Stockholders' Newsletter 2001

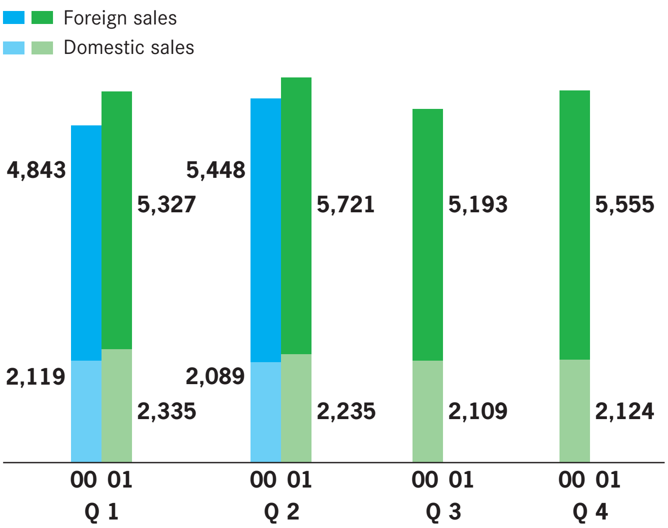
Interim Report for the First Half of 2001

Bayer

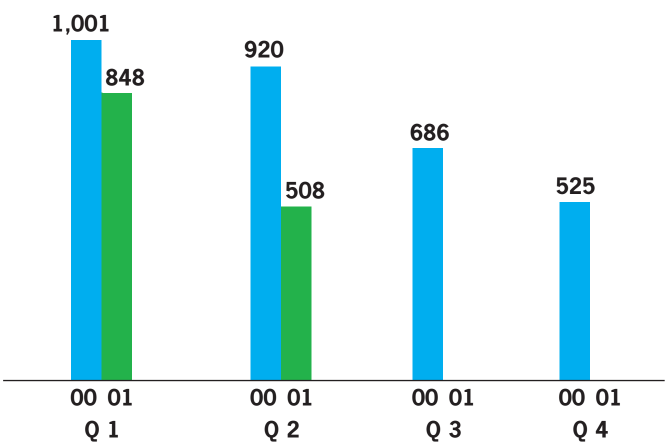
Economy remains weak –

Extensive programs in place to improve margins

Sales from Continuing Operations (€ million)



Operating Result from Continuing Operations (€ million)



European economic growth slowed further in the second quarter, especially in Germany, and there is no sign of a turnaround in North America either. This is having an increasingly adverse effect on the markets of Asia.

Bayer's sales from continuing operations rose by 8 percent to €15.6 billion. Portfolio changes and price adjustments each accounted for roughly 4 percentage points of the increase, while a 2 percent improvement in exchange rates was offset by lower volumes attributable to the economic downturn. The operating result before exceptional items shrank by 23 percent to €1.5 billion; after exceptionals it was down by 29 percent to €1.4 billion. The decline was due mainly to the temporary production problems for biological products, the sustained high cost of raw materials and a drop in demand from major customer industries.

Change in Sales

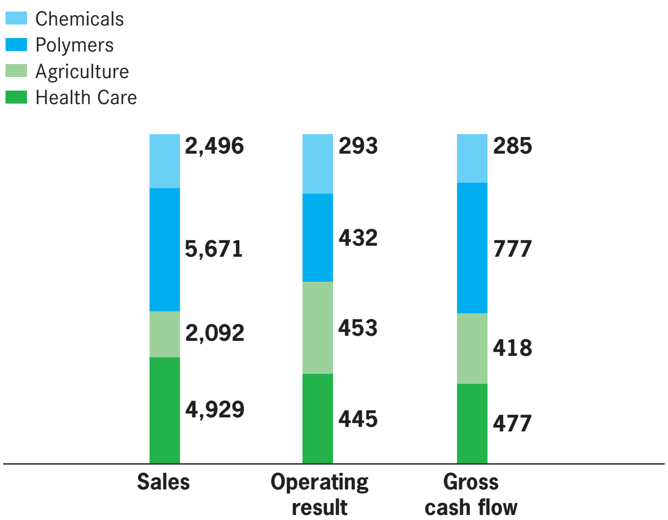
Reported	+ 4.8 %
Continuing operations	**+ 7.7 %**
Volumes	– 2.1 %
Prices	+ 3.7 %
Exchange rates	+ 1.7 %
Portfolio changes	+ 4.4 %

Including the discontinuing operations of the EC Erdölchemie (until April 30) and Fibers business groups, sales increased by 5 percent to €16.0 billion. The operating result, however, fell 16 percent to €1.7 billion, which includes €0.3 billion in exceptional income from the sale of the 50 percent interest in EC Erdölchemie.

Business trend by segment

Our four business segments recorded total sales of €15.2 billion. They achieved an operating result of €1.6 billion before exceptionals and a gross cash flow of €2.0 billion. Polymers remained the largest segment, with €5.7 billion in sales, and again generated the highest gross cash flow, which amounted to €0.8 billion. Agriculture was the most profitable segment, with operating income of €0.5 billion.

