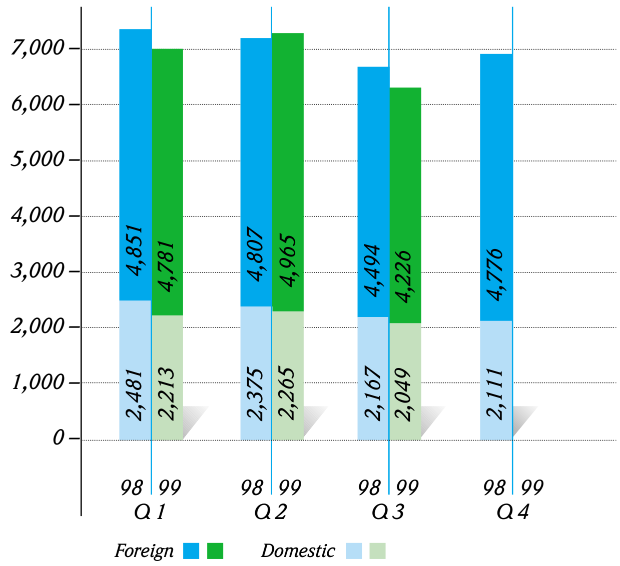
Stockholders' Newsletter '99

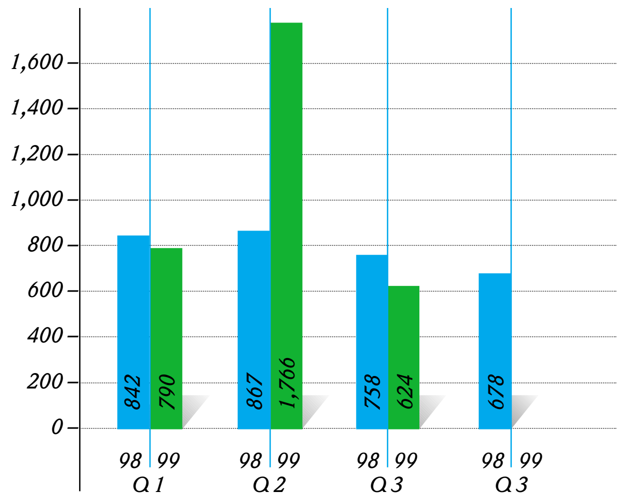
Interim Report for the First Three Quarters of 1999

Business picks up in the third quarter – Health Care sales grow strongly

Sales (€ million)



Operating Result (€ million)



Group sales developed well, especially in the third quarter, due mainly to the increasing momentum in the Asian economies and sustained growth in the United States. There are also signs of an economic recovery in Europe, too, though it is slow to materialize.

The 3 percent year-on-year decline in sales for the first three quarters, to €20.5 billion, was due entirely to the effects of portfolio adjustments. If these effects are eliminated, sales grew by 3 percent. The principal portfolio change was the stock market flotation of the Agfa-Gevaert group on June 1, 1999, which diminished Bayer Group sales for the nine-month period by €1.5 billion. Bayer continues to hold 30 percent of Agfa stock.

Total	– 3.2 percent
Portfolio changes	– 6.3 percent
After portfolio changes	**+ 3.1 percent**
Volumes	+ 3.8 percent
Prices	– 1.6 percent
Exchange rates	+ 0.9 percent

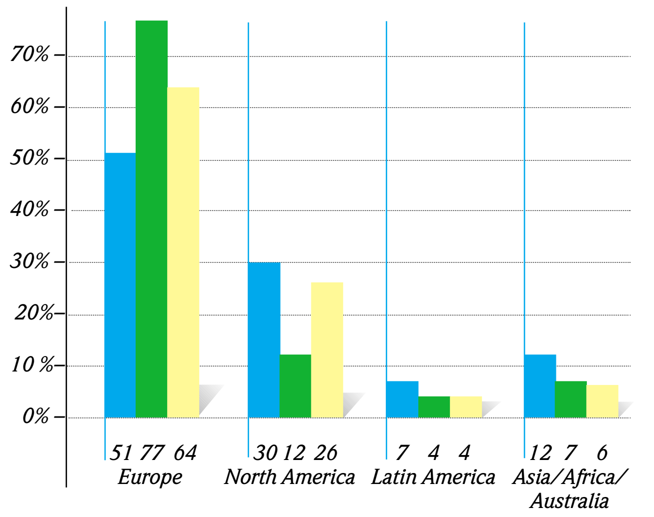
Positive factors were the 4 percent volume growth and the favorable impact of exchange rates. Continuing price erosion had a 2 percent negative effect.

The operating result increased by €0.7 billion, or 29 percent, to €3.2 billion. This figure includes the €1 billion gain from the Agfa spin-off and €135 million in exceptional charges. Disregarding these factors, operating profit was down 6 percent, to €2.2 billion. The drop of €147 million was due mainly to non-recurring expenses for the integration of Chiron Diagnostics, and also to adverse price developments and a strategic €266 million increase in spending for research and development. Earnings were additionally hampered by expenses for process reengineering and Y2K preparations.

