges in connection with the issue of the €1.3 billion hybrid bond in July 2005. In 2005 €15 million of miscellaneous non-operating expenses related to the write-down on a loan.

Currency translation resulted in a net exchange gain of €90 million in 2005 (2004: €285 million). This is recognized in miscellaneous non-operating income. This item also includes a gain of €29 million from the repurchase by LANXESS AG of the mandatory bond with a nominal value of €200 million issued in 2004.

7. Income taxes

The taxes reflected here are corporate income tax, trade tax, the solidarity surcharge and income taxes paid outside Germany.

8. Other taxes

Other taxes are included in the cost of goods sold, selling expenses or general administration expenses wherever they can be allocated to these categories on the basis of accountability. In other cases they are assigned to other operating expenses. Other taxes for 2005 total €9 million (2004: €11 million).

9. Cost of materials

	2004	2005
€ million		
Expenses for raw materials, supplies and goods purchased for resale	5	3
Expenses for purchased services	22	31
	27	**34**

10. Personnel expenses/employees

	2004	2005
€ million		
Wages and salaries	65	72
Social expenses	8	7
Pension expenses	15	27
	88	**106**

The personnel expenses shown here do not contain the interest portion of the allocation to personnel-related provisions, which is included in the non-operating result as other non-operating expense. These personnel-related provisions are mainly for employee pensions.

The average number of employees at Bayer AG was 554 (2004: 560).

11. Stock-based compensation

Bayer AG has offered its employees collective stock programs as additional compensation elements since 2000. Different programs are offered to different groups of employees.

The program offered to members of the Board of Management and other senior executives from 2000 through 2004 was essentially a stock option program with variable stock-based awards. This program provides for cash payments. Middle managers and other groups of employees were offered a stock incentive program or a stock participation program, respectively.

A new stock-based compensation program with two variants for members of the Board of Management and senior executives, and for middle management – known as “Aspire” – was introduced in 2005. For other managers and non-managerial employees, a stock participation program was offered in 2005 on different conditions.

All obligations under the stock-based compensation programs on the reporting date are reflected in provisions. The amount of such provisions is based on the fair value of the obligations and the proportion of the total duration of the respective program that has elapsed since its introduction. Additions to provisions are expensed. Until 2004 the establishment of provisions for commitments was directly dependent upon fulfillment of the performance criteria. Total expense for stock-based compensation programs, including provisions, came to €6 million in 2005.

The fair value of obligations under the stock-based compensation programs has been calculated by the Monte Carlo simulation method using the following key parameters:

Dividend yield	2.27%
Risk-free interest rate	2.92%
Volatility of Bayer stock	38.00%
Volatility of the Dow Jones EURO STOXX 50℠	19.55%
Correlation between Bayer stock price and the Dow Jones EURO STOXX 50℠	0.56

The exercise period is between three and five years.

Long-term incentive program for members of the Board of Management and other senior executives (Aspire I 2005)

To participate in Aspire I, members of the Board of Management and other senior executives are required to purchase a certain number of Bayer shares that is predetermined according to specific guidelines and to retain them for the full term of the program.

A percentage of their annual base salary is defined as a target for variable payments ("Aspire target opportunity"). Depending on the performance of Bayer stock, both in absolute terms and relative to the EURO STOXX 50SM benchmark index, participants are granted an award of between 0 percent and 200 percent of their individual target opportunity.

Participants may ask for their Aspire award to be paid out in cash immediately at the end of the three-year performance period, or they may convert it into "performance units". These can then be redeemed within a two-year exercise period for a cash payment that depends on the Bayer stock price on the exercise date.

Long-term incentive program for middle management (Aspire II 2005)

A variant of the Aspire program with the following modifications is offered to middle management:

- No personal investment in Bayer shares is required.
- The amount of the award in relation to the employee's personal Aspire target opportunity is based entirely on the absolute performance of Bayer stock during the performance period. There is no link to the EURO STOXX 50SM.
- The award varies between 0 percent and 150 percent of the Aspire target opportunity.

Stock Participation Program (2005) for other managers and non-managerial employees

Under this program, Bayer offers employees the opportunity to purchase shares at a discount as follows:

- Up to 30 Bayer shares at a discount of €6.75 per share.
- Additional Bayer shares at a 15 percent discount up to a maximum total value of €2,500.
- Managers not eligible to participate in the Aspire program can purchase discounted shares up to a maximum value of €4,000.

The shares purchased under the 2005 program must be held in a special account and may not be sold before December 31, 2006. Employees acquired a total of 17,126 Bayer shares under the 2005 Stock Participation Program.

Stock-based compensation programs 2000-2004

The stock-based compensation programs offered to the different employee groups in 2000 through 2004 were all similar in structure. Provisions for the obligations under these programs are recorded in the financial statements at fair value. Entitlement to awards under these programs depends on an initial investment in Bayer stock being retained for their duration.