Performance by Business Segment (before reconciliation, € million)



Health Care

€ million	1st Half 2001	1st Half 2000	Full Year 2000
Sales	**4,929**	4,747	10,028
Operating result before exceptional items	**445**	726	1,476
Return on sales before exceptional items	**9.0 %**	15.3 %	14.7 %
Gross cash flow	**477**	694	1,419

Business in the **Health Care** segment increased by 4 percent to €4.9 billion. Sales in the Pharmaceuticals Business Group grew by only 2 percent, mainly because of the delay on product releases of Kogenate®. Sales in the Ethical Products business unit rose by 8 percent, driven primarily by our anti-infective Avalox® / Avelox® and the cholesterol-lowering drug Lipobay® / Baycol®. Consumer Care posted 8 percent higher sales, largely as a result of the growth rates for our Baygon® household insecticide in Indonesia and the expansion of business activities in China. We also registered particularly strong demand for Canesten® and Talcid® in Europe and for Aspirin® in North and Central America. The Diagnostics Business Group reported 3 percent sales growth overall, the largest increases being in Europe, India and Latin America.

The segment's operating result dropped by 39 percent to €0.4 billion. The reason lay chiefly in the production problems for biological products, which led to extraordinary charges of €170 million in the first half. Total earnings of this business unit were down by €250 million from the same period of last year, with €210 million of the decline attributable to the second quarter. The gross cash flow in the Health Care segment was down 31 percent to €0.5 billion.

Numerous programs already instigated to improve profitability in this segment will lead to annual savings of €600 million. For example, the 'Redirecting Medical' project in the Pharmaceuticals Business Group will make processes more productive and efficient, with benefits including shorter drug development times. Consumer Care has launched a wide-ranging program to identify savings potentials, and Diagnostics has already begun to improve earnings through a restructuring program. To further boost performance in the Diagnostics Business Group we have acquired certain development, manufacturing and marketing rights for products to detect hepatitis C and HIV antibodies.

Agriculture

€ million	1st Half 2001	1st Half 2000	Full Year 2000
Sales	**2,092**	2,093	3,455
Operating result before exceptional items	**453**	487	558
Return on sales before exceptional items	**21.7 %**	23.3 %	16.2 %
Gross cash flow	**418**	370	557

Sales in the **Agriculture** business segment in the first half of 2001 matched the previous year's high level of €2.1 billion. Business in Crop Protection was up 2 percent following the acquisitions of the FLINT® product line and MIKADO® corn herbicide. The sluggishness of the economy in the United States and Latin America had an adverse effect, while sales in Europe were hampered by weather-related sales declines in products for cereals and mounting competitive pressure from generic herbicides. Sales in the Animal Health Business Group were down 6 percent, of which 5 percentage points were due to the divestiture of the U.S. livestock vaccines business. Pleasing growth rates were achieved by the flea control product Advantage® in North America and Japan and the anti-infective Baytril® in North America.

The operating result slipped 7 percent to €0.5 billion, but the gross cash flow advanced by 13 percent to €0.4 billion. With an operating margin of 22 percent, the Agriculture segment remains an international leader in terms of profitability.

Crop Protection has extended by five years its research collaboration with the U.S. company Paradigm Genetics Inc. of Raleigh, North Carolina, to develop new active ingredients for herbicides.

Polymers

€ million	1st Half 2001	1st Half 2000	Full Year 2000
Sales	**5,671**	5,218	10,893
Operating result before exceptional items	**432**	597	1,077
Return on sales before exceptional items	**7.6 %**	11.4 %	9.9 %
Gross cash flow	**777**	790	1,596

The **Polymers** segment saw sales move ahead by 9 percent, to €5.7 billion. Acquisitions, including the Lyondell Chemical Company's polyols business and Sybron Chemicals Inc., accounted for 7 percentage points of the increase. Even if the effects of portfolio changes are eliminated, the segment showed growth in the first half, especially in Plastics, where cyclically lower demand was compensated by price increases.

The operating result of this segment fell by 28 percent to €0.4 billion, while the gross cash flow dropped by 2 percent to €0.8 billion. The main negative factor here – apart from the expenses for integrating the Lyondell polyols business – was the continuing high cost of petrochemical raw materials and utilities. We also felt the impact of customers' inventory reductions and of lower production volumes in important customer industries such as the automotive, electrical and construction sectors. All business groups have embarked on aggressive programs to improve margins. These programs are already bearing fruit and will lead to annual savings of up to €700 million by 2005.

The Polyurethanes Business Group has brought all of its European office-based sales, planning and logistics structures together in a new company known as Bayer Polyurethanes Business Service Center GmbH & Co. KG. This concept, which is also to be applied by other business groups and in other parts of the world, improves the efficiency and transparency of process chains.

Chemicals

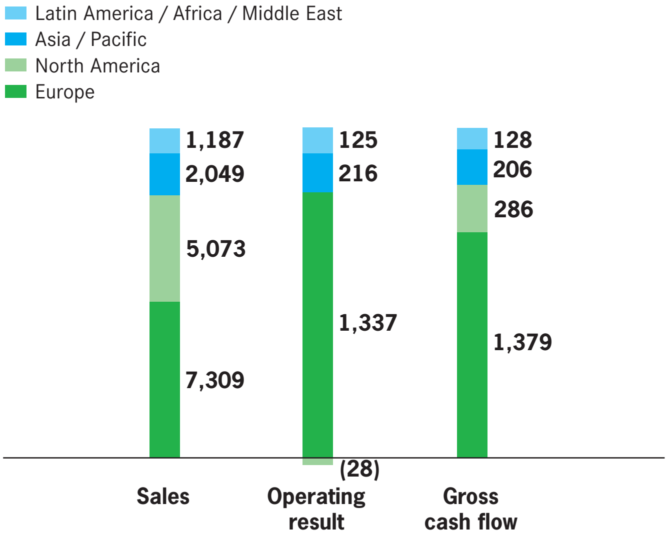
€ million	1st Half 2001	1st Half 2000	Full Year 2000
Sales	**2,496**	2,104	4,275
Operating result before exceptional items	**293**	248	442
Return on sales before exceptional items	**11.7 %**	11.8 %	10.3 %
Gross cash flow	**285**	301	600