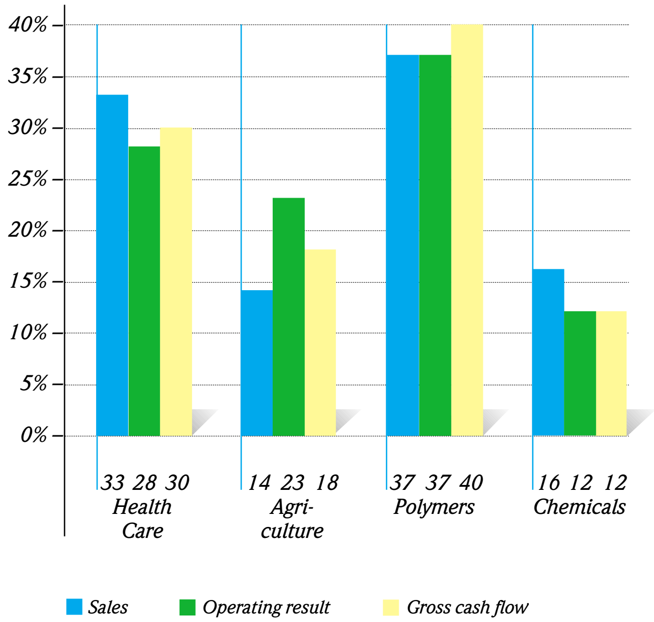
Business trend by region

Demand has picked up during the year in nearly all our major markets. In Europe, Bayer's largest market, business showed a distinct improvement following a very weak first quarter. There was an encouraging trend in North America, with sales up 12 percent, and in the Asia/Africa/Australia region sales increased by 19 percent. The only market where business declined was Latin America: Here, sales dipped 7 percent due to general economic conditions.

Regions in %



Business Segments in %



Earnings trends at our companies varied widely. Sales of Bayer companies in Europe dropped by 2 percent to €9.6 billion, with the operating result down 5 percent to €1.9 billion and gross cash flow 6 percent lower year-on-year, at €1.6 billion. The main reason for this was the unsatisfactory profitability in Germany. Earnings were also hurt by rising raw material costs, with selling price increases proving virtually impossible. Despite these factors, the return on sales in Europe, at 19 percent, was 8 percentage points above the Group average.

In North America, sales rose 13 percent to €5.6 billion. The Chiron Diagnostics and Gustafson acquisitions, made at the end of 1998, accounted for €0.2 billion.

Operating income was impaired by production shortfalls for biological products and additional charges for integrating the Chiron Diagnostics business. Despite a 28 percent improvement for the third quarter, earnings for the first nine months were 11 percent below 1998. The gross cash flow improved by 1 percent to €0.7 billion.

Sales of our Latin American companies were unsatisfactory, and the earning prent was even more negative. The major factor here, apart from the weakness of the economy, was the decline in the value of the Brazilian real. The operating result fell 30 percent to €96 million, and the gross cash flow dropped significantly to €107 million.

Our companies in the Asia/Africa/Australia region, however, showed a pleasing trend, with sales advancing by 24 percent and operating income up 65 percent to €145 million. The return on sales rose to more than 6 percent. The gross cash flow climbed by 35 percent to €148 million.

Business trend by segment

Our global operations comprise a total of 17 business groups in the strategic business segments of Health Care, Agriculture, Polymers and Chemicals. The life science segments – Health Care and Agriculture – account for about half of our business. The former Agfa segment ceased to be part of the Bayer Group after May 31, 1999. Seventy percent of Agfa stock has since been sold to third parties for €22 per share, resulting in a total cash inflow of €3 billion including a gain of €1 billion.

The Health Care segment made encouraging progress, with sales up 21 percent to €6 billion. The Pharmaceuticals Business Group was particularly successful, significantly outperforming the world market with sales growth of 18 percent. Consumer Care, too, benefited from rising demand and recorded 5 percent higher sales. Sales of the Diagnostics Business Group expanded by 59 percent, due mainly to the Chiron Diagnostics acquisition.

The segment's operating result and cash flow showed significant improvements of 10 and 15 percent respectively, though they did not keep pace with sales growth. The return on sales dropped from 14 to 12 percent. The main reason for the lower margins was the production shortfalls for biological products, which resulted from technical problems that have now been almost overcome. Integration of the Chiron Diagnostics group also led to charges against earnings. If it had not been for these factors, earnings would have risen by a larger percentage than sales.

In Pharmaceuticals, expanding sales of our lipid-lowering agent Baycol®/Lipobay® and market introduction of the antibiotic Avelox®/Avalox® will add to the success of our existing portfolio. We expect that earnings from these products, combined with the effects of our efficiency improvement program designed to save €360 million in costs, will produce a sustained increase in the operating margin.

