

Stockholders' Newsletter

2003

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Second-quarter EBIT up 80 percent to €454 million

EBIT up 40 percent to €1,529 million in the first half

Negative currency effects on sales largely neutralized

Bayer ended the first half of 2003 with a 40 percent increase in the operating result (EBIT) despite the continuing weakness of the global economy. Earnings growth was driven mainly by the performances of the Pharmaceuticals/Biological Products, CropScience and Polyurethanes/Coatings/Fibers segments and by the efficiency programs implemented in all parts of the company.

However, any stimulus to our business from the economic upswing anticipated after the end of the Iraq war has so far failed to materialize. With oil prices stable, financial markets showing a modest recovery and many countries adopting an expansionary monetary and fiscal policy, the conditions for economic recovery have been created. However, neither consumer nor corporate confidence is yet well enough entrenched to trigger a recovery in industrial demand.

Bayer Group sales declined by 3.3 percent, or €248 million, year-on-year in the second quarter of 2003, to €7,256 million, due mainly to the effects of currency translation. In local currencies, sales expanded by 7.3 percent, driven by increases in both prices and volumes. First-half sales dipped by 0.8 percent after translation, but grew by 9.8 percent in local currencies.

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Bayer Group Highlights

€ million	2nd Quarter			1st Half		
	2002	2003	Change	2002	2003	Change
Sales	7,504	7,256	- 3.3%	14,737	14,612	- 0.8%
<i>of which discontinuing operations</i>	233	0		456	0	
Change in sales						
Volume	- 2%	+ 4%		- 2%	+ 4%	
Price	- 4%	+ 3%		- 4%	+ 1%	
Currency	- 4%	- 11%		- 2%	- 11%	
Portfolio changes	+ 3%	+ 1%		0%	+ 5%	
EBITDA¹	1,034	1,100	+ 6.4%	2,522	2,882	+ 14.3%
Operating result (EBIT)	252	454	+ 80.2%	1,092	1,529	+ 40.0%
<i>of which discontinuing operations</i>	21	0		43	0	
<i>of which special items</i>	(84)	17		273	272	
Return on sales	3.4%	6.3%		7.4%	10.5%	
Net income	293	128	- 56.3%	816	714	- 12.5%
Earnings per share (€)	0.40	0.18		1.12	0.98	
Gross cash flow²	761	1,089	+ 43.1%	1,595	2,491	+ 56.2%
Gross cash flow per share (€)	1.04	1.49		2.18	3.41	
Net cash flow³	1,093	967	- 11.5%	1,333	1,130	- 15.2%
Capital expenditures	486	324	- 33.3%	1,016	800	- 21.3%
Depreciation and amortization	782	646	- 17.4%	1,430	1,353	- 5.4%
Number of employees (as of June 30)				127,800	117,500	- 8.1%
Personnel expenses	2,018	2,033	+ 0.7%	3,966	3,958	- 0.2%

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 long-term provisions

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

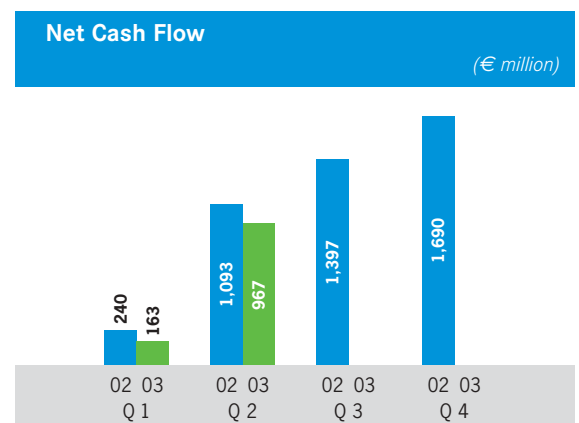
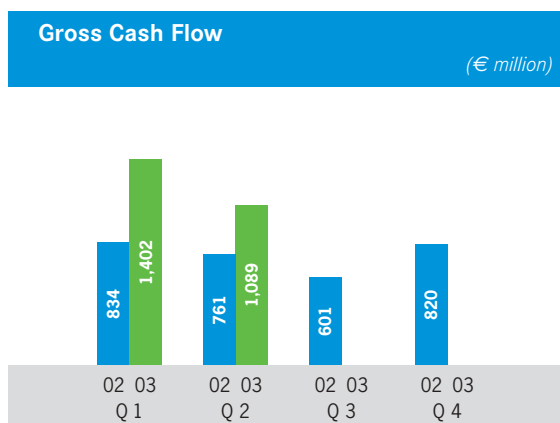
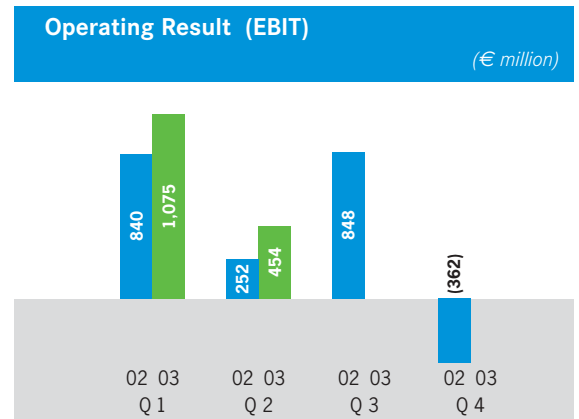
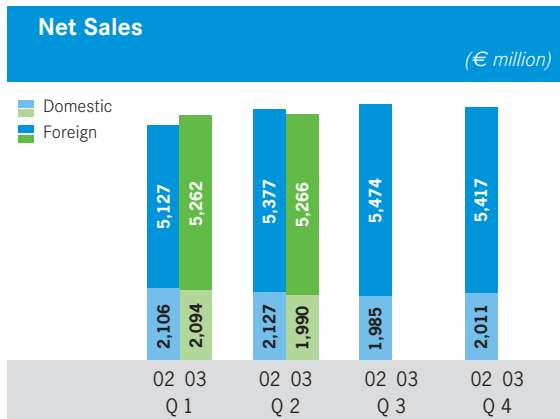
EBIT jumped by 80.2 percent to €454 million in the second quarter. Before special items, EBIT improved by €101 million or 30.1 percent, with the Pharmaceuticals/Biological Products and Polyurethanes/Coatings/Fibers segments making particularly strong contributions. EBIT for the first half of 2003 rose by €437 million to €1,529 million.

