

BAYER AKTIENGESELLSCHAFT

Form 6-K

September 01, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the month of August 2004

**Bayer Aktiengesellschaft  
Bayer Corporation\***

(Translation of registrant's name into English)

Bayerwerk, Gebaeude W11  
Kaiser-Wilhelm-Allee  
51368 Leverkusen  
Germany

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b)(1): N/A

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b)(7): N/A

Indicate by check mark whether the registrant by furnishing the information contained in this form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

\* Bayer Corporation is also the name of a wholly-owned subsidiary of the registrant in the United States.

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**Stockholders Newsletter 2004**

Interim Report for the Second Quarter of 2004

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**Table of Contents****Bayer Group Key Data**  
million

	2nd Quarter			1st Half		
	2003	2004	Change %	2003	2004	Change %
<b>Net sales</b>	<b>7,256</b>	<b>7,583</b>	<b>+ 4.5</b>	<b>14,612</b>	<b>14,945</b>	<b>+ 2.3</b>
<i>of which discontinuing operations</i>	1,604	1,754		3,253	3,380	
<b>Change in sales</b>						
Volume	+ 4%	+ 6%		+ 4%	+ 8%	
Price	+ 3%	+ 2%		+ 1%	0%	
Currency	11%	2%		11%	4%	
Portfolio changes	+ 1%	1%		+ 5%	2%	
<b>EBITDA<sup>1</sup></b>	<b>1,120</b>	<b>1,151</b>	<b>+ 2.8</b>	<b>2,924</b>	<b>2,514</b>	<b>14.0</b>
<b>Operating result (EBIT)</b>	<b>475</b>	<b>524</b>	<b>+ 10.3</b>	<b>1,571</b>	<b>1,344</b>	<b>14.4</b>
<i>of which discontinuing operations</i>	(55)	31		(53)	117	
<i>of which special items</i>	17	(136)		272	(143)	
Return on sales	6.5%	6.9%		10.8%	9.0%	
<b>Non-operating result</b>	<b>(197)</b>	<b>(278)</b>	<b>41.1</b>	<b>(390)</b>	<b>(435)</b>	<b>11.5</b>
<b>Net income</b>	<b>128</b>	<b>128</b>	<b>0.0</b>	<b>714</b>	<b>528</b>	<b>26.1</b>
Earnings per share ( )	0.18	0.18		0.98	0.72	
<b>Gross cash flow<sup>2</sup></b>	<b>903</b>	<b>831</b>	<b>8.0</b>	<b>2,330</b>	<b>1,815</b>	<b>22.1</b>
<b>Net cash flow<sup>3</sup></b>	<b>937</b>	<b>1,146</b>	<b>+ 22.3</b>	<b>1,122</b>	<b>847</b>	<b>24.5</b>
<b>Capital expenditures</b>	<b>324</b>	<b>237</b>	<b>26.9</b>	<b>800</b>	<b>422</b>	<b>47.3</b>
<b>Research and development expenses</b>	<b>605</b>	<b>513</b>	<b>15.2</b>	<b>1,122</b>	<b>1,012</b>	<b>9.8</b>
<b>Depreciation and amortization</b>	<b>645</b>	<b>627</b>	<b>2.8</b>	<b>1,353</b>	<b>1,170</b>	<b>13.5</b>
<b>Number of employees (as of June 30)</b>				<b>117,500</b>	<b>113,600</b>	<b>3.3</b>
Personnel expenses	2,012	1,858	7.7	3,916	3,708	5.3

1) EBITDA = operating result (EBIT) plus depreciation and amortization

2) Gross cash flow = operating result (EBIT) plus depreciation and amortization, less gains on retirements of noncurrent assets, less income taxes, and adjusted for changes in pension provisions

3) Net cash flow = cash flow from operating activities according to IAS 7

2003 figures restated (for details see Notes, page 30 f)

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*Cover picture:*

*Scientists at Potsdam-based Bayer BioScience GmbH use modern biotechnology to optimize crop plants. For example, modified starches can be derived from potato tubers that have been altered with molecular biology methods. Julia Hemmerling and Menderes Kantemir investigate strips of this starch, which can be used in many applications.*

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**Interim Report for the Second Quarter**

**EBIT before special items increases by 44 percent**

**Currency- and portfolio-adjusted sales up 8 percent**

**Bayer CropScience, Bayer MaterialScience and Lanxess improve significantly**

**Bayer HealthCare strengthened by the acquisition of Roche consumer health business**

**Lanxess stock-market listing proceeding on schedule**

**Substantial increase expected in second-half EBIT before special items**

Bayer made gratifying operating gains in the second quarter of 2004. Sales grew by 4.5 percent to 7,583 million compared to the same period of 2003, and by 7.9 percent when adjusted for currency and portfolio effects. Bayer CropScience, Bayer MaterialScience and Lanxess contributed to this development.

EBIT improved by 10.3 percent to 524 million, and by 44.1 percent to 660 million before special items of 136 million. Included in the special items are 60 million for antitrust risks and 22 million for the stock-market listing of Lanxess. The biggest earnings improvements were achieved by CropScience and MaterialScience. Lanxess also posted a substantial increase in EBIT. As expected, EBIT of HealthCare was down significantly due to expiration of the U.S. patent for our anti-infective Cipro®.

With a non-operating result of minus 278 million, income before income taxes amounted to 246 million. The non-operating result includes non-cash expenses of 98 million from investments in affiliated companies, attributable mainly to one-time charges. After income taxes of 115 million and minority stockholders' interest, Group net income in the second quarter totaled 128 million. The tax rate was 47 percent due to non-deductible expenses.

Gross cash flow declined by 72 million, or 8.0 percent, to 831 million compared to the same period of last year. By contrast, net cash flow advanced by 209 million, or 22.3 percent, year on year to 1,146 million. Net debt was reduced by 0.5 billion to 6.1 billion.

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Looking at the first half of the year, operating performance was gratifying. EBIT before special items improved by 14.5 percent compared with the same period in 2003 to 1,487 million. Risks for the second half result above all from the costs of petrochemical raw materials, which have recently increased sharply and can only be passed on to some extent in our selling prices. Nonetheless, we forecast second-half EBIT before special items significantly above the level posted in the same period of last year. We also reaffirm our expectation of growing full-year EBITDA by more than 10 percent.

**Net Sales**

million

**Operating Result (EBIT)**

million

**Gross Cash Flow**

million

**Net Cash Flow**

million

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Our preparations for the stock-market listing of Lanxess are proceeding on schedule. Lanxess will be separated from the Bayer Group by way of a spin-off. An Extraordinary Stockholders Meeting on November 17, 2004 will vote on this course of action. The proposal is that the stockholders of Bayer AG receive 100 percent of the shares of the spun-off Lanxess Group.

Pending the approval of the antitrust authorities, Bayer has acquired the consumer health business of Roche for a total purchase price of 2.38 billion. This transaction, which was announced in July, represents an important part of our HealthCare strategy of growing our consumer health activities by expanding the product portfolio. With total sales of about 2.4 billion, the combined OTC business will be among the world's top three leading suppliers of non-prescription medicines.

**Performance by Subgroup**

Our business activities are grouped together in the HealthCare, CropScience, MaterialScience and Lanxess subgroups, comprising the following reporting segments:

<b>Subgroup</b>	<b>Segments</b>
HealthCare	Pharmaceuticals/Biological Products; Consumer Care/Diagnostics; Animal Health
CropScience	CropScience
MaterialScience	Materials; Systems
Lanxess	Lanxess



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**Performance by Subgroup in the Second Quarter of 2004**

million

**Performance by Subgroup in the First Half of 2004**

million

**Bayer HealthCare**

**Sales** of the **Bayer HealthCare** subgroup fell by 4.4 percent to 2,108 million in the second quarter of 2004. Adjusted for currency and portfolio effects, sales dipped by 0.9 percent year on year. **EBIT** dropped by 169 million, or 43.8 percent, to 217 million, due mostly to special gains (122 million) from the divestiture of the household insecticides business recognized in the previous year's figure. We were able to largely offset the reduction in earnings resulting from the genericization of Cipro® in the United States.