The table shows the programs applicable through December 31, 2004:

	Stock option programs	Stock incentive programs	Stock participation programs
Year of issue	2000–2004	2000–2004	2000–2004
Original term in years	5	10	10
Retention period / distribution date in years from issue date	3	2/6/10	2/6/10
Reference price	0	0	0
Performance criteria	Yes	Yes	No

Stock Option Program (2000-2004)

Each tranche of the stock option program runs for five years, comprising a three-year retention period and a two-year exercise period. Any unexercised option rights expire at the end of the two-year exercise period. Eligibility to exercise option rights and the award to which the holder is entitled depend on the absolute and relative performance of Bayer AG stock.

A maximum personal investment in Bayer stock was defined for each Board of Management member or other senior executive who wished to participate in the Stock Option Program. For the tranches issued in 2000-2002, every participant received one option for every 20 shares placed in a special account (personal investment). Originally these entitled them to a cash payment equivalent to a maximum of 200 shares at the end of the retention period. The value of the options depends on the performance of Bayer stock and the relative performance of the reference index, the Dow Jones EURO STOXX 50^{SM}. For the tranches issued in 2003 and 2004, participants received up to three options per share of their personal investments. For each option, a cash payment – equivalent to the market price of one Bayer share – and an outperformance premium are awarded at the exercise date subject to the attainment of certain performance and outperformance targets, respectively.

The stock options issued under the 2001 and 2002 tranches can currently be exercised. However, on the reporting date their intrinsic value was zero.

Stock Incentive Program (2000–2004)

Participants in this program receive a cash payment equivalent to a defined number of Bayer shares on certain dates during the ten-year duration of this program. For every ten shares held in a special account (personal investment), they receive two shares after two years and a further four shares after six and ten years respectively. To qualify for these payments, they must still hold the personal investment on the incentive payment dates and the percentage rise in the price of Bayer stock by the payment date must be above the performance of the Dow Jones EURO STOXX 50^{SM} since the start of the program. The Stock Incentive Program differs from the Stock Option Program in that participants may sell their shares during the term of the program. However, the shares sold do not qualify for incentive payments on subsequent distribution dates.

The number of shares that each employee could transfer to the program was based on their performance-related bonus for the preceding fiscal year.

Stock Participation Program (2000–2004)

The structure of this program is similar to the Stock Incentive Program. However, the incentive payments are based exclusively on the period for which employees hold their personal investment in Bayer shares. Incentive payments are half those allocated under the Stock Incentive Program. After two years, participants are entitled to a cash payment equivalent to the price of one Bayer share for every ten shares held. After six and again after ten years they are entitled to payments equivalent to the value of two Bayer shares.

12. Valuation write-downs, depreciation for tax purposes

Write-downs of financial assets totaling €14 million (2004: €10 million) were made to reflect declines in value that were expected to be permanent. No depreciation was undertaken specifically for tax purposes in either 2005 or 2004.

13. Effects of valuation adjustments made for tax purposes

The net income for 2005 was reduced by €77 million (2004: increased by €32 million) as a result of accelerated depreciation for tax purposes and the net effect of allocations to, and partial reversals of, the special item with an equity component. The higher income taxes that will be incurred as a result of these valuation adjustments will be spread over a maximum of 32 years and therefore will not materially affect net income for the individual years.

Notes to the Balance Sheets

14. Intangible assets

	Acquired concessions, industrial property rights, similar rights and assets, and licenses thereunder	Advance payments	Total
€ million			
Gross carrying amounts, Dec. 31, 2004	38	1	39
Capital expenditures	–	–	–
Gross carrying amounts, Dec. 31, 2005	**38**	**1**	**39**
Accumulated amortization and write-downs, Dec. 31, 2004	1	–	1
Amortization and write-downs in 2005	3	–	3
Accumulated amortization and write-downs, Dec. 31, 2005	**4**	**–**	**4**
Net carrying amounts, Dec. 31, 2005	**34**	**1**	**35**
Net carrying amounts, Dec. 31, 2004	37	1	38

15. Property, plant and equipment

€ million	Land and buildings	Furniture, fixtures and other equipment	Construction in progress and advance payments to vendors and contractors	Total
Gross carrying amounts, Dec. 31, 2004	2,531	13	4	2,548
Capital expenditures	1	1	11	13
Retirements	(506)	(3)	–	(509)
Transfers	1	–	(1)	–
Gross carrying amounts, Dec. 31, 2005	**2,027**	**11**	**14**	**2,052**
Accumulated depreciation and write-downs, Dec. 31, 2004	2,072	10	–	2,082
Depreciation and write-downs in 2005	27	1	–	28
Retirements	(452)	(2)	–	(454)
Accumulated depreciation and write-downs, Dec. 31, 2005	**1,647**	**9**	**–**	**1,656**
Net carrying amounts, Dec. 31, 2005	**380**	**2**	**14**	**396**
Net carrying amounts, Dec. 31, 2004	459	3	4	466