There was also an encouraging improvement in gross cash flow, which grew 43.1 percent in the second quarter, to €1,089 million, and 56.2 percent in the first half, to €2,491 million.

Second-quarter net income fell by 56.3 percent compared with the same period of 2002, to €128 million, though it should be borne in mind that the previous year's figure was boosted by a €269 million tax-free gain from the sale of Bayer's remaining interest in Agfa-Gevaert. Net income in the first half of 2003 was down by 12.5 percent to €714 million.

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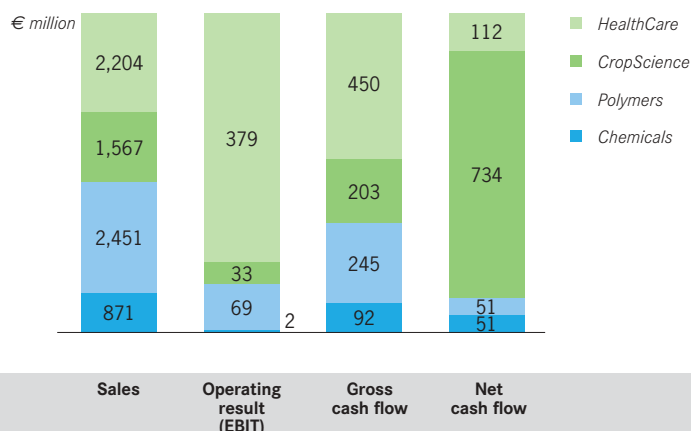
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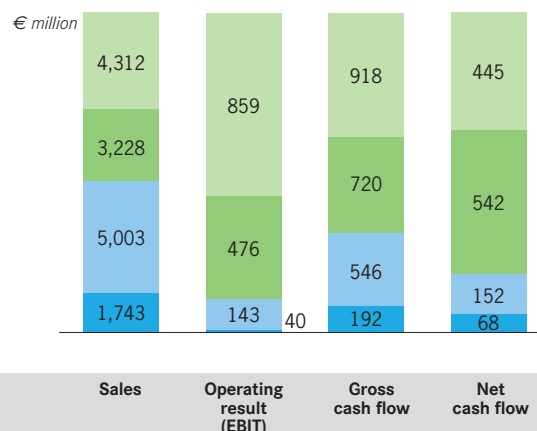
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Performance by Business Area – 2nd Quarter of 2003



Performance by Business Area – 1st Half of 2003



PERFORMANCE BY BUSINESS AREA

Our business activities are grouped together in the HealthCare, CropScience, Polymers and Chemicals business areas, comprising the following reporting segments:

Business Area	Segments
HealthCare	Pharmaceuticals, Biological Products; Consumer Care, Diagnostics; Animal Health
CropScience	CropScience
Polymers	Plastics, Rubber; Polyurethanes, Coatings, Fibers
Chemicals	Chemicals

HealthCare

Sales of the Pharmaceuticals and Biological Products segment in the second quarter of 2003 were 2.0 percent above the same period of last year, at €1,190 million. In local currencies, sales grew by 15.2 percent. This increase was due particularly to first shipments of ciprofloxacin to Barr Laboratories in the United States. In addition, sales of the Factor VIII drug Kogenate[®] grew significantly, thanks largely to improved product availability. Sales of our plasma products in the United States were hampered chiefly by pressure on prices. Although sales of the anti-infective Avalox[®]/Avelox[®] showed a year-on-year decline in the second quarter, this was mainly attributable to inventory management effects and seasonal factors. In the first half overall, Avalox[®]/Avelox[®] posted strong growth from the previous year.

EBIT increased in the second quarter by 43.1 percent to €146 million, mainly due to higher sales of Ciprobay[®]/Cipro[®] and Kogenate[®] and improved cost structures.

The €378 million drop in net cash flow, to minus €152 million, was attributable largely to disbursements of €231 million following the settlement reached with U.S. authorities in the context of an investigation into pharmaceutical product prices.

The market introduction of our new erectile dysfunction drug Levitra[®] is proceeding on schedule. In Europe, Levitra[®] is already on the market in 16 countries, three months after its registration. We expect to receive marketing authorization for the product in the United States in the third quarter of 2003.

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HealthCare						
€ million	2nd Quarter			1st Half		
	2002	2003	Change	2002	2003	Change
Sales	2,350	2,204	- 6.2%	4,760	4,312	- 9.4%
Proportion of Group sales	31.3%	30.4%		32.3%	29.5%	
EBITDA*	405	503	+ 24.2%	799	1,108	+ 38.7%
Operating result (EBIT)	248	379	+ 52.8%	478	859	+ 79.7%
of which special items	53	96		49	296	
Return on sales	10.6%	17.2%		10.0%	19.9%	
Gross cash flow*	245	450	+ 83.7%	511	918	+ 79.6%
Net cash flow*	346	112	- 67.6%	342	445	+ 30.1%

* for definition see Bayer Group Highlights on page 3

Following the first two successfully concluded Baycol trials in Texas and Mississippi in March and April of this year, the number of rhabdomyolysis cases resolved by settlement increased substantially. As of August 1, 2003, 1211 cases had been settled for payments totaling EUR 378 million (US\$ 432 million). Moreover, Bayer is in settlement negotiations with several hundred further plaintiffs. Bayer remains willing to settle those cases in which plaintiffs suffered serious side effects due to our product. As of August 1, 2003 approximately 10,100 cases remain pending. 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. The same is true should an unexpectedly sharp 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. in 2000 after a recommendation by the U.S. Food and Drug Administration.

