Stockholders' Newsletter 2005

Dynamic sales and earnings growth continues

Interim Report as of June 30, 2005

Bayer Group Key Data

€ million	2nd Quarter			1st Half			Full Year
	2004	2005	Change	2004	2005	Change	2004
Net sales	**5,890**	**7,053**	**+ 19.7%**	**11,682**	**13,757**	**+ 17.8%**	**23,278**
Change in sales							
Volume	+ 6%	0%		+ 9%	+ 1%		+ 8%
Price	+ 1%	+ 11%		0%	+ 9%		+ 1%
Currency	– 3%	– 1%		– 5%	– 1%		– 4%
Portfolio	– 1%	+ 10%		– 2%	+ 9%		– 1%
EBITDA[1]	**1,016**	**1,179**	**+ 16.0%**	**2,246**	**2,616**	**+ 16.5%**	**3,834**
of which special items	(101)	(106)		(108)	(244)		(235)
Operating result (EBIT)	**510**	**746**	**+ 46.3%**	**1,264**	**1,750**	**+ 38.4%**	**1,875**
of which special items	(105)	(106)		(112)	(244)		(242)
Return on sales	8.7%	10.6%	+ 21.8%	10.8%	12.7%	+ 17.6%	8.1%
Non-operating result	**(214)**	**(129)**	**+ 39.7%**	**(330)**	**(260)**	**+ 21.2%**	**(657)**
Net income	**146**	**406**	**+ 178.1%**	**565**	**1,058**	**+ 87.3%**	**685**
Earnings per share (€)	0.20	0.56		0.77	1.45		0.94
Gross cash flow[2]	**712**	**908**	**+ 27.5%**	**1,579**	**2,009**	**+ 27.2%**	**2,885**
Net cash flow[3]	**1,075**	**1,015**	**– 5.6%**	**870**	**789**	**– 9.3%**	**2,262**
Capital expenditures (total)	**237**	**271**	**+ 14.3%**	**422**	**452**	**+ 7.1%**	**1,251**
Research and development expenses	**469**	**484**	**+ 3.2%**	**921**	**907**	**– 1.5%**	**1,927**
Depreciation and amortization	**506**	**433**	**– 14.4%**	**982**	**866**	**– 11.8%**	**1,959**
Number of employees at end of period				**92,000**	**93,200**	**+ 1.3%**	**91,700**
Personnel expenses	1,396	1,534	+ 9.9%	2,907	3,043	+ 4.7%	6,026

[1] EBITDA = operating result (EBIT) plus depreciation and amortization
[2] Gross cash flow = operating result (EBIT) plus depreciation and amortization, minus income taxes, minus gains/plus losses on retirements of noncurrent assets, plus/minus changes in pension provisions
[3] Net cash flow = cash flow from operating activities according to IAS 7

2004 figures restated (for details see notes beginning on page 32)

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Cover picture:
View of the DVD lab at Bayer MaterialScience:
Makrolon® polycarbonate is used
in the manufacture of CDs and DVDs.

Dynamic sales and earnings growth continues

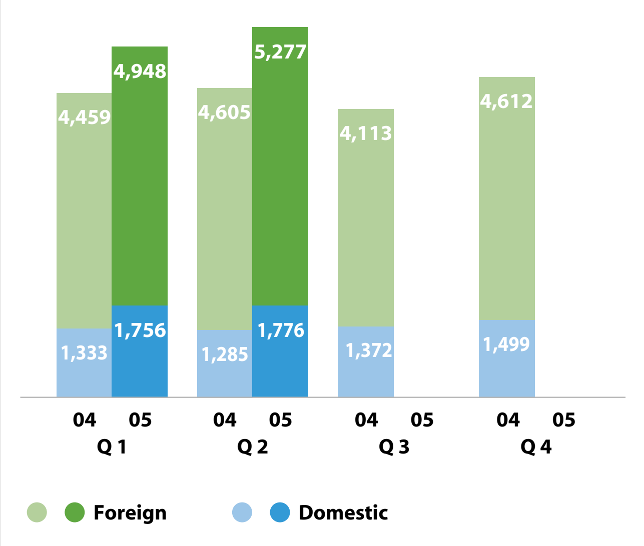
- Sales advance by 20 percent to more than €7 billion in the second quarter
- Underlying EBIT up 39 percent
- HealthCare and MaterialScience post substantially higher earnings
- Group net income almost tripled to €406 million
- Full-year 2005 guidance raised significantly

Overview of Sales, Earnings and Financial Position

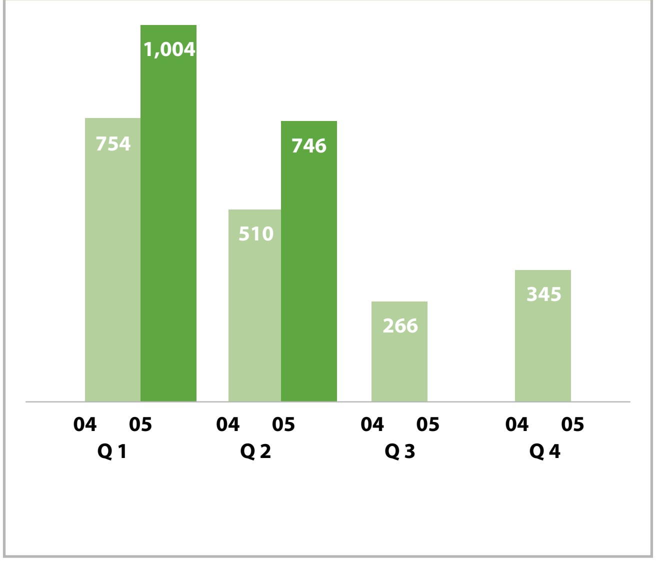
Bayer turned in a strong performance in the second quarter. We further improved all major business indicators for the Group, bringing us another step closer to meeting our profitability targets.

Group sales rose 19.7 percent year on year, to €7,053 million. Adjusted for currency and portfolio effects, sales increased by 11.2 percent. The growth in business resulted mainly from continuing high demand for the products of our MaterialScience subgroup, which succeeded in raising selling prices considerably compared with the second quarter of 2004. The HealthCare business also grew strongly. CropScience has not yet met our high expectations.

Net Sales by Point of Origin (€ million)



Operating Result (EBIT) (€ million)

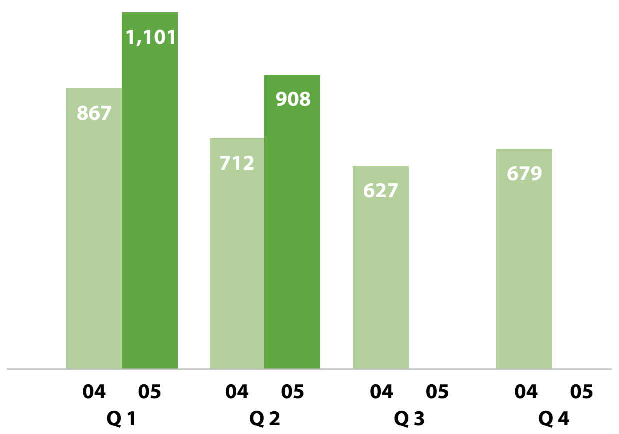


The pleasing overall business trend led to a considerable improvement in the second-quarter operating result. EBIT before special items increased 38.5 percent to €852 million, driven by higher margins at MaterialScience and HealthCare along with additional cost savings and efficiency improvements. The continued drought in Brazil and southern Europe hampered business development in the CropScience subgroup, where underlying EBIT declined. Bayer Group EBITDA before special items advanced 15.0 percent to €1,285 million.

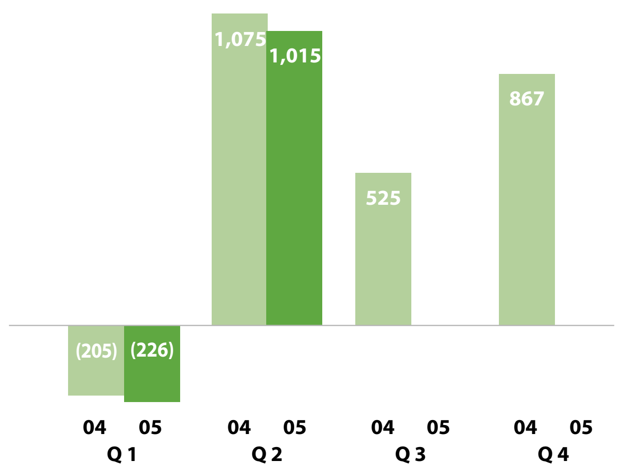
Second-quarter earnings were impacted by net special charges of €106 million (2004: €105 million), including €74 million in litigation-related charges, €25 million in restructuring expenses at CropScience, and €17 million in integration costs for the consumer health business acquired from Roche.

Second-quarter EBIT after special items climbed by 46.3 percent to €746 million (2004: €510 million). EBITDA also increased considerably in the same period, rising 16.0 percent to €1,179 million (2004: €1,016 million). After deducting the non-operating result of minus €129 million (2004: minus €214 million), pre-tax income came to €617 million (2004: €296 million). Group net income after income taxes and minority interests – including after-tax income from discontinued operations – increased significantly to €406 million (2004: €146 million).

Gross Cash Flow (€ million)



Net Cash Flow (€ million)



The improvement in second-quarter EBIT lifted gross cash flow by 27.5 percent to €908 million (2004: €712 million). Although the volume of business remained high, we reduced working capital slightly compared with the first quarter. Net cash flow came to €1,015 million (2004: €1,075 million).

We also recorded a gratifying operating performance for the first six months as a whole. Sales advanced by a substantial 17.8 percent to €13,757 million. EBIT before special items rose to €1,994 million (+44.9 percent), with reported EBIT also showing a substantial year-on-year improvement to €1,750 million (+38.4 percent). EBITDA increased 16.5 percent in the first half to €2,616 million. Thanks to the improvement in the operating result, first-half net income increased by 87.3 percent to €1,058 million (2004: €565 million).

We reduced net debt by €240 million compared with March 31, 2005, to €6,875 million on June 30.

Outlook

Bayer remains on course for growth. We are confident that the Group will again improve its operating performance in the second half of the year and are therefore raising our sales and earnings targets for the full year.

We now expect Group sales to exceed €26 billion against previous guidance of over €25 billion. EBIT before special items is forecast to rise by about 40 percent, compared with our previous guidance of 20 percent. The 2004 figure was €2,117 million.

MaterialScience is still expected to make the largest contribution to earnings growth, depending of course on the development of the economy and the trend in raw material prices.

We continue to predict that CropScience, too, will report a clear rise in underlying EBIT, helped by anticipated cost reductions in the second half of the year.

We are increasingly optimistic about the outlook for HealthCare, and are therefore raising our full-year guidance for this subgroup once again: We now expect underlying EBIT from this business to be at least 10 percent higher than in 2004.

We anticipate that changes to our pension plans in the United States and Germany will result in non-cash one-time income of around €200 million in the third quarter. Including this effect, we expect to take net special charges (excluding any additional litigation-related expenses) of between €100 million and €150 million for the full year.