We will step up our research activities through our cooperation with LION Bioscience, a world leader in bioinformatics. Our collaboration with the U.S. company Millennium Pharmaceuticals Inc., which includes an equity interest, is also developing well.

(€ million)	*First Three Quarters 1999*	*1998*	*Full Year 1998*
Sales	6,024	4,982	7,028
Operating result before exceptional items	740	673	919
Return on sales before exceptional items	12.3 %	13.5 %	13.1 %
Gross cash flow	776	673	985

Sales in the Agriculture segment exceeded the previous year's high level. Major factors in the 3 percent increase, to €2.4 billion, were the acquisition of pbi Home & Garden Ltd. in the U.K., and the purchase of Gustafson at the end of 1998. The operating result fell by 7 percent to €0.5 billion, due mainly to adverse market developments in South America. The cash flow, however, rose 1 percent to €0.5 billion. The segment's 21 percent operating margin makes it a global frontrunner in terms of profitability.

Of great promise for our life science activities is the agreement reached in October to collaborate for a three-year period with the U.S. company ArQule Inc. The aim is to create several hundred thousand compounds which will then be screened for effectiveness in our own test systems.

(€ million)	*First Three Quarters 1999*	*1998*	*Full Year 1998*
Sales	2,447	2,372	2,931
Operating result before exceptional items	505	544	521
Return on sales before exceptional items	20.6 %	22.9 %	17.8 %
Gross cash flow	456	450	468

Polymers continued to develop well in defiance of the market trend. It remained our largest segment with €6.8 billion in sales, a contributory factor being the purchase of DSM's plastic sheet business in April of this year. While the gross cash flow remained at the prior year's high level of €1 billion, the operating result dropped by 7 percent to €0.9 billion, due mainly to price erosion for our Dralon® fiber and ABS plastics and also to rising raw material costs. Further restructuring and consolidation of manufacturing locations are under way.

(€ million)	*First Three Quarters 1999*	*1998*	*Full Year 1998*
Sales	6,817	6,750	8,802
Operating result before exceptional items	874	938	1,056
Return on sales before exceptional items	12.8 %	13.9 %	12.0 %
Gross cash flow	1,012	1,016	1,122

Business in the Chemicals segment declined by 7 percent in the first nine months, to €3.0 billion, despite a slight improvement in the third quarter. About half of the decrease was due to divestitures. This segment is the most strongly affected by the slowness of the economic recovery, especially in Europe.

Earnings of this segment were unsatisfactory, falling by 31 percent to €0.3 billion, mainly as a result of price erosion, which in some cases reached severe proportions. The return on sales dropped to 10 percent, and the cash flow was down 43 percent at €0.3 billion. The segment's performance is being crucially strengthened through rigorous cost containment and portfolio management.

(€ million)	*First Three Quarters 1999*	*First Three Quarters 1998*	*Full Year 1998*
Sales	2,951	3,167	4,319
Operating result before exceptional items	289	420	455
Return on sales before exceptional items	9.8 %	13.3 %	10.5 %
Gross cash flow	294	513	452

Liquidity and capital resources

The financial statements for the first three quarters have been prepared as usual according to the rules issued by the International Accounting Standards Committee, London. Reference should be made where appropriate to the notes to the consolidated financial statements for 1998. The euro was introduced as the reporting currency of the Bayer Group effective January 1, 1999.

The Bayer Group's financial data for the first nine months of 1999 are characterized by the divestiture of the Agfa-Gevaert group. This resulted in a total cash inflow of €3 billion, including the proceeds of the sale of a further 5 percent of the shares in the third quarter at the issue price of €22.

The net operating cash flow rose by €0.3 billion, or 17 percent, to €2.4 billion, due partly to a decrease in inventories.

Statements of Cash Flows

(Summary, € million)

	First Three Quarters 1999	*First Three Quarters 1998*
Cash and cash equivalents at beginning of year	1,184	1,746
Gross cash flow	2,495	2,760
Changes in working capital	(59)	(670)
Net cash provided by operating activities	**2,436**	**2,090**
of which discontinuing operations	*164*	*216*
Net cash provided by / used in investing activities	**1,171**	**(1,477)**
of which discontinuing operations	*2,756*	*(222)*
Net cash used in financing activities	**(1,638)**	**(591)**
of which discontinuing operations	*0*	*22*
Exchange rates / changes in companies consolidated	(119)	(8)
Change in cash and cash equivalents	1,850	14
Cash and cash equivalents at end of third quarter	3,034	1,760

The main determinants of the net cash provided by investing activities were the proceeds of the flotation and the sale of further shares of the Agfa-Gevaert group. Further cash inflows resulted from interest receipts and redemptions of marketable securities, while outflows for additions to property, plant and equipment amounted to €1.6 billion and those for additions to investments to €0.2 billion.

Net cash of €1.6 billion was used in financing activities in the first three quarters. Of this, €0.8 billion resulted from payment of the dividend for 1998,

€0.6 billion from a reduction in net borrowings and €0.2 billion from interest payments. The operating, investing and financing cash flows led on aggregate to an increase of €1.9 billion in cash and cash equivalents, to €3 billion.