Pharmaceuticals, Biological Products

€ million	2nd Quarter			1st Half		
	2002	2003	Change	2002	2003	Change
Sales	1,167	1,190	+ 2.0%	2,424	2,321	- 4.2%
Proportion of Group sales	15.6%	16.4%		16.4%	15.9%	
Pharmaceuticals	921	930	+ 1.0%	1,922	1,811	- 5.8%
Biological Products	246	260	+ 5.7%	502	510	+ 1.6%
EBITDA*	173	202	+ 16.8%	377	456	+ 21.0%
Operating result (EBIT)	102	146	+ 43.1%	225	345	+ 53.3%
of which special items	64	(23)		61	(3)	
Return on sales	8.7%	12.3%		9.3%	14.9%	
Gross cash flow*	71	194	+ 173.2%	185	381	+ 105.9%
Net cash flow*	226	(152)	•	159	(45)	•

* for definition see Bayer Group Highlights on page 3

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Best-Selling HealthCare Products				
€ million	2nd Quarter 2003	Change	1st Half 2003	Change
Ciprobay®/Cipro® (Pharmaceuticals)	443	+ 20%	779	+ 1%
Adalat® (Pharmaceuticals)	184	- 22%	338	- 24%
Aspirin® (Consumer Care/Pharmaceuticals)	151	+ 4%	286	- 2%
Kogenate® (Biological Products)	106	+ 33%	215	+ 31%
Ascensia® Elite (Diagnostics)	96	- 28%	199	- 22%
ADVIA® Centaur System (Diagnostics)	91	+ 8%	180	+ 13%
Avalox®/Avelox® (Pharmaceuticals)	31	- 30%	139	+ 24%
Gamimune® N (Biological Products)	78	0%	138	- 10%
Glucobay® (Pharmaceuticals)	65	- 7%	135	- 7%
Advantage® (Animal Health)	67	+ 24%	107	+ 16%
Total	1,312	+ 1%	2,516	- 3%
Proportion of HealthCare sales	60%		58%	

Business in the Consumer Care and Diagnostics segment decreased by 17.6 percent in the second quarter to €800 million, though in local currencies there was only a 4.2 percent decline. Sales were diminished by the divestiture of the household insecticides business. Adjusted for the effect of this divestiture, sales in local currencies posted an increase. Business with the ADVIA® Centaur and DCA 2000® laboratory diagnostic systems was encouraging. Sales of Rapidpoint® 400 systems, which offer innovative diagnostic techniques for the lung disease SARS, also expanded considerably. Business in products for self-testing was unsatisfactory as a result of intense competitive pressure. We believe we can regain market share in this area through new product introductions. Volumes were up markedly in the Consumer Care Division, with growth in sales of the recently launched One-A-Day Weight Smart® in the United States along with increases for Alka-Seltzer Plus® effervescent tablets.

Second-quarter EBIT improved by €85 million to €188 million, thanks to €122 million in proceeds from the divestiture of further parts of the household insecticides business. Earnings in Diagnostics were sharply down due to the weakness of the self-testing business and the cost of integrating the Visible Genetics acquisition.

Consumer Care, Diagnostics

€ million	2nd Quarter			1st Half		
	2002	2003	Change	2002	2003	Change
Sales	971	800	- 17.6%	1,921	1,598	- 16.8%
Proportion of Group sales	12.9%	11.0%		13.0%	10.9%	
Consumer Care	463	340	- 26.6%	928	690	- 25.6%
Diagnostics	508	460	- 9.4%	993	908	- 8.6%
EBITDA*	180	248	+ 37.8%	311	552	+ 77.5%
Operating result (EBIT)	103	188	+ 82.5%	160	429	+ 168.1%
of which special items	(11)	118		(12)	297	
Return on sales	10.6%	23.5%		8.3%	26.8%	
Gross cash flow*	123	208	+ 69.1%	234	449	+ 91.9%
Net cash flow*	93	242	+ 160.2%	165	448	+ 171.5%

* for definition see Bayer Group Highlights on page 3

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Animal Health

€ million	2nd Quarter			1st Half		
	2002	2003	Change	2002	2003	Change
Sales	212	214	+ 0.9%	415	393	- 5.3%
Proportion of Group sales	2.8%	2.9%		2.8%	2.7%	
EBITDA*	52	53	+ 1.9%	111	100	- 9.9%
Operating result (EBIT)	43	45	+ 4.7%	93	85	- 8.6%
of which special items	0	1		0	2	
Return on sales	20.3%	21.0%		22.4%	21.6%	
Gross cash flow*	51	48	- 5.9%	92	88	- 4.3%
Net cash flow*	27	22	- 18.5%	18	42	+ 133.3%

* for definition see Bayer Group Highlights on page 3

Sales of the Animal Health segment rose by 0.9 percent in the second quarter to €214 million. In local currencies, sales grew by 15.1 percent, helped by the successful U.S. launch of our anti-parasitic treatment Advantix®.

EBIT for the second quarter, at €45 million, slightly exceeded the already high level of the previous year.

CropScience

Sales of the CropScience subgroup grew by 44.7 percent, or €484 million, in the second quarter to €1,567 million due to the acquisition of Aventis CropScience (ACS). As in the first three months, sales in the second quarter were hampered considerably by negative currency effects. Total first-half sales rose by 65.6 percent, or €1,279 million, to €3,228 million. Our market position held up well during the integration of ACS, which continues to proceed on schedule.

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CropScience

€ million	2nd Quarter			1st Half		
	2002	2003	Change	2002	2003	Change
Sales	1,083	1,567	+ 44.7%	1,949	3,228	+ 65.6%
Proportion of Group sales	14.4%	21.6%		13.2%	22.1%	
Insecticides*		358			761	
Fungicides*		333			660	
Herbicides*		540			1,073	
Seed Treatment/Environmental Science/BioScience*		336			734	
EBITDA**	151	228	+ 51.0%	354	869	+ 145.5%
Operating result (EBIT)	22	33	+ 50.0%	166	476	+ 186.7%
of which special items	0	(49)		0	(15)	
Return on sales	2.0%	2.1%		8.5%	14.7%	
Gross cash flow**	154	203	+ 31.8%	261	720	+ 175.9%
Net cash flow**	498	734	+ 47.4%	329	542	+ 64.7%

* 2002 sales figures for product groups are not available.

** for definition see Bayer Group Highlights on page 3

Business in the United States benefited from sales gains in local currency for corn herbicides and insecticides. Sales in Japan and South Korea were below expectations. In South America we were encouraged by continuing indications that the economy is stabilizing. In Europe we gained market share despite a difficult business environment caused by the continuing drought conditions and lower demand for fungicides.