16. Investments

€ million	Investments in subsidiaries	Loans to subsidiaries	Investments in other affiliated companies	Loans to other affiliated companies	Other loans	Total
Gross carrying amounts, Dec. 31, 2004	14,834	2,100	178	3	146	17,261
Additions	1,126	–	–	–	52	1,178
Retirements	(462)	–	–	(1)	(38)	–501
Gross carrying amounts, Dec. 31, 2005	**15,498**	**2,100**	**178**	**2**	**160**	**17,938**
Accumulated write-downs, Dec. 31, 2004	5	–	156	2	6	169
Write-downs in 2005	4	–	10	–	–	14
Write-backs	–	–	–	(1)	(2)	–3
Accumulated write-downs, Dec. 31, 2005	**9**	**–**	**166**	**1**	**4**	**180**
Net carrying amounts, Dec. 31, 2005	**15,489**	**2,100**	**12**	**1**	**156**	**17,758**
Net carrying amounts, Dec. 31, 2004	14,829	2,100	22	1	140	17,092

Capital increases against cash contributions at subsidiaries account for €667 million of the €1,126 million additions to investments in subsidiaries. A further €439 million comprises non-cash capital contributions to other subsidiaries. These were offset by an equal amount of retirements.

The write-downs on investments in other affiliated companies totaling €10 million in 2005 relate to a write-down on the carrying amount of CuraGen Corporation, U.S.A.

Additions to other loans include €50 million for the third and final tranche of the profit-participating capital granted to Bayer Pensionskasse. This now totals €150 million.

Lists of Bayer AG's direct and indirect holdings have been included in the Commercial Register in Cologne.

17. Trade accounts receivable

	Dec. 31, 2004	Dec. 31, 2005
€ million		
Accounts receivable from subsidiaries	27	17
Accounts receivable from other customers	1	3
	28	**20**

18. Other receivables and other assets

	Dec. 31, 2004	Dec. 31, 2005
€ million		
Accounts receivable from other affiliated companies	3	–
Other assets	727	854
	730	**854**

The other assets as of December 31, 2005 include €368 million (2004: €284 million) that represents income earned in the fiscal year but not due to be received until after the closing date. This income consists of accrued interest. Further items include claims for tax refunds totaling €302 million and premiums of €59 million paid to conclude options transactions.

In connection with civil law compensation claims in the United States and Canada for antitrust violations in the fields of rubber, polyester polyols and urethanes and antitrust proceedings instigated by the EU Commission on the same matter, Bayer has incurred disbursements including €40 million for LANXESS Deutschland AG. These are also recognized under other assets.

19. Receivables and other assets maturing in more than one year

The total receivables and other assets amounting to €5,993 million (2004: €6,625 million) include €223 million (2004: €364 million) due in more than one year. Of this, €163 million (2004: €355 million) comprises receivables from subsidiaries and €60 million (2004: €9 million) comprises other assets.

20. Marketable securities

With a few immaterial exceptions, these are units in special investment funds. In 2004 this item consisted mainly of bearer bonds.

21. Cash and cash equivalents

To settle civil law compensation claims relating to antitrust violations in the fields of rubber, polyester polyols and urethanes in the United States and Canada, Bayer has transferred €253 million to a trust account administered in the U.S.A. Until acceptance or judicial confirmation of the settlements offered, this amount will be reported under cash and cash equivalents.

22. Deferred charges

Deferred charges as of December 31, 2005 include a discount of €30 million (2004: €24 million) that has not yet been amortized relating to two bonds issued in 2002 and the hybrid bond issued in 2005. The remaining deferred charges are prepaid premiums for business insurance and prepaid rental and leasing charges.

23. Capital stock

The capital stock of Bayer AG is divided into 730,341,920 no-par bearer shares of a single class.

Authorized capital totaling €250 million was approved by the Annual Stockholders' Meeting on April 26, 2002. It expires on April 26, 2007. The authorized capital can be used to increase the capital stock by issuing new shares against cash contributions. The Board of Management is authorized to exclude subscription rights with respect to €100 million of this authorized capital; however, in this case the issue price of the new shares must not be significantly below the market price. Exclusion of subscription rights for a further €150 million is only possible in specific cases.

Further authorized capital in the amount of €374 million was approved by the Annual Stockholders' Meeting on April 27, 2001. This authorized capital, which expires on April 27, 2006, can be used to increase the capital stock by issuing new shares against non-cash contributions. Subscription rights for existing stockholders are excluded.

Conditional capital of €186.88 million existed on December 31, 2005. This capital may only be utilized to the extent necessary to issue the requisite number of shares as and when conversion or subscription rights are exercised by the holders of convertible bonds or of warrants conferring subscription rights, respectively, that may be issued by Bayer AG or Group companies in which Bayer AG holds a direct or indirect interest of at least 90 percent, through April 29, 2009.

In 2005 €81 million was retired from other retained earnings.

24. Special item with an equity component

The special item with an equity component of €90 million for 2005 (2004: €25 million) consists of gains from the sale of land allocated to this item under Article 6b of the Income Tax Act. €66 million (2004: €1 million) was added to this item in 2004.