Increased risks in our HealthCare business continue to exist from litigation commenced in the United States following the voluntary withdrawal of the statin Lipobay/Baycol from the market and the voluntary cessation in the marketing of products containing PPA. Without acknowledging any liability, the company had settled 2,825 Lipobay/Baycol cases as of August 6, 2004, resulting in settlement payments totaling approximately US\$ 1,084 million. As of that date, 7,906 cases were pending worldwide. Bayer will

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Bayer HealthCare million	2nd Quarter			1st Half		Change %
	2003	2004	Change %	2003	2004	
<b>Net sales</b>	<b>2,204</b>	<b>2,108</b>	<b>4.4</b>	<b>4,312</b>	<b>4,232</b>	<b>1.9</b>
<i>of which discontinuing operations</i>	153	162		293	310	
<b>EBITDA*</b>	<b>509</b>	<b>341</b>	<b>33.0</b>	<b>1,123</b>	<b>721</b>	<b>35.8</b>
<i>of which discontinuing operations</i>	(1)	23		(9)	34	
<b>Operating result (EBIT)</b>	<b>386</b>	<b>217</b>	<b>43.8</b>	<b>874</b>	<b>494</b>	<b>43.5</b>
<i>of which discontinuing operations</i>	(8)	11		(23)	22	
of which special items	96	0		296	0	
<b>Gross cash flow*</b>	<b>438</b>	<b>211</b>	<b>51.8</b>	<b>912</b>	<b>469</b>	<b>48.6</b>
<i>of which discontinuing operations</i>	2	22		(5)	33	
<b>Net cash flow*</b>	<b>112</b>	<b>333</b>	<b>+ 197.3</b>	<b>445</b>	<b>363</b>	<b>18.4</b>
<i>of which discontinuing operations</i>	(28)	4		(42)	(25)	
* for definition see Bayer Group Key Data on page 2						
<b>Best-Selling Bayer HealthCare Products</b>			<b>Change in local currencies</b>			<b>Change in local currencies</b>
million	2nd Quarter		%	1st Half		%
	2004	Change %		2004	Change %	
Ciprobay®/Cipro® (Pharmaceuticals)	202	54.4	54.4	483	38.0	34.3
Adalat® (Pharmaceuticals)	172	6.5	6.0	340	+ 0.6	+ 3.3
Aspirin® (Consumer Care/Pharmaceuticals)	165	+ 9.3	+ 15.9	293	+ 2.4	+ 8.0
Ascensia® product line (Diagnostics)	157	+ 20.8	+ 27.7	293	+ 11.8	+ 16.4
Kogenate® (Biological Products)	135	+ 27.4	+ 30.2	256	+ 19.1	+ 22.8
ADVIA Centaur® System (Diagnostics)	112	+ 23.1	+ 30.8	216	+ 20.0	+ 25.0
Avalox®/Avelox® (Pharmaceuticals)	55	+ 77.4	+ 74.2	159	+ 14.4	+ 21.6
Gamimune® N/Gamunex® (Biological Products)	79	+ 1.3	+ 6.4	158	+ 14.5	+ 23.2
Glucobay® (Pharmaceuticals)	70	+ 7.7	+ 9.2	143	+ 5.9	+ 10.4
Advantage®/Advantix® (Animal Health)	67	2.9	0.0	112	+ 4.7	+ 12.1
Levitra® (Pharmaceuticals)	40			106		
Prolastin® (Biological Products)	43	2.3	0.0	80	4.8	+ 2.4
One-A-Day® (Consumer Care)	45	+ 50.0	+ 63.3	73	+ 12.3	+ 26.2
Trasylol® (Pharmaceuticals)	30	+ 3.4	+ 3.4	73	+ 5.8	+ 14.5
Baytril® (Animal Health)	33	0.0	0.0	72	2.7	+ 2.7
<b>Total</b>	<b>1,405</b>	<b>6.1</b>	<b>3.4</b>	<b>2,857</b>	<b>1.3</b>	<b>+ 3.9</b>
Proportion of Bayer HealthCare sales	66.7%			67.5%		

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continue its policy of trying to agree on fair compensation for anyone who experienced serious side effects from Lipobay/Baycol on its own initiative and without acknowledging any legal liability. Where facts have been developed in the course of the litigation, it so far appears that the vast majority of plaintiffs did not suffer serious side-effects.

Should the U.S. plaintiffs in the Baycol litigation or in the phenylpropanolamine (PPA) product liability litigation substantially prevail despite the existing meritorious defenses, it is possible that Bayer could face payments that exceed its insurance coverage and are not covered through the accounting measures already taken. The same is true should a significant further increase in settlement cases occur in the Baycol litigation. PPA, which was widely used as an active ingredient in appetite suppressants and cough-and-cold medications by many manufacturers, was voluntarily replaced by Bayer and other producers in the U.S. after a recommendation in 2000 by the U.S. Food and Drug Administration.

**Pharmaceuticals/Biological Products**

Sales of the **Pharmaceuticals** Division fell in the second quarter by 186 million, or 20.0 percent, to 744 million. The decline in sales of the anti-infective Cipro® following expiration of our patent in the United States could only be compensated in part by growing business with other products.

Sales of Ciprobay®/Cipro® declined by 241 million, or 54.4 percent, compared to the second quarter of 2003. The once-daily formulation Cipro XR® claimed 16 percent of total ciprofloxacin prescriptions by the end of the second quarter.

Pharmaceuticals/Biological Products million	2nd Quarter			1st Half		
	2003	2004	Change %	2003	2004	Change %
<b>Net sales</b>	<b>1,190</b>	<b>1,040</b>	<b>12.6</b>	<b>2,321</b>	<b>2,216</b>	<b>4.5</b>
<i>of which discontinuing operations</i>	153	162		293	310	
Pharmaceuticals	930	744	20.0	1,811	1,650	8.9
Biological Products	260	296	+ 13.8	510	566	+ 11.0
<b>EBITDA*</b>	<b>206</b>	<b>120</b>	<b>41.7</b>	<b>464</b>	<b>325</b>	<b>30.0</b>
<i>of which discontinuing operations</i>	(1)	23		(9)	34	
<b>Operating result (EBIT)</b>	<b>150</b>	<b>65</b>	<b>56.7</b>	<b>353</b>	<b>229</b>	<b>35.1</b>
<i>of which discontinuing operations</i>	(8)	11		(23)	22	
of which special items	(24)	0		(3)	0	
<b>Gross cash flow*</b>	<b>175</b>	<b>74</b>	<b>57.7</b>	<b>364</b>	<b>197</b>	<b>45.9</b>
<i>of which discontinuing operations</i>	2	22		(5)	33	
<b>Net cash flow*</b>	<b>(152)</b>	<b>166</b>		<b>(45)</b>	<b>84</b>	
<i>of which discontinuing operations</i>	(28)	4		(42)	(25)	

\* for definition see Bayer Group Key Data on page 2

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Our erectile dysfunction drug Levitra<sup>®</sup>, which we launched in 2003, increased its market share to more than 10 percent. Contributing to this success were more than 30 further launches of the product in the first half of 2004, including its successful introduction in Japan on June 21, 2004. Levitra<sup>®</sup> holds a 10 percent share of the U.S. market overall and a 15 percent share of new prescriptions. We captured higher market share in key European countries such as Germany (18 percent). However, overall the market performance of Levitra<sup>®</sup> did not meet our expectations. Sales in the second quarter were additionally impacted by wholesalers reducing their inventories.

Avalox<sup>®</sup>/Avelox<sup>®</sup> (respiratory diseases), Glucobay<sup>®</sup> (type 2 diabetes) and Aspirin Cardio<sup>®</sup> (myocardial infarction and stroke prophylaxis) continued to perform positively. Avelox<sup>®</sup> received marketing authorization from the U.S. Food and Drug Administration for the treatment of community-acquired pneumonia caused by the Streptococcus pneumoniae bacterium that is resistant to conventional antibiotics. Avelox<sup>®</sup> is thus the first antibiotic approved for this indication in the United States.