EBIT increased by €11 million in the second quarter of 2003, to €33 million. While earnings in the first quarter had been boosted by seasonal business in high-margin products and special gains from product divestments made to comply with antitrust conditions, second-quarter earnings were hampered by sales declines, special charges totaling €49 million and further substantial integration charges. Despite a comparatively weak second quarter, earnings remain on target, with EBIT at €476 million for the first half and EBITDA at €869 million, giving an EBITDA margin of 26.9 percent.

Gross cash flow for the second quarter was €203 million, with net cash flow rising to €734 million thanks to a €531 million reduction in working capital.

Polymers

In the Plastics and Rubber segment, second-quarter sales dropped by 13.5 percent to €1,188 million, with a 5.0 percent decline before currency translations. Styrenics sales in Europe decreased due to lower demand and growing competition from Asian producers. By contrast, polycarbonate volumes remained steady despite excess capacities in the market. Sales of certain technical rubber products receded in Europe.

The pressure on margins already evident in the first three months intensified in the second quarter, with raw material costs remaining very high and only limited opportunities arising for passing them along to customers. Against this background, EBIT fell to €6 million after a €30 million gain from the sale of PolymerLatex.

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Polymers

€ million	2nd Quarter			1st Half		
	2002	2003	Change	2002	2003	Change
Sales	2,664	2,451	- 8.0%	5,277	5,003	- 5.2%
Proportion of Group sales	35.5%	33.8%		35.8%	34.2%	
EBITDA*	336	262	- 22.0%	632	582	- 7.9%
Operating result (EBIT)	15	69	•	36	143	•
of which special items	(126)	(19)		(185)	(32)	
Return on sales	0.6%	2.8%		0.7%	2.9%	
Gross cash flow*	299	245	- 18.1%	549	546	- 0.5%
Net cash flow*	244	51	- 79.1%	459	152	- 66.9%

* for definition see Bayer Group Highlights on page 3

Plastics, Rubber

€ million	2nd Quarter			1st Half		
	2002	2003	Change	2002	2003	Change
Sales	1,374	1,188	- 13.5%	2,638	2,460	- 6.7%
Proportion of Group sales	18.3%	16.4%		17.9%	16.8%	
Thermoplastic Polymers	784	698	- 11.0%	1,475	1,419	- 3.8%
Rubber Polymers	590	490	- 16.9%	1,163	1,041	- 10.5%
EBITDA*	120	89	- 25.8%	243	200	- 17.7%
Operating result (EBIT)	22	6	- 72.7%	31	9	- 71.0%
of which special items	(64)	7		(61)	7	
Return on sales	1.6%	0.5%		1.2%	0.4%	
Gross cash flow*	95	68	- 28.4%	199	166	- 16.6%
Net cash flow*	59	(172)	•	164	(113)	•

Polyurethanes, Coatings, Fibers

€ million	2nd Quarter			1st Half		
	2002	2003	Change	2002	2003	Change
Sales	1,290	1,263	- 2.1%	2,639	2,543	- 3.6%
Proportion of Group sales	17.2%	17.4%		17.9%	17.4%	
Polyurethane Materials	783	786	+ 0.4%	1,602	1,563	- 2.4%
Coatings Materials	507	477	- 5.9%	1,037	980	- 5.5%
EBITDA*	216	173	- 19.9%	389	382	- 1.8%
Operating result (EBIT)	(7)	63	•	5	134	•
of which special items	(62)	(26)		(124)	(39)	
Return on sales	(0.5)%	5.0%		0.2%	5.3%	
Gross cash flow*	204	177	- 13.2%	350	380	+ 8.6%
Net cash flow*	185	223	+ 20.5%	295	265	- 10.2%

* for definition see Bayer Group Highlights on page 3

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Chemicals

€ million	2nd Quarter			1st Half		
	2002	2003	Change	2002	2003	Change
Sales	1,187	871	- 26.6%	2,345	1,743	- 25.7%
<i>of which discontinuing operations</i>	233	0		456	0	
Proportion of Group sales	15.8%	12.0%		15.9%	11.9%	
Industrial Chemicals	262	257	- 1.9%	512	501	- 2.1%
Custom Manufacturing	57	39	- 31.6%	115	94	- 18.3%
Functional Chemicals	135	139	+ 3.0%	264	272	+ 3.0%
Process Chemicals	234	186	- 20.5%	466	378	- 18.9%
H.C. Starck	159	147	- 7.5%	317	284	- 10.4%
Wolff Walsrode	61	59	- 3.3%	117	114	- 2.6%
Others	279	44	- 84.2%	554	100	- 81.9%
EBITDA*	140	76	- 45.7%	298	185	- 37.9%
Operating result (EBIT)	32	2	- 93.8%	91	40	- 56.0%
<i>of which special items</i>	(12)	(11)		(45)	(13)	
Return on sales	2.7%	0.2%		3.9%	2.3%	
Gross cash flow*	122	92	- 24.6%	239	192	- 19.7%
Net cash flow*	147	51	- 65.3%	216	68	- 68.5%

* for definition see Bayer Group Highlights on page 3

Business in the Polyurethanes, Coatings and Fibers segment dipped by 2.1 percent to €1,263 million. Sales in local currencies improved by 7.8 percent, leading to high capacity utilization, particularly in the MDI product segment. Pressure on prices has intensified again in recent months, especially in Asia.