Sales in the **Chemicals** segment advanced by 19 percent to €2.5 billion, with 10 percentage points attributable to acquisitions. H.C. Starck was again very successful, with double-digit growth in all regions of the world. However, first signs of consolidation in the electronics market mean growth is likely to be slower in the second half. The Specialty Products Business Group posted 22 percent higher sales, largely due to acquisitions. Business at Wolff Walsrode was up 15 percent, of which portfolio changes account for 9 percentage points. The methylcellulose business performed especially well, primarily in North and Latin America, eastern Europe and Asia.

The segment's operating result improved by 18 percent to €0.3 billion, and the return on sales remained at 12 percent.

In this segment, too, we will pursue an earnings-oriented portfolio management strategy, along with cost containment programs designed to save €200 million a year, to further enhance our performance. The Basic and Fine Chemicals Business Group, for example, has embarked on a major efficiency improvement project for its manufacturing operations.

Performance by Region
(by point of origin, before reconciliation, € million)



Business trend by region

Our European companies recorded 8 percent growth in sales, to €7.3 billion. The operating result came to €1.3 billion and the gross cash flow to €1.4 billion, accounting for 81 percent and 69 percent, respectively, of the Group totals. The 18 percent return on sales was well above the Group average. In North America sales rose by 6 percent to €5.1 billion due to acquisitions, while operating profit and gross cash flow declined significantly. Our companies in the Asia-Pacific region reported €2.0 billion in sales and €0.2 billion in both operating profit and cash flow. Business in the Latin America/Africa/Middle East region developed favorably, with the operating result up by 11 percent. Earnings thus rose faster than sales, and the operating margin improved to 11 percent.

Liquidity and capital resources

The consolidated financial statements for the first half of 2001 have been prepared as for the year 2000 according to the rules issued by the International Accounting Standards Board, London. Reference should be made as appropriate to the notes to the 2000 statements. The only change arises from the application of IAS 39 (Financial Instruments: Recognition and Measurement) to the accounting treatment of primary and derivative financial instruments; this is explained in the section on asset and capital structure.

The gross cash flow declined by €0.3 billion, or 15 percent, to €1.8 billion. The net operating cash flow declined by €0.5 billion, mainly because of an increase in inventories and a substantial drop in trade accounts payable.

The net cash outflow for investing activities amounted to €0.7 billion, with disbursements of €1.6 billion for property, plant and equipment and acquisitions partly offset by receipts totaling €0.9 billion from the sale of property, plant and equipment, from investments and from marketable securities.

Financing activities led to a net cash outflow of €0.1 billion, with dividend and interest payments amounting to €1.0 and €0.2 billion respectively, and net borrowings to €1.1 billion.

Cash Flow Statements (Summary, € million)	1st Half 2001	1st Half 2000
Gross operating cash flow	**1,836**	2,169
Changes in working capital	**(1,005)**	(817)
Net cash provided by operating activities	**831**	**1,352**
of which discontinuing operations	*9*	*61*
Net cash used in investing activities	**(666)**	**(3,377)**
of which discontinuing operations	*(14)*	*(74)*
Net cash provided by (used in) financing activities	**(71)**	**60**
of which discontinuing operations	*(41)*	*(11)*
Change in cash and cash equivalents	**94**	(1,965)
Cash and cash equivalents at beginning of year	**491**	2,812
Exchange rate movements and changes in companies consolidated	**23**	31
Cash and cash equivalents at end of first half	**608**	878

Cash and cash equivalents increased by €0.1 billion during the first half of 2001. The €0.7 billion and €0.1 net cash outflows for investing and financing activities, respectively, were offset by the net cash inflow of €0.8 billion from operating activities.

Earnings (€ million)	1st Half 2001	1st Half 2000	Full Year 2000
Operating result	**1,671**	1,994	3,287
of which discontinuing operations	*315*	*73*	*155*
Non-operating result	**(230)**	(218)	(297)
Income before income taxes	**1,441**	1,776	2,990
Net income	**1,006**	1,033	1,816

Earnings performance

The operating result – including the discontinuing operations of the Fibers and EC Erdölchemie business groups – fell by 16 percent to €1.7 billion. This includes the €0.3 billion gain from the sale of the interest in EC Erdölchemie. The operating result from continuing operations was down by 29 percent after exceptional items of €0.1 billion; before exceptionals it declined by 23 percent to €1.5 billion.

The non-operating result decreased by 6 percent because of higher interest expense, to minus €0.2 billion. Income tax expense was down by €0.3 billion because of the tax-free income from the sale of the interest in EC Erdölchemie, bringing the effective tax rate down 11 percentage points to 30 percent. Disregarding this tax-free income, the tax rate was 39 percent. Net income declined by 3 percent from the first half of 2000, to €1.0 billion.