Performance by Subgroup

Our realigned business activities are grouped in the Bayer HealthCare, Bayer CropScience and Bayer MaterialScience subgroups. In view of the changes in the Bayer Group's portfolio, especially the spin-off of LANXESS and the acquisition of the Roche OTC (over-the-counter) medicines business, we have altered our segmentation in 2005 as shown below. Full details of the new reporting segments are given in the notes on page 35.

Subgroups	Segments
HealthCare	Pharmaceuticals, Biological Products
	Consumer Care
	Diabetes Care, Diagnostics
	Animal Health
CropScience	Crop Protection
	Environmental Science, BioScience
MaterialScience	Materials
	Systems

Bayer HealthCare

€ million	2nd Quarter 2004	2nd Quarter 2005	Change %	1st Half 2004	1st Half 2005	Change %
Net sales	**2,007**	**2,370**	**+ 18.1**	**4,039**	**4,505**	**+ 11.5**
EBITDA*	**335**	**366**	**+ 9.3**	**710**	**668**	**– 5.9**
Operating result (EBIT)	**217**	**258**	**+ 18.9**	**495**	**441**	**– 10.9**
of which special items	0	(81)		0	(200)	
Gross cash flow*	**205**	**258**	**+ 25.9**	**457**	**460**	**+ 0.7**
Net cash flow*	**340**	**221**	**– 35.0**	**402**	**288**	**– 28.4**

Best-Selling Products						
Ascensia® product line (Diabetes Care)	157	191	+ 21.7	293	331	+ 13.0
Adalat® (Pharmaceuticals)	172	167	– 2.9	340	320	– 5.9
Kogenate® (Biological Products)	135	174	+ 28.9	256	299	+ 16.8
Aspirin® (Consumer Care/Pharmaceuticals)	140	156	+ 11.4	287	296	+ 3.1
Ciprobay®/Cipro® (Pharmaceuticals)	202	114	– 43.6	483	272	– 43.7
ADVIA Centaur® System (Diagnostics)	112	130	+ 16.1	216	243	+ 12.5
Avalox®/Avelox® (Pharmaceuticals)	55	78	+ 41.8	159	181	+ 13.8
Glucobay® (Pharmaceuticals)	70	75	+ 7.1	143	146	+ 2.1
Advantage®/Advantix® (Animal Health)	67	77	+ 14.9	112	131	+ 17.0
Levitra® (Pharmaceuticals)	40	63	+ 57.5	106	123	+ 16.0
Trasylol® (Pharmaceuticals)	30	56	+ 86.7	73	101	+ 38.4
Rapidlab®/Rapidpoint® (Diagnostics)	38	40	+ 5.3	74	77	+ 4.1
Baytril® (Animal Health)	33	33	0.0	72	73	+ 1.4
Clinitek Urinalysis® (Diagnostics)	38	39	+ 2.6	68	72	+ 5.9
ADVIA Hematology® (Diagnostics)	31	35	+ 12.9	61	68	+ 11.5
Total	**1,320**	**1,428**	**+ 8.2**	**2,743**	**2,733**	**– 0.4**
Proportion of Bayer HealthCare sales	66%	60%		68%	61%	

Pharmaceuticals, Biological Products						
Net sales	**939**	**988**	**+ 5.2**	**2.023**	**1,940**	**– 4.1**
Pharmaceuticals	744	746	+ 0.3	1.650	1,512	– 8.4
Biological Products	195	242	+ 24.1	373	428	+ 14.7
EBITDA*	**114**	**145**	**+ 27.2**	**314**	**272**	**– 13.4**
Operating result (EBIT)	**65**	**109**	**+ 67.7**	**230**	**195**	**– 15.2**
of which special items	0	(20)		0	(118)	
Gross cash flow*	**68**	**106**	**+ 55.9**	**185**	**180**	**– 2.7**
Net cash flow*	**173**	**143**	**– 17.3**	**123**	**51**	**– 58.5**

* for definition see Bayer Group Key Data on page 2

The **Bayer HealthCare** subgroup lifted **sales** 18.1 percent year on year to €2,370 million, mainly because of the acquisition of the Roche consumer health business. Currency- and portfolio-adjusted sales were 5.4 percent higher than in the previous year. The upward trend was driven primarily by above-market growth in the Diabetes Care, Diagnostics and Biological Products divisions.

Second-quarter **EBIT** improved by 18.9 percent to €258 million. Before special items totaling €81 million, EBIT increased by €122 million to €339 million (+ 56.2 percent).

Pharmaceuticals, Biological Products

Sales of the **Pharmaceuticals, Biological Products** segment increased by €49 million, or 5.2 percent, year on year to €988 million.

Sales of the Pharmaceuticals Division in the second quarter came to €746 million (+0.3 percent). Good business with products such as Trasylol®, Avelox® and Levitra® more than offset the sales declines in the United States resulting from the expiration of market exclusivity for Cipro® and Schering-Plough's marketing of our primary care products. Second-quarter sales of Avelox® rose by 41.8 percent year on year due to a heavy flu season in Europe and the United States. The exceptional jump in sales of Trasylol®, which were 86.7 percent higher than in the prior-year quarter, was the result of increased demand from U.S. wholesalers. Trasylol® sales grew in the first six months of 2005 by 38.4 percent overall.

The Biological Products Division lifted sales by €47 million to €242 million in the second quarter, with €39 million of this growth coming from Kogenate® (+28.9 percent). The increase in Kogenate® sales was mainly attributable to strong business in Europe, where we continued to gain market share.

As a result of the positive business trend, earnings from the alliance with Schering-Plough and cost savings, **EBIT** rose by €44 million to €109 million in the second quarter. That includes expenses of €20 million in connection with the Lipobay/Baycol litigation. Before these special charges, EBIT almost doubled (+98.5 percent).

€ million	2nd Quarter 2004	2nd Quarter 2005	Change %	1st Half 2004	1st Half 2005	Change %
Consumer Care						
Net sales	**333**	**592**	**+ 77.8**	**659**	**1,115**	**+ 69.2**
EBITDA*	**65**	**59**	**– 9.2**	**134**	**102**	**– 23.9**
Operating result (EBIT)	**47**	**34**	**– 27.7**	**100**	**45**	**– 55.0**
of which special items	0	(61)		0	(82)	
Gross cash flow*	**40**	**31**	**– 22.5**	**93**	**68**	**– 26.9**
Net cash flow*	**21**	**2**	**– 90.5**	**83**	**94**	**+ 13.3**
Diabetes Care, Diagnostics						
Net sales	**510**	**561**	**+ 10.0**	**954**	**1,022**	**+ 7.1**
Diabetes Care	168	194	+ 15.5	309	337	+ 9.1
Diagnostics	342	367	+ 7.3	645	685	+ 6.2
EBITDA*	**104**	**114**	**+ 9.6**	**173**	**191**	**+ 10.4**
Operating result (EBIT)	**60**	**72**	**+ 20.0**	**88**	**109**	**+ 23.9**
of which special items	0	0		0	0	
Gross cash flow*	**64**	**89**	**+ 39.1**	**120**	**145**	**+ 20.8**
Net cash flow*	**108**	**54**	**– 50.0**	**151**	**114**	**– 24.5**
Animal Health						
Net sales	**225**	**229**	**+ 1.8**	**403**	**428**	**+ 6.2**
EBITDA*	**52**	**48**	**– 7.7**	**89**	**103**	**+ 15.7**
Operating result (EBIT)	**45**	**43**	**– 4.4**	**77**	**92**	**+ 19.5**
of which special items	0	0		0	0	
Gross cash flow*	**33**	**32**	**– 3.0**	**59**	**67**	**+ 13.6**
Net cash flow*	**38**	**22**	**– 42.1**	**45**	**29**	**– 35.6**

* for definition see Bayer Group Key Data on page 2

Consumer Care

Sales of the **Consumer Care** segment advanced by 77.8 percent in the second quarter to €592 million, with the OTC business acquired from Roche contributing sales of €277 million.

Integration of the Roche OTC business is proceeding on schedule. Sales of products acquired through this transaction such as Bepanthen®/Bepanthol®, Rennie® and Supradyn® showed further pleasing increases from first-quarter levels.

Although demand for Aleve® picked up following the FDA Advisory Committee's positive findings in connection with the debate about non-steroidal anti-inflammatory drugs (NSAIDS) in the United States, currency-adjusted sales were down 28.4 percent year on year.

EBIT of the Consumer Care segment was €34 million, down €13 million from the same period of 2004. Before €44 million in special charges related to the PPA litigation and €17 million in integration costs for the OTC acquisition, EBIT increased to €95 million (+102.1 percent), mainly on account of the OTC products acquired from Roche.

Diabetes Care, Diagnostics

Sales of the **Diabetes Care, Diagnostics** segment rose by €51 million, or 10.0 percent, to €561 million.

In the Diabetes Care Division, sales increased 15.5 percent to €194 million thanks to strong growth in the United States and Europe. Sales of the Diagnostics Division advanced 7.3 percent to €367 million.

This segment's **EBIT** improved to €72 million (+20.0 percent) due to the positive business trend.

Animal Health

Second-quarter **sales** of the **Animal Health** segment were 1.8 percent higher at €229 million.

In Europe business was slightly down from the previous year, partly because sales in the prior-year quarter had been boosted by initial orders for the newly launched flea and tick control product Advantix®. However, the decline in Europe was more than offset by strong growth in other regions and the market launch of Advocate®, a combination antiparasitic for dogs and cats.

EBIT was almost unchanged year on year at €43 million.