Earnings performance

The operating result increased by 29 percent to €3.2 billion. This includes income of €1 billion from the Agfa flotation and Agfa's operating result of €105 million for the period January through May 1999. The result of continuing operations – before exceptionals – was down by €147 million to €2.2 billion. Net exceptional charges amounted to €135 million, compared to €90 million for the same period of 1998. Additional expenses resulted from the integration of the Chiron Diagnostics business.

The non-operating result improved by 17 percent to minus €318 million due to lower interest expense.

Group income before income taxes increased by 37 percent to €2.9 billion. Income tax expense was lower by €190 million, or 22 percent, year-on-year because the gain from the sale of the Agfa shares was tax-free. The effective tax rate dropped from 41 to 24 percent. Without the tax-free gain, the tax rate was 37 percent.

Group net income rose accordingly by 80 percent to €2.2 billion.

(€ million)	*First Three Quarters 1999*	*First Three Quarters 1998*	*Full Year 1998*
Operating result	3,180	2,467	3,145
of which discontinuing operations	*1,123*	*218*	*263*
Non-operating result	(318)	(381)	(417)
Income before income taxes	2,862	2,086	2,728
Net income	2,182	1,212	1,614

Asset and capital structure

The sale of 70 percent of the shares of the Agfa-Gevaert group removed €3.1 billion in assets and €1.7 billion in liabilities from the balance sheet. The interest still held by the Bayer Group is reflected in investments at its equity value.

Including the effects of the Agfa divestiture, total assets of the Bayer Group increased by €0.9 billion, or 3 percent, in the first three quarters of 1999, to €30.1 billion. Noncurrent assets rose by €0.8 billion and current assets by €0.1 billion.

Stockholders' equity grew by €2.1 billion compared to the end of 1998 and amounted to €14.9 billion. It covered 49.5 percent of total assets – 6 percentage points more than at the beginning of the year – and over 100 percent of noncurrent assets.

The €1.3 billion reduction in liabilities is split equally between provisions and other liabilities. Financial obligations of €0.5 billion were redeemed while liquid assets increased by €1.7 billion, reducing net debt by €2.3 billion compared with the end of 1998, to €0.6 billion.

(€ million)	*Sept. 30, 1999*	*Sept. 30, 1998*	*Dec. 31, 1998*
Noncurrent assets	14,620	12,148	13,839
Current assets	15,493	15,960	15,415
Stockholders' equity	14,895	12,283	12,778
Liabilities	15,218	15,825	16,476
Total assets	**30,113**	**28,108**	**29,254**

Capital expenditures

We spent €1.5 billion for intangible assets, property, plant and equipment in the first nine months of 1999. On an adjusted basis, this was 2 percent less than in the same period last year. We made 55 percent of capital expenditures in Europe, with Germany remaining the primary focus and accounting for 44 percent. North America – mainly the United States – took 34 percent. Depreciation and amortization financed 81 percent of capital spending. Our capital expenditure budget for the full year 1999 amounts to €2.3 billion.

Employees

Of the 24,200 decline in the Group work force during the first three quarters, the Agfa-Gevaert group accounts for 21,900 people. Labor turnover led to a reduction of 2,600, while portfolio changes resulted on aggregate in an increase of 300. The Bayer Group had 120,900 employees as of September 30, which – on an adjusted basis – was 2 percent fewer than at the end of 1998. The average number of employees rose by 0.3 percent to 122,050 and the corresponding personnel expenses by 3 percent to €5.2 billion.

Y2K compliance

We have finished our preparations for the 1999/2000 rollover except for a small number of defined measures. Work focused on all of the business processes and infrastructures of the business groups, service divisions and affiliated companies. The reviews also covered business relationships with manufacturers, suppliers and customers. Our efforts during the remaining weeks of the year will be directed toward completing the rest of the work on time and safeguarding the level of Y2K compliance already achieved. Business continuity plans are also being developed. The cost of the entire compliance program is estimated at €0.2 billion.

Coordination and communication functions are being performed by a central project management team, which submits regular status reports to the Board of Management. Group-wide project audits ensure the professionalism of our Y2K program. The Rhineland/Berlin-Brandenburg technical inspection authority has certified Bayer AG's Year 2000 program, testifying that the parent company and all major subsidiaries should experience a smooth changeover that ensures the continuity of their operations without impairment over the date change and thereafter.

Outlook

For the remainder of 1999 we do not anticipate any significant change in the economic environment. In Europe the gradual recovery is likely to continue, and in North America the business climate should stay favorable. In Asia we believe there is a good chance of further growth, and in Latin America we hope that the worst is over.