Balance Sheet Structure (€ million)

	June 30, 2001	June 30, 2000	Dec. 31, 2000
Noncurrent assets	**22,305**	18,206	20,344
Current assets	**17,010**	15,644	16,107
Stockholders' equity	**17,296**	15,156	16,140
Minority stockholders' interest	**103**	190	237
Liabilities	**21,916**	18,504	20,074
Total assets	**39,315**	**33,850**	**36,451**

Asset and capital structure

Total assets grew during the first half of 2001 by €2.9 billion, or 8 percent, to €39.3 billion.

The largest increase was in noncurrent assets, which expanded by €2.0 billion. Intangible assets rose by €0.4 billion, as did property, plant and equipment. Components of the €1.2 billion increase in investments include €0.2 billion attributable to the DyStar group's switch to at-equity status; €0.1 billion for an equity interest in CuraGen Corporation; and €0.8 billion due to the first-time application in 2001 of IAS 39, which requires securities to be measured at fair value.

Current assets rose by €1.2 billion, or 8 percent, compared with the end of 2000, with inventories accounting for €0.5 billion of the increase and receivables for €0.7 billion.

Stockholders' equity grew by €1.2 billion compared with December 31, 2000. Income after taxes, translation differences and the valuation of financial instruments as per IAS 39 added a total of €2.1 billion, while the dividend payment for 2000 diminished equity by €1.0 billion.

Liabilities (excluding provisions) rose by €1.9 billion, or 17 percent, during the first six months of 2001. The €1.6 billion increase in financial obligations resulted mainly from utilization of the commercial paper program. With liquid assets virtually unchanged, net indebtedness grew by €1.7 billion compared with December 31, 2000, to €7.6 billion.

Capital expenditures, structural changes

In the first half we spent a total of €1.1 billion for intangible assets, property, plant and equipment, with Europe accounting for €0.7 billion. The largest increase in our capital spending was in the Asia-Pacific region, where investment more than doubled to €144 million.

Our capital expenditure budget for the full year 2001 is €3.1 billion, with €1.4 billion going to the Polymers segment alone.

A number of Bayer AG units were spun off into legally separate subsidiary companies effective July 1, 2001. With the aim of making the logistics function more competitive, we established a new company, Chemion Logistik GmbH, to take over the storage, transport and handling of chemicals and related products and also to perform logistics functions for other companies. We have also set up the new online personnel services company Job@ctive to expand e-commerce activities in the human resources field. Travel management and media services, too, have been transferred to separate legal entities.

By the end of 2002, Bayer's European accounting functions will be merged into two newly formed shared services centers in Leverkusen and Barcelona to enhance the efficiency of accounting procedures for the business groups and European subsidiaries.

Employees

On June 30, 2001 the Bayer Group had 117,300 employees in its continuing operations, which was 700 fewer than at the start of the year. Headcount diminished by 1,600 in Europe but increased by 500 in North America and by 400 in Asia/Pacific; the number of employees in the Latin America/Africa/Middle East region was unchanged. Compared with the first half of 2000, personnel expenses increased by €300 million, of which €70 million resulted from currency translations.

Outlook

In the Health Care segment, the production problems for Kogenate® will continue to impair the performance of the Pharmaceuticals Business Group in the second half. In addition, there will be a substantial financial burden resulting from the global withdrawal (except in Japan) of the cholesterol-lowering drug Lipobay®/Baycol®. Health Care segment earnings this year are therefore likely to be 40 to 50 percent below our previous expectations, and it will no longer be possible to achieve the target of a 20 percent operating margin by 2002.

We anticipate that business conditions for the Agriculture segment will improve, accompanied by further sales gains for our recently acquired products FLINT® and MIKADO®.

In the Polymers segment, we predict only a slight easing of the raw materials situation by the end of the year, but an improvement in the business climate early in 2002. Irrespective of this we will implement further price increases to restore margins to satisfactory levels.

In basic chemicals we will continue to streamline the portfolio, and we see good prospects for the development of our specialty chemicals business.

In view of the financial burden and loss of earnings in the Health Care segment resulting from the withdrawal of Lipobay® / Baycol®, as well as the continuing weakness of the world economy, which particularly affects the industrial business, it is now assumed that operating profit for the full year will fall substantially short of previous estimates.

With profitability improvement programs already in place aimed at saving €1.5 billion a year by 2005, our earning power will be significantly enhanced over the next few years.

Highlights

	2nd Quarter		1st Half	
	2001	2000	2001	2000
Sales (€ million)	**8,071**	**7,907**	**15,972**	**15,238**
of which discontinuing operations	*115*	*370*	*354*	*739*
Sales from continuing operations	**7,956**	**7,537**	**15,618**	**14,499**
Change	5.6%	21.6%	7.7%	21.8%
Domestic companies	2,235	2,089	4,570	4,208
Change	7.0%	12.0%	8.6%	9.8%
Foreign companies	5,721	5,448	11,048	10,291
Change	5.0%	41.9%	7.4%	27.5%
Operating result (€ million)	**823**	**960**	**1,671**	**1,994**
of which discontinuing operations	*315*	*40*	*315*	*73*
Operating result from continuing operations	**508**	**920**	**1,356**	**1,921**
Change	– 44.8%	32.4%	– 29.4%	28.8%
Operating result from continuing operations before exceptional items	**555**	**938**	**1,491**	**1,943**
Change	– 40.8%	25.9%	– 23.3%	26.3%
Return on sales before exceptional items	**7.0%**	**12.4%**	**9.5%**	**13.4%**
Net income (€ million)	**564**	**477**	**1,006**	**1,033**
Change	18.2%	– 62.7%	– 2.6%	– 39.9%
Gross cash flow (€ million)	**769**	**1,132**	**1,836**	**2,169**
Change	– 32.1%	30.7%	– 15.4%	27.8%
Capital expenditures (€ million)*	**615**	**798**	**1,142**	**1,250**
Domestic companies	314	294	552	516
Foreign companies	301	504	590	734
Number of employees*				
as of June 30			117,300	116,000
Personnel expenses (€ million)	2,006	1,830	3,897	3,597
Change	9.6%	9.8%	8.3%	9.0%