In the field of cancer research, we published encouraging news concerning the use of our Raf kinase inhibitor which we are developing jointly with U.S.-based Onyx Pharmaceuticals, Inc. to treat patients with advanced kidney and skin cancer. The substance is currently in Phase III clinical trials for the treatment of advanced renal cell carcinoma. We were also able to present positive study results for our Factor Xa inhibitor for the treatment and prevention of thrombosis.

**Sales** of the **Biological Products** Division climbed by 13.8 percent in the second quarter of 2004, to 296 million. Kogenate<sup>®</sup>, in particular, continued to perform very satisfactorily, with sales moving ahead by 29 million, or 27.4 percent, to 135 million. Business expanded most strongly in Europe and North America. We are currently involved in negotiations with potential buyers for our plasma business, which is reported under discontinuing operations.

Pharmaceuticals/Biological Products	2nd Quarter			Change
	2003	2004	Change	in local
Net sales by market ( million)			%	currencies
				%
Europe	333	363	+ 9.0	+ 8.8
North America	554	351	36.6	35.1
Asia/Pacific	210	227	+ 8.1	+ 7.9
Latin America/Africa/Middle East	93	99	+ 6.5	+ 13.9
<b>Total</b>	<b>1,190</b>	<b>1,040</b>	<b>12.6</b>	<b>11.4</b>

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The global pharmaceuticals market maintained its high growth rate in the second quarter, spurred primarily by North America, which accounts for almost 50 percent of the world market. Bayer saw business decline considerably in this region, due especially to the genericization of its best-selling product Cipro®.

The European pharmaceuticals market expanded by an average 7 percent, with the rates differing considerably from country to country. Bayer slightly outperformed the European market overall, growing by 9.0 percent.

In the Asia/Pacific region, growth rates in Japan edged up to about 4 percent despite price reductions in April. Bayer grew considerably faster than the market, with sales up by 9.1 percent. Particularly pleasing was the growth in sales of 46.1 percent posted by our business in China.

Year-on-year **EBIT** of the **Pharmaceuticals/Biological Products** segment fell by 85 million to 65 million. This decline, which was due mostly to the expiration of our patent for Cipro® in the United States and to high launch costs for Levitra®, could only be partially offset by growing sales of individual products and by cost-containment measures.

Consumer Care/Diagnostics million	2nd Quarter		Change %	1st Half		Change %
	2003	2004		2003	2004	
<b>Net sales</b>	<b>800</b>	<b>843</b>	<b>+ 5.4</b>	<b>1,598</b>	<b>1,613</b>	<b>+ 0.9</b>
Consumer Care	340	333	2.1	690	659	4.5
Diagnostics	460	510	+ 10.9	908	954	+ 5.1
Diagnostics Professional Testing Systems	321	340	+ 5.9	628	643	+ 2.4
Diagnostics Self Testing Systems	139	170	+ 22.3	280	311	+ 11.1
<b>EBITDA*</b>	<b>251</b>	<b>169</b>	<b>32.7</b>	<b>559</b>	<b>307</b>	<b>45.1</b>
<b>Operating result (EBIT)</b>	<b>191</b>	<b>107</b>	<b>44.0</b>	<b>436</b>	<b>188</b>	<b>56.9</b>
of which special items	119	0		297	0	
<b>Gross cash flow*</b>	<b>214</b>	<b>104</b>	<b>51.4</b>	<b>458</b>	<b>213</b>	<b>53.5</b>
<b>Net cash flow*</b>	<b>242</b>	<b>129</b>	<b>46.7</b>	<b>448</b>	<b>234</b>	<b>47.8</b>

\* for definition see Bayer Group Key Data on page 2

**Consumer Care/Diagnostics**

**Sales** of the **Consumer Care** Division moved back by 2.1 percent to 333 million, due to the divestment of the household insecticides business. When adjusted for portfolio changes and currency effects, sales rose by 8.0 percent. The main growth market was North America, where sales were up by 11.7 percent in local currencies. This was attributable to new product launches including the One-A-Day CarbSmart® dietary supplement and to the continued positive performance of Aleve®. Co-marketed with Roche, this product is now the third leading pain reliever in the U.S. OTC market.

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Effective June 1, 2004, we divided **Diagnostics** into two divisions: Diagnostics Professional Testing Systems and Diagnostics Self Testing Systems. The aim is to provide both divisions with added flexibility so that they can respond better to the unique characteristics of their respective markets in terms of, for example, customer structure and distribution channels. Sales of the **Diagnostics Professional Testing Systems** Division grew by 5.9 percent or 8.9 percent in local currencies. This was due mainly to considerable gains by the ADVIA Centaur® product line (23.1 percent), particularly in the United States. Following the successful introduction in Europe, Latin America and Asia of a new test from our ADVIA® system to support the diagnosis of hepatitis B infections, the test was recently approved by the U.S. Food and Drug Administration. Business in the **Diagnostics Self Testing Systems** Division improved by 22.3 percent year on year in the second quarter, and by 27.2 percent in local currencies. This was largely attributable to newly introduced blood glucose measurement systems from the Ascensia® line. The Ascensia® Contour system has now been successfully launched in the United States, Canada and the United Kingdom.

Consumer Care/Diagnostics	2nd Quarter		Change %	Change in local currencies %
	2003	2004		
<b>Net sales by market ( million)</b>	<b>2003</b>	<b>2004</b>	<b>Change %</b>	<b>Change in local currencies %</b>
Europe	268	297	+ 10.8	+ 10.5
North America	342	366	+ 7.0	+ 14.3
Asia/Pacific	81	77	4.9	4.0
Latin America/Africa/Middle East	109	103	5.5	+ 1.9
<b>Total</b>	<b>800</b>	<b>843</b>	<b>+ 5.4</b>	<b>+ 9.5</b>

The strong growth in Europe and North America resulted from the positive developments in Consumer Care and the two Diagnostics divisions.

There were contrasting trends in the world's OTC markets. Growth in nearly all segments of the U.S. OTC market weakened slightly, although Bayer increased sales in the United States by 4.9 percent and 11.8 percent in local currencies. In Germany, Europe's biggest OTC market, development was restrained largely by reforms to the country's health care system. In other countries, such as Italy and the United Kingdom, we participated in the growth of the market, with business advancing by 23.2 and 8.9 percent, respectively.

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Continued positive development in the U.S. self-testing market was the main factor in growth of 12 percent worldwide in the first half of 2004. All major suppliers in this industry benefited from market expansion in the United States, with Bayer achieving the highest growth rates. Bayer also grew faster than the market outside of the U.S. Globally, the professional testing market expanded by about 5 percent. Here, too, Bayer grew considerably faster than the market.

**EBIT** of the **Consumer Care/Diagnostics** segment fell by 84 million to 107 million as a result of special gains of 122 million from the divestment of the household insecticides business in the second quarter of 2003. Before special items, EBIT climbed significantly by 35 million, or 48.6 percent.

<b>Animal Health</b>	<b>2nd Quarter</b>			<b>1st Half</b>			
	<b>million</b>	<b>2003</b>	<b>2004</b>	<b>Change %</b>	<b>2003</b>	<b>2004</b>	<b>Change %</b>
<b>Net sales</b>		<b>214</b>	<b>225</b>	<b>+ 5.1</b>	<b>393</b>	<b>403</b>	<b>+ 2.5</b>
<b>EBITDA*</b>		<b>52</b>	<b>52</b>	<b>0.0</b>	<b>100</b>	<b>89</b>	<b>11.0</b>
<b>Operating result (EBIT)</b>		<b>45</b>	<b>45</b>	<b>0.0</b>	<b>85</b>	<b>77</b>	<b>9.4</b>
of which special items		1	0		2	0	
<b>Gross cash flow*</b>		<b>49</b>	<b>33</b>	<b>32.7</b>	<b>90</b>	<b>59</b>	<b>34.4</b>
<b>Net cash flow*</b>		<b>22</b>	<b>38</b>	<b>+ 72.7</b>	<b>42</b>	<b>45</b>	<b>+ 7.1</b>

\* for definition see Bayer Group Key Data on page 2

**Animal Health**

**Sales** of the **Animal Health** segment rose by 11 million, or 5.1 percent, overall to 225 million due largely to stronger demand in North America. Measured in local currencies, the increase was 8.8 percent. Our new antiparasitic Advantix® and the coccidiosis treatment Baycox® 5% continued to perform well. **EBIT** remained steady at last year's pleasing level of 45 million.