Bayer CropScience

€ million	2nd Quarter 2004	2nd Quarter 2005	Change %	1st Half 2004	1st Half 2005	Change %
Net sales	**1,642**	**1,604**	**– 2.3**	**3,374**	**3,348**	**– 0.8**
EBITDA*	**341**	**306**	**– 10.3**	**897**	**863**	**– 3.8**
Operating result (EBIT)	**159**	**162**	**+ 1.9**	**538**	**576**	**+ 7.1**
of which special items	(41)	(25)		(41)	(34)	
Gross cash flow*	**192**	**231**	**+ 20.3**	**539**	**618**	**+ 14.7**
Net cash flow*	**585**	**613**	**+ 4.8**	**346**	**234**	**– 32.4**

Best-Selling Products						
Confidor®/Gaucho®/Admire®/Merit® (Insecticides/Seed Treatment/ Environmental Science)	158	154	– 2.5	329	325	– 1.2
Folicur®/Raxil® (Fungicides/Seed Treatment)	104	86	– 17.3	212	183	– 13.7
Puma® (Herbicides)	82	73	– 11.0	142	140	– 1.4
Basta®/Liberty® (Herbicides)	73	79	+ 8.2	123	138	+ 12.2
Betanal® (Herbicides)	64	52	– 18.8	116	104	– 10.3
FLINT®/Stratego®/Sphere® (Fungicides)	53	38	– 28.3	113	87	– 23.0
Proline® (Fungicides)	24	50	+ 108.3	24	86	•
Decis®/K-Othrine® (Insecticides/Environmental Science)	54	47	– 13.0	92	85	– 7.6
Temik® (Insecticides)	20	21	+ 5.0	68	61	– 10.3
Hussar® (Herbicides)	21	23	+ 9.5	60	61	+ 1.7
Total	**653**	**623**	**– 4.6**	**1,279**	**1,270**	**– 0.7**
Proportion of Bayer CropScience sales	40%	39%		38%	38%	

Crop Protection						
Net sales	**1,352**	**1,318**	**– 2.5**	**2,768**	**2,735**	**– 1.2**
Insecticides	383	344	– 10.2	769	708	– 7.9
Fungicides	349	369	+ 5.7	688	716	+ 4.1
Herbicides	547	524	– 4.2	1,100	1,079	– 1.9
Seed Treatment	73	81	+ 11.0	211	232	+ 10.0
EBITDA*	**266**	**235**	**– 11.7**	**694**	**678**	**– 2.3**
Operating result (EBIT)	**119**	**110**	**– 7.6**	**402**	**432**	**+ 7.5**
of which special items	(41)	(21)		(41)	(30)	
Gross cash flow*	**152**	**182**	**+ 19.7**	**425**	**489**	**+ 15.1**
Net cash flow*	**522**	**493**	**– 5.6**	**327**	**170**	**– 48.0**

Environmental Science, BioScience						
Net sales	**290**	**286**	**– 1.4**	**606**	**613**	**+ 1.2**
Environmental Science	216	216	0.0	402	390	– 3.0
BioScience	74	70	– 5.4	204	223	+ 9.3
EBITDA*	**75**	**71**	**– 5.3**	**203**	**185**	**– 8.9**
Operating result (EBIT)	**40**	**52**	**+ 30.0**	**136**	**144**	**+ 5.9**
of which special items	0	(4)		0	(4)	
Gross cash flow*	**40**	**49**	**+ 22.5**	**114**	**129**	**+ 13.2**
Net cash flow*	**63**	**120**	**+ 90.5**	**19**	**64**	•

* for definition see Bayer Group Key Data on page 2

Sales of the **Bayer CropScience** subgroup slipped 2.3 percent in the second quarter to €1,604 million. Currency- and portfolio-adjusted sales were down 3.1 percent. **EBIT**, at €162 million, was virtually unchanged from the same period of 2004. Underlying EBIT declined by 6.5 percent to €187 million.

Crop Protection

Sales of the **Crop Protection** segment came in at €1,318 million, down 2.5 percent from the previous year. Higher sales in the Seed Treatment and Fungicides business units only partially offset the declines in Insecticides and Herbicides. The drop in business was largely attributable to the prolonged drought in Brazil and some southern European countries. In the Fungicides unit, our new Proline® family of cereal fungicides and our strobilurin-based product Fandango® made good headway, more than compensating for the drought-related declines in sales of Folicur® and Flint®.

EBIT of the **Crop Protection** segment shrank by 7.6 percent year on year to €110 million. Before special charges, EBIT came to €131 million, down 18.1 percent from the prior-year quarter. The drop in earnings was mainly caused by a weather-related decline in volumes and write-downs of receivables.

Environmental Science, BioScience

Sales of the **Environmental Science, BioScience** segment remained virtually unchanged from the second quarter of 2004. This segment's **EBIT** improved by €12 million to €52 million (+30.0 percent), partly because of reduced amortization.

Bayer MaterialScience

€ million	2nd Quarter 2004	2nd Quarter 2005	Change %	1st Half 2004	1st Half 2005	Change %
Net sales	**2,091**	**2,734**	**+ 30.8**	**3,968**	**5,278**	**+ 33.0**
EBITDA*	**366**	**464**	**+ 26.8**	**647**	**997**	**+ 54.1**
Operating result (EBIT)	**215**	**327**	**+ 52.1**	**350**	**733**	**+ 109.4**
of which special items	0	(10)		0	(10)	
Gross cash flow*	**264**	**328**	**+ 24.2**	**495**	**689**	**+ 39.2**
Net cash flow*	**141**	**269**	**+ 90.8**	**193**	**269**	**+ 39.4**
Materials						
Net sales	**800**	**1,045**	**+ 30.6**	**1,500**	**1,968**	**+ 31.2**
Polycarbonates	489	679	+ 38.9	919	1,267	+ 37.9
Thermoplastic Polyurethanes	47	49	+ 4.3	92	95	+ 3.3
Wolff Walsrode	81	88	+ 8.6	158	160	+ 1.3
H.C. Starck	183	229	+ 25.1	331	446	+ 34.7
EBITDA*	**140**	**215**	**+ 53.6**	**232**	**427**	**+ 84.1**
Operating result (EBIT)	**78**	**162**	**+ 107.7**	**110**	**321**	**+ 191.8**
of which special items	0	0		0	0	
Gross cash flow*	**104**	**149**	**+ 43.3**	**179**	**292**	**+ 63.1**
Net cash flow*	**59**	**80**	**+ 35.6**	**75**	**144**	**+ 92.0**
Systems						
Net sales	**1,291**	**1,689**	**+ 30.8**	**2,468**	**3,310**	**+ 34.1**
Polyurethanes	912	1,215	+ 33.2	1,732	2,411	+ 39.2
Coatings, Adhesives, Sealants	323	342	+ 5.9	624	662	+ 6.1
Inorganic Basic Chemicals	51	102	+ 100.0	100	189	+ 89.0
Others	5	30	•	12	48	•
EBITDA*	**226**	**249**	**+ 10.2**	**415**	**570**	**+ 37.3**
Operating result (EBIT)	**137**	**165**	**+ 20.4**	**240**	**412**	**+ 71.7**
of which special items	0	(10)		0	(10)	
Gross cash flow*	**160**	**179**	**+ 11.9**	**316**	**397**	**+ 25.6**
Net cash flow*	**82**	**189**	**+ 130.5**	**118**	**125**	**+ 5.9**

* for definition see Bayer Group Key Data on page 2

Business at **Bayer MaterialScience** grew substantially in the second quarter in a strong economic environment. Sales advanced by 30.8 percent to €2,734 million. Adjusted for currency and portfolio effects, the increase came to 27.5 percent. The prime contributors to this upward trend were the Polycarbonates and Polyurethanes business units. The subgroup posted a €112 million year-on-year improvement in **EBIT** to €327 million (+52.1 percent). Underlying EBIT rose by 56.7 percent. Favorable market conditions helped us to implement what were in some cases substantial price increases. In this way we offset the significant rise in raw material costs compared with the previous year and achieved the necessary margin improvements in key areas of the business.

Materials

Sales of the **Materials** segment came to €1,045 million in the second quarter, up 30.6 percent from the same period of 2004. The increase was mainly the result of an excellent performance by the Polycarbonates and H.C. Starck business units.

Second-quarter **EBIT** improved by a substantial €84 million, or 107.7 percent, to €162 million, with higher selling prices more than offsetting the increases in raw material costs.

Systems

Sales of the **Systems** segment also rose strongly in the second quarter, advancing 30.8 percent to €1,689 million, with the Polyurethanes and Inorganic Basic Chemicals business units posting the strongest gains.

EBIT of this segment improved by €28 million year on year to €165 million (+20.4 percent). Underlying EBIT rose 27.7 percent. In this segment, too, higher raw material costs were offset by price increases.

Sales by Region and Segment (by market)

€ million

2nd Quarter 2005	Europe	Change %	Change in local currencies %	North America	Change %	Change in local currencies %
Pharmaceuticals, Biological Products	420	+ 16.0	+ 16.1	239	– 7.9	– 7.0
Consumer Care	263	+ 188.9	+ 189.1	153	– 3.1	+ 0.7
Diabetes Care, Diagnostics	226	+ 10.0	+ 10.0	230	+ 10.0	+ 14.2
Animal Health	69	– 2.3	– 2.3	86	– 4.4	– 0.4
Crop Protection	562	+ 2.6	+ 1.8	369	– 5.0	– 3.0
Environmental Science, BioScience	109	+ 16.4	+ 16.5	115	– 18 .2	– 14.7
Materials	428	+ 24.9	+ 25.0	229	+ 28.7	+ 34.3
Systems	797	+ 38.7	+ 38.7	479	+ 24.6	+ 29.8
Total region (incl. others)	**3,188**	**+ 31.1**	**+ 30.9**	**1,904**	**+ 5.2**	**+ 8.7**

1st Half 2005	Europe	Change %	Change in local currencies %	North America	Change %	Change in local currencies %
Pharmaceuticals, Biological Products	810	+ 9.4	+ 9.4	498	– 27.2	– 25.9
Consumer Care	504	+ 150.5	+ 150.1	289	– 1.7	+ 2.3
Diabetes Care, Diagnostics	426	+ 7.6	+ 7.5	406	+ 5.4	+ 9.5
Animal Health	133	– 1.6	– 1.6	156	+ 5.5	+ 10.0
Crop Protection	1,201	+ 1.8	+ 0.7	709	+ 4.9	+ 7.4
Environmental Science, BioScience	245	+ 2.1	+ 2.1	259	– 3.1	– 0.1
Materials	839	+ 29.4	+ 29.5	433	+ 30.5	+ 36.3
Systems	1.572	+ 41.4	+ 41.4	928	+ 27.5	+ 33.0
Total region (incl. others)	**6,297**	**+ 27.2**	**+ 27.0**	**3,687**	**+ 4.9**	**+ 8.4**

Performance by Region

Bayer raised sales by €1,163 million to €7,053 million (+19.7 percent) in the second quarter. About two-thirds of this growth was generated in **Europe**, where sales increased by €756 million (+31.1 percent) to €3,188 million. Business growth in Germany was above the average, with sales up €350 million to €1,082 million (+ 47.8 percent). After adjusting for portfolio effects, the improvement in Germany was around 15 percent, partly because of a strong performance by HealthCare.