The special item with an equity component contains a further €22 million comprising two-thirds of the difference between pension commitments computed as of December 31, 2005 using the life expectancy tables published in 1998 and the pension obligations on the same date calculated using the new life expectancy tables published in 2005. In accordance with a letter from the Federal Finance Ministry dated December 16, 2005, this amount has been allocated to the special item with an equity component and will be released to income in two equal installments in 2006 and 2007.

25. Provisions for pensions and other post-employment benefits

This item includes provisions for current and future pension entitlements.

It also includes commitments to former employees of the business areas and service companies hived down into separate legal entities and former employees who retired before July 1, 2002 or who left the company before this date and have vested pension rights. The respective companies reimburse Bayer AG for these expenses.

This item also includes commitments entered into under early retirement agreements.

26. Other provisions

	Dec. 31, 2004	Dec. 31, 2005
€ million		
Provisions for taxes	204	173
Miscellaneous provisions	188	510
	392	**683**

Miscellaneous provisions include amounts for environmental protection measures, vacations, part-time working by older employees, annual bonuses, long-service awards to employees, the costs of preparing and auditing the annual financial statements, expenses for the anticipated assumption of losses from affiliated companies and other uncertain liabilities. It also includes anticipated losses, for example on currency hedges. The largest individual item for 2005 comprises a provision of €286 million for obligations arising from civil law proceedings to claim compensation for violations of antitrust law in the areas of rubber, polyester polyols and urethanes. Further, there is a provision of €45 million for obligations relating to antitrust proceedings by the EU Commission.

27. Debentures

	Nominal value	Stated rate %	Effective rate %	Dec. 31, 2004 € million	Dec. 31, 2005 € million
Eurobonds 2002/2007	€2,137 million	5.375	5.515	3,000	2,137
Eurobonds 2002/2012	€2,000 million	6.000	6.108	2,000	2,000
Hybrid bond 2005/2105	€1,300 million	5.000*	5.155	–	1,300
Bonds 2003/2005 private placement	€15 million	3.500	3.500	15	–
Bonds 2003/2006 private placement	€250 million	variable	variable	250	250
Bonds 2004/2005 private placement	€25 million	2.470	2.470	25	–
Bonds 2004/2006 private placement	€50 million	variable	variable	50	50
Bonds 2004/2008 private placement	€20 million	3.490	3.502	20	20
Bonds 2005/2006 private placement	JPY 5,000 million	0.160	0.160	–	36
				5,360	**5,793**

* Fixed interest rate until 2015 then variable rate

In April 2002 Bayer AG launched two Eurobond issues under its €8 billion European Medium Term Note (EMTN) program. One of these issues, with an original nominal volume of €3 billion, carries a 5.375 % coupon and has a term of 5 years, maturing in 2007. Interest is payable annually in arrears. The issue price was 99.402 %. In July 2005 Bayer AG submitted a public offer to holders of this bond to buy back bonds in a nominal volume of up to €1 billion. Bonds with a face value of €863 million were repurchased at a price of 104.957 % plus accumulated interest. The remaining €2,137 million of the issue is still in circulation. The other Eurobond issue has a nominal volume of €2 billion and a term of 10 years, maturing in 2012. The bonds carry a 6 percent coupon. Again, all interest is paid annually for the preceding year. The issue price was 99.45 percent.

In July 2005 Bayer AG issued a 100-year subordinated hybrid bond with an issue volume of €1.3 billion. This issue matures in 2105 and has a fixed coupon of 5 percent in the first ten years. Thereafter, interest is calculated quarterly at a floating rate (3-month EURIBOR plus 280 basis points). After the first 10 years, Bayer AG has a quarterly option to redeem the bonds at face value. The issue price was 98.812 % and interest is paid in arrears. The proceeds of this 100-year subordinated bond issue were mainly used to finance the repurchase of part of the 5.375 % bond.

Bayer AG also issued bonds totaling €356 million (2004: €360 million) under its EMTN program as private placements.

28. Trade accounts payable

	Dec. 31, 2004	Dec. 31, 2005
€ million		
Payable to subsidiaries	18	9
Payable to other suppliers	17	16
	35	**25**

29. Payables to subsidiaries

The payables to subsidiaries mainly comprise loans and overnight funds invested at Bayer AG by subsidiaries.

30. Miscellaneous liabilities

Miscellaneous liabilities are amounts due to third parties and comprise €395 million (2004: €267 million) in accrued interest and €51 million (2004: 0) in premiums received on options. This item also includes €11 million (2004: €18 million) in short-term capital investments and €5 million (2004: €12 million) in employees' income and church taxes held for paying over to the authorities. In 2004 this item also included €314 million from the utilization of a commercial paper program.

31. Further information on other liabilities

The other liabilities are due as follows:

	Dec. 31, 2004			Dec. 31, 2005		
	Maturing in 2006	Maturing in 2007–2010	Maturing after 2010	Maturing in 2006	Maturing in 2007–2010	Maturing after 2010
€ million						
Debentures	40	3,320	2,000	336	2,157	3,300
Liabilities to banks	6	25	8	5	16	6
Trade accounts payable	35	–	–	25	–	–
Payables to subsidiaries	8,951	–	–	9,512	11	24
Miscellaneous liabilities	643	–	–	445	24	23
	9,675	**3,345**	**2,008**	**10,323**	**2,208**	**3,353**

The total of other liabilities includes €397 million (2004: €269 million) representing amounts – mainly interest and payroll liabilities – attributable to the fiscal year but not due to be paid until after the closing date.