<b>Animal Health</b>	<b>2nd Quarter</b>			<b>Change in local currencies %</b>
	<b>2003</b>	<b>2004</b>	<b>Change %</b>	
<b>Net sales by market ( million)</b>				
Europe	66	71	+ 7.6	+ 7.1
North America	82	89	+ 8.5	+ 16.3
Asia/Pacific	35	32	8.6	7.8
Latin America/Africa/Middle East	31	33	+ 6.5	+ 11.0
<b>Total</b>	<b>214</b>	<b>225</b>	<b>+ 5.1</b>	<b>+ 8.8</b>

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Bayer CropScience million	2nd Quarter			1st Half		
	2003	2004	Change %	2003	2004	Change %
<b>Net sales</b>	<b>1,567</b>	<b>1,642</b>	<b>+ 4.8</b>	<b>3,228</b>	<b>3,374</b>	<b>+ 4.5</b>
Crop Protection	1,284	1,352	+ 5.3	2,641	2,768	+ 4.8
Insecticides	353	383	+ 8.5	723	769	+ 6.4
Fungicides	325	349	+ 7.4	651	688	+ 5.7
Herbicides	540	547	+ 1.3	1,073	1,100	+ 2.5
Seed Treatment	66	73	+ 10.6	194	211	+ 8.8
Environmental Science	215	216	+ 0.5	420	402	4.3
BioScience	68	74	+ 8.8	167	204	+ 22.2
<b>EBITDA*</b>	<b>232</b>	<b>341</b>	<b>+ 47.0</b>	<b>877</b>	<b>897</b>	<b>+ 2.3</b>
<b>Operating result (EBIT)</b>	<b>37</b>	<b>159</b>		<b>484</b>	<b>538</b>	<b>+ 11.2</b>
of which special items	(49)	(41)		(15)	(41)	
<b>Gross cash flow*</b>	<b>154</b>	<b>192</b>	<b>+ 24.7</b>	<b>670</b>	<b>539</b>	<b>19.6</b>
<b>Net cash flow*</b>	<b>735</b>	<b>585</b>	<b>20.4</b>	<b>543</b>	<b>346</b>	<b>36.3</b>

\* for definition see Bayer Group Key Data on page 2

**Bayer CropScience**

Following a strong first quarter, the **Bayer CropScience** subgroup increased its year-on-year **sales** in the second quarter as well. Business was up by 75 million, or 4.8 percent, to 1,642 million; when adjusted for currency and portfolio effects, the improvement was 7.5 percent.

The **Crop Protection** Business Group saw sales increase by 5.3 percent to 1,352 million.

Business in our highest-volume product group, Confidor®/Gaucho®/Admire®/Merit®, improved in the second quarter by 5.3 percent, or by 10.7 percent in local currencies. This was mainly attributable to weather conditions favorable to our business and the delayed start in part into the second quarter to the insecticides business.

Sales of our Folicur® fungicide rose by 7.2 percent to 104 million. This resulted both from continuing efforts to eliminate Asian rust in Brazil and from the weather conditions in Europe, which led to higher sales of crop protection products for cereals.

Due to lower sales in Canada and the United States, in particular, our Puma® herbicide saw a year-on-year decline of 13.7 percent in the second quarter. However, sales remained steady for the first half as a whole.



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<b>Best-Selling Bayer CropScience Products</b>	<b>2nd Quarter</b>			<b>1st Half</b>		
	<b>million</b>	<b>Change</b>	<b>Change</b>	<b>Change</b>	<b>Change</b>	<b>Change</b>
	<b>2004</b>	<b>%</b>	<b>in local currencies</b>	<b>2004</b>	<b>%</b>	<b>in local currencies</b>
			<b>%</b>			<b>%</b>
Confidor®/Gaucho®/Admire®/Merit® (Insecticides/Seed Treatment/Environmental Science)	158	+ 5.3	+ 10.7	329	5.2	0.6
Folicur®/Raxil® (Fungicides/Seed Treatment)	104	+ 7.2	+ 12.4	212	+ 21.1	+ 24.6
Puma® (Herbicides)	82	13.7	9.5	142	0.7	+ 3.5
Basta®/Liberty® (Herbicides)	73	+ 17.7	+ 22.6	123	+ 23.0	+ 29.0
Betanal® (Herbicides)	64	5.9	1.5	116	3.3	0.0
FLINT®/Stratego®/Sphere® (Fungicides)	53	7.0	1.8	113	+ 0.9	+ 4.5
Decis®/K-Othrine® (Insecticides/Environmental Science)	54	+ 5.9	+ 9.8	92	+ 10.8	+ 14.5
Temik® (Insecticides)	20	20.0	24.0	68	+ 36.0	+ 46.0
Hussar® (Herbicides)	21	4.5	9.1	60	3.2	1.6
Axiom®/Define®/Epic® (Herbicides)	23	+ 9.5	+ 9.5	55	+ 31.0	+ 38.1
<b>Total</b>	<b>652</b>	<b>+ 0.6</b>	<b>+ 4.6</b>	<b>1,310</b>	<b>+ 6.2</b>	<b>+ 10.5</b>
Proportion of Bayer CropScience sales	39.7%			38.8%		

Our Basta® herbicide put in a strong showing, with sales advancing by 17.7 percent overall to 73 million. The product performed particularly well in Canada.

Sales of our FLINT® fungicide receded by 7.0 percent to 53 million in a difficult western European market for products containing strobilurins as the active substance. In local currencies the decrease was 1.8 percent. However, we were able to more than compensate for this decline through the successful introduction of the innovative Proline® family of cereal fungicides in Germany.

Compared with the same period last year, sales of the **Environmental Science** Business Group remained steady at 216 million. After adjustment for currency changes, the improvement was 4.6 percent. This was due in part to higher sales of the insecticide Merit® for landscape management and of the U.S. home and garden products.

Sales of the **BioScience** Business Group moved ahead year on year by 8.8 percent to 74 million, with strong contributions coming from InVigor® (canola seed) and FiberMax® (cotton seed), as well as from our rice seed products.

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<b>CropScience</b>	<b>2nd Quarter</b>		<b>Change</b>	
	<b>2003</b>	<b>2004</b>	<b>Change</b>	<b>in local</b>
<b>Net sales by market ( million)</b>			<b>%</b>	<b>currencies</b>
			<b>%</b>	<b>%</b>
Europe	615	641	+4.2	+4.3
North America	507	551	+8.7	+15.7
Asia/Pacific	222	228	+2.7	+3.0
Latin America/Africa/Middle East	223	222	0.4	+6.3
<b>Total</b>	<b>1,567</b>	<b>1,642</b>	<b>+4.8</b>	<b>+8.1</b>

The positive trend in the global crop protection market continued in the second quarter.

The industry benefited from favorable weather conditions in Europe, although sales were held back in some countries by high inventories from the previous year. Bayer expanded its sales in this region by 4.2 percent, improving particularly in fungicides.

In the North America region, too, our business performed very well in the second quarter, primarily as a result of good growing conditions for key crops: cereals, corn and soybeans. A further reason for the 8.7 percent growth in sales was the weather-related increase in the occurrence of corn pests. After adjustment for currency effects, sales advanced by 15.7 percent.

In Asia, market performance was unsatisfactory, particularly in the important Japanese and South Korean markets, as a result of intense competition and heavy pressure on prices. Bayer made modest gains in the region as a whole, with sales up by 2.7 percent.