Sales in **North America** climbed 5.2 percent to €1,904 million; in local currencies the increase was 8.7 percent. While MaterialScience reported good growth in this region,

Asia/Pacific			Latin America/ Africa/Middle East			Total Segment		
	Change %	Change in local currencies %		Change %	Change in local currencies %		Change %	Change in local currencies %
222	– 1.3	+ 0.3	107	+ 16.3	+ 15.8	**988**	**+ 5.2**	**+ 5.9**
30	+ 190.5	+ 194.2	146	+ 98.2	+ 97.3	**592**	**+ 77.8**	**+ 78.8**
71	+ 5.8	+ 6.8	34	+ 16.4	+ 14.1	**561**	**+ 10.0**	**+ 11.5**
37	+ 15.1	+ 14.2	37	+ 13.7	+ 10.3	**229**	**+ 1.8**	**+ 2.6**
193	+ 0.8	+ 1.4	194	– 14.0	– 18.1	**1,318**	**– 2.5**	**– 3.0**
43	+ 17.2	+ 18.7	19	+ 2.9	– 0.6	**286**	**– 1.4**	**+ 0.6**
308	+ 35.0	+ 39.0	80	+ 53.7	+ 54.1	**1,045**	**+ 30.6**	**+ 32.9**
235	+ 21.2	+ 23.6	178	+ 29.1	+ 26.7	**1,689**	**+ 30.8**	**+ 32.4**
1,153	**+ 17.2**	**+ 19.1**	**808**	**+ 21.7**	**+ 19.4**	**7,053**	**+ 19.7**	**+ 20.8**

	Change %	Change in local currencies %		Change %	Change in local currencies %		Change %	Change in local currencies %
431	+ 2.3	+ 4.1	201	+ 13.7	+ 14.7	**1,940**	**– 4.1**	**– 3.2**
59	+ 182.4	+ 191.0	263	+ 84.0	+ 86.1	**1,115**	**+ 69.2**	**+ 70.5**
128	+ 10.5	+ 11.8	62	+ 8.8	+ 7.7	**1,022**	**+ 7.1**	**+ 8.8**
68	+ 17.5	+ 17.3	71	+ 13.4	+ 11.8	**428**	**+ 6.2**	**+ 7.4**
398	– 3.1	– 2.2	427	– 15.0	– 17.1	**2,735**	**– 1.2**	**– 1.3**
66	+ 12.5	+ 14.0	43	+ 7.0	+ 5.5	**613**	**+ 1.2**	**+ 2.5**
544	+ 29.2	+ 33.2	152	+ 53.8	+ 55.2	**1,968**	**+ 31.2**	**+ 33.7**
472	+ 27.5	+ 30.1	338	+ 31.0	+ 30.0	**3,310**	**+ 34.1**	**+ 36.0**
2,191	**+ 16.8**	**+ 19.0**	**1,582**	**+ 18.0**	**+ 17.3**	**13,757**	**+ 17.8**	**+ 18.9**

CropScience sales declined. Pharmaceuticals sales, too, were lower due to the effect of the Schering-Plough alliance.

Sales moved ahead by 17.2 percent in **Asia/Pacific** and by 21.7 percent in **Latin America/ Africa/Middle East**, with MaterialScience the main growth driver in both regions. In Latin America/Africa/Middle East there was also a pleasing rise in sales of both the Pharmaceuticals, Biological Products and the Consumer Care segments, growth in the latter case being portfolio-related. In Greater China, second-quarter sales grew by more than 30 percent.

Liquidity and Capital Resources

Cash Flow Key Data				
€ million	2nd Quarter		1st Half	
	2004	2005	2004	2005
Gross cash flow*	**712**	**908**	**1,579**	**2,009**
Changes in working capital	363	107	(709)	(1,220)
Net cash provided by (used in) operating activities (net cash flow, continuing operations)	**1,075**	**1,015**	**870**	**789**
Net cash provided by (used in) operating activities (net cash flow, discontinued operations)	71	10	(23)	(22)
Net cash provided by (used in) operating activities (net cash flow, total)	**1,146**	**1,025**	**847**	**767**
Net cash provided by (used in) investing activities (total)	**55**	**247**	**215**	**(700)**
Net cash provided by (used in) financing activities (total)	**(977)**	**(1,347)**	**(1,135)**	**(1,777)**
Change in cash and cash equivalents due to business activities (total)	**224**	**(75)**	**(73)**	**(1,710)**

* for definition see Bayer Group Key Data on page 2

Thanks to the improvement in earnings, gross cash flow increased 27.5 percent year on year to €908 million. The net cash flow from continuing operations was 5.6 percent below the prior-year quarter at €1,015 million (2004: €1,075 million) due to a smaller cash inflow from improvements in working capital. Changes in inventories, trade receivables and trade payables showed a year-on-year improvement despite business expansion. This was counteracted by an increase in other working capital.

There was a net cash inflow of €247 million from investing activities (2004: €55 million). The increase in this item was chiefly due to the proceeds from the sale of the LANXESS convertible bond, which had a nominal value of €200 million.

The net cash outflow of €1,347 million (2004: €977 million) for financing activities comprised €429 million in dividends, €479 million in net loan repayments and €439 million in interest payments.

Net Debt From Continuing Operations			
€ million	June 30, 2004	June 30, 2005	Dec. 31, 2004
Noncurrent financial liabilities as per balance sheets (including derivatives)	6,143	6,996	7,025
Current financial liabilities as per balance sheets (including derivatives)	2,187	2,019	2,166
Derivative receivables	(430)	(323)	(701)
Debt	**7,900**	**8,692**	**8,490**
Liquid assets as per balance sheets	(2,881)	(1,817)	(3,599)
Net debt	**5,019**	**6,875**	**4,891**

Net debt stood at €6,875 million on June 30, 2005. This was €240 million less than on March 31, 2005. Including marketable securities and other instruments, the Bayer Group had liquid assets of €1,817 million.

Employees

On June 30, 2005, the Bayer Group had 93,200 employees in continuing operations, which was 1,200 more than on June 30, 2004. Headcount was also 1,500 higher than at year-end 2004. This increase was primarily due to the transfer of employees from Roche following the acquisition of the consumer health business. At the same time, there was a reduction in the workforce in the United States as a consequence of the Schering-Plough alliance.

Since the start of this year, headcount rose by 900 in Europe, 1,000 in Latin America/Africa/Middle East and about 1,100 in Asia/Pacific. The number of employees in North America declined by 1,500.

Personnel expenses increased by 9.9 percent to €1,534 million in the second quarter of 2005. After adjusting for the income from pension plan curtailments recognized in the second quarter of 2004, personnel expenses rose by 1.5 percent.

Legal Risks

Increased risks currently result from litigation commenced in the United States following Bayer's voluntary market withdrawals of Lipobay/Baycol (cerivastatin) and of products containing phenylpropanolamine (PPA), as well as from actions related to Bayer's ciprofloxacin anti-infective product and actions and/or investigations relating to certain rubber related and polyester polyols / urethane related lines of business.

Lipobay/Baycol: Over the course of the Lipobay/Baycol litigation Bayer has been named as a defendant in approximately 14,700 cases worldwide (more than 14,580 of them in the U.S.). As of June 30, 2005, the number of Lipobay/Baycol cases pending against Bayer worldwide was 5,986 (5,910 of them in the U.S., including several class actions). The decrease in the number of U.S. cases is attributable to various reasons, including voluntary dismissals by plaintiffs, dismissals based on settlements and court-ordered dismissals, such as for failure to satisfy procedural requirements.

As of June 30, 2005, Bayer had settled 3,017 Lipobay/Baycol cases worldwide without acknowledging any liability and resulting in settlement payments of approximately US$ 1,138 million. On a voluntary basis and without acknowledging any legal liability, Bayer will continue its policy of trying to agree on fair compensation for people who experienced serious side effects from Lipobay/Baycol. After nearly four years of litigation we are currently aware of fewer than 50 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 2003 and 2004 fiscal years, Bayer took charges to the operating result totaling €347 million in connection with the Lipobay/Baycol litigation risk, over and beyond the assumed insurance coverage of approximately US$ 1.2 billion. An additional €24 million charge to the operating result was taken in the second quarter of 2005 in light of settlements already concluded or expected to be concluded and anticipated defense costs.

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. Since that time, Bayer and other manufacturers of PPA-containing products, along with several retailers and distributors, have been named in numerous lawsuits in the United States brought by plaintiffs alleging injuries related to the claimed ingestion of PPA.

Of the approximately 3,000 PPA cases filed against Bayer, fewer than 600 cases remained pending against the company as of the end of June 2005. Bayer is the sole manufacturer named as a defendant in approximately 400 cases and co-defendant together with other former manufacturers of PPA-containing products in approximately 200 cases. In addition there are currently approximately 290 cases pending appeal, filed by plaintiffs whose suits were dismissed in the first instance on the grounds of procedural deficiency. There are approximately 80 further cases which have been dismissed based upon forum non conveniens grounds which plaintiffs may refile in the proper jurisdictions.

All other cases filed against Bayer have been dismissed, withdrawn or settled. Further dismissals are possible, particularly should plaintiffs fail to comply with court orders requiring the submission of causative evidence. As of June 30, 2005, we have settled 139 cases without acknowledging liability resulting in payments of US$ 28 million.

Three PPA cases against Bayer have gone to trial so far with two resulting in defense verdicts for Bayer and one in which the plaintiff was awarded damages amounting to US$ 400,000 being settled while on appeal in July 2005.

Taking into account insurance coverage, a €16 million charge for settlements and further defense costs was recorded in 2004. An additional €44 million charge was recorded in the second quarter of 2005 for settlements already concluded or expected to be concluded. This charge also covers the results of the review by the company of approximately 500 of the 600 pending lawsuits as to whether settlement may be appropriate. Further charges may need to be recorded should the company become aware of additional cases with a potential for settlement. Also, due to the uncertainty associated with the remaining balance of pending PPA cases, it remains impossible to further estimate potential liability for those cases and thus no additional provisions for potential liabilities have been recorded.

Bayer intends to continue to vigorously defend all those Lipobay/Baycol and PPA lawsuits in which a settlement is in our view not warranted or cannot be reasonably achieved.

Since the existing insurance coverage is exhausted, 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 against Bayer involving the drug 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 certain antitrust laws. The plaintiffs claim the alleged violation prevented the marketing of generic ciprofloxacin as of 1997. In particular, they are seeking treble damages under U.S. law. Bayer believes the plaintiffs will not be able to establish that the settlement with Barr was outside of the scope of Bayer's valid Cipro® patent, which patent has been the subject of a successful re-examination by the U.S. Patent and Trademark Office and of successful defenses in U.S. Federal Courts.

All of the actions pending in federal court were consolidated in federal court in New York in a Multidistrict pre-trial proceeding. On March 31, 2005, this court granted Bayer's motion for summary judgment and dismissed all of plaintiffs' claims. The plaintiffs are appealing this decision. In addition Bayer is involved in several proceedings pending before various state courts. Bayer believes that it has meritorious defenses to the claims raised in these proceedings and will continue to vigorously defend the litigation.

Rubber, polyester polyols, urethane: Investigations by the E.U. Commission and the U.S. and Canadian antitrust authorities are ongoing in connection with alleged anticompetitive conduct involving certain products in the rubber field. 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. Both these agreements have received court approval and the respective amounts have been paid. Provisions of €50 million were established in 2003 for risks arising out of the E.U. Commission's investigations, although a reliable estimate cannot yet be made as to the expected amount of any fines.

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. The court has approved the agreement and the respective amount has been paid. A similar investigation is pending in Canada, but it is not currently possible to estimate the amount of any fine that may result.

A number of civil lawsuits for damages have been filed in the United States, and in Canada, against Bayer AG and some of its subsidiaries, among other unaffiliated defendants. These lawsuits, involving allegations of unlawful collusion on prices for certain rubber and polyester polyol product lines, are generally at an early stage.