Other information

32. Contingent liabilities

Contingent liabilities include sureties of €10 million (2004: €9 million), including €4 million (2004: €3 million) for subsidiaries.

Bayer AG has also assumed debt guarantees and issued letters of comfort totaling €2,032 million (2004: €2,521 million) to other Group companies.

Bayer AG has thus guaranteed the following capital market instruments issued by Bayer Corporation Holding, U.S.A.: USD 350 million (€297 million) of 6.65 % Notes due in 2028; USD 200 million (€169 million) of 7.125 % Notes due in 2015; USD 250 million (€212 million) of Puttable Reset Securities due in 2028 at the latest; and €460 million EMTN Notes with a coupon of 3.75 % due in 2009. Utilization of the Global Commercial Paper Program of Bayer Corporation Holding, which is guaranteed by Bayer AG, amounted to USD 205 million (€174 million) at December 31, 2005. In addition, a USD 209 million (€177 million) guarantee exists with respect to a lease agreement concluded by Bayer Corporation Holding. Bayer AG has also given guarantees to the creditors of USD 70 million (€59 million) in loans granted to Bayer (China) Ltd. and loans granted to Bayer Polymers Shanghai Co. Ltd., China, for Renminbi Yuan 887 million and USD 8 million (€100 million together). Further guarantees total €35 million. Letters of comfort have been issued for a total of €349 million.

In addition to the commitments outlined above, Bayer AG bears joint and several liability under Article 133 of the Companies' Reorganization Act for the liabilities of the business and service areas transferred to legally separate entities where such liabilities relate to the period prior to the transfers. The same applies to the liabilities of LANXESS AG, which was spun off effective July 1, 2004. Liability continues for five years from the effective dates of the respective transfers. The Spin-Off and Acquisition Agreement specifies that Bayer AG and LANXESS AG shall release the other party from those liabilities each has assumed as principal debtor under that Agreement. Bayer AG and LANXESS AG also signed a master agreement covering the apportionment of general liability and of specific liability for environmental contamination, antitrust violations and product liability.

33. Other financial commitments

In addition to provisions, other liabilities and contingent liabilities, there are also other financial commitments.

Minimum non-discounted future payments relating to operating leases total €237 million (2004: €334 million), of which €174 million (2004: €243 million) relates to lease and rental agreements with subsidiaries. The entire latter amount pertains to the two real-estate companies KG III Augusta and Gigas, through which the Agricultural Center in Monheim is financed, and to Bayer Industry Services GmbH & Co. OHG. The commitments under lease and rental agreements mature as follows:

Maturing in	
€ million	
2006	28
2007	35
2008	23
2009	22
2010	21
2011 or later	108
	237

34. Derivative financial instruments

Bayer AG uses derivative financial instruments principally to hedge foreign exchange and interest rate risks. It generally uses over-the-counter (OTC) instruments, particularly forward rate contracts, currency options, interest rate swaps, and interest/principal swaps. All transactions are executed with banks of high credit standing. The instruments are employed according to uniform guidelines and are subject to strict internal controls. Their use is generally confined to the hedging of the operating business and of the related investments and financing transactions. Interest options and interest swaps are used to achieve the defined benchmarks for interest rates. In the commodities markets Bayer AG concludes derivatives agreements with external counterparties to hedge raw material and energy prices on behalf of Group companies.

The main objective in using derivative financial instruments is to reduce fluctuations in cash flows and earnings associated with changes in interest rates, foreign exchange rates and market prices.

The notional amount of financial derivative contracts concluded with external counterparties was €16.0 billion on December 31, 2005 (2004: €10.5 billion). Back-to-back derivatives contracts in a notional amount of €3.8 billion (2004: €3.5 billion) were concluded with Group companies. The notional amounts of derivative financial derivatives totaled €19.8 billion (2004: €14.0 billion) on the closing date and were comprised as follows:

	Notional amount		Fair value		Carrying amount	
	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005
€ million						
Forward rate contracts						
– positive fair values	3,052	3,375	115	77		
– negative fair values	3,622	3,498	(103)	(142)		
	6,674	**6,873**	**12**	**(65)**	**(60)**	**(67)**
Interest/principal swaps						
– positive fair values	753	614	259	58		
– negative fair values	734	593	(302)	(56)		
	1,487	**1,207**	**(43)**	**2**	**(47)**	**0**
Interest swaps						
– positive fair values	4,801	6,215	199	172		
– negative fair values	447	3,742	(20)	(56)		
	5,248	**9,957**	**179**	**116**	**(20)**	**0**
Interest options						
– positive fair values	–	500	–	2		
– negative fair values	–	500	–	(1)		
	–	**1,000**	**–**	**1**	**–**	**1**
Share options						
– positive fair values	42	88	7	30		
– negative fair values	–	–	–	–		
	42	**88**	**7**	**30**	**6**	**16**
Commodity contracts						
– positive fair values	225	314	64	452		
– negative fair values	225	314	(64)	(452)		
	550	**628**	**0**	**0**	**0**	**0**
	14,001	**19,753**	**155**	**84**	**(121)**	**(50)**