Growth in the Latin America region remained brisk year on year. The increase in soybean acreages, coupled with a massive outbreak of Asian rust in soybean crops, triggered a marked increase in fungicide use, from which Bayer also benefited. Despite receding sales in the Middle East, we grew our business by 6.3 percent for the region as a whole in local currencies.

**EBIT of CropScience** rose by 122 million in the second quarter, to 159 million. This substantial increase in earnings resulted above all from higher sales and the achievement of further synergies from the integration of the ACS business. The special charges of 41 million comprise mainly restructuring expenses for site closures in the United Kingdom, as well as charges for legal risks. After adjustment, EBIT thus climbed by 114 million to 200 million.

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Bayer MaterialScience million	2nd Quarter			1st Half		Change %
	2003	2004	Change %	2003	2004	
Net sales	1,854	2,091	+12.8	3,721	3,968	+6.6
EBITDA*	253	366	+44.7	555	647	+16.6
Operating result (EBIT)	93	215	+131.2	191	350	+83.2
of which special items	(38)	0		(51)	0	
Gross cash flow*	241	264	+9.5	522	495	5.2
Net cash flow*	174	141	19.0	337	193	42.7

\* for definition see Bayer Group Key Data on page 2

**Bayer MaterialScience**

In the second quarter of 2004, the **Bayer MaterialScience** subgroup increased sales by a gratifying 237 million, or 12.8 percent, to 2,091 million. Currency- and portfolio-adjusted sales jumped by 17.3 percent. **EBIT** rose by 122 million, or 131.2 percent, to 215 million, due especially to the improved earnings performance in Polycarbonates and Polyurethanes. The growth in EBIT before special items was 84 million, or 64.1 percent.

Materials million	2nd Quarter			1st Half		Change %
	2003	2004	Change %	2003	2004	
Net sales	694	800	+15.3	1,389	1,500	+8.0
Polycarbonates	417	489	+17.3	847	919	+8.5
Thermoplastic Polyurethanes	46	47	+2.2	90	92	+2.2
Wolff Walsrode	86	81	5.8	169	158	6.5
H.C. Starck	145	183	+26.2	283	331	+17.0
EBITDA*	88	140	+59.1	190	232	+22.1
Operating result (EBIT)	33	78	+136.4	68	110	+61.8
of which special items	(12)	0		(12)	0	
Gross cash flow*	85	104	+22.4	178	179	+0.6
Net cash flow*	(22)	59		93	75	19.4

\* for definition see Bayer Group Key Data on page 2

**Table of Contents****Materials**

Sales of the **Materials** segment were up substantially compared with the second quarter of 2003, growing 15.3 percent to 800 million. When adjusted for currency and portfolio effects, sales growth was even stronger at 20.8 percent.

In this segment, the Polycarbonates Business Unit posted very pleasing growth of 72 million, or 17.3 percent, to 489 million. This was attributable particularly to strong demand from producers of optical storage media such as CDs and DVDs.

H.C. Starck also significantly boosted its performance year on year, growing sales by 26.2 percent. This was due mainly to the upturn in the electronics industry and to price increases for some products. In the North America region, we were able to grow faster than the market.

<b>Materials</b>	<b>2nd Quarter</b>		<b>Change %</b>	<b>Change in local currencies %</b>
	<b>2003</b>	<b>2004</b>		
<b>Net sales by market ( million)</b>				
Europe	322	342	+6.2	+6.2
North America	148	178	+20.3	+27.7
Asia/Pacific	180	228	+26.7	+31.2
Latin America/Africa/Middle East	44	52	+18.2	+23.0
<b>Total</b>	<b>694</b>	<b>800</b>	<b>+15.3</b>	<b>+18.3</b>

Second-quarter sales of the segment increased by 6.2 percent in Europe. However, growth fell far short of that in the other regions due to the sluggish economy.

In North America, Bayer benefited from vigorous economic growth, increasing sales by a total of 20.3 percent 27.7 percent in local currencies thanks to strong demand for Makrolon® polycarbonate.

Buoyed by continuing strong demand from the electronics industry, sales in the Asia/Pacific region increased by 26.7 percent. High sales of polycarbonate in China played a key role in this growth.

**EBIT** of the **Materials** segment advanced by 45 million to 78 million in the second quarter, due particularly to a demand-driven increase in production capacity utilization. This earnings increase was also made possible in part by the success of our cost-containment programs and by the absence of special charges that were still a factor in the previous year. Significantly higher raw material costs could only be passed on to customers in part through price increases.

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<b>Systems</b> million	<b>2nd Quarter</b>			<b>1st Half</b>		
	<b>2003</b>	<b>2004</b>	<b>Change %</b>	<b>2003</b>	<b>2004</b>	<b>Change %</b>
<b>Net sales</b>	<b>1,160</b>	<b>1,291</b>	<b>+11.3</b>	<b>2,332</b>	<b>2,468</b>	<b>+5.8</b>
Polyurethanes	797	912	+14.4	1,587	1,732	+9.1
Coatings, Adhesives, Sealants	296	323	+9.1	616	624	+1.3
Inorganic Basic Chemicals	58	51	12.1	110	100	9.1
Others	9	5	44.4	19	12	36.8
<b>EBITDA*</b>	<b>165</b>	<b>226</b>	<b>+37.0</b>	<b>365</b>	<b>415</b>	<b>+13.7</b>
<b>Operating result (EBIT)</b>	<b>60</b>	<b>137</b>	<b>+128.3</b>	<b>123</b>	<b>240</b>	<b>+95.1</b>
of which special items	(26)	0		(39)	0	
<b>Gross cash flow*</b>	<b>156</b>	<b>160</b>	<b>+2.6</b>	<b>344</b>	<b>316</b>	<b>8.1</b>
<b>Net cash flow*</b>	<b>196</b>	<b>82</b>	<b>58.2</b>	<b>244</b>	<b>118</b>	<b>51.6</b>

\* for definition see Bayer Group Key Data on page 2

**Systems**

**Sales** of the **Systems** segment moved ahead by 11.3 percent to 1,291 million compared to the previous year, and by 15.3 percent when adjusted for currency and portfolio effects.

Polyurethanes performed gratifyingly, with sales advancing by 14.4 percent. MDI production has been increased to full capacity. As raw material costs remain high, nearly all producers have implemented price increases. The announcement of further price adjustments for the third quarter led to our customers building up inventories in the second quarter. The polyether business also contributed to improved sales through higher prices and volumes.

Growth in the Coatings, Adhesives, Sealants Business Unit was largely achieved with the aliphatic and aromatic isocyanates product lines (for surface coatings).

Sales of Inorganic Basic Chemicals declined by 12.1 percent due to a sharp drop in prices for caustic soda.

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Systems	2nd Quarter		Change %	Change in local currencies %
	2003	2004		
<b>Net sales by market ( million)</b>				
Europe	535	575	+7.5	+7.6
North America	345	384	+11.3	+18.1
Asia/Pacific	163	194	+19.0	+21.1
Latin America/Africa/Middle East	117	138	+17.9	+21.8
<b>Total</b>	<b>1,160</b>	<b>1,291</b>	<b>+11.3</b>	<b>+14.1</b>

Despite stagnation in the automotive industry, sales in the Europe region improved by a gratifying 7.5 percent to 575 million.

Sales in North America and the Asia/Pacific region climbed 18.1 and 21.1 percent, respectively, due especially to continuing strong demand from the construction industry for MDI for thermal insulating materials.

Currency-adjusted sales in the Latin America/Africa/Middle East region rose by 21.8 percent, mostly as a result of good business with polyurethane raw materials. Due to restrained demand from the construction industry, only single-digit growth was recorded in Latin America.

**EBIT** of the **Systems** segment improved by 77 million to 137 million in the second quarter. EBIT before special items grew by 51 million, or 59.3 percent. High utilization of capacities and successful cost-containment measures were largely responsible for this rise in earnings. Sharply increased raw material prices, especially for benzene, could only be partially offset by price increases.