The financial risk associated with all of the above litigation (with the exception of those criminal proceedings in which fines have already been imposed), including the financial risk of civil lawsuits for damages, is currently not quantifiable, so no accounting measures have been taken in this regard. The company expects that, in the course of the abovementioned governmental proceedings and civil damages suits, significant expenses will become necessary that may be of material importance to the company.

In the United States, civil actions are also pending involving allegations of unlawful collusion on prices for polyether polyols and other precursors for urethane products. These lawsuits are also generally at an early stage.

Subsequent Events

In July 2005 Bayer AG successfully placed €1.3 billion of subordinated hybrid bonds on the capital market. This issue has a maturity of 100 years, pays interest at 180 basis points above the ten-year swap rate and bears a 5 percent coupon. After the first ten years Bayer has a quarterly option to redeem the bonds at face value. If we do not exercise this option, Bayer will pay variable interest at 280 basis points above the three-month EURIBOR rate for the remainder of the term. The 100-year issue strengthens our credit rating since the rating agencies classify such bonds mainly as equity.

In addition, as part of our refinancing measures, we repurchased part of the 5.375 percent Bayer bond issue due on April 10, 2007. The nominal value of the bonds repurchased was approximately €860 million.

Bayer Stock

Bayer Stock Data

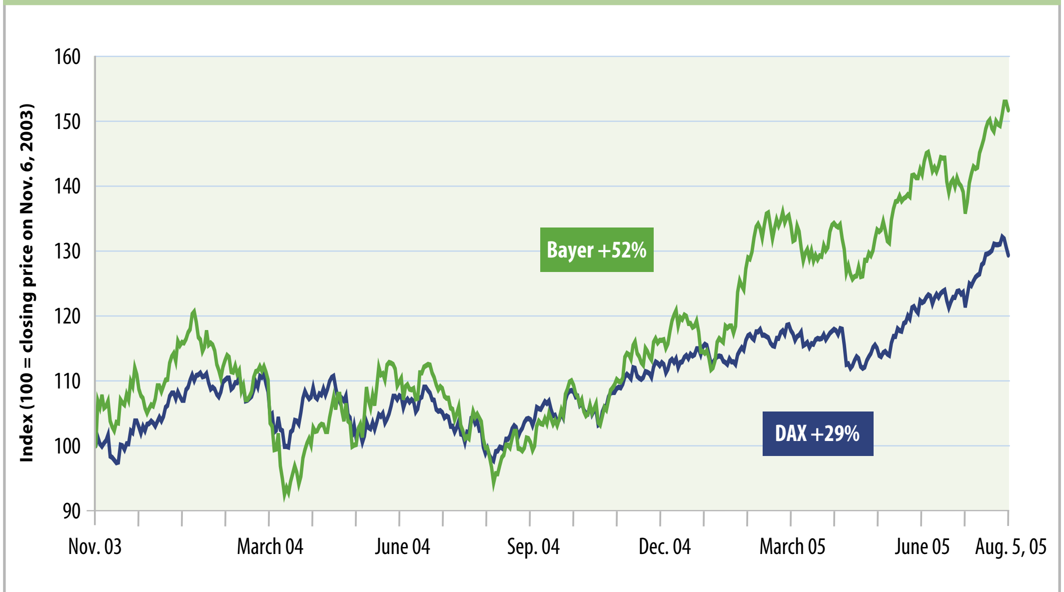
	2nd Quarter		1st Half	
	2004	**2005**	**2004**	**2005**
High for the period (€)	22.25	28.62	23.79	28.62
Low for the period (€)	18.81	24.79	18.26	22.03
Average daily share turnover on German stock exchanges (million)	4.4	4.0	4.3	4.5
	June 30, 2004	**June 30, 2005**	**Dec. 31, 2004**	**Change June 30, 2005/ Dec. 31, 2004 %**
Share price (€)	22.20	27.59	23.36	+ 18.1
Market capitalization (€ million)	16,214	20,150	17,061	+ 18.1
Stockholders' equity (€ million)	11,689	10,596	10,943	– 3.2
Number of shares entitled to the dividend (million)	730.34	730.34	730.34	0.0
DAX	4,053	4,586	4,256	+ 7.8

Based on Xetra prices, Frankfurt Stock Exchange

Bayer stock performed very well in the first half of 2005, gaining 18.1 percent and thus significantly outperforming both the DAX (+ 7.8 percent) and the DJ EURO-STOXX 50 (+ 10.0 percent). The half-year high of €28.62 on June 13, 2005 at the same time represented a two-year high for our stock.

The dividend of €0.55 per share for fiscal 2004 was paid on May 2, 2005. The payout ratio – calculated on Group net income for 2004 (€603 million) – was 67 percent.

Bayer Share Price Since Spin-Off Announcement in November 2003



Bayer Group Consolidated Statements of Income

€ million

	2nd Quarter		1st Half	
	2004	**2005**	**2004**	**2005**
Net sales	**5,890**	**7,053**	**11,682**	**13,757**
Cost of goods sold	(3,202)	(3,811)	(6,009)	(7,353)
Gross profit	**2,688**	**3,242**	**5,673**	**6,404**
Selling expenses	(1,362)	(1,461)	(2,627)	(2,730)
Research and development expenses	(469)	(484)	(921)	(907)
General administration expenses	(353)	(384)	(680)	(708)
Other operating income	264	405	391	789
Other operating expenses	(258)	(572)	(572)	(1,098)
Operating result (EBIT)	**510**	**746**	**1,264**	**1,750**
Income (expense) from investments in affiliated companies – net	(80)	6	(99)	4
Interest expense – net	(79)	(80)	(100)	(160)
Other non-operating expense – net	(55)	(55)	(131)	(104)
Non-operating result	**(214)**	**(129)**	**(330)**	**(260)**
Income before income taxes	**296**	**617**	**934**	**1,490**
Income taxes	(105)	(182)	(344)	(462)
Income from continuing operations after taxes	**191**	**435**	**590**	**1,028**
Income (loss) from discontinued operations after taxes	**(42)**	**(23)**	**(16)**	**29**
Income after taxes	**149**	**412**	**574**	**1,057**
of which				
attributable to minority interest	**3**	**6**	**9**	**(1)**
attributable to Bayer AG stockholders (net income)	**146**	**406**	**565**	**1,058**
Earnings per share (€)				
From continuing operations				
Basic	0.26	0.60	0.81	1.41
Diluted	0.26	0.60	0.81	1.41
From continuing and discontinued operations				
Basic	0.20	0.56	0.77	1.45
Diluted	0.20	0.56	0.77	1.45

2004 figures restated

Bayer Group Consolidated Balance Sheets

€ million

	June 30, 2004	June 30, 2005	Dec. 31, 2004
Assets			
Noncurrent assets			
Goodwill and other intangible assets	6,266	7,758	5,952
Property, plant and equipment	8,135	8,040	7,662
Investments in associates	786	790	744
Financial assets	980	1,110	1,181
Other assets	374	187	73
Deferred taxes	1,328	2,027	1,219
	17,869	**19,912**	**16,831**
Current assets			
Inventories	4,627	5,602	4,738
Trade accounts receivable	4,861	5,866	4,475
Financial assets	389	412	724
Other assets	1,018	1,419	1,641
Claims for tax refunds	772	780	823
Liquid assets	2,881	1,817	3,599
	14,548	**15,896**	**16,000**
Assets held for sale and discontinued operations	4,908	0	4,757
Total assets	**37,325**	**35,808**	**37,588**
Stockholders' Equity and Liabilities			
Equity attributable to Bayer AG stockholders			
Capital stock of Bayer AG	1,870	1,870	1,870
Capital reserves of Bayer AG	2,942	2,942	2,942
Revaluation surplus	0	66	66
Retained earnings	8,811	7,537	8,813
Net income	565	1,058	685
Other comprehensive income (loss)	(2,599)	(3,067)	(3,544)
of which			
comprehensive income (loss) from discontinued operations	(93)	0	(144)
	11,589	**10,406**	**10,832**
Equity attributable to minority interest	100	190	111
Total stockholders' equity	**11,689**	**10,596**	**10,943**
Liabilities			
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	5,894	7,324	6,219
Other provisions	1,223	1,481	1,169
Financial liabilities	6,143	6,996	7,025
Miscellaneous liabilities	165	127	203
Deferred taxes	1,047	571	644
	14,472	**16,499**	**15,260**
Current liabilities			
Other provisions	2,630	2,674	2,742
Financial liabilities	2,187	2,019	2,166
Trade accounts payable	1,592	1,675	1,759
Tax liabilities	395	337	456
Miscellaneous liabilities	1,726	2,008	1,875
	8,530	**8,713**	**8,998**
Liabilities directly related to assets held for sale and discontinued operations	2,634	0	2,387
Total liabilities	**25,636**	**25,212**	**26,645**
Total stockholders' equity and liabilites	**37,325**	**35,808**	**37,588**

2004 figures restated

Bayer Group Consolidated Statements of Cash Flows

€ million	2nd Quarter		1st Half	
	2004	2005	2004	2005
Operating result (EBIT)	510	746	1,264	1,750
Income taxes	(157)	(202)	(372)	(423)
Depreciation and amortization	506	433	982	866
Change in pension provisions	(142)	(46)	(264)	(163)
(Gains) losses on retirements of noncurrent assets	(5)	(23)	(31)	(21)
Gross cash flow*	**712**	**908**	**1,579**	**2,009**
Decrease (increase) in inventories	(36)	(111)	(140)	(342)
Decrease (increase) in trade accounts receivable	147	380	(638)	(556)
Increase (decrease) in trade accounts payable	53	(90)	(238)	(344)
Changes in other working capital	199	(72)	307	22
Net cash provided by (used in) operating activities (net cash flow, continuing operations)	**1,075**	**1,015**	**870**	**789**
Net cash provided by (used in) operating activities (net cash flow, discontinued operations)	71	10	(23)	(22)
Net cash provided by (used in) operating activities (net cash flow, total)	**1,146**	**1,025**	**847**	**767**
Cash outflows for additions to property, plant and equipment	(237)	(271)	(422)	(452)
Cash inflows from sales of property, plant and equipment	70	16	133	272
Cash inflows from sales of investments	17	267	372	1,267
Cash outflows for acquisitions less acquired cash	0	(5)	(142)	(2,058)
Interest and dividends received	229	334	357	362
Net cash inflow (outflow) from marketable securities	(24)	(94)	(83)	(91)
Net cash provided by (used in) investing activities (total)	**55**	**247**	**215**	**(700)**
Capital contributions	0	0	0	0
Bayer AG dividend and dividend payments to minority stockholders	(372)	(429)	(548)	(462)
Issuances of debt	73	177	385	441
Retirements of debt	(336)	(656)	(497)	(1,210)
Interest paid	(342)	(439)	(475)	(546)
Net cash provided by (used in) financing activities (total)	**(977)**	**(1,347)**	**(1,135)**	**(1,777)**
Change in cash and cash equivalents due to business activities (total)	**224**	**(75)**	**(73)**	**(1,710)**
Cash and cash equivalents at beginning of period	**2,440**	**1,749**	**2,734**	**3,570**
Change in cash and cash equivalents due to changes in scope of consolidation	0	0	0	(196)
Change in cash and cash equivalents due to exchange rate movements	2	24	5	34
Cash and cash equivalents at end of period	**2,666**	**1,698**	**2,666**	**1,698**
Marketable securities and other instruments	215	119	215	119
Liquid assets as per balance sheets	**2,881**	**1,817**	**2,881**	**1,817**