To hedge currency risks Bayer AG mainly uses forward rate agreements, currency options and cross-currency interest swaps. Hedging is focused on financial exposure. To hedge the currency risk arising from receivables and liabilities at Group companies relating to business activities, contracts in a notional amount of €3.6 billion were concluded with external counterparties. Back-to-back transactions with Group companies total €2.3 billion. The net market value of these transactions is €62 million.

External forward rate agreements and currency options in a notional amount of €1.0 billion exist mainly to hedge anticipated exposures, i.e. planned sales. Back-to-back agreements of the same amount are concluded with Group companies. The positive and negative fair values of these transactions therefore cancel each other out.

Other forward rate agreements in a nominal amount of €0.1 billion have a net negative fair value of €1 million.

Interest rate swaps are mainly used to hedge the interest risk relating to bonds issued by Bayer AG. These comprise a notional amount of €5.3 billion and have a net positive fair value of €3 million. To manage interest rates and meet the benchmarks set, interest swaps with a notional value of €0.4 billion existed on the reporting data. Their net fair value was zero. Further interest swaps with exactly the opposite economic profile were concluded during the year as back-to-back arrangements. The notional value of these arrangements is €4.2 billion and they have a net positive fair value of €113 million.

Caps were also used to manage interest rates. The premiums paid on these interest options have been capitalized and options received have been recognized as liabilities. Their notional amount totals €1 billion. These transactions have a net positive fair value of €1 million.

Bayer AG and other Group companies have established a variety of stock programs for their employees, all of which run for several years. These programs entail the issue of free shares in Bayer AG or equivalent cash payments to employees upon the fulfillment of specific criteria. Bayer AG has purchased options to hedge the risk of fluctuations in the share price. These are recognized in other assets at the lower of cost or market. They amounted to €16 million on December 31, 2005 (2004: € 6 million).

The external commodity futures and options contracts were passed on to group companies on reciprocal terms, so no income was derived. To avoid double-counting, the method used to calculate notional amounts was altered in 2005. The prior-year figures have been restated. Contrary to previous practice, fair values are not stated as net amounts for 2005. The prior-year figures have been restated.

The fair value of derivative financial instruments is derived from the price at which they are quoted or traded. If no market price is available, the value is determined using capital market pricing models.

In 2005 currency derivatives, in other words forward rate agreements, currency options and interest/principal swaps, were recognized for the first time using the limited mark-to-market method. For this purpose, currency derivatives used for hedging purposes are valued at fair value on the reporting data and the underlying foreign currency receivables and payables are valued using spot rates on the reporting date. The resultant unrealized gains and losses in each currency are then netted. Provisions totaling €67 million have been established for any net unrealized losses resulting from this valuation method. These are recognized under other provisions. Net unrealized gains are not recognized.

Wherever possible, interest swaps and commodity derivatives are valued in closed positions with the corresponding underlyings, so no unrealized gains or losses had to be recognized.

Interest options are capitalized at the lower of cost or market value and recognized as liabilities using the higher of cost or market value. As of December 31, 2005, capitalized interest options totaled €2 million. Interest option liabilities totaled €1 million. They are recognized in the balance sheet in other assets and miscellaneous liabilities respectively.

35. Audit fees

The following fees for the services of the auditor of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, were recognized as expenses in the 2005 fiscal year:

	2005
€ million	
Fees for financial statements auditing	2.2
Fees for audit related services and other audit work	2.9
Fees for other services	0.8
	5.9

The fees for the auditing of financial statements mainly comprise those for the audits of the financial statements of Bayer AG and the consolidated financial statements of the Bayer Group. Fees for audit related services and other audit work primarily relate to audits of the internal control system, including project audits in connection with the implementation of new IT systems, and auditor review of interim financial statements.

36. Total remuneration of the Board of Management and the Supervisory Board, advances and loans

The remuneration of the Board of Management comprises an annual base salary, a fixed supplement, and a variable bonus that is oriented to the achievement of defined EBITDA targets for the Bayer Group. In addition, members of the Board of Management can participate in a cash-settlement-based stock option program provided that they place shares of their own in a special deposit account. This serves as a further performance-related remuneration component.

The total remuneration of members of the Board of Management in 2005 amounted to €7,064,828 (2004: €6,518,626), comprising €1,985,580 (2004: €1,884,929) in base salaries, €837,073 (2004: €810,573) in fixed supplements and €4,085,754 (2004: €3,665,880) in variable bonuses. Also included in the total is an aggregate €156,421 (2004: €157,244) of remuneration in kind, consisting mainly of amounts such as the value assigned for taxation purposes to the use of a company car, and other payments. Other payments of €55,086 included in base salaries in the previous year have been reclassified.