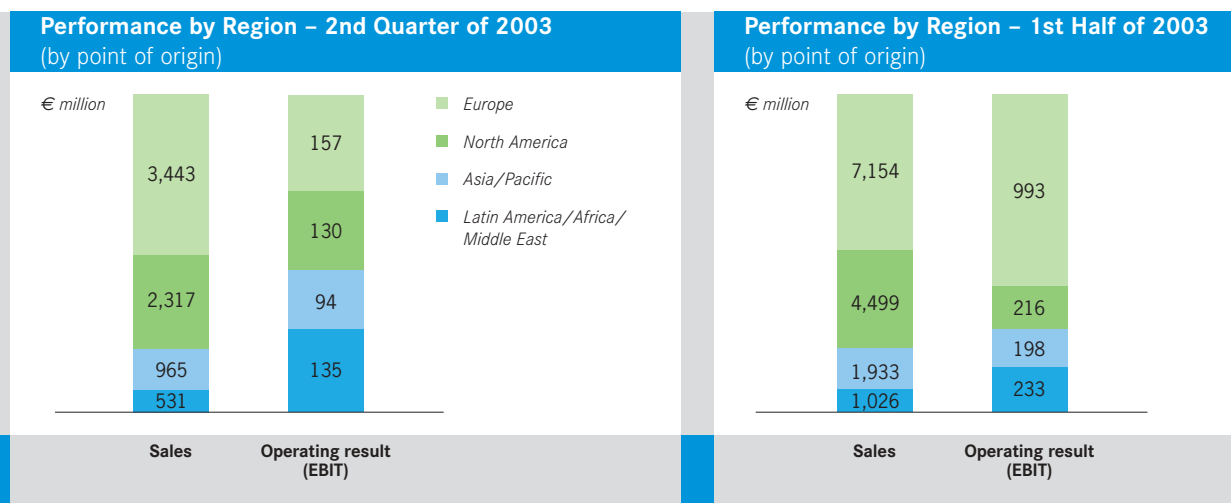
EBIT improved by €70 million in the second quarter to €63 million, chiefly as a result of optimized cost structures. This figure contains charges totaling €49 million for termination of the joint venture Bayer-Shell Isocyanates N.V. (BSI) and personnel adjustments.

Chemicals

Sales of the Chemicals segment fell by 26.6 percent in the second quarter to €871 million. Measured in local currencies, sales decreased by 19.6 percent. The decline was attributable to the divestiture of Haarmann & Reimer on September 30, 2002 and other portfolio effects. The Functional Chemicals product segment achieved gratifying growth in volumes, while business in Process Chemicals was down. Sales of H.C. Starck also declined, particularly due to the weak economy in the electronics sector. EBIT for the second quarter fell to €2 million.

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PERFORMANCE BY REGION

The economy of the euro zone remains weak, with the E.U. performing less well than any other region. The economies of central and eastern Europe continue to expand but are being held back by the slow pace of growth in western Europe. Sales of our European companies fell by 2.1 percent or €73 million in the second quarter of 2003, to €3,443 million. EBIT dropped by 34.3 percent to €157 million, or by 17.9 percent if special items are disregarded.

Business developed well in the other regions, with substantial local-currency sales growth in some cases. Our companies in North America saw sales rise 16.7 percent in the second quarter despite the sluggishness of the U.S. economy in the wake of its surprisingly rapid expansion at the beginning of the year. Confidence was dampened by higher raw material costs and the price of natural gas, which was more than twice that of the previous year. Industry remained reluctant to invest despite a marked improvement in corporate earnings. Translated into euros, sales dipped 1.5 percent to €2,317 million. EBIT rose strongly to €130 million thanks to higher earnings in HealthCare.

Business of our companies in the Asia/Pacific region increased by 4.8 percent in local currencies, even though the previous year's sales still included the household insecticides business and despite the slower growth in most Asian economies throughout the first half of 2003. After translation, sales fell by 10.6 percent to €965 million. Our growth driver in the Far East continues to be China, where we achieved double-digit growth rates in local currencies in the first half of 2003 after adjusting for the divestment of the household insecticides. Second-quarter EBIT in Asia/Pacific improved by 9.3 percent to €94 million.

In the Latin America/Africa/Middle East region, too, economic development has so far fallen short of expectations. However, second-quarter sales of our companies in the region advanced by 19.0 percent in local currencies. Measured in euros, sales moved back 4.7 percent to €531 million. EBIT rose by €104 million to €135 million.

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Bayer Group Summary Cash Flow Statements

€ million	2nd Quarter		1st Half	
	2002	2003	2002	2003
Gross operating cash flow	761	1,089	1,595	2,491
Changes in working capital	332	(122)	(262)	(1,361)
Net cash provided by operating activities	1,093	967	1,333	1,130
<i>of which discontinuing operations</i>	16	0	38	0
Net cash provided by (used in) investing activities	(4,289)	(40)	(4,406)	949
<i>of which discontinuing operations</i>	(6)	0	(34)	0
Net cash provided by (used in) financing activities	2,955	(1,349)	3,204	(1,102)
<i>of which discontinuing operations</i>	0	0	5	0
Changes in cash and cash equivalents due to business activities	(241)	(422)	131	977
Cash and cash equivalents at beginning of period	1,092	2,165	719	767
Change due to exchange rate movements and to changes in scope of consolidation	(11)	(15)	(10)	(16)
Cash and cash equivalents at end of first half	840	1,728	840	1,728
Marketable securities and other instruments	32	30	32	30
Liquid assets as per balance sheets	872	1,758	872	1,758

LIQUIDITY AND CAPITAL RESOURCES

The consolidated financial statements for the first half of 2003 have been prepared as for the year 2002 according to the rules issued by the International Accounting Standards Board (IASB), London. Reference should be made as appropriate to the notes to the 2002 statements.

Gross cash flow increased by €328 million, or 43.1 percent, in the second quarter of 2003 compared to the same period of the previous year, due mainly to the €202 million growth in EBIT. The €126 million decline in net cash flow to €967 million resulted largely from an increase in working capital and from disbursements of €231 million following the settlement reached with U.S. authorities in the context of an investigation into pharmaceutical product prices. Provisions for these payments had been established in 2002.

Net cash used in investing activities came to only €40 million. Here, cash outflows of €324 million were largely offset by inflows from sales of property, plant, equipment and investments in affiliated companies. The latter included, in particular, the divestiture of PolymerLatex (€107 million). Interest and other financial receipts amounted to €177 million.

Financing activities resulted in net cash outflows of €1,349 million, including €664 million in dividend payments, €250 million in net loan repayments and €435 million in interest paid after taxes. The €69 million, or 18.9 percent, increase in interest expense was chiefly attributable to the financing of the Aventis CropScience acquisition.

Cash and cash equivalents decreased in the second quarter by €437 million to €1,728 million. Including marketable securities and other instruments, the Group had liquid assets of €1,758 million on June 30, 2003.