2004 figures restated
* for definition see Bayer Group Key Data on page 2

Bayer Group Consolidated Statements of Recognized Income and Expense

€ million

	2nd Quarter		1st Half	
	2004	**2005**	**2004**	**2005**
Changes in fair values of hedging instruments and securities held for sale, recognized in stockholders' equity	8	(33)	18	(8)
Exchange differences on translation of foreign operations	(19)	274	186	679
Actuarial gains/losses on defined benefit obligations for pensions and other post-employment benefits	(25)	(1,183)	(25)	(1,183)
Deferred taxes on valuation adjustments offset directly against stockholders' equity	32	476	43	466
Valuation adjustments recognized directly in stockholders' equity	**(4)**	**(466)**	**222**	**(46)**
Income after taxes	**149**	**412**	**574**	**1,057**
Total income and expense recognized in the financial statements	**145**	**(54)**	**796**	**1,011**

Bayer Group Consolidated Statements of Changes in Stockholders' Equity

€ million	Equity attributable to Bayer AG stockholders						Minority interest	Total stockholders' equity
	Capital stock and reserves of Bayer AG	**Revaluation surplus**	**Retained earnings**	**Net income (loss)**	**Other comprehensive income (loss)**	**Total**		
December 31, 2003	**4,812**	**0**	**10,479**	**(1,303)**	**(2,821)**	**11,167**	**123**	**11,290**
Dividend payments				(365)		(365)		(365)
Allocation from retained earnings			(1,668)	1,668		0		0
Other changes in stockholders' equity					179	179	(23)	156
Taxes on transactions directly recognized in stockholders' equity					43	43		43
Net income				565		565		565
June 30, 2004	**4,812**	**0**	**8,811**	**565**	**(2,599)**	**11,589**	**100**	**11,689**
December 31, 2004	**4,812**	**66**	**8,813**	**685**	**(3,544)**	**10,832**	**111**	**10,943**
Spin-off of LANXESS			(1,559)		523	(1,036)	86	(950)
Dividend payments				(402)		(402)		(402)
Allocation to retained earnings			283	(283)		0		0
Other changes in stockholders' equity					(512)	(512)	(7)	(519)
Taxes on transactions directly recognized in stockholders' equity					466	466		466
Net income				1,058		1,058		1,058
June 30, 2005	**4,812**	**66**	**7,537**	**1,058**	**(3,067)**	**10,406**	**190**	**10,596**

2004 figures restated

Key Data by Segment

€ million

HealthCare

	Pharmaceuticals, Biological Products 2nd Quarter 2004	2005	Consumer Care 2nd Quarter 2004	2005	Diabetes Care, Diagnostics 2nd Quarter 2004	2005	Animal Health 2nd Quarter 2004	2005
Net sales (external)	939	988	333	592	510	561	225	229
– Change in €	– 14.6%	+ 5.2%	– 2.1%	+ 77.8%	+ 10.9%	+ 10.0%	+ 5.1%	+ 1.8%
– Change in local currencies	– 13.8%	+ 5.9%	+ 2.8%	+ 78.8%	+ 14.4%	+ 11.5%	+ 8.8%	+ 2.6%
Intersegment sales	8	14	0	10	1	0	1	1
Operating result (EBIT)	65	109	47	34	60	72	45	43
Return on sales	6.9%	11.0%	14.1%	5.7%	11.8%	12.8%	20.0%	18.8%
Gross cash flow*	68	106	40	31	64	89	33	32
Net cash flow*	173	143	21	2	108	54	38	22
Depreciation and amortization	49	36	18	25	44	42	7	5

	1st Half 2004	2005	1st Half 2004	2005	1st Half 2004	2005	1st Half 2004	2005
Net sales (external)	2,023	1,940	659	1,115	954	1,022	403	428
– Change in €	– 6.0%	– 4.1%	– 4.5%	+ 69.2%	+ 5.1%	+ 7.1%	+ 2.5%	+ 6.2%
– Change in local currencies	– 1.8%	– 3.2%	+ 2.4%	+ 70.5%	+ 10.3%	+ 8.8%	+ 7.8%	+ 7.4%
Intersegment sales	18	19	3	16	1	1	2	2
Operating result (EBIT)	230	195	100	45	88	109	77	92
Return on sales	11.4%	10.1%	15.2%	4.0%	9.2%	10.7%	19.1%	21.5%
Gross cash flow*	185	180	93	68	120	145	59	67
Net cash flow*	123	51	83	94	151	114	45	29
Depreciation and amortization	84	77	34	57	85	82	12	11

2004 figures restated

* for definition see Bayer Group Key Data on page 2

CropScience				MaterialScience							
Crop Protection		Environmental Science, BioScience		Materials		Systems		Reconciliation		Continuing Operations	
2nd Quarter		2nd Quarter		2nd Quarter		2nd Quarter		2nd Quarter		2nd Quarter	
2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
1,352	1,318	290	286	800	1,045	1,291	1,689	150	345	**5,890**	**7,053**
+ 5.3%	– 2.5%	+ 2.5%	– 1.4%	+ 15.3%	+ 30.6%	+ 11.3%	+ 30.8%			**+ 3.1%**	**+ 19.7%**
+ 8.6%	– 3.0%	+ 5.9%	+ 0.6%	+ 18.3%	+ 32.9%	+ 14.1%	+ 32.4%			**+ 5.7%**	**+ 20.8%**
15	15	2	3	3	4	25	37	(55)	(84)		
119	110	40	52	78	162	137	165	(81)	(1)	**510**	**746**
8.8%	8.3%	13.8%	18.2%	9.8%	15.5%	10.6%	9.8%			**8.7%**	**10.6%**
152	182	40	49	104	149	160	179	51	91	**712**	**908**
522	493	63	120	59	80	82	189	9	(88)	**1,075**	**1,015**
147	125	35	19	62	53	89	84	55	44	**506**	**433**

1st Half		1st Half		1st Half		1st Half		1st Half		1st Half	
2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
2,768	2,735	606	613	1,500	1,968	2,468	3,310	301	626	**11,682**	**13,757**
+ 4.8%	– 1.2%	+ 3.2%	+ 1.2%	+ 8.0%	+ 31.2%	+ 5.8%	+ 34.1%			**+ 1.7%**	**+ 17.8%**
+ 8.8%	– 1.3%	+ 8.1%	+ 2.5%	+ 12.9%	+ 33.7%	+ 10.4%	+ 36.0%			**+ 6.1%**	**+ 18.9%**
33	28	4	8	6	7	46	74	(113)	(155)		
402	432	136	144	110	321	240	412	(119)	0	**1,264**	**1,750**
14.5%	15.8%	22.4%	23.5%	7.3%	16.3%	9.7%	12.4%			**10.8%**	**12.7%**
425	489	114	129	179	292	316	397	88	242	**1,579**	**2,009**
327	170	19	64	75	144	118	125	(71)	(2)	**870**	**789**
292	246	67	41	122	106	175	158	111	88	**982**	**866**

Key Data by Region

€ million	Europe		North America	
	2nd Quarter		2nd Quarter	
	2004	2005	2004	2005
Net sales (external) – by market	2,432	3,188	1,810	1,904
Net sales (external) – by point of origin	2,614	3,423	1,856	1,921
– Change in €	+ 3.8%	+ 30.9%	– 1.8%	+ 3.5%
– Change in local currencies	+ 3.7%	+ 30.8%	+ 3.6%	+ 7.0%
Interregional sales	816	952	471	546
Operating result (EBIT)	244	463	161	133
Return on sales	9.3%	13.5%	8.7%	6.9%
Gross cash flow*	328	521	227	241

	1st Half		1st Half	
	2004	2005	2004	2005
Net sales (external) – by market	4,949	6,297	3,516	3,687
Net sales (external) – by point of origin	5,346	6,746	3,554	3,721
– Change in €	+ 1.4%	+ 26.2%	– 2.3%	+ 4.7%
– Change in local currencies	+ 1.6%	+ 25.9%	+ 7.4%	+ 8.4%
Interregional sales	1,793	2,033	858	1,015
Operating result (EBIT)	739	1,014	310	405
Return on sales	13.8%	15.0%	8.7%	10.9%
Gross cash flow*	897	1,171	388	506

2004 figures restated
* for definition see Bayer Group Key Data on page 2

Asia/Pacific 2nd Quarter 2004	Asia/Pacific 2nd Quarter 2005	Latin America/ Africa/ Middle East 2nd Quarter 2004	Latin America/ Africa/ Middle East 2nd Quarter 2005	Reconciliation 2nd Quarter 2004	Reconciliation 2nd Quarter 2005	Continuing Operations 2nd Quarter 2004	Continuing Operations 2nd Quarter 2005
984	1,153	664	808			**5,890**	**7,053**
923	1,112	497	597			**5,890**	**7,053**
+ 10.3%	+ 20.5%	+ 6.0%	+ 20.1%			**+ 3.1%**	**+ 19.7%**
+ 11.8%	+ 22.6%	+ 14.9%	+ 16.7%			**+ 5.7%**	**+ 20.8%**
50	51	30	39	(1,367)	(1,588)		
96	141	60	56	(51)	(47)	**510**	**746**
10.4%	12.7%	12.1%	9.4%			**8.7%**	**10.6%**
102	144	62	40	(7)	(38)	**712**	**908**

1st Half 2004	1st Half 2005	1st Half 2004	1st Half 2005	1st Half 2004	1st Half 2005	1st Half 2004	1st Half 2005
1,876	2,191	1,341	1,582			**11,682**	**13,757**
1,758	2,106	1,024	1,184			**11,682**	**13,757**
+ 4.9%	+ 19.8%	+ 13.9%	+ 15.6%			**+ 1.7%**	**+ 17.8%**
+ 9.8%	+ 22.2%	+ 21.7%	+ 14.4%			**+ 6.1%**	**+ 18.9%**
92	105	56	77	(2,799)	(3,230)		
174	282	155	134	(114)	(85)	**1,264**	**1,750**
9.9%	13.4%	15.1%	11.3%			**10.8%**	**12.7%**
190	283	136	102	(32)	(53)	**1,579**	**2,009**

Notes to the Interim Report as of June 30, 2005

Accounting policies

Like the financial statements for 2004, the unaudited, consolidated financial statements for the second quarter of 2005 have been prepared according to the rules issued by the IASB, London. Reference should be made as appropriate to the notes to the 2004 statements, except as detailed below. IAS 34 (Interim Financial Reporting) has been applied in addition.