We are optimistic about our health care business, particularly since we expect our lipid-lowering agent Baycol® to continue performing well and have high hopes for the respiratory antibiotic Avalox®, which was recently launched in Germany. We expect to receive marketing approval for this antibiotic in the rest of Europe and in North America within the next few months. Our optimism also extends to the other segments of our business: In Polymers we will maintain the level already reached, in Chemicals we expect demand to pick up, and in Agriculture we will again report strong earnings despite the usual seasonal decline in the last quarter.

For the full year we expect to record a 5 percent rise in sales, adjusted for the Agfa divestiture. We are concerned that there is limited scope for price increases whereas raw material costs are rising, and therefore expect the result of continuing operations to be slightly below last year's high level. Including the gain from the sale of Agfa, net income will be well ahead of 1998.

Highlights

	3rd Quarter 1999	3rd Quarter 1998	First Three Quarters 1999	First Three Quarters 1998
Sales (€ million)				
Net sales	6,275	6,661	20,499	21,175
Discontinuing operations	*9*	*1,055*	*1,787*	*3,269*
Continuing operations	6,266	5,606	18,712	17,906
Change	11.8 %	– 7.1 %	4.5 %	– 0.8 %
Domestic companies	2,049	1,991	6,228	6,462
Change	2.9 %	– 6.0 %	– 3.6 %	– 0.4 %
Foreign companies	4,217	3,615	12,484	11,444
Change	16.7 %	– 7.7 %	9.1 %	– 1.0 %
Operating result (€ million)				
Continuing operations before exceptional items	644	695	2,192	2,339
Change	– 7.3 %	9.8 %	– 6.3 %	6.4 %
Return on sales before exceptional items	10.3 %	12.4 %	11.7 %	13.1 %
Discontinuing operations	*67*	*67*	*1,123*	*218*
Operating result	624	758	3,180	2,467
Net income (€ million)				
Net income	440	341	2,182	1,212
Change	29.0 %	5.2 %	80.0 %	0.7 %
Cash flow (€ million)				
Gross cash flow	787	797	2,495	2,760
Change	– 1.3 %	– 5.6 %	– 9.6 %	6.0 %
Capital expenditures (€ million)*	566	534	1,520	1,553
Domestic companies	287	205	675	625
Foreign companies	279	329	845	928
Employees				
As of September 30*			120,900	120,700
Personnel expenses (€ million)	1,836	1,989	5,813	6,063
of which discontinuing operations	*0*	*421*	*570*	*977*
Change	– 7.7 %	1.3 %	– 4.1 %	4.7 %

*continuing operations

Bayer Group Statements for the First Three Quarters (Summary)

Consolidated Statements of Income (€ million)

	*3rd Quarter**		*First Three Quarters**	
	1999	*1998*	*1999*	*1998*
Net sales	**6,275**	**6,661**	**20,499**	**21,175**
from discontinuing operations	*9*	*1,055*	*1,787*	*3,269*
from continuing operations	6,266	5,606	18,712	17,906
Cost of goods sold	(3,466)	(2,955)	(10,108)	(9,511)
Gross profit	**2,800**	**2,651**	**8,604**	**8,395**
Selling expenses	(1,422)	(1,294)	(4,108)	(4,002)
Research and development expenses	(515)	(431)	(1,548)	(1,282)
General administration expenses	(202)	(179)	(591)	(581)
Other operating expenses – net	(104)	(56)	(300)	(281)
Result of continuing operations	**557**	**691**	**2,057**	**2,249**
Result of discontinuing operations	*67*	*67*	*1,123***	*218*
Operating result	**624**	**758**	**3,180**	**2,467**
Non-operating result	**(76)**	**(159)**	**(318)**	**(381)**
Income before income taxes	**548**	**599**	**2,862**	**2,086**
Income taxes	(105)	(257)	(678)	(868)
Income after taxes	**443**	**342**	**2,184**	**1,218**
Minority stockholders' interest	(3)	(1)	(2)	(6)
Net income	**440**	**341**	**2,182**	**1,212**
Earnings per share (€)	**0.60**	**0.47**	**2.99**	**1.66**

Consolidated Balance Sheets (€ million)

	Sept. 30, 1999	*Sept. 30, 1998*	*Dec. 31, 1998*
Assets			
Noncurrent assets	**14,620**	**12,148**	**13,839**
Inventories	4,782	5,717	5,781
Receivables	6,920	7,311	7,527
Liquid assets	3,438	2,473	1,721
Current assets	**15,140**	**15,501**	**15,029**
Deferred taxes	**353**	**459**	**386**
	30,113	**28,108**	**29,254**
Stockholders' Equity and Liabilities			
Capital stock and reserves	4,812	4,812	4,812
Retained earnings and minority interest	8,164	7,310	7,331
Net income	2,182	1,212	1,614
Translation differences	(263)	(1,051)	(979)
Stockholders' equity	**14,895**	**12,283**	**12,778**
Provisions	**6,618**	**7,610**	**7,271**
Other liabilities	**7,536**	**7,511**	**8,421**
Deferred taxes	**1,064**	**704**	**784**
	30,113	**28,108**	**29,254**

* *1998 figures restated*
** *including the operating result of the Agfa-Gevaert group and the gain of €1,018 million from the flotation and the sale of further shares*

The statements for the first three quarters are unaudited.