The remuneration of the individual members of the Board of Management for 2005 was as follows:

	Base salary	Fixed supplement	Variable bonus	Remuneration in kind and other payments	Total
€					
Klaus Kühn	412,236	170,647	843,713	35,266	1,461,862
Dr. Udo Oels	412,236	170,647	843,713	41,942	1,468,538
Dr. Richard Pott	412,236	170,647	843,713	39,044	1,465,640
Werner Wenning	748,872	325,132	1,554,615	40,169	2,668,788
	1,985,580	**837,073**	**4,085,754**	**156,421**	**7,064,828**

In addition, the members of the Board of Management participate in the long-term stock-based compensation program Aspire 1 (2005 tranche). The target awards and the fair values of the entitlements under this program at the time they were granted are as follows:

		Fair value	
	Target awards €	% of target awards	€
Klaus Kühn	233,150	59.04	137,652
Dr. Udo Oels	233,150	59.04	137,652
Dr. Richard Pott	233,150	59.04	137,652
Werner Wenning	429,600	59.04	253,636
	1,129,050		**666,592**

Emoluments to retired members of the Board of Management and their surviving dependents amounted to €10, 323,009 (2004: €9,917,575).

Pension provisions for these individuals, amounting to €91,129,996 (2004: €91,330,601) are reflected in the balance sheet of Bayer AG.

The remuneration of the Supervisory Board amounted to €1,989,000 (2004: €1,173,000). Of this, variable components accounted for €459,000 (2004: €153,000).

There were no loans to members of the Board of Management or the Supervisory Board outstanding as of December 31, 2005, nor any repayments of such loans during the year.

Proposal for the Distribution of the Profit

The financial statements of Bayer AG show a balance sheet profit of €694 million. We propose that this amount be used to pay a divided of €0.95 per no-par share on the capital stock of €1,870 million entitled to the dividend for 2005.

Leverkusen, February 21, 2006

Bayer Aktiengesellschaft

The Board of Management

Supervisory Board and Board of Management

Supervisory Board

Hermann Josef Strenger
Honorary Chairman, Leverkusen

Members of the Supervisory Board hold or held offices as members of the supervisory board or a comparable supervising body of the corporations listed (as at December 31, 2005 or the date on which they ceased to be members of the Supervisory Board of Bayer AG):

Dr. Manfred Schneider
Chairman of the Supervisory Board, Leverkusen
* December 21, 1938
Allianz AG
DaimlerChrysler AG
Linde AG (Chairman)
Metro AG
RWE AG
TUI AG

Erhard Gipperich
(until January 31, 2006)
Vice Chairman of the Supervisory Board;
Chairman of the Bayer Group Works Council,
Leverkusen
* April 30, 1942
Baywoge GmbH

Dr. Paul Achleitner
Member of the Board of Management
of Allianz AG, Munich
* September 28, 1956
Allianz Global Investors AG
Allianz Immobilien GmbH
MAN AG (until June 18, 2005)
RWE AG

Dr. Josef Ackermann
Chairman of the Board of Managing Directors
(effective February 1, 2006) and Chairman
of the Group Executive Committee of
Deutsche Bank AG, Frankfurt am Main
* February 7, 1948
Deutsche Lufthansa AG
Linde AG
Siemens AG

Andreas Becker
(effective April 29, 2005)
Chairman of the Works Council
of H.C. Starck, Laufenburg
* March 1, 1959
H.C. Starck GmbH

Karl-Josef Ellrich
Chairman of the Works Council of Bayer AG,
Dormagen
(Chairman of the Bayer Group Works Council
effective February 10, 2006), Leverkusen
* October 5, 1949
Bayer CropScience AG

Dr. Thomas Fischer
(effective October 1, 2005)
Graduate Engineer, Dormagen
* August 27, 1955
Bayer MaterialScience AG

Thomas Hellmuth
Agricultural Engineer, Langenfeld
* May 29, 1956

Prof. Dr. Ing. e. h. Hans-Olaf Henkel
Honorary Professor at the University
of Mannheim, Berlin
* March 14, 1940
Continental AG
DaimlerChrysler Aerospace AG
SMS GmbH
Brambles Industries
Orange SA
Ringier AG

Gregor Jüsten
(effective February 1, 2006)
Member of the Bayer Works Council, Leverkusen
* December 13, 1948

Dr. rer. pol. Dipl.-Kfm. Klaus Kleinfeld
(effective April 29, 2005)
President and Chief Executive
Officer of Siemens AG, Munich
* November 6, 1957
Alcoa Inc.
Citigroup Inc. (effective July 18, 2005)

Dr. h. c. Martin Kohlhaussen
Chairman of the Supervisory Board of Commerzbank AG, Frankfurt am Main
* November 6, 1935
Heraeus Holding GmbH
Hochtief AG (Chairman)
Intermediate Capital Group (until June 2005)
National Pensions Reserve Fund (until April 2005)
Schering AG
ThyssenKrupp AG
Verlagsgruppe Georg von Holtzbrinck GmbH