Changes in presentation in connection with the classification of assets and liabilities according to maturity as per IAS 1 and of assets held for sale and discontinued operations as per IFRS 5

The previous version of IAS 1 allowed the option of classifying assets and liabilities either according to maturity or in order of liquidity. The revised version of IAS 1, developed as part of the IASB's improvements project, prescribes classification according to maturity starting with the 2005 fiscal year.

IFRS 5, approved by the IASB on March 31, 2004, contains specific recognition principles for certain assets and liabilities held for sale and for discontinued operations. Reporting is to be based primarily on continuing operations, while assets held for sale and discontinued operations are to be stated separately in a single line item in the balance sheet, income statement and cash flow statement. The distinction between continuing and discontinued operations or assets held for sale is thus drawn differently starting on January 1, 2005 than in the financial statements as of December 31, 2004. The previous year's figures are restated accordingly.

Change in pension accounting – application of the IAS 19 amendment

In December 2004, the IASB published an amendment to IAS 19 (Employee Benefits). The amendment introduces an additional recognition option for actuarial gains and losses arising from defined benefit plans. This option is similar to the approach provided in the U.K. standard FRS 17 (Retirement Benefits), which requires recognition of all actuarial gains and losses in a "statement of total recognized gains and losses" that is separate from the income statement.

Previously, in the Bayer Group statements, the net cumulative amounts of actuarial gains and losses outside of the "corridor" that were reflected in the balance sheet at the end of the previous reporting period were recognized in the income statement as income or expense, respectively, over the average remaining working lives of existing employees. This "corridor" was 10 percent of the present value of the defined benefit obligation or 10 percent of the fair value of plan assets, whichever was greater at the end of the previous year. Under the new method of pension accounting, unrealized actuarial gains and losses, instead of being gradually amortized according to the corridor method and recognized in income, are offset in their entirety against stockholders' equity. Thus, no amortization of actuarial gains and losses is recognized in income.

Recognizing actuarial gains and losses in stockholders' equity affects the amounts of receivables and of provisions for pensions and other post-employment benefits stated in the balance sheet and also requires the recognition of deferred taxes on the resulting differences. These taxes, too, are offset against the corresponding equity items.

The Group Management Board has decided to follow the recommendation of the IASB and implement the above change as of January 1, 2005 in order to enhance the transparency of our reporting. The previous year's figures have been restated accordingly. This reporting change improves the 2004 operating result from continuing operations by €48 million and the non-operating result by €78 million. Application of IAS 19 (revised) leads to a deferred tax expense of €50 million. In view of its immateriality to 2004 EBIT of our segments, the €48 million gain has been reflected solely in the reconciliation column of the segment table. These non-cash reporting changes do not affect either gross or net cash flow. A quantitative analysis of the actuarial parameters led to an approximately €1 billion increase in pension obligations as of June 30, 2005 that was directly recognized in equity. The increase was due especially to a considerable drop in long-term interest rates in the principal countries.

Cessation of goodwill amortization

In March 2004, in connection with the issuance of IFRS 3, the IASB revised IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets). Among the major changes is that goodwill and other intangible assets with an indefinite useful life may no longer be amortized, but must be tested annually for possible impairment. If events or changes in circumstances indicate a possible decline in value, impairment testing must be performed more frequently. Reversals of impairment losses for goodwill are prohibited. An intangible asset must be treated as having an indefinite life if it is expected to generate cash flows for the enterprise for an indefinite period of time. The revised standards apply to goodwill and other intangible assets acquired in business combinations agreed upon on or after March 31, 2004, as well as to previously acquired goodwill and other intangible assets for annual periods beginning on or after March 31, 2004.

Scope of consolidation

On June 30, 2005, the Bayer Group had a total of 289 fully or proportionately consolidated companies, compared with 349 companies on December 31, 2004. The reduction is due mainly to the deconsolidation of 61 LANXESS companies.

The acquisition of the global OTC business of Roche is largely complete, resulting in the following changes in Group assets and liabilities:

OTC Acquisition*

€ million	Book Value	Step-Up	Fair Value
Intangible assets	0	1,142	1,142
Goodwill	0	589	589
Property, plant and equipment	142	9	151
Inventories	96	57	153
Other acquired assets and assumed liabilities	67	(22)	45

* We also purchased from Roche at the end of 2004 the remaining 50 percent interest in the OTC joint venture in the U.S.

Since we have combined the sales forces, distribution function, and support functions – such as controlling – in our legal entities, it is not practicable to separately identify EBIT of the former Roche business.

Discontinued Operations

The Board of Management and Supervisory Board of Bayer AG decided in November 2003 to separate major parts of the chemicals and polymers business from the Bayer Group. The separation took place by way of a spin-off pursuant to the German Transformation Act (Umwandlungsgesetz). On January 28, 2005, the spin-off of LANXESS from Bayer AG was entered in the commercial register and thus took legal effect. It was also decided in October 2003 to divest the plasma business of the Biological Products Division of the Bayer HealthCare subgroup. This business was sold effective March 31, 2005.

Both the LANXESS business and the divested plasma business are reported as discontinued operations. This information, which is provided from the standpoint of the Bayer Group, is to be regarded as part of the reporting for the entire Group by analogy with our segment reporting and is not intended to portray either the discontinued operations or the remaining business of Bayer as separate entities. This presentation is thus in line with the principles for the reporting of discontinued operations according to IFRS 5.

Discontinued Operations

€ million	LANXESS		Plasma		Total Discontinued Operations	
	2nd Quarter		2nd Quarter		2nd Quarter	
	2004	2005	2004***	2005	2004***	2005
Net sales (external)	1,592	0	101	4	1,693	4
Operating result (EBIT)	23	0	0	(36)	23	(36)
Income (loss) after taxes	(42)	0	0	(23)	(42)	(23)
Gross cash flow*	113	0	6	6	119	6
Net cash flow*	78	0	(7)	10	71	10
Net investing cash flow	(15)	0	(2)	0	(17)	0
Net financing cash flow	(63)	0	9	(10)	(54)	(10)

	1st Half		1st Half		1st Half	
	2004	2005**	2004***	2005	2004***	2005
Net sales (external)	3,070	503	193	124	3,263	627
Operating result (EBIT)	98	62	(1)	(14)	97	48
Income (loss) after taxes	(15)	38	(1)	(9)	(16)	29
Gross cash flow*	224	51	12	4	236	55
Net cash flow*	16	(80)	(39)	58	(23)	(22)
Net investing cash flow	(62)	(19)	(4)	226	(66)	207
Net financing cash flow	46	99	43	(284)	89	(185)

* for definition see Bayer Group Key Data on page 2
** figures for January only
*** 2004 figures restated. Contrary to the presentation in last year's publications, activities outside the United States are now reflected in continuing operations

Segment reporting

The spin-off of LANXESS and the acquisition of the Roche OTC business have led to a shift in the relative sizes of our businesses in terms of sales, EBIT and assets. In compliance with IAS 14 (Segment Reporting), we have therefore adjusted our segmentation effective January 1, 2005 to reflect the new Group structure.

In line with the increased importance of our Consumer Care Division, the previous Consumer Care, Diagnostics segment has been split into two reporting segments. The new Consumer Care segment comprises both our existing Consumer Care business and the OTC business acquired from Roche. Our diagnostics activities, comprising the Diabetes Care and Diagnostics divisions, are now reported as a separate segment called Diabetes Care, Diagnostics.

The Bayer CropScience subgroup was presented in the 2004 financial statements as a single segment. We are now reporting Crop Protection as a separate segment, consisting of the strategic business units Insecticides, Fungicides, Herbicides and Seed Treatment. The new Environmental Science, BioScience segment comprises the Environmental Science and BioScience business groups.

The Bayer MaterialScience subgroup is divided for reporting purposes into the Materials and Systems segments as before.

Leverkusen, August 3, 2005

Bayer Aktiengesellschaft

The Board of Management

Treatment of advanced renal cell carcinoma

Registration application for cancer drug sorafenib filed in the U.S.

In July 2005, Bayer HealthCare AG and Onyx Pharmaceuticals, Inc. submitted a New Drug Application (NDA) to the U.S. Food and Drug Administration (FDA) for sorafenib (BAY 43-9006) for patients with advanced kidney cancer.

Sorafenib researchers in West Haven, Connecticut, U.S.A.: Dr. Christopher Carter (front), Dr. Edward Huguenel and Dr. Susan Kelley.

"New treatment options are urgently needed for people with advanced kidney cancer," said Wolfgang Plischke, President of Bayer HealthCare's global Pharmaceutical Division. "Our Phase III results have encouraged us to proceed with the NDA filing. Assuming a favorable review by the FDA, we expect to launch sorafenib in the first half of 2006."

Sorafenib was accepted by the FDA into the Pilot 1 Program for continuous marketing applications. The Pilot 1 Program was designed for therapies that have been granted Fast Track status and have the potential to provide important therapeutic benefit over available therapies. Under this program, registration documentation can be continuously submitted to the FDA during the study evaluation process, and the FDA is committed to reviewing each "reviewable unit" of the submission within a six-month timeframe.

The sorafenib submission is based on the largest randomized, placebo-controlled trial ever conducted in advanced renal cell carcinoma. The results of the ongoing trial were presented in May at the 41st Annual Meeting of the American Society of Clinical Oncology (ASCO) in Orlando, Florida.

At this meeting, investigators reported that sorafenib doubled progression-free survival (PFS) when compared to those patients who received placebo. As assessed by independent radiologic review, PFS was doubled to a median value of 24 weeks in patients receiving sorafenib as compared to 12 weeks for patients receiving placebo.

Based on the clinical and statistical significance of the study data, patients who were previously receiving placebo have been switched to sorafenib. In addition, sorafenib is currently available to all patients with advanced kidney cancer in the United States through suitably qualified treatment centers. To be eligible, individuals may not have been previously treated with sorafenib. A similar trial will start shortly in the E.U., and Bayer and Onyx are in discussions with regulators about comparable programs in other territories.

Phase III study for the treatment of skin cancer

Sorafenib is also being investigated for other types of cancer. The active ingredient's safety and efficacy in combination with the chemotherapeutic agents carboplatin and paclitaxel is currently being tested in a randomized double-blind Phase III study for skin cancer.

BAY 43-9006 was administered to patients with advanced malignant melanoma (skin cancer) in the prior Phase II study, also in combination with carboplatin and paclitaxel. Here, too, there were positive results. Tumor shrinkage was observed in 40 percent of patients, while disease stabilization was observed in 43 percent of those receiving the therapy.

About the active ingredient

Sorafenib, a novel investigational drug candidate, is the first oral multi-kinase inhibitor that targets serine/threonine and receptor tyrosine kinases in both the tumor cell and tumor vasculature. In preclinical models, sorafenib targeted members of both these classes of kinases.

Kinases are enzymes that are involved in the growth of tumor cells through proliferation and in the generation of vasculature to supply tumors with blood (angiogenesis), two important cancer growth activities.

