

Dear stockholders:

During 2004 the Supervisory Board monitored the conduct of the company's business and acted in an advisory capacity. We performed these functions on the basis of detailed written and oral reports received from the Board of Management. In addition, the Chairman of the Supervisory Board and the Chairman of the Board of Management maintained a constant exchange of information and ideas. In this way the Supervisory Board was kept continuously informed about:

- the company's business strategy;
- corporate planning, including financial, investment and human resources planning;
- the company's earnings performance; and
- the general state of the business.

The documents relating to Board of Management decisions or actions requiring the approval of the Supervisory Board were inspected by the Supervisory Board at its plenary meetings, sometimes after preparatory work by its committees. In certain cases the Supervisory Board gave its approval on the basis of documents circulated to its members. The Supervisory Board was involved in decisions of material importance to the company. We discussed at length the business trends described in the reports from the Board of Management and the prospects for the development of the Bayer Group as a whole, the individual organizational units and the principal affiliated companies in Germany and abroad. During 2004 there were five plenary meetings of the Supervisory Board. On several further occasions, decisions were made after circulation of documents to the members. No member of the Supervisory Board attended less than half of the meetings.

Principal topics discussed by the Supervisory Board

Among the main topics deliberated by the Supervisory Board in 2004 was the continuing development of Bayer's portfolio, which included strengthening the health care business by acquiring Roche's over-the-counter drugs unit. We discussed at great length the progress of the preparations for the spin-off and stock-market listing of the new company LANXESS, into which most of the Chemicals activities and certain Polymers businesses have been placed. Also dealt with at our plenary meetings were the restructuring of the pharmaceuticals activities – including the strategic alliance with Schering-Plough and the refocus of pharmaceutical research – and the divestiture of the plasma business. Another major topic reported on by the Board of Management and discussed by the Supervisory Board was the status of various litigations, including court proceedings. We paid special attention to the litigation concerning Lipobay/Baycol and products containing phenylpropanolamine (PPA) as well as to antitrust suits, which mainly involve the former Rubber Business Group.

Work of the committees

The Supervisory Board's Presidial Committee, which serves primarily as the Mediation Committee pursuant to the German Codetermination Act, did not need to convene in 2004. The Audit Committee met three times during the year, concerning itself in particular with the company's and the Group's financial reporting, including the annual report to the U.S. Securities and Exchange Commission on Form 20-F. It also discussed the Combined Financial Statements that had to be prepared in connection with the spin-off of LANXESS. The Group's risk management system was another area of focus. The Audit Committee laid down rules for the relationship with the external auditors, set the budget for their services, and discussed measures to implement various requirements of the Sarbanes-Oxley Act. The Human Resources Committee convened on two occasions. Reports on the meetings of the Committees were presented at the plenary meetings.

Corporate governance

The Supervisory Board dealt with the ongoing development of corporate governance at Bayer. In December 2004 the Board of Management and the Supervisory Board issued a new Declaration of Conformity, which is published in the Corporate Governance chapter of this Annual Report. The Supervisory Board also discussed the efficiency of its own work.



Dr. Manfred Schneider, Chairman of the Supervisory Board

Financial statements and audits

The consolidated financial statements of the Bayer Group were drawn up according to the principles of the International Financial Reporting Standards (IFRS). These statements, as well as the financial statements of Bayer AG and the management reports of the Bayer Group and Bayer AG, have been examined by the auditors PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Essen. The conduct of the audit is explained in the Independent Auditors' Report. The auditors find that Bayer has fully complied with the International Financial Reporting Standards and issue an unqualified opinion on the consolidated financial statements of the Bayer Group. The financial statements and management report of Bayer AG, the consolidated financial statements and management report of the Bayer Group, and the audit reports were submitted to all members of the Supervisory Board. They were discussed in detail by the Audit Committee and at a plenary meeting of the Supervisory Board. The auditors submitted a report on both occasions and were present during the discussions.

We examined the financial statements and management report of Bayer AG, the proposal for distribution of the profit, and the consolidated financial statements and management report of the Bayer Group. We found no objections, thus we concur with the result of the audit. We have approved the financial statements of Bayer AG and the consolidated financial statements of the Bayer Group prepared by the Board of Management. The financial statements of Bayer AG are thus confirmed. We are in agreement with the management reports of Bayer AG and the Bayer Group and with the assessment of the future development of the enterprise. We also concur with the dividend policy and the decisions concerning retained earnings. We assent to the proposal for distribution of the profit, which provides for payment of a dividend of €0.55 per share.

The Supervisory Board would like to thank the Board of Management and all employees for their dedication and hard work in 2004.

Leverkusen, March 2005

For the Supervisory Board

A handwritten signature in blue ink that reads "Manfred Schneider". The signature is written in a cursive, flowing style.

Dr. Manfred Schneider
Chairman