* continuing operations

Bayer Group Statements for the First Half (Summary)

Consolidated Statements of Income (€ million)	2nd Quarter 2001	2nd Quarter 2000	1st Half 2001	1st Half 2000
Net sales	**8,071**	**7,907**	**15,972**	**15,238**
Net sales from discontinuing operations	*(115)*	*(370)*	*(354)*	*(739)*
Net sales from continuing operations	7,956	7,537	15,618	14,499
Cost of goods sold	(4,474)	(3,992)	(8,464)	(7,553)
Gross profit	**3,482**	**3,545**	**7,154**	**6,946**
Selling expenses	(1,860)	(1,635)	(3,583)	(3,124)
Research and development expenses	(633)	(562)	(1,210)	(1,105)
General administration expenses	(292)	(327)	(554)	(532)
Other operating expenses – net	(189)	(101)	(451)	(264)
Operating result from continuing operations	**508**	**920**	**1,356**	**1,921**
Operating result from discontinuing operations	*315*	*40*	*315*	*73*
Operating result	**823**	**960**	**1,671**	**1,994**
Non-operating result	**(104)**	**(136)**	**(230)**	**(218)**
Income before income taxes	**719**	**824**	**1,441**	**1,776**
Income taxes	(153)	(340)	(437)	(732)
Income after taxes	**566**	**484**	**1,004**	**1,044**
Minority stockholders' interest	(2)	(7)	2	(11)
Net income	**564**	**477**	**1,006**	**1,033**
Earnings per share (€)	**0.77**	**0.65**	**1.38**	**1.41**

Consolidated Balance Sheets (€ million)	June 30, 2001	June 30, 2000	Dec. 31, 2000
Assets			
Noncurrent assets	**22,305**	**18,206**	**20,344**
Inventories	6,640	5,439	6,095
Receivables	9,657	8,689	8,895
Liquid assets	666	1,091	704
Current assets	**16,963**	**15,219**	**15,694**
Deferred taxes	**47**	**425**	**413**
	39,315	**33,850**	**36,451**
of which discontinuing operations	*243*	*1,002*	*1,156*
Stockholders' Equity and Liabilities			
Capital stock and reserves	4,812	4,812	4,812
Retained earnings	10,372	9,032	9,047
Net income	1,006	1,033	1,816
Translation differences	1,106	279	465
Stockholders' equity	**17,296**	**15,156**	**16,140**
Minority stockholders' interest	**103**	**190**	**237**
Long-term liabilities	8,853	8,620	8,461
Short-term liabilities	11,582	8,613	10,018
Liabilities	**20,435**	**17,233**	**18,479**
of which discontinuing operations	*75*	*483*	*574*
Deferred taxes	**1,481**	**1,271**	**1,595**
	39,315	**33,850**	**36,451**

The half-year statements are unaudited.

Changes in Stockholders' Equity (Summary, € million)

	Capital stock and reserves	Retained earnings	Net income	Translation differences	Total
December 31, 1999	**4,812**	**7,965**	**2,002**	**227**	**15,006**
Dividend payment			(949)		(949)
Allocation to retained earnings		1,053	(1,053)		0
Exchange differences				52	52
Income after taxes			1,033		1,033
Other		14			14
June 30, 2000	**4,812**	**9,032**	**1,033**	**279**	**15,156**
December 31, 2000	**4,812**	**9,047**	**1,816**	**465**	**16,140**
Dividend payment			(1,022)		(1,022)
Allocation to retained earnings		794	(794)		0
Exchange differences				641	641
Special item		459			459
Income after taxes			1,006		1,006
Other		72			72
June 30, 2001	**4,812**	**10,372**	**1,006**	**1,106**	**17,296**

Sales and Operating Result by Business Segment and Region (€ million)

Business Segments	**Health Care** 1st Half		**Agriculture** 1st Half		**Polymers** 1st Half		**Chemicals** 1st Half		**Reconciliation** 1st Half		**Bayer Group** 1st Half	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Sales	**4,929**	**4,747**	**2,092**	**2,093**	**5,671**	**5,218**	**2,496**	**2,104**	**784**	**1,076**	**15,972**	**15,238**
of which discontinuing operations									*354*	*739*	*354*	*739*
Sales from continuing operations	**4,929**	**4,747**	**2,092**	**2,093**	**5,671**	**5,218**	**2,496**	**2,104**	**430**	**337**	**15,618**	**14,499**
Change in €	3.8%	20.7%	0.0%	20.1%	8.7%	27.0%	18.6%	17.5%			7.7%	21.8%
Change in local currencies	1.9%	10.2%	-1.1%	10.9%	6.6%	21.0%	17.3%	11.6%			6.0%	14.8%
Operating result	**441**	**700**	**453**	**481**	**392**	**574**	**220**	**247**	**165**	**(8)**	**1,671**	**1,994**
of which discontinuing operations									*315*	*73*	*315*	*73*
Operating result from continuing operations	**441**	**700**	**453**	**481**	**392**	**574**	**220**	**247**	**(150)**	**(81)**	**1,356**	**1,921**
Operating result from cont. ops. before exceptional items	**445**	**726**	**453**	**487**	**432**	**597**	**293**	**248**	**(132)**	**(115)**	**1,491**	**1,943**
Change	-38.7%	67.7%	-7.0%	17.1%	-27.6%	-0.5%	18.1%	-3.9%			-23.3%	26.3%
Return on sales before exceptional items	**9.0%**	**15.3%**	**21.7%**	**23.3%**	**7.6%**	**11.4%**	**11.7%**	**11.8%**			**9.5%**	**13.4%**