First stage of major polycarbonate project inaugurated

Implementation of Bayer MaterialScience's investment projects at the company's Caojing site near Shanghai, China, is progressing rapidly. Dr. Udo Oels, the member of Bayer's Group Management Board responsible for the Asia region and for Innovation, Technology and the Environment, inaugurated a new compounding plant for polycarbonate and polycarbonate blends with an annual capacity of 40,000 tons on June 30, 2005. The compounding plant is part of the polycarbonate production facility currently under construction that is due on stream in the first half of 2006. A further project under way at the Caojing site is the construction of a production facility for the polyurethane raw material MDI (methylene diphenyl diisocyanate). With a capacity of 350,000 tons per year, this facility will be the largest of its kind in the world. Following the conclusion of the environmental audit process, the company now has the most important approval it requires to begin construction of the facility. Production is due to start in 2008. The new facility is destined to play an important part in increasing Bayer's annual production capacity for MDI from the current 930,000 tons to 1.3 million tons.

Dr. Udo Oels, member of the Bayer Group Management Board, and Dr. Jürgen Dahmer, Senior Bayer Representative for Greater China (fourth and fifth from left), joined with numerous local industry and government representatives in inaugurating the new facility.

To develop customer relations in China, Bayer MaterialScience will assemble its own local distribution network with import and export rights. The network will supply to Chinese customers products manufactured by the new Caojing production facilities and by centers in other regions. At the center of this distribution network is Bayer MaterialScience Trading (Shanghai) Co. Ltd., a wholly owned subsidiary of Bayer (China) Ltd., which started operating at the beginning of August.

The new fungicide protects rice plants against Pyricularia by stimulating their self-defense ability.

New rice fungicide in development

Bayer CropScience and Japanese-based Sumitomo Chemical Co., Ltd. have signed a codevelopment agreement for a new compound to combat rice blast. The fungicide BYF1047 was identified by Bayer CropScience. It is effective against the Pyricularia fungus that causes rice blast, the world's most economically significant disease in rice. Bayer CropScience and Sumitomo Chemical are now jointly developing BYF1047 for use in Japan. Following codevelopment both companies will hold global rights to market products containing the new active ingredient. The product is scheduled to be launched in Japan in 2010/2011, subject to regulatory approval.

Phase III clinical development program with substance to prevent venous thromboembolism to start this year

Promising data from two large randomized Phase IIb trials for a novel, oral, direct Factor Xa inhibitor for the prevention of venous thromboembolism (VTE) were presented by Bayer HealthCare on August 8, 2005 at the XXth Congress of the International Society on Thrombosis & Haemostasis (ISTH), in Sydney, Australia. In light of the favorable results, BHC plans to begin the preparatory stage of the Phase III clinical development program in the fourth quarter of this year.

The dose-finding studies included more than 1,300 patients undergoing either elective total knee or hip replacement surgery. The studies demonstrated that the new active substance, given twice daily in tablet form, was safe and effective across a wide dose range of 2.5–10 mg in lowering the incidence of VTE. The substance is being developed, in parallel, in three key indications: VTE prevention after major orthopaedic surgery, VTE treatment and stroke prevention in atrial fibrillation.

Low emissions despite increased production

Bayer AG has succeeded in maintaining the previous years' low levels of emissions and solid waste despite considerable increases in production volumes. According to the latest Health, Safety and Environment Report for the Bayer Group, recently published on the Internet at www.sd.bayer.com, this has been achieved through steady advances in environmental protection, including improvements to production processes and rigorous application of recycling options.

25 billion tablets produced in Bitterfeld

July 11, 2005, will certainly go down in the history books of Bayer Bitterfeld GmbH, but may well warrant a special mention in those of the German state of Saxony-Anhalt as well: on this day, the 25 billionth tablet was manufactured in Bitterfeld. Since tablet production started around ten years ago, Bayer Bitterfeld GmbH has manufactured the analgesic Aspirin® and the antacids Talcid® and Alka-Seltzer® at this site. Anyone buying a box of Aspirin® tablets in Europe, or also in some parts of Asia or the Americas, can be certain they were made in Bitterfeld.

Production of the Bitterfeld site's 25 billionth tablet gave the employees cause for celebration.

Bayer Technology Services to provide engineering for plants in Kazakhstan and Hungary

Bayer Technology Services GmbH has been awarded a subcontract by Frings Austria GmbH of Graz, Austria, for the construction of a bioethanol plant for BIOHIM in Kazakhstan. Frings is constructing Kazakhstan's first fuel ethanol plant approximately 300 kilometers north of the capital Astana. The facility, which will have an annual capacity of 60,000 tons, will produce ethanol from wheat for blending with gasoline for combustion engines. The order is for the engineering and procurement of four distillation columns and the process control system for the entire plant.
In Hungary, Bayer Technology Services has won an order from BorsodChem to build a drying unit for chlorine gas.

Bayer and UNEP organize global painting competition

14-year-old Iskren Rumenov Petrov from Bulgaria proudly presents his painting, which was honored as the best European entry.

Parks in the middle of the city, forests full of animals, rivers clean enough to swim in and flourishing landscapes – that is how children around the globe imagine tomorrow's world. Or at least it's the impression given by many of the paintings entered by some 10,000 children from 60 countries for the 14th International Children's Painting Competition on the Environment, organized jointly by the United Nations Environment Programme (UNEP) and Bayer AG. The winners were honored during this year's World Environment Day celebrations in San Francisco. The award-winning pictures boldly depict both the concerns and the hopes of children from around the world regarding the state of the environment. Within the scope of its partnership with UNEP, Bayer organizes not only this painting competition but also a dozen other environmental projects for young people in different parts of the world. A core element of this partnership is a visit to Germany offered each year to some 50 "Young Environmental Envoys" from Asia, Europe and Latin America. These young people travel to Germany at Bayer's invitation to learn about the interplay between industry, politics and private households in the field of environmental protection.

Green light for clinical testing of longer-acting Kogenate® FS

Bayer HealthCare's Biological Products Division is now launching Phase I clinical trials of its longer-acting Kogenate® FS (KOGENATE® BAYER in Europe), the first factor VIII product of its kind to be approved by the U.S. Food and Drug Administration for use in clinical trials for hemophilia. The product, which uses PEGylated liposome technology licensed from Zilip-Pharma, will most likely enable weekly, or even less frequent, infusions for patients in prophylaxis.

Bayer HealthCare manufactures the blood coagulation product Kogenate® in Berkeley, California.

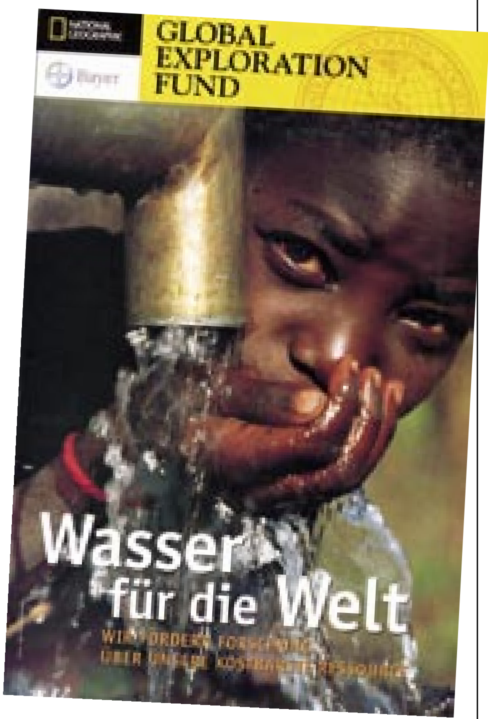
National Geographic and Bayer set up research fund

In a joint effort to promote new research on drinking water protection, National Geographic Germany and Bayer are supporting scientific projects that investigate the production, distribution and conservation of drinking water around the world. The initiative forms part of the activities of the National Geographic Global Exploration Fund. The two companies are making a total of €250,000 available to researchers who aspire to find solutions to these problems. Suitable research themes could include finding and exploiting new sources of freshwater; treating the water; monitoring its quality and efficiently distributing it; as well as analyzing changes in global freshwater circulation and their consequences for vegetation zones. The initiative is open to researchers in the fields of science, the humanities and engineering from the German-speaking countries and to international researchers with projects in these countries.

The renowned geophysicist and marine geologist Professor Gerold Wefer is accepting applications through September 15 and will join with the fund initiators in pre-selecting the projects to be supported. A final decision will then be made on how to distribute the available sum of money.

A German-language brochure entitled "Water for the World" can be ordered via e-mail at serviceline@bayer-ag.de or by post at Bayer AG, Communications, Stockholders' Newsletter, Building W11, 51368 Leverkusen, Germany.

Details of how to apply for a grant, along with an application form in English, can be found on the Internet at *www.nationalgeographic.de/gef*



The German-language brochure "Water for the World" contains information on the new research fund.

Bayer sells mandatory convertible bond back to Lanxess

The Bayer Group has sold the mandatory convertible bond it purchased in September 2004 back to Lanxess AG at a transaction price exceeding the nominal value. The sale of this bond is in line with Bayer's previously stated intent that it would not pursue a strategic interest with respect to Lanxess. Bayer had acquired the €200 million bond in its entirety at the nominal value from Lanxess on September 15, 2004, to support the financial status and rating of the new chemical company.

New fungicide Nativo® introduced to the market

Bayer CropScience has chosen Brazil as the first country for the launch of its new Nativo® fungicide. Nativo® is a broad-spectrum product containing the active ingredients trifloxystrobin and tebuconazole, the company's most frequently used fungicides, in a ready-to-use mix. The company expects Nativo® to achieve annual peak annual sales of more than €100 million. Nativo® was registered in Brazil in February 2005 and in Argentina in July 2005.

Online information on clinical trials

Since the beginning of July 2005, Bayer HealthCare has been posting information about clinical trials of its Biological Products, Consumer Care and Pharmaceuticals divisions on the Internet at www.clinicaltrials.bayerhealthcare.com. In the initial stage, information on ten trials that commenced after January 6, 2005 was posted. Since then the database has been continually updated, with trials that started after July 1, 2005 being listed on the website within three weeks after they commence. Bayer plans to list all ongoing trials on the Internet by mid-September 2005, concentrating primarily on Phase III and IV trials. In exceptional cases, such as cancer trials, trials in other life-threatening disease states and trials of major medical significance, Phase II data will also be made publicly accessible. As of March 2006, all completed trials that started after October 1, 2002 will be listed on the Internet. Information about clinical trials, FAQs and various links, for example to associations and organizations, will also be available, as will a trial-specific inquiry option.

Internet users can now access information about the status of clinical trials at Bayer HealthCare.

Financial Calendar

Fall Financial News Conference
Wednesday, November 9, 2005

Investor Conference Call
Wednesday, November 9, 2005

2005 Annual Report
Monday, March 6, 2006

Q1 2006 Interim Report
Thursday, April 27, 2006

Investor Conference Call
Thursday, April 27, 2006

Annual Stockholders' Meeting 2006
Friday, April 28, 2006

Payment of Dividend
Tuesday, May 2, 2006

Masthead

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If you would like to receive the Bayer Stockholders' Newsletter in electronic rather than print form in future, please e-mail the editor.

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

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

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.