Lanxess million	2nd Quarter			1st Half		Change %
	2003	2004	Change %	2003	2004	
<b>Net sales</b>	<b>1,451</b>	<b>1,592</b>	<b>+9.7</b>	<b>2,960</b>	<b>3,070</b>	<b>+3.7</b>
Chemical Intermediates	272	288	+5.9	546	570	+4.4
Performance Chemicals	478	488	+2.1	970	954	1.6
Engineering Plastics	333	424	+27.3	683	810	+18.6
Performance Rubber	340	371	+9.1	696	695	0.1
Others	28	21	25.0	65	41	36.9
<b>EBITDA*</b>	<b>57</b>	<b>135</b>	<b>+136.8</b>	<b>186</b>	<b>271</b>	<b>+45.7</b>
<b>Operating result (EBIT)</b>	<b>(47)</b>	<b>20</b>		<b>(30)</b>	<b>95</b>	
of which special items	(23)	(31)		(25)	(31)	
<b>Gross cash flow*</b>	<b>47</b>	<b>113</b>	<b>+140.4</b>	<b>155</b>	<b>224</b>	<b>+44.5</b>
<b>Net cash flow*</b>	<b>(74)</b>	<b>78</b>		<b>(123)</b>	<b>16</b>	

\* for definition see Bayer Group Key Data on page 2

**Table of Contents****Lanxess**

Sales of the **Lanxess** subgroup advanced by 141 million, or 9.7 percent, to 1,592 million in the second quarter, and by 11.6 percent when adjusted for currency and portfolio effects.

Business in Chemical Intermediates grew by 5.9 percent over the second quarter of 2003 to 288 million, due particularly to increased sales of basic chemicals in North America and inorganic pigments in Europe.

<b>Lanxess</b>	<b>2nd Quarter</b>		<b>Change %</b>	<b>Change in local currencies %</b>
	<b>2003</b>	<b>2004</b>		
<b>Net sales by market ( million)</b>				
Europe	782	820	+4.9	+4.7
North America	322	369	+14.6	+21.1
Asia/Pacific	222	255	+14.9	+16.3
Latin America/Africa/Middle East	125	148	+18.4	+22.1
<b>Total</b>	<b>1,451</b>	<b>1,592</b>	<b>+9.7</b>	<b>+11.6</b>

Performance Chemicals boosted sales by 2.1 percent year on year to 488 million. Gratifying gains were made above all by Rhein Chemie, Material Protection Products and Ion Exchange Resins.

Sales of Engineering Plastics were up by 27.3 percent compared to the same period of 2003, to 424 million. This was mainly attributable to the Styrenic Resins business, where we were able to grow volume sales and pass on raw material cost increases to some extent in our selling prices.

Sales of Performance Rubber moved ahead by 9.1 percent to 371 million. The Technical Rubber Products business grew by 17.1 percent, while sales of Butyl Rubber rose by 10.9 percent as a result of higher prices and volumes.

**EBIT** of the **Lanxess** segment amounted to 20 million in the second quarter, a year-on-year gain of 67 million. We improved EBIT before special items by 75 million. In a pleasing development, we increased EBITDA by 78 million to 135 million.

Table of Contents**Bayer Group Summary Cash Flow Statements**

million	2nd Quarter		1st Half	
	2003	2004	2003	2004
<b>Gross cash flow*</b>	<b>903</b>	<b>831</b>	<b>2,330</b>	<b>1,815</b>
Changes in working capital	34	315	(1,208)	(968)
<b>Net cash provided by operating activities</b>	<b>937</b>	<b>1,146</b>	<b>1,122</b>	<b>847</b>
<i>of which discontinuing operations</i>	<i>(102)</i>	<i>(82)</i>	<i>(165)</i>	<i>(9)</i>
<b>Net cash provided by (used in) investing activities</b>	<b>(40)</b>	<b>55</b>	<b>949</b>	<b>215</b>
<i>of which discontinuing operations</i>	<i>(57)</i>	<i>(15)</i>	<i>(72)</i>	<i>(63)</i>
<b>Net cash used in financing activities</b>	<b>(1,318)</b>	<b>(977)</b>	<b>(1,093)</b>	<b>(1,135)</b>
<i>of which discontinuing operations</i>	<i>(159)</i>	<i>(67)</i>	<i>(237)</i>	<i>(72)</i>
<b>Changes in cash and cash equivalents due to business activities</b>	<b>(421)</b>	<b>224</b>	<b>978</b>	<b>(73)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,165</b>	<b>2,440</b>	<b>767</b>	<b>2,734</b>
Change due to exchange rate movements and to changes in scope of consolidation	(16)	(2)	(17)	5
<b>Cash and cash equivalents at end of second quarter</b>	<b>1,728</b>	<b>2,666</b>	<b>1,728</b>	<b>2,666</b>
Marketable securities and other instruments	30	215	30	215
<b>Liquid assets as per balance sheets</b>	<b>1,758</b>	<b>2,881</b>	<b>1,758</b>	<b>2,881</b>

\* for definition see Bayer Group Key Data on page 2  
2003 figures restated (for details see Notes, page 30 f)

**Liquidity and Capital Resources**

Compared to the same period of 2003, the gross cash flow of the Bayer Group receded by 72 million, or 8.0 percent, to 831 million. A diminishing effect came from higher payments associated with the utilization of provisions for early retirement programs, as well as from non-cash gains of 121 million resulting from a reduction in pension programs in the United States. By contrast, the net cash flow increased by 209 million, or 22.3 percent, to 1,146 million, due to a reduction in working capital. Depreciation and amortization amounted to 627 million in the second quarter; for the full year we expect depreciation and amortization to total approximately 2.3 billion.

Net cash of 55 million was provided by investing activities. Outflows of 237 million were partially offset by 70 million in cash receipts from sales of noncurrent assets. Interest and other cash inflows amounted to 222 million. Capital expenditures in the second half of 2004 will substantially exceed those of the first half (422 million). For the full year 2004, we expect capital expenditures to total around 1.4 billion.

Financing activities resulted in net cash outflows of 977 million, including dividend payments of 372 million, net loan repayments of 263 million and interest payments of 342 million, which decreased largely because of a reduction in our financial liabilities.

Cash and cash equivalents increased overall by 226 million to 2,666 million. Including marketable securities and other instruments, the Group had liquid assets of 2,881 million on June 30, 2004.





**Table of Contents****Employees**

On June 30, 2004 the Bayer Group had 113,600 employees, 1,800 fewer than at the start of the year. Headcount was reduced by 1,300 in Europe, 500 in North America and 100 in Asia/Pacific. The workforce in the Latin America/Africa/Middle East region grew by 100. The Bayer Group had 117,500 employees on June 30, 2003.

Personnel expenses in the second quarter of 2004 were down by 7.7 percent to 1,858 million. The first-half total of 3,708 million represents a year-on-year decrease of 5.3 percent.