Regions	**Europe** 1st Half		**North America** 1st Half		**Asia/ Pacific** 1st Half		**Latin America/ Africa/Middle East** 1st Half		**Reconciliation** 1st Half		**Bayer Group** 1st Half	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Sales by market	6,546	5,916	4,879	4,657	2,509	2,377	1,684	1,549	354	739	15,972	15,238
Change	10.6%	10.3%	4.8%	30.7%	5.6%	42.3%	8.7%	18.6%			4.8%	7.1%
Sales by point of origin	**7,309**	**6,766**	**5,073**	**4,785**	**2,049**	**1,859**	**1,187**	**1,089**	**354**	**739**	**15,972**	**15,238**
of which discontinuing operations									*354*	*739*	*354*	*739*
Sales from continuing operations	**7,309**	**6,766**	**5,073**	**4,785**	**2,049**	**1,859**	**1,187**	**1,089**			**15,618**	**14,499**
Change in €	8.0%	10.2%	6.0%	33.4%	10.2%	49.9%	9.0%	16.0%			7.7%	21.8%
Change in local currencies	7.9%	9.6%	-0.2%	19.2%	14.4%	25.6%	4.8%	4.0%			6.0%	14.8%
Operating result	**1,311**	**1,413**	**(118)**	**326**	**216**	**220**	**125**	**113**	**137**	**(78)**	**1,671**	**1,994**
of which discontinuing operations									*315*	*73*	*315*	*73*
Operating result from continuing operations	**1,311**	**1,413**	**(118)**	**326**	**216**	**220**	**125**	**113**	**(178)**	**(151)**	**1,356**	**1,921**
Operating result from cont. ops. before exceptional items	**1,337**	**1,386**	**(28)**	**375**	**216**	**220**	**125**	**113**	**(159)**	**(151)**	**1,491**	**1,943**
Change	-3.5%	2.8%	•	90.4%	-1.8%	139.1%	10.6%	41.3%			-23.3%	26.3%
Return on sales before exceptional items	**18.3%**	**20.5%**	**-0.6%**	**7.8%**	**10.5%**	**11.8%**	**10.5%**	**10.4%**			**9.5%**	**13.4%**

2000 figures restated

K 2001 Plastics Fair in Düsseldorf at the end of October

Biggest showcase for engineering polymers

Bayer is keeping faith with plastics. This year the company plans to invest €1.7 billion to strengthen its Polymers business segment. The €1.4 billion to be spent for new plant in this segment accounts for almost half of the Bayer Group's total capital expenditure budget of €3.1 billion. A further €300 million is to be spent to research and develop new materials. "This underscores our commitment to polymers, one of Bayer's four core businesses," Management Board member Werner Spinner told some 150 journalists from 25 countries who attended a press conference held in Düsseldorf ahead of the K 2001 plastics trade fair.

Tailor-made engineering polymers for automotive construction: Bayer is investing to expand its Polymers segment.

More than 250,000 visitors are expected to attend K 2001, the world's largest plastics and rubber industry trade fair, which will be held in Düsseldorf from October 25 through November 1. Over 2,500 exhibitors will be presenting their products at booths covering an area of 150,000 square meters in Halls 1-17.

Bayer will be represented by its Plastics, Polyurethanes, Rubber, Coatings and Colorants, and Specialty Products business groups in the brand-new Hall 6 on the Düsseldorf fair site. They will be demonstrating innovative, customized solutions as well as applications relevant to everyday life.

Modern engineering polymers are gaining ground particularly in the automotive industry, increasingly replacing traditional materials like glass and steel and thus helping to reduce vehicle weight and cut fuel consumption. Apart from improving the safety and service life of cars, plastics components also offer automotive engineers entirely new opportunities for creative design. Bayer will be presenting a host of worthwhile applications for engineering polymers in other industry sectors, too, since plastics are in demand everywhere – in building materials, furniture, information technology, sports and leisure, and medical equipment.

Despite this, Bayer's polymers businesses currently have to contend with a difficult economic environment. Extensive cost-cutting programs aimed at achieving annual savings of up to €700 million are to be implemented. To sustain expansion, Spinner announced a continuation of the company's systematic investment policy. Despite the current adverse conditions, Bayer aims to achieve a return on sales of 15 percent in polymers by 2004. A key element in this is the across-the-board use of e-business in the interests of our customers to combine Bayer's traditional strengths – a comprehensive product portfolio and expertise in research and development – with the opportunities presented by the Internet. A cornerstone of this strategy, according to Spinner, is supply chain management from a single source, as practiced by the new Polyurethanes Business Service Center in Neuss since April this year (see page 15).