Changes in Stockholders' Equity (Summary, € million)

	Capital stock and reserves	Retained earnings and minority interest	Net income	Translation differences	Total
December 31, 1997	**4,812**	**6,500**	**1,504**	**(584)**	**12,232**
Income after taxes			1,218		1,218
Dividend payments		(3)	(710)		(713)
Exchange differences				(467)	(467)
Allocation to retained earnings		816	(794)		22
Minority stockholders' interest		(3)	(6)		(9)
September 30, 1998	**4,812**	**7,310**	**1,212**	**(1,051)**	**12,283**
December 31, 1998	**4,812**	**7,331**	**1,614**	**(979)**	**12,778**
Income after taxes			2,184		2,184
Dividend payments		(22)	(747)		(769)
Exchange differences				716	716
Allocation to retained earnings		891	(867)		24
Minority stockholders' interest		(36)	(2)		(38)
September 30, 1999	**4,812**	**8,164**	**2,182**	**(263)**	**14,895**

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

	First Three Quarters		*First Three Quarters*		*First Three Quarters*		*First Three Quarters*		*First Three Quarters*		*First Three Quarters*	
	1999	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*
Business Segments	**Health Care**		**Agriculture**		**Polymers**		**Chemicals**		**Reconciliation***		**Bayer Group**	
Sales	**6,024**	**4,982**	**2,447**	**2,372**	**6,817**	**6,750**	**2,951**	**3,167**	**2,260**	**3,904**	**20,499**	**21,175**
Discontinuing operations									*(1,787)*	*(3,269)*	*(1,787)*	*(3,269)*
Continuing operations	6,024	4,982	2,447	2,372	6,817	6,750	2,951	3,167	473	635	18,712	17,906
Change in €	20.9%	0.3%	3.2%	2.2%	1.0%	2.8%	−6.8%	−6.5%			4.5%	−0.8%
Change in local currencies	19.1%	1.3%	1.9%	3.6%	0.7%	2.1%	−7.6%	−6.8%			3.6%	−0.7%
Operating result before exceptional items	**740**	**673**	**505**	**544**	**874**	**938**	**289**	**420**	**907**	**(18)**	**3,315**	**2,557**
Discontinuing operations									*(1,123)*	*(218)*	*(1,123)*	*(218)*
Continuing operations	740	673	505	544	874	938	289	420	(216)	(236)	2,192	2,339
Change	10.0%	1.1%	−7.2%	0.9%	−6.8%	22.8%	−31.2%	−5.8%			−6.3%	6.4%
Return on sales before exceptional items	12.3%	13.5%	20.6%	22.9%	12.8%	13.9%	9.8%	13.3%			11.7%	13.1%
Operating result	**634**	**673**	**526**	**543**	**838**	**842**	**275**	**344**	**907**	**65**	**3,180**	**2,467**

Regions	**Europe**		**North America**		**Latin America**		**Asia/Africa/ Australia**		**Reconciliation***		**Bayer Group**	
Sales by market	**8,386**	**8,603**	**5,547**	**4,959**	**1,406**	**1,513**	**3,373**	**2,831**	**1,787**	**3,269**	**20,499**	**21,175**
Sales by point of origin	9,609	9,825	5,642	4,972	1,196	1,278	2,265	1,831	1,787	3,269	20,499	21,175
Discontinuing operations									*(1,787)*	*(3,269)*	*(1,787)*	*(3,269)*
Continuing operations	9,609	9,825	5,642	4,972	1,196	1,278	2,265	1,831			18,712	17,906
Change in €	−2.2%	0.8%	13.5%	0.0%	−6.4%	2.5%	23.7%	−9.8%			4.5%	−0.8%
Change in local currencies	−2.1%	0.4%	12.8%	−3.8%	−5.9%	−1.7%	31.6%	4.4%			3.6%	−0.7%
Operating result before exceptional items	**1,853**	**1,950**	**367**	**411**	**96**	**137**	**145**	**88**	**854**	**(29)**	**3,315**	**2,557**
Discontinuing operations									*(1,123)*	*(218)*	*(1,123)*	*(218)*
Continuing operations	1,853	1,950	367	411	96	137	145	88	(269)	(247)	2,192	2,339
Change	−5.0%	45.4%	−10.7%	−29.7%	−29.9%	−14.4%	64.8%	−34.3%			−6.3%	6.4%
Return on sales before exceptional items	19.3%	19.8%	6.5%	8.3%	8.0%	10.7%	6.4%	4.8%			11.7%	13.1%
Operating result	**1,799**	**1,877**	**280**	**284**	**95**	**164**	**152**	**88**	**854**	**54**	**3,180**	**2,467**

** In compliance with IAS 35, the reconciliation includes the Agfa business divested as of June 1, 1999. It also reflects intersegment items and income and expenses not allocable to segments, such as central R&D expenses, corporate costs, and revenues and expenses from sideline operations.*

Bayer to acquire polyols business of U.S. company Lyondell:

€2.3 billion investment in polymers

Bayer is acquiring the global polyols business of Lyondell Chemical Company, Houston, Texas, for US$2.45 billion (approximately €2.33 billion) in a move to strengthen its core polymers business in the long term. As an integral part of the transaction, Bayer will acquire an equity interest in the production of propylene oxide (PO), a raw material for the manufacture of polyols. Bayer and Lyondell will also form an alliance for joint technology development and the expansion of PO production capacities.