**Bayer Group Consolidated Statements of Income (Summary)**

million

	2nd Quarter		1st Half	
	2003	2004	2003	2004
<b>Net sales</b>	<b>7,256</b>	<b>7,583</b>	<b>14,612</b>	<b>14,945</b>
<i>of which discontinuing operations</i>	<i>1,604</i>	<i>1,754</i>	<i>3,253</i>	<i>3,380</i>
Cost of goods sold	(4,143)	(4,494)	(8,114)	(8,470)
<b>Gross profit</b>	<b>3,113</b>	<b>3,089</b>	<b>6,498</b>	<b>6,475</b>
Selling expenses	(1,620)	(1,605)	(3,179)	(3,094)
Research and development expenses	(605)	(513)	(1,122)	(1,012)
General administration expenses	(384)	(423)	(761)	(813)
Other operating income	296	262	717	391
Other operating expenses	(325)	(286)	(582)	(603)
<b>Operating result (EBIT)</b>	<b>475</b>	<b>524</b>	<b>1,571</b>	<b>1,344</b>
<i>of which discontinuing operations</i>	<i>(55)</i>	<i>31</i>	<i>(53)</i>	<i>117</i>
<b>Non-operating result</b>	<b>(197)</b>	<b>(278)</b>	<b>(390)</b>	<b>(435)</b>
<b>Income before income taxes</b>	<b>278</b>	<b>246</b>	<b>1,181</b>	<b>909</b>
Income taxes	(149)	(115)	(459)	(372)
<b>Income after taxes</b>	<b>129</b>	<b>131</b>	<b>722</b>	<b>537</b>
Minority stockholders' interest	(1)	(3)	(8)	(9)
<b>Net income</b>	<b>128</b>	<b>128</b>	<b>714</b>	<b>528</b>
<b>Earnings per share ( )</b>	<b>0.18</b>	<b>0.18</b>	<b>0.98</b>	<b>0.72</b>

2003 figures restated (for details see Notes, page 30 f)

**Table of Contents****Bayer Group Consolidated Balance Sheets (Summary)**

million

	<b>June 30, 2003</b>	<b>June 30, 2004</b>	<b>Dec. 31, 2003</b>
<b>Assets</b>			
<b>Noncurrent assets</b>			
Intangible assets	8,366	6,336	6,514
Property, plant and equipment	11,437	9,663	9,937
Investments	2,261	1,689	1,781
	<b>22,064</b>	<b>17,688</b>	<b>18,232</b>
<b>Current assets</b>			
Inventories	6,534	6,151	5,885
Receivables and other assets			
Trade accounts receivable	5,860	5,988	5,071
Other receivables and other assets	3,313	3,079	3,854
	<b>9,173</b>	<b>9,067</b>	<b>8,925</b>
Liquid assets	1,758	2,881	2,863
	<b>17,465</b>	<b>18,099</b>	<b>17,673</b>
<b>Deferred taxes</b>	<b>742</b>	<b>1,310</b>	<b>1,298</b>
<b>Deferred charges</b>	<b>357</b>	<b>274</b>	<b>242</b>
<b>Total assets</b>	<b>40,628</b>	<b>37,371</b>	<b>37,445</b>
<i>of which discontinuing operations</i>	<i>6,345</i>	<i>5,393</i>	<i>5,655</i>
<b>Stockholders Equity and Liabilities</b>			
<b>Stockholders equity</b>			
Capital stock and reserves	4,812	4,812	4,812
Retained earnings	10,480	8,753	10,479
Net income	714	528	(1,361)
Currency translation adjustment	(981)	(1,514)	(1,699)
Miscellaneous items	98	27	(18)
	<b>15,123</b>	<b>12,606</b>	<b>12,213</b>
<b>Minority stockholders interest</b>	<b>129</b>	<b>100</b>	<b>123</b>
<b>Liabilities</b>			
Long-term liabilities			
Long-term financial obligations	7,044	6,671	7,113
Miscellaneous long-term liabilities	83	105	98
Provisions for pensions and other post-employment benefits	4,992	5,020	5,072
Other long-term provisions	1,249	1,410	1,343
	<b>13,368</b>	<b>13,206</b>	<b>13,626</b>
Short-term liabilities			
Short-term financial obligations	2,992	2,699	2,313
Trade accounts payable	1,983	2,079	2,265
Miscellaneous short-term liabilities	1,950	1,709	2,361
Short-term provisions	2,424	2,903	2,448
	<b>9,349</b>	<b>9,390</b>	<b>9,387</b>
	<b>22,717</b>	<b>22,596</b>	<b>23,013</b>

<i>of which discontinuing operations</i>	2,844	3,314	2,933
<b>Deferred taxes</b>	<b>2,194</b>	<b>1,435</b>	<b>1,462</b>
<b>Deferred income</b>	<b>465</b>	<b>634</b>	<b>634</b>
<b>Balance sheet total</b>	<b>40,628</b>	<b>37,371</b>	<b>37,445</b>

**Table of Contents****Baye Group Consolidated Statements of Changes in Stockholders Equity (Summary)**

million

	<b>Capital stock and reserves</b>	<b>Retained earnings</b>	<b>Net income (loss)</b>	<b>Currency translation adjustment</b>	<b>Miscel- laneous items</b>	<b>Total</b>
<b>December 31, 2002</b>	<b>4,812</b>	<b>10,076</b>	<b>1,060</b>	<b>(593)</b>	<b>(20)</b>	<b>15,335</b>
Dividend payment			(657)			(657)
Allocation to retained earnings		404	(403)			1
Exchange differences				(388)		(388)
Other changes in stockholders equity					118	118
Net income			714			714
<b>June 30, 2003</b>	<b>4,812</b>	<b>10,480</b>	<b>714</b>	<b>(981)</b>	<b>98</b>	<b>15,123</b>
<b>December 31, 2003</b>	<b>4,812</b>	<b>10,479</b>	<b>(1,361)</b>	<b>(1,699)</b>	<b>(18)</b>	<b>12,213</b>
Dividend payment			(365)			(365)
Allocation from retained earnings		(1,726)	1,726			0
Exchange differences				185		185
Other changes in stockholders equity					45	45
Net income			528			528
<b>June 30, 2004</b>	<b>4,812</b>	<b>8,753</b>	<b>528</b>	<b>(1,514)</b>	<b>27</b>	<b>12,606</b>

**Table of Contents****Notes****Key Data by Segment****2nd Quarter****Bayer HealthCare**

Segments million	Pharmaceuticals/ Biological Products		of which discontinuing operations Plasma		Consumer Care/ Diagnostics		Animal Health	
	2nd Quarter		2nd Quarter		2nd Quarter		2nd Quarter	
	2003	2004	2003	2004	2003	2004	2003	2004
Net sales (external)	1,190	1,040	153	162	800	843	214	225
Change in	+ 2.0%	12.6%			17.6%	+ 5.4%	+ 0.9%	+ 5.1%
Change in local currencies	+ 15.2%	11.4%			4.2%	+ 9.5%	+ 15.1%	+ 8.8%
Intersegment sales	14	20			2	3	0	1
Operating result (EBIT)	150	65	(8)	11	191	107	45	45
Return on sales	12.6%	6.3%			23.9%	12.7%	21.0%	20.0%
Gross cash flow*	175	74	2	22	214	104	49	33
Net cash flow*	(152)	166	(28)	4	242	129	22	38
Depreciation and amortization	56	55	7	12	60	62	7	7

**1st Half****Bayer HealthCare**

Segments million	Pharmaceuticals/ Biological Products		of which discontinuing operations Plasma		Consumer Care/ Diagnostics		Animal Health	
	1st Half		1st Half		1st Half		1st Half	
	2003	2004	2003	2004	2003	2004	2003	2004

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Net sales (external)	2,321	2,216	293	310	1,598	1,613	393	403
Change in	4.2%	4.5%			16.8%	+ 0.9%	5.3%	+ 2.5%
Change in local currencies	+ 8.6%	+ 0.3%			2.8%	+ 6.9%	+ 8.9%	+ 7.8%
Intersegment sales	22	21			3	4	1	2
Operating result (EBIT)	353	229	(23)	22	436	188	85	77
Return on sales	15.2%	10.3%			27.3%	11.7%	21.6%	19.1%
Gross cash flow*	364	197	(5)	33	458	213	90	59
Net cash flow*	(45)	84	(42)	(25)	448	234	42	45
Depreciation and amortization	111	96	14	12	123	119	15	12

\* for definition see Bayer Group Key Data on page 2

2003 figures restated (for details see Notes, page 30 f)