John Christian Kornblum
Chairman of Lazard & Co. GmbH, Berlin
* February 6, 1943
Motorola Inc.
ThyssenKrupp Technologies AG

Petra Kronen
Chairwoman of the Works Council of Bayer AG, Uerdingen
* August 22, 1964
Bayer MaterialScience AG

Dr. Heinrich von Pierer
(until April 29, 2005)
Chairman of the Supervisory Board of Siemens AG, Munich
* January 26, 1941
Deutsche Bank AG (effective May 18, 2005)
Hochtief AG
Münchener Rückversicherungs-Gesellschaft AG
ThyssenKrupp AG (effective January 21, 2005)
Volkswagen AG

Wolfgang Schenk
(until September 30, 2005)
Graduate Engineer, Leverkusen
* September 24, 1953

Hubertus Schmoldt
Chairman of the German Mine, Chemical and Power Workers' Union, Hannover
* January 14, 1945
BHW AG
Deutsche BP AG
DOW Olefinverbund GmbH
E.ON AG
RAG AG
RAG Coal International

Dieter Schulte
Former Chairman of the German Unions Federation, Duisburg
* January 13, 1940

Dr.-Ing. Ekkehard D. Schulz
(effective April 29, 2005)
Chairman of the Executive Board of ThyssenKrupp AG, Düsseldorf
* July 24, 1941
AXA Konzern AG
Commerzbank AG
Deutsche Bahn AG
MAN AG (Chairman effective June 3, 2005)
RAG AG (Vice Chairman)
TUI AG
ThyssenKrupp Automotive AG
Thyssenkrupp Elevator AG (Chairman effective October 26, 2005)
Thyssen Services AG
ThyssenKrupp Steel Beteiligungen AG (until December 9, 2005)

Dipl.-Ing. Dr. Ing. e.h. Jürgen Weber
Chairman of the Supervisory Board of Deutsche Lufthansa AG, Frankfurt am Main
* October 17, 1941
Allianz Lebensversicherungs-AG
Deutsche Bank AG
Deutsche Post AG
Thomas Cook AG (Chairman until October 31, 2005)
Voith AG
Loyalty Partner GmbH (Chairman)
Tetra Laval Group

Committees of the Supervisory Board of Bayer AG as at December 31, 2005	
Presidial Committee/Mediation Committee	Schneider (Chairman), Achleitner, Gipperich, Schmoldt
Audit Committee	Kohlhaussen (Chairman), Fischer, Henkel, Schneider, Wendlandt, de Win
Human Resources Committee	Schneider (Chairman), Ellrich, Kohlhaussen, Kronen

Siegfried Wendlandt
North Rhine District Secretary of the German Mine, Chemical and Power Workers' Union, Düsseldorf
* July 27, 1947
Baywoge GmbH
HT Troplast AG
Rütgers AG (until June 2005)

Reinhard Wendt
(until April 29, 2005)
Chairman of the Works Council of Wolff Walsrode AG, Walsrode
* March 6, 1945
Wolff Walsrode AG
(until April 30, 2005)

Thomas de Win
Vice Chairman of the Supervisory Board (effective March 2, 2006);
Chairman of the Bayer Central Works Council, Leverkusen
* November 21, 1958
Bayer MaterialScience AG
(effective July 19, 2005)

**Prof. Dr. Dr. h. c.
Ernst-Ludwig Winnacker**
President of the German Research Association (DFG), Bonn
* July 26, 1941
KWS Saat AG
Medigene AG (Chairman)
Wacker Chemie AG
(effective September 26, 2005)

Dr. Hermann Wunderlich
(until April 29, 2005)
Former Vice Chairman of the company's Board of Management, Odenthal
* April 29, 1932

Board of Management

Members of the Board of Management hold or held offices as members of the supervisory board or a comparable supervising body of the corporations listed (as at December 31, 2005):

Werner Wenning
Chairman of the Board of Management
* October 21, 1946
Gerling-Konzern Versicherungs-Beteiligungs AG
Henkel KGaA

Klaus Kühn
* February 11, 1952
Bayer CropScience AG (Chairman)
Bayer Business Services GmbH (Chairman)

Dr. Wolfgang Plischke
(effective March 1, 2006)
* September 15, 1951

Dr. Udo Oels
* January 2, 1944
Bayer Chemicals AG
(until January 20, 2005)
Bayer Industry Services Geschäftsführungs-GmbH (Chairman)
Bayer Technology Services GmbH (Chairman)
ThyssenKrupp Services AG

Dr. Richard Pott
* May 11, 1953
Bayer HealthCare AG (Chairman)
Bayer MaterialScience AG
(Chairman)

MASTHEAD

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Bayer AG, 51368 Leverkusen,
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e-mail: peter.dahlhoff.pd1@bayer-ag.de
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Forward-Looking Statements

These financial statements contain 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 these financial statements.

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.