"By 2004, sales accounted for by Bayer's e-business will have increased tenfold, from €500 million currently to around €5 billion. In some areas this will represent more than half of total sales," Spinner forecast.

Stock listing in New York planned for September 26

Bayer goes to Wall Street

Bayer's shares will be quoted on the New York Stock Exchange starting on September 26, 2001. The listing, which will be a milestone in Bayer's history, demonstrates the company's determination to go on expanding in the American market. U.S. investors currently own about 9 percent of Bayer stock.

Bayer CFO Werner Wenning believes this figure can be increased, since in future it will be easier to compare Bayer to other U.S. companies. Apart from that, some U.S. pension funds are only permitted to invest in foreign companies' stock if it is listed in the United States. The listing means that Bayer will have improved access to the U.S. capital market and be in a better position to employ its shares as an acquisition currency if the opportunity arises.

Numerous media and investor relations activities are planned in connection with the New York listing to increase awareness for the company's achievements and innovative potential.

The U.S. market is of special interest to Bayer, which employs 23,200 people there and had U.S. sales exceeding $10 billion in 2000. The American market accounts for about one third of the Bayer Group's total sales.

The floor of the New York Stock Exchange, where trading in Bayer shares begins on September 26.

Voluntary action

Bayer withdraws cholesterol-lowering drug Baycol® /Lipobay®

Bayer has withdrawn all dosages of its cholesterol-lowering drug with the brand names Baycol® /Lipobay® (active ingredient: cerivastatin) with immediate effect throughout the world, except in Japan, and is withdrawing supplies of the product currently in the market.

The reason for this voluntary action lies in increasing reports of side effects involving muscular weakness (rhabdomyolysis), especially in patients who have been treated concurrently with the active substance gemfibrozil despite a contraindication and warnings contained in the product information. Japan is unaffected by this move because gemfibrozil is not available there.

"We have decided on this action in the interest of patient safety. We will continue to conduct further assessments over the next few months to evaluate the benefit/risk ratio of cerivastatin," explains Dr. David Ebsworth, Head of Bayer's Pharmaceuticals Business Group. Any possible resumption of the marketing of certain dosages of Baycol® /Lipobay® will be the subject of extensive consultations between Bayer and the regulatory authorities.

In view of the financial burden and loss of earnings for Bayer's Health Care segment resulting from the withdrawal of its cholesterol-lowering drug, as well as the continuing weakness of the world economy, which particularly affects the industrial business, it is now assumed that earnings for the full year will fall substantially short of previous estimates. The target of a 20 percent return on sales (before exceptional items) in the Health Care segment in 2002 can no longer be met.

20 new jobs in Bitterfeld

€60 million investment in methylcellulose production

Bayer Bitterfeld GmbH (BBG) is greatly expanding its production facilities for methylcellulose, which is used to make thickeners for construction materials, coatings and adhesives. The company is investing €60 million to increase annual capacity from 6,500 to 17,000 tons, creating 20 new long-term jobs. The new part of the plant is due on stream in summer 2003.

Enlarging methylcellulose capacity to two-and-a-half times its current level while reducing manufacturing costs will substantially strengthen the Bitterfeld location and enhance BBG's reputation as a cost-efficient producer.

Total sales of Bayer products manufactured in Bitterfeld amounted to nearly €500 million in 2000.

Strengthening the crop protection business

Bayer aims to acquire Aventis CropScience

Aventis of Strasbourg, France, and Schering of Berlin, Germany, are negotiating exclusively with Bayer AG concerning the sale of their jointly owned agrochemical company Aventis CropScience, in which Aventis holds a 76 percent, Schering a 24 percent interest. The acquisition would be the largest in Bayer's history and would significantly expand its crop protection business.

Crop protection is one of Bayer's core competencies. Merging the business with that of Aventis CropScience would create one of the world's leading companies in this industry – headquartered in Europe with global reach. The combined business would be ideally positioned to build on its substantial innovative potential and pursue a long-term strategy of growth.

The decision to continue the negotiations exclusively with Bayer does not constitute any legally binding agreement between the parties involved. The sale of Aventis CropScience to Bayer is subject to the negotiation of a definitive agreement and the receipt of all applicable regulatory approvals.

Aventis CropScience is a leader in the areas of crop protection and crop production, focusing on researching, developing and marketing innovative solutions to meet the needs of today's farming industry for increased yields and improved crop and food quality. With sales of €4 billion in 2000, Aventis CropScience employs some 15,300 people in more than 120 countries around the world.


At Bayer's Agricultural Center in Monheim, Germany, Silke Vestweber tests the effect of a new fungicide on tomato plants.

Expanding strongly in Asia-Pacific

$6 billion investment

Bayer is stepping up its expansion plans for Asia-Pacific and will invest about US$ 6 billion there in a bid to increase the region's share of Group sales from 16 percent currently to 25 percent by 2010. In 2001, Bayer aims to top the record sales of €4.9 billion ($4.6 billion) achieved there in 2000. In the first quarter of this year, sales from continuing operations in Asia-Pacific were up 13 percent over the same period last year, and the operating result grew by 11 percent to €113 million.
Asia-Pacific has firmly established itself as a prime growth driver for Bayer. To further capitalize on the region's long-term growth potential, Bayer will invest heavily in product development and marketing and expand local production capacities.