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<b>Bayer CropScience</b>		<b>Bayer MaterialScience</b>				<b>Lanxess</b>					
<b>CropScience</b>		<b>Materials</b>		<b>Systems</b>		<b>Lanxess discontinuing operations</b>		<b>Reconciliation</b>		<b>Bayer Group</b>	
<b>2nd Quarter</b>		<b>2nd Quarter</b>		<b>2nd Quarter</b>		<b>2nd Quarter</b>		<b>2nd Quarter</b>		<b>2nd Quarter</b>	
<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
1,567	1,642	694	800	1,160	1,291	1,451	1,592	180	150	7,256	7,583
+ 44.7%	+ 4.8%	7.3%	+ 15.3%	1.4%	+ 11.3%	11.9%	+ 9.7%			3.3%	+ 4.5%
+ 58.0%	+ 8.1%	+ 2.9%	+ 18.3%	+ 9.5%	+ 14.1%	5.3%	+ 11.6%			+ 7.3%	+ 7.1%
21	16	11	12	65	97	28	73	(141)	(222)		
37	159	33	78	60	137	(47)	20	6	(87)	475	524
2.4%	9.7%	4.8%	9.8%	5.2%	10.6%	(3.2)%	1.3%			6.5%	6.9%
154	192	85	104	156	160	47	113	23	51	903	831
735	585	(22)	59	196	82	(74)	78	(10)	9	937	1,146
195	182	55	62	105	89	104	115	63	55	645	627

  

<b>Bayer CropScience</b>		<b>Bayer MaterialScience</b>				<b>Lanxess</b>					
<b>CropScience</b>		<b>Materials</b>		<b>Systems</b>		<b>Lanxess discontinuing operations</b>		<b>Reconciliation</b>		<b>Bayer Group</b>	
<b>1st Half</b>		<b>1st Half</b>		<b>1st Half</b>		<b>1st Half</b>		<b>1st Half</b>		<b>1st Half</b>	
<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
3,228	3,374	1,389	1,500	2,332	2,468	2,960	3,070	391	301	14,612	14,945
+ 65.6%	+ 4.5%	3.1%	+ 8.0%	3.4%	+ 5.8%	8.3%	+ 3.7%			0.8%	+ 2.3%
+ 77.7%	+ 8.6%	+ 7.5%	+ 12.9%	+ 7.7%	+ 10.4%	0.8%	+ 6.8%			+ 9.8%	+ 6.6%
32	31	21	25	100	165	138	158	(317)	(406)		
484	538	68	110	123	240	(30)	95	52	(133)	1,571	1,344
15.0%	15.9%	4.9%	7.3%	5.3%	9.7%	(1.0)%	3.1%			10.8%	9.0%
670	539	178	179	344	316	155	224	71	88	2,330	1,815
543	346	93	75	244	118	(123)	16	(80)	(71)	1,122	847
393	359	122	122	242	175	216	176	131	111	1,353	1,170



**Table of Contents****Key Data by Region****2nd Quarter**

<b>Regions</b> <b>million</b>	<b>Europe</b>		<b>North America</b>	
	<b>2nd Quarter</b>		<b>2nd Quarter</b>	
	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
Net sales (external) by market	3,098	3,254	2,299	2,293
Net sales (external) by point of origin	3,443	3,653	2,317	2,302
<i>of which discontinuing operations</i>	977	1,096	420	444
Change in	2.1%	+ 6.1%	1.5%	0.6%
Change in local currencies	1.2%	+ 6.1%	+ 16.7%	+ 4.9%
Interregional sales	963	951	518	532
Operating result (EBIT)	159	239	145	155
<i>of which discontinuing operations</i>	(21)	5	(46)	3
Return on sales	4.6%	6.5%	6.3%	6.7%
Gross cash flow*	421	414	334	247

**1st Half**

<b>Regions</b> <b>million</b>	<b>Europe</b>		<b>North America</b>	
	<b>1st Half</b>		<b>1st Half</b>	
	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
Net sales (external) by market	6,450	6,569	4,416	4,388
Net sales (external) by point of origin	7,154	7,307	4,499	4,466
<i>of which discontinuing operations</i>	1,950	2,036	888	930
Change in	+ 2.7%	+ 2.1%	4.0%	0.7%
Change in local currencies	+ 3.4%	+ 2.3%	+ 14.0%	+ 9.1%
Interregional sales	2,070	2,053	982	968
Operating result (EBIT)	998	794	247	294
<i>of which discontinuing operations</i>	4	78	(85)	(1)
Return on sales	14.0%	10.9%	5.5%	6.6%
Gross cash flow*	1,356	1,073	649	420

\* for definition see Bayer Group Key Data on page 2

2003 figures restated (for details see Notes, page 30 f)

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<b>Asia/ Pacific</b>		<b>Latin America/ Africa/Middle East</b>		<b>Reconciliation</b>		<b>Bayer Group</b>	
<b>2nd Quarter</b>		<b>2nd Quarter</b>		<b>2nd Quarter</b>		<b>2nd Quarter</b>	
<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
1,116	1,240	743	796			7,256	7,583
965	1,064	531	564			7,256	7,583
142	146	65	68			1,604	1,754
10.6%	+ 10.3%	4.7%	+ 6.2%			3.3%	+ 4.5%
+ 4.8%	+ 11.9%	+ 19.0%	+ 14.6%			+ 7.3%	+ 7.1%
72	60	45	38	(1,598)	(1,581)		
94	120	135	61	(58)	(51)	475	524
8	31	4	(8)			(55)	31
9.7%	11.3%	25.4%	10.8%			6.5%	6.9%
90	111	111	66	(53)	(7)	903	831
<b>Asia/ Pacific</b>		<b>Latin America/ Africa/Middle East</b>		<b>Reconciliation</b>		<b>Bayer Group</b>	

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**Notes to the Interim Report for the Second Quarter of 2004**

**Accounting policies**

Like the financial statements for 2003, the unaudited, consolidated financial statements for the second quarter of 2004 have been prepared according to the rules issued by the International Accounting Standards Board (IASB), London. Reference should be made as appropriate to the notes to the 2003 statements. IAS 34 (Interim Financial Reporting) has been applied in addition.

To enhance the transparency of our reporting, we have reclassified certain income and expense items related to funded pension obligations as of January 1, 2004. Through December 31, 2003, the balance of all income and expenses related to funded defined benefit plans was recognized in the operating result. Only the interest cost for unfunded pension obligations was included in the non-operating result under other non-operating expense. Effective January 1, 2004, all interest cost including that pertaining to funded pension obligations is reflected in the non-operating result. The same applies to the return on plan assets. This reporting change has the effect of increasing the operating result for fiscal 2003 by 84 million and reducing the non-operating result by the same amount. This effect is fairly evenly spread over the four quarters and impacts all segments.

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Also effective January 1, 2004 and likewise for reasons of transparency, we have altered our gross cash flow computation, which continues to reflect changes in pension provisions but no longer takes into account the changes in any other long-term provisions. The latter are now reflected only in the reconciliation of gross cash flow to net cash flow. The net cash flow remains unaffected. Direct comparison between changes in pension provisions and the corresponding balance sheet items is facilitated as a result.

**Segment reporting**

With effect from January 1, 2004, we have adjusted our segment reporting to reflect the realignment of the Bayer Group. Our Bayer MaterialScience subgroup is divided into the Materials and Systems segments. In light of our plans to list Lanxess on the stock market by the beginning of 2005 at the latest, this segment is reported under discontinuing operations.

Leverkusen, August 25, 2004

Bayer Aktiengesellschaft

The Board of Management

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**Dates**

**First Half Results**

Tuesday, August 31, 2004

**Spring Financial News Conference**

Tuesday, March 15, 2005

**London Investor Conference**

Tuesday, August 31, 2004

**Spring Investor Conference**

Tuesday/Wednesday, March 15/16, 2005

**Fall Financial News Conference**

Thursday, November 25, 2004

**Annual Stockholders Meeting 2005**

Friday, April 29, 2005

**Fall Investor Conference**

Thursday/Friday, November 25/26, 2004

**Payment of Dividend**

Monday, May 2, 2005

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

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**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.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bayer Aktiengesellschaft  
(Registrant)

By: /s/ ppa. Alexander Rosar

Name: Alexander Rosar  
Title: Head of Investor Relations

By: /s/ Armin Buchmeier

Name: Armin Buchmeier  
Title: Senior Counsel

Date: August 31, 2004