In the words of Bayer CEO Dr. Manfred Schneider, "This acquisition fits us like a glove. It reinforces our core business in polyurethanes and secures our position in the global market. It also gives us access to innovative, patent-protected technologies and products." However, Schneider also stressed that, despite this acquisition, the Bayer Group is not giving up its search for partners in the life sciences field. "If the right opportunity comes along we will act there, too," he said.

The world market for polyurethanes is growing at an annual rate of 4 to 5 percent. The best prospects in international competition are for companies such as Bayer, which supply not only isocyanates for polyurethane applications but also the polyol component. Such companies can meet various specifications for the most diverse areas of application.

As a result of continued capacity expansion, Bayer already meets about one-quarter of the world demand for isocyanates. Polyurethane customers are increasingly looking to suppliers who can provide all raw material components and the necessary technical service from a single source.

By acquiring the Lyondell polyols business Bayer will in the future be able to supply customers with the packages they require, says Dr. Hans-Joachim Kaiser, General Manager of Bayer's Polyurethanes Business Group. "That is why we are aiming for integrated production chains and a broader product offering. The polyol components are also of decisive importance to us in our innovation-driven onward development of polyurethane applications."

The acquisition covers the U.S. polyol production sites in Institute and South Charleston, West Virginia, and Channelview, Texas. In Europe the sites are in Rieme, Belgium, and Fos-sur-Mer, France, and there are also majority holdings in joint ventures in Indonesia and Taiwan. The facilities have a total annual production capacity of approximately 700,000 metric tons. The number of employees is almost 1,000. The technology also acquired from Lyondell will in the future be used in Bayer's existing plants and greatly increase their efficiency. The expected savings through synergies will well exceed the integration costs by the year 2002 so that the profitability of the Polyurethanes Business Group will be further improved.

Worldwide demand for polyurethane is growing constantly. The wide variety of types, from solid engineering materials to foams with the most diverse characteristics, gives it a multitude of applications in the electrical and electronics industries, refrigeration and insulation, construction, technical parts and in the furniture, sports and leisure industries.

Bayer is one of the world's leading suppliers to the polyurethane industry. The group has production facilities at 19 locations in Europe, North America, Latin America, Africa and Asia. Last year, Bayer's Polyurethanes Business Group, with more than 4,800 employees, had sales of €2 billion. This amounted to 25 percent of the total sales of the Polymers business segment.

Lyondell, headquartered in Houston, Texas, has its own production facilities and major holdings in the U.S. companies Equistar Chemicals, LP, Lyondell Methanol Company LP and Lyondell-Citgo Refining Company Ltd. (all Houston). The company has operations in 15 countries. It has 10,000 employees and generated sales of US$ 10 billion.

The acquisition is subject to the approval of Bayer's and Lyondell's supervisory boards and to the approval of merger authorities in the U.S., Europe and other countries. It is planned to finalize the acquisition in the first half of 2000.

[Antibiotic:]

ADVISORY COMMITTEE RECOMMENDS APPROVAL OF AVELOX®

An advisory committee to the U.S. Food and Drug Administration (FDA) has recommended approval of Avelox® (moxifloxacin), a new drug developed by Bayer for the treatment of acute sinusitis, acute bacterial exacerbations of chronic bronchitis (ABECB), community-acquired pneumonia and skin infections.

Bayer presented data for moxifloxacin based on clinical trials involving 8,000 patients. In these trials, Avelox was evaluated for efficacy in eradicating pathogens such as S. pneumonia, H. influenzae and M. catarrhalis, as well as atypical bacteria.

Moxifloxacin consistently showed clinical and bacteriological success rates of 89 to 96 percent. Other advantages include the short duration of treatment (five days in ABECB) as well as an excellent safety profile.

If the FDA accepts the recommendation of its advisory committee, Avelox could be approved for marketing in the United States before the end of 1999. Avelox has already received marketing approval in eleven countries, and was launched in Germany in September under the trade name Avalox®.

Letter of intent signed:

POLYCARBONATE PLANT TO BE BUILT IN CHINA

Bayer recently signed a letter of intent with the Shanghai Chloralkali Company to build a world-scale production plant for its Makrolon® polycarbonate at the Shanghai Chemical Industry Park in Caojing, China. The plans call for a unit to manufacture 100,000 tons per year of the Bayer plastic. The total investment in the project will be about €430 million. The letter of intent was signed in Beijing's Great Hall of the People in the presence of Chinese Prime Minister Zhu Rongji and German Chancellor Gerhard Schröder.