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Earnings						
€ million	2nd Quarter			1st Half		
	2002	2003	Change	2002	2003	Change
Operating result (EBIT)	252	454	+ 80.2%	1,092	1,529	+ 40.0%
<i>of which discontinuing operations</i>	21	0		43	0	
<i>of which special items</i>	(84)	17		273	272	
Non-operating result	44	(176)	•	(113)	(348)	•
Income before income taxes	296	278	- 6.1%	979	1,181	+ 20.6%
Net income	293	128	- 56.3%	816	714	- 12.5%

EARNINGS PERFORMANCE

EBIT increased by 80.2 percent in the second quarter to €454 million, or by 30.1 percent if special items are disregarded. The special items in the second quarter of 2003 mainly comprise €122 million in gains from the sale of further parts of the household insecticides business and a €30 million gain from the divestiture of PolymerLatex, along with €135 million in non-recurring charges, primarily for restructuring. EBIT for the same period of 2002 contained €76 million in gains from the sale of the generics business.

The non-operating result declined by €44 million in the second quarter to minus €176 million, mainly because the previous year's figure contained a €269 million gain from the sale of our interest in Agfa-Gevaert N.V. Income tax expense for the second quarter of 2003 amounted to €149 million, causing net income to fall by 56.3 percent to €128 million. The effective tax rate, at 54 percent, was well above the theoretical Group tax rate of 39 percent, mainly due to one-time taxation effects.

ASSET AND CAPITAL STRUCTURE

Total assets decreased by €1.1 billion compared with December 31, 2002, to €40.6 billion.

Intangible assets shrank by €0.5 billion to €8.4 billion. Property, plant and equipment decreased by €1.0 billion overall, with €0.6 billion in capital spending offset by €0.8 billion in depreciation and €0.2 billion in retirements. Negative currency effects diminished noncurrent assets by €0.4 billion.

Current assets rose by €0.4 billion, or 2.1 percent, from the beginning of the year, to €18.6 billion. Inventories grew by 3.0 percent to €6.5 billion, while trade accounts receivable increased by 5.7 percent to €5.9 billion. The divestitures made in connection with the acquisition of the Aventis CropScience group led to a 21.3 percent decline in other receivables, to €3.3 billion, since the assets earmarked for divestment were included in this item at the end of 2002. Liquid assets grew by €1.0 billion to €1.8 billion.

Stockholders' equity dropped by €0.2 billion to €15.1 billion. While €0.7 billion was allocated out of net income, stockholders' equity was diminished by €0.7 billion due to payment in the second quarter of the dividend for 2002. The reduction in stockholders' equity not recognized in net income amounted to €0.3 billion.

Balance Sheet Structure

€ million	June 30, 2002	June 30, 2003	Dec. 31, 2002
Noncurrent assets	25,728	22,064	23,513
Current assets	18,969	18,564	18,179
Stockholders' equity	15,648	15,123	15,335
Minority stockholders' interest	149	129	120
Liabilities	28,900	25,376	26,237
Total assets	44,697	40,628	41,692

Equity coverage of total assets rose by 0.4 percentage points compared to the end of 2002, to 37.2 percent.

Liabilities fell by €0.9 billion to €25.4 billion, chiefly due to a decline in trade accounts payable and to the disbursements made following the settlement reached with U.S. authorities in the context of an investigation into pharmaceutical product prices. Gross financial liabilities dropped by €0.1 billion to €9.5 billion.

Net debt declined by €1.1 billion in the first half of 2003, to €7.8 billion.

CAPITAL EXPENDITURES

In the second quarter of 2003 we spent €324 million for intangible assets, property, plant and equipment. This was considerably less than in the same period of 2002, when capital expenditures totaled €486 million. Total capital spending in the first half of 2003 amounted to €800 million, down 21.3 percent from the first half of 2002. At 59.9 percent of our €1,336 million scheduled depreciation and amortization, the level of capital expenditures was in line with our strategic objectives. Europe accounted for capital spending of €517 million, 56.3 percent of which went for our sites in Germany.

The Group's capital expenditure budget for the full year 2003 is €2.0 billion.

EMPLOYEES

On June 30, 2003, the Bayer Group had 117,500 employees, 5,100 fewer than at the start of the year. Headcount was reduced by 2,500 in Europe, 1,000 in North America, 1,100 in Asia/Pacific and 500 in Latin America/Africa/Middle East.

Personnel expenses in the first half of 2003 were down by €8 million, or 0.2 percent, compared to the same period of 2002, to €3,958 million.

OUTLOOK

We do not anticipate a meaningful recovery in economic demand in the second half of 2003. For that reason we will probably have only limited scope to increase selling prices. At the same time, the continuing weakness of the U.S. dollar and the high levels of raw material and energy costs – even if these have declined a little – are likely to hold back earnings, particularly in our industrial business. These effects should be mitigated by our programs aimed at improving operating efficiency and long-term profitability, which are going to plan so far.

We expect CropScience sales to weaken further in the second half, primarily for seasonal reasons, with earnings of this business area also being hampered by integration-related charges. In HealthCare, earnings are likely to be restrained by launch costs for Levitra® and competitive pressure from generics in the United States. Here too, however, our efficiency programs should ease the situation.

Provided there is no further deterioration in the economy as a whole, we continue to expect full-year EBIT before special items to increase by a double-digit percentage over 2002.

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Bayer Group Consolidated Statements of Income (Summary)

€ million	2nd Quarter		1st Half	
	2002	2003	2002	2003
Net sales	7,504	7,256	14,737	14,612
<i>of which discontinuing operations</i>	233	0	456	0
Cost of goods sold	(4,418)	(4,151)	(8,584)	(8,130)
Gross profit	3,086	3,105	6,153	6,482
Selling expenses	(1,663)	(1,626)	(3,291)	(3,191)
Research and development expenses	(633)	(607)	(1,202)	(1,127)
General administration expenses	(374)	(389)	(672)	(770)
Other operating income	168	296	738	717
Other operating expenses	(332)	(325)	(634)	(582)
Operating result (EBIT)	252	454	1,092	1,529
<i>of which discontinuing operations</i>	21	0	43	0
Non-operating result	44	(176)	(113)	(348)
Income before income taxes	296	278	979	1,181
Income taxes	0	(149)	(159)	(459)
Income after taxes	296	129	820	722
Minority stockholders' interest	(3)	(1)	(4)	(8)
Net income	293	128	816	714
Earnings per share (€)	0.40	0.18	1.12	0.98

