



**Dr. Manfred Schneider**, Chairman of the Supervisory Board

## Dear stockholders:

During 2005 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 regular exchange of information and ideas. In this way the Supervisory Board was kept continuously informed about the company's intended business strategy, corporate planning (including financial, investment and human resources planning), the company's earnings performance, the state of the business and the situation in the company and the Group as a whole.

The documents relating to Board of Management decisions or actions which – by law or under the articles of association or the rules of procedure – required 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 meetings of the Supervisory Board were regularly attended by the members of the Board of Management. 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 2005 there were four plenary meetings of the Supervisory Board. On several further occasions, decisions relating to Group financing were made after circulation of documents to the members. No member of the Supervisory Board attended fewer than half of the meetings.

**Principal topics discussed by the Supervisory Board**

Among the main topics deliberated by the Supervisory Board in 2005 was the status of research and development work at Bayer HealthCare and Bayer CropScience. On the basis of presentations by both these companies, the Supervisory Board discussed aspects of relevance to the enterprise as a whole, including the great significance of innovation for economic success, the need for efficient resource deployment in view of rising costs, and the importance of regularly appraising the various projects. A specific development project of the Pharmaceuticals Division on which the Supervisory Board received a report was the Factor Xa inhibitor for the treatment of thrombosis, which is in phase III clinical trials and is the subject of a collaboration agreement with Johnson & Johnson relating to its further development and marketing.

Another major topic again reported on by the Board of Management and discussed by the Supervisory Board in 2005 was the status of various litigations, including court proceedings. We paid special attention to the antitrust suits in the polymers field and to the litigation concerning Lipobay/Baycol and products that previously contained phenylpropanolamine (PPA).

In 2005 the Supervisory Board also discussed projects aimed at enhancing the business portfolio, including the purchase of co-marketing rights for the blood pressure treatment telmisartan in numerous European countries. A subject of particularly thorough deliberation was a major acquisition project of the Consumer Care Division, which was not realized because higher offers were submitted by co-bidders.

At its meeting in December 2005 the Supervisory Board considered in detail the Board of Management's operational, financial and balance sheet planning for the years 2006 through 2008.

**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 2005.

The Audit Committee met four 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. Another area of focus was the Group's risk management system. The Audit Committee set the budget for the services of the external auditor and discussed with the auditor the main areas of the audit for the 2005 fiscal year. It also discussed measures to implement various requirements of the U.S. Sarbanes-Oxley Act including, in particular, the future submission of an assessment, attested to by the auditor, regarding the internal controls over financial reporting introduced in the Group pursuant to Section 404 of the Sarbanes-Oxley Act.

The Human Resources Committee convened on two occasions. It dealt with matters relating to the remuneration of the Board of Management, the renewal of the contract of one of its members, and the appointment of Dr. Wolfgang Plischke to the Board of Management effective March 1, 2006.

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, taking into account the amendments made to the German Corporate Governance Code in June 2005. In December 2005 the Board of Management and the Supervisory Board issued a new Declaration of Conformity, which is also included in the Corporate Governance chapter of this Annual Report.

### Financial statements and audits

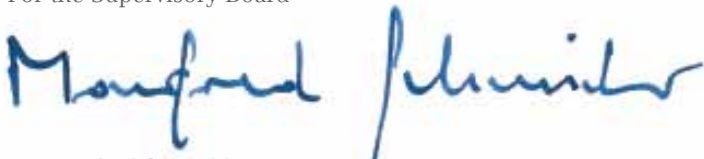
The consolidated financial statements of the Bayer Group were drawn up according to the principles of the International Financial Reporting Standards (IFRS). These statements, as well as the financial statements of Bayer AG and the management reports of the Bayer Group and Bayer AG, have been examined by the auditor, Pricewaterhouse Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Essen. The conduct of the audit is explained in the Independent Auditor's Report. The auditor finds that Bayer has complied with the International Financial Reporting Standards and issues 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 auditor submitted a report on both occasions and was 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, in particular, with the assessment of the future development of the enterprise. We also concur with the dividend policy and the decisions concerning earnings retention by the company. We assent to the proposal for distribution of the profit, which provides for payment of a dividend of €0.95 per share.

The Supervisory Board would like to thank the Board of Management and all employees for their dedication and hard work in 2005.

Leverkusen, March 2006

For the Supervisory Board



Dr. Manfred Schneider  
Chairman