Among the capacities to be expanded are those at Map Ta Phut in Thailand.

Portfolio streamlining

Erdölchemie stake sold to BP

Following approval from the E.U. Commission, Bayer AG sold its 50 percent interest in the petrochemicals joint venture EC Erdölchemie GmbH, Cologne, to co-owner Deutsche BP AG, Hamburg, effective May 1, 2001.

Future supplies of raw materials from EC to Bayer are contractually assured, as are EC's purchase of services from Bayer.

Bayer no longer regarded EC's activities as a core business. The divestment represents a further step to streamline the portfolio and sharpen Bayer's focus on core competencies.

Joint venture with DuPont

New PBT polymer plant

Bayer and DuPont have set up a manufacturing joint venture in Europe for polybutylene terephthalate (PBT) base polymers. Each partner will process and market the products independently.
The plant, to be built by the joint venture on the existing DuPont site at Uentrop, Germany, will have a capacity of 80,000 tons, making it one of the world's largest production facilities for PBT resins. Construction is scheduled to start in autumn of this year, with the plant due on stream in the first half of 2003. The new facility will provide about 60 long-term jobs. Bayer and DuPont are building it in response to the anticipated expansion of between 7 and 9 percent per annum in the market for PBT resins, one of the highest growth rates for engineering polymers.

New Business Service Center for polyurethanes in Neuss

All of Europe under one roof

Europe is becoming more united. This is demonstrated not only by the new common currency, but also in the world of business and commerce. The Polyurethanes Business Group of Bayer AG, for example, has now brought all of its European office-based sales, planning and logistics structures together in a new company known as Bayer Polyurethanes Business Service Center GmbH & Co. KG (BSC), located in the city of Neuss, near Düsseldorf, Germany. Established on April 1, 2001, this company currently employs about 90 people, but will be home to 120 employees from all over the continent by the autumn. The new regional Business Service Center concept is also to be introduced by the Polyurethanes Business Group in other parts of the world. The regional service centers are responsible for ensuring reliable supply and efficient, speedy logistics capable of reaching remote areas. Concentrating the operations of many different countries in one place will ensure greater transparency and better regulation of the process chains, and will ultimately benefit Bayer's customers all over the world.

Polyurethane raw materials are one of Bayer's core businesses. Production volume last year amounted to 1.8 million tons, including about 1 million tons in the Europe region served by the new Center.

Fighting hepatitis C and AIDS

Immunodiagnostics line expanded

Bayer has acquired certain development, manufacturing and sales agency rights for immunodiagnostic products to detect hepatitis C (HCV) and HIV antibodies from Ortho-Clinical Diagnostics of Raritan, New Jersey, a subsidiary of Johnson & Johnson, and Chiron Corporation of Emeryville, California.

The Diagnostics Business Group also is currently developing a full array of hepatitis A and B assays for its automated ADVIA Centaur® Immunoassay System. By expanding its menu of infectious disease assays, Bayer aims to compete more effectively in the $1 billion hepatitis and HIV clinical diagnostics market.

In another move that adds significantly to Bayer's immunodiagnostics offering, the company has obtained a license under patent rights of Roche Diagnostics GmbH of Basel, Switzerland, and Dade Behring of Deerfield, Illinois, relating to the development, manufacture and marketing of immunoassays that detect exposure to HIV Group O infection. The worldwide, non-exclusive license for the clinical diagnostics field gives Bayer access to a major area of infection serology, enabling it to develop and produce immunoassays to test patient blood samples for the presence of HIV Group O antibodies. By granting the license to Bayer, Roche and Dade Behring are making the test more widely available.

Among the world's top 100

Bayer included in ethics index

Bayer has been included in the new FTSE4Good Global 100 Index, in which companies are listed that are judged to have performed particularly well in the areas of human rights, stakeholder relationships and environmental sustainability.

This means Bayer is considered to be among the world's top 100 companies in terms of corporate social responsibility. This kind of evaluation is also significant for the enhancement of corporate value over the medium term, in view of the growing number of ethically oriented institutional and private investors. Bayer is one of only seven German companies – and the only European chemical company – to have been accepted into this exclusive index.

€12.5 million investment in facility for animal health products

New production plant at Bayer subsidiary KVP

Bayer AG has strengthened its subsidiary KVP Pharma + Veterinär Produkte GmbH, based at Kiel in northern Germany, with an investment of €12.5 million. A production facility for veterinary pharmaceuticals in liquid form that took two years to build has now come on stream. Bayer is a key player in the global animal health market, with sales of nearly €1 billion in 2000. One half of the animal health products sold by Bayer throughout the world are produced in Kiel.

KVP employee Thomas Müller fills the flea control product Advantage® into dosage tubes.

The investment there, which benefits Bayer's international competitive position, was made both in light of rapid growth in the market for animal and environmental health products and to ensure the high standards of pharmaceutical quality and safety demanded by the company's commitment to Responsible Care.

KVP employs 345 people and is the Bayer Group's largest production and distribution center for animal health products, manufacturing about 200 products in some 800 different formulations. Around 80 percent of the company's output is destined for export. Examples are Advantage® and Baytril®, which together accounted for €370 million in sales in 2000.

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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 substantial 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.

In view of these uncertainties, we caution readers not to place undue reliance on these forward-looking statements. We accept no obligation to continue to report or update these forward-looking statements or adjust them to future events or developments.