Bayer Group Consolidated Balance Sheets (Summary)

<i>€ million</i>	June 30, 2002	June 30, 2003	Dec. 31, 2002
Assets			
Noncurrent assets			
Intangible assets	10,514	8,366	8,879
Property, plant and equipment	13,068	11,437	12,436
Investments	2,146	2,261	2,198
	25,728	22,064	23,513
Current assets			
Inventories	6,727	6,534	6,342
Receivables and other assets			
Trade accounts receivable	7,008	5,860	5,542
Other receivables and other assets	3,100	3,313	4,210
	10,108	9,173	9,752
Liquid assets	872	1,758	796
	17,707	17,465	16,890
Deferred taxes	907	742	967
Deferred charges	355	357	322
	44,697	40,628	41,692
<i>of which discontinuing operations</i>	778	0	0
 Stockholders' Equity and Liabilities			
Stockholders' equity			
Capital stock and reserves	4,812	4,812	4,812
Retained earnings	10,151	10,480	10,076
Net income	816	714	1,060
Other comprehensive income			
Currency translation adjustment	(206)	(981)	(593)
Miscellaneous items	75	98	(20)
	15,648	15,123	15,335
Minority stockholders' interest	149	129	120
Liabilities			
Long-term liabilities			
Long-term financial liabilities	7,176	7,044	7,318
Miscellaneous long-term liabilities	139	83	92
Provisions for pensions and other post-employment benefits	4,693	4,992	4,925
Other long-term provisions	1,324	1,249	1,215
	13,332	13,368	13,550
Short-term liabilities			
Short-term financial liabilities	6,166	2,992	2,841
Trade accounts payable	2,477	1,983	2,534
Miscellaneous short-term liabilities	2,168	1,950	2,138
Short-term provisions	1,643	2,424	2,257
	12,454	9,349	9,770
	25,786	22,717	23,320
<i>of which discontinuing operations</i>	224	0	0
Deferred taxes	2,748	2,194	2,453
Deferred income	366	465	464
	44,697	40,628	41,692
The half-year statements are unaudited.			

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Bayer Group Consolidated Statements of Changes in Stockholders' Equity (Summary)

€ million	Capital stock and reserves	Retained earnings	Net income	Currency translation adjustment	Miscellaneous items	Total
December 31, 2001	4,812	9,841	965	759	545	16,922
Dividend payment			(657)			(657)
Allocation to retained earnings		310	(308)			2
Exchange differences				(965)		(965)
Other changes in stockholders' equity					(470)	(470)
Net income			816			816
June 30, 2002	4,812	10,151	816	(206)	75	15,648
December 31, 2002	4,812	10,076	1,060	(593)	(20)	15,335
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
June 30, 2003	4,812	10,480	714	(981)	98	15,123

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Key Data by Segment

2nd Quarter Segments	HealthCare				CropScience				Polymers	
	Pharmaceuticals, Biological Products		Consumer Care, Diagnostics		Animal Health		CropScience		Plastics, Rubber	
	2nd Quarter		2nd Quarter		2nd Quarter		2nd Quarter		2nd Quarter	
€ million	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Net sales (external)	1,167	1,190	971	800	212	214	1,083	1,567	1,374	1,188
• Change in €	-22.7 %	+2.0 %	-6.0 %	-17.6 %	-8.6 %	+0.9 %	+25.1 %	+44.7 %	-6.3 %	-13.5 %
• Change in local currencies	-18.1 %	+15.2 %	-0.1 %	-4.2 %	-3.6 %	+15.1 %	+28.4 %	+58.0 %	-4.3 %	-5.0 %
Intersegment sales	9	14	1	2	1	0	9	21	35	13
Operating result (EBIT)	102	146	103	188	43	45	22	33	22	6
Return on sales	8.7 %	12.3 %	10.6 %	23.5 %	20.3 %	21.0 %	2.0 %	2.1 %	1.6 %	0.5 %
Depreciation and amortization	71	56	77	60	9	8	129	195	98	83
Gross cash flow	71	194	123	208	51	48	154	203	95	68
Net cash flow	226	(152)	93	242	27	22	498	734	59	(172)

2002 figures restated

2nd Quarter Segments	Polymers		Chemicals		Reconciliation		Bayer Group		of which discontinuing operations (Chemicals)	
	Polyurethanes, Coatings, Fibers		Chemicals		Reconciliation		Bayer Group		of which discontinuing operations (Chemicals)	
	2nd Quarter		2nd Quarter		2nd Quarter		2nd Quarter		2nd Quarter	
€ million	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Net sales (external)	1,290	1,263	1,187	871	220	163	7,504	7,256	233	0
• Change in €	-8.9 %	-2.1 %	-9.3 %	-26.6 %			-7.0 %	-3.3 %		
• Change in local currencies	-5.5 %	+7.8 %	-3.5 %	-19.6 %			-3.0 %	+7.3 %		
Intersegment sales	10	66	93	105	(158)	(221)				
Operating result (EBIT)	(7)	63	32	2	(65)	(29)	252	454	21	0
Return on sales	(0.5) %	5.0 %	2.7 %	0.2 %			3.4 %	6.3 %		
Depreciation and amortization	223	110	108	74	67	60	782	646	16	0
Gross cash flow	204	177	122	92	(59)	99	761	1,089	29	0
Net cash flow	185	223	147	51	(142)	19	1,093	967	17	0

2002 figures restated

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Key Data by Segment

1st Half Segments	HealthCare				Animal Health		CropScience		Polymers	
	Pharmaceuticals, Biological Products		Consumer Care, Diagnostics		Animal Health		CropScience		Plastics, Rubber	
	1st Half		1st Half		1st Half		1st Half		1st Half	
€ million	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Net sales (external)	2,424	2,321	1,921	1,598	415	393	1,949	3,228	2,638	2,460
• Change in €	-17.3 %	-4.2 %	-3.8 %	-16.8 %	+0.7 %	-5.3 %	+16.0 %	+65.6 %	-11.7 %	-6.7 %
• Change in local currencies	-15.5 %	+8.6 %	-0.9 %	-2.8 %	+3.2 %	+8.9 %	+18.0 %	+77.7 %	-11.2 %	+1.7 %
Intersegment sales	17	22	2	3	1	1	26	32	64	46
Operating result (EBIT)	225	345	160	429	93	85	166	476	31	9
Return on sales	9.3 %	14.9 %	8.3 %	26.8 %	22.4 %	21.6 %	8.5 %	14.7 %	1.2 %	0.4 %
Depreciation and amortization	152	111	151	123	18	15	188	393	212	191
Gross cash flow	185	381	234	449	92	88	261	720	199	166
Net cash flow	159	(45)	165	448	18	42	329	542	164	(113)

2002 figures restated

1st Half Segments	Polymers		Chemicals		Reconciliation		Bayer Group		of which discontinuing operations (Chemicals)	
	Polyurethanes, Coatings, Fibers		Chemicals		Reconciliation		Bayer Group		of which discontinuing operations (Chemicals)	
	1st Half		1st Half		1st Half		1st Half		1st Half	
€ million	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Net sales (external)	2,639	2,543	2,345	1,743	406	326	14,737	14,612	456	0
• Change in €	-5.9 %	-3.6 %	-14.1 %	-25.7 %			-7.7 %	-0.8 %		
• Change in local currencies	-4.5 %	+6.5 %	-10.7 %	-17.8 %			-5.8 %	+9.8 %		
Intersegment sales	42	102	188	209	(340)	(415)				
Operating result (EBIT)	5	134	91	40	321	11	1,092	1,529	43	0
Return on sales	0.2 %	5.3 %	3.9 %	2.3 %			7.4 %	10.5 %		
Depreciation and amortization	384	248	207	145	118	127	1,430	1,353	31	0
Gross cash flow	350	380	239	192	35	115	1,595	2,491	56	0
Net cash flow	295	265	216	68	(13)	(77)	1,333	1,130	39	0

2002 figures restated

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Key Data by Region

2nd Quarter

Regions	Europe		North America		Asia/Pacific	
	2nd Quarter		2nd Quarter		2nd Quarter	
	2002	2003	2002	2003	2002	2003
€ million						
Net sales (external) – by market	3,128	3,098	2,322	2,299	1,277	1,116
Net sales (external) – by point of origin	3,516	3,443	2,352	2,317	1,079	965
<i>of which discontinuing operations</i>	126	0	49	0	30	0
• Change in €	– 4.9 %	– 2.1 %	– 12.3 %	– 1.5 %	+ 1.8 %	– 10.6 %
• Change in local currencies	– 4.8 %	– 1.2 %	– 7.7 %	+ 16.7 %	+ 6.1 %	+ 4.8 %
Interregional sales	732	963	509	518	49	72
Operating result (EBIT)	239	157	(39)	130	86	94
<i>of which discontinuing operations</i>	9	0	3	0	3	0
Return on sales	6.8 %	4.6 %	(1.7) %	5.6 %	8.0 %	9.7 %
Gross cash flow	458	589	243	347	92	91

2002 figures restated

2nd Quarter

Regions	Latin America/ Africa/Middle East		Reconciliation		Bayer Group	
	2nd Quarter		2nd Quarter		2nd Quarter	
	2002	2003	2002	2003	2002	2003
€ million						
Net sales (external) – by market	777	743			7,504	7,256
Net sales (external) – by point of origin	557	531			7,504	7,256
<i>of which discontinuing operations</i>	28	0			233	
• Change in €	– 12.0 %	– 4.7 %			– 7.0 %	– 3.3 %
• Change in local currencies	+ 15.2 %	+ 19.0 %			– 3.0 %	+ 7.3 %
Interregional sales	61	45	(1,351)	(1,598)		
Operating result (EBIT)	31	135	(65)	(62)	252	454
<i>of which discontinuing operations</i>	6	0	0	0	21	0
Return on sales	5.6 %	25.4 %			3.4 %	6.3 %
Gross cash flow	42	114	(74)	(52)	761	1,089

2002 figures restated

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Key Data by Region

1st Half

Regions	Europe		North America		Asia/Pacific	
	1st Half		1st Half		1st Half	
	2002	2003	2002	2003	2002	2003
€ million						
Net sales (external) – by market	6,225	6,450	4,597	4,416	2,412	2,287
Net sales (external) – by point of origin	6,964	7,154	4,686	4,499	2,007	1,933
<i>of which discontinuing operations</i>	244	0	98	0	57	0
• Change in €	– 8.7 %	+ 2.7 %	– 8.2 %	– 4.0 %	– 1.9 %	– 3.7 %
• Change in local currencies	– 8.8 %	+ 3.4 %	– 8.1 %	+14.0 %	+ 1.1 %	+10.3 %
Interregional sales	1,527	2,070	1,015	982	102	131
Operating result (EBIT)	1,134	993	(157)	216	158	198
<i>of which discontinuing operations</i>	21	0	2	0	6	0
Return on sales	16.3 %	13.9 %	(3.4) %	4.8 %	7.9 %	10.2 %
Gross cash flow	1,048	1,503	416	655	166	210

2002 figures restated

1st Half

Regions	Latin America/ Africa/Middle East		Reconciliation		Bayer Group	
	1st Half		1st Half		1st Half	
	2002	2003	2002	2003	2002	2003
€ million						
Net sales (external) – by market	1,503	1,459			14,737	14,612
Net sales (external) – by point of origin	1,080	1,026			14,737	14,612
<i>of which discontinuing operations</i>	57	0			456	0
• Change in €	– 9.5 %	– 5.0 %			– 7.7 %	– 0.8 %
• Change in local currencies	+ 8.6 %	+27.0 %			– 5.8 %	+ 9.8 %
Interregional sales	83	82	(2,727)	(3,265)		
Operating result (EBIT)	75	233	(118)	(111)	1,092	1,529
<i>of which discontinuing operations</i>	14	0	0	0	43	0
Return on sales	6.9 %	22.7 %			7.4 %	10.5 %
Gross cash flow	84	205	(119)	(82)	1,595	2,491

2002 figures restated

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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 prices 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.