Bayer Management Board member Werner Spinner, speaking at the signing ceremony, pointed out the strategic importance of the planned production facility for Bayer. The polycarbonate project, he said, would be the first step toward establishing a fully integrated production site for chemical products.

In addition to the plant itself, which will underscore Bayer's position as one of the world's leading producers of polycarbonate, the project includes a precursor production facility, compounding units and the necessary infrastructure.

Under the agreement, Bayer will provide 90 percent of the capital. Shanghai Chloralkali will hold the remaining 10 percent stake in the proposed joint venture.

Werner Spinner and Zhou Bo, President of Shanghai Chloralkali, after the signing ceremony. In the background are German Chancellor Gerhard Schröder (left) and Chinese Prime Minister Zhu Rongji (center).

BASF, Bayer and Hoechst:

TEXTILE DYES BUSINESSES TO BE MERGED

BASF, Bayer and Hoechst have announced plans to combine their global textile dyes activities. For this purpose, BASF's textile dyes business will be integrated with that of DyStar, the existing 50:50 joint venture between Bayer and Hoechst. The three parent companies will be equal partners in the expanded joint venture. With annual sales of well over DM 2 billion, the new company will have a critical mass in a consolidating market. The partners aim to exploit the synergy potential to improve their cost situation, particularly in comparison to Asian manufacturers. Their action comes in response to the continuing process of concentration in the textile market and will give the combined business a stronger product and technology portfolio.

The new company, which will have around 4,700 employees worldwide, is scheduled to start operations on April 1, 2000, subject to the approval of the relevant corporate governance bodies and clearance from the antitrust authorities.

Combinatorial chemistry:

ALLIANCE WITH U.S. COMPANY ARQULE

Bayer and the U.S. drug research company ArQule Inc., based in Medford, Massachusetts, have entered into a collaboration to create several hundred thousand compounds for automated screening in the test systems of Bayer's Pharmaceuticals and Crop Protection business groups. Over the three years of the collaboration, ArQule will receive approximately €28 million as compound delivery goals are met.

ArQule will produce the compounds under its Custom Array™ program, providing Bayer with arrays designed to Bayer specifications. Scientists from the two companies will work together designing the substance libraries and Bayer will own all rights to any promising compounds resulting from this collaboration.

ArQule Inc., with its patented technologies, is a world leader in the application of combinatorial chemistry.

Launch at the beginning of 2000:

STOCK OWNERSHIP PROGRAM FOR ALL EMPLOYEES

Bayer AG is to link the remuneration of its 33 most senior executives – including the Board of Management – more closely to the success of the company. To achieve this a stock options program, recommended by the Board of Management and approved by the Supervisory Board, will be launched at the beginning of 2000.

The value of the options granted will be determined by whether and to what extent targets for Bayer share performance and value creation are met. Participation is dependent on a substantial personal investment in Bayer shares. Following a retention period of three years, participants will have two years in which to exercise their options.

"We have deliberately set high hurdles for exercising the options," says Bayer CEO Dr. Manfred

Integration in Germany completed:

BAYER DIAGNOSTICS UNDER ONE ROOF

The marketing activities of Bayer Diagnostics GmbH, Munich, and Chiron Diagnostics GmbH, Fernwald (near Giessen) were merged in mid-1999 and successfully integrated into Bayer Vital GmbH & Co. KG, Leverkusen, as that company's Diagnostics Business Group, headquartered in Fernwald.

Bayer Vital is the German sales organization for the Bayer Group's life science activities. As part of its expansion of the Diagnostics Business Group, Bayer acquired the U.S. company Chiron Diagnostics, formerly a subsidiary of Chiron Corporation, Emeryville, California, at the end of 1998. This €1 billion acquisition made Bayer one of the world's top companies in diagnostics.

Bayer's range of diagnostic products stretches from laboratory systems for immunology, clinical chemistry and hematology through systems for nucleic acid diagnostics, critical care, point-of-care testing and urine chemistry to blood glucose meters for diabetics.

Acquisition of the U.S. company Chiron Diagnostics put Bayer among the top global players in the diagnostics market.

Schneider. Gains from the program are only possible if Bayer stock exceeds a 30 percent performance threshold or outperforms the Dow Jones EURO STOXX 50^{SM} index at the time of exercise. Once this condition is met, a further factor is then the value created by the unit for which the executive is responsible. If value creation, measured against Bayer's own internal criteria, is greater in the three-year retention period than in the previous three years, the value of the options can at most double. If the increase is smaller, on the other hand, participants will receive correspondingly fewer shares. Top executives will receive nothing if value has not been created during the three-year retention period, even if Bayer stock has met the performance criteria.

"Senior management will now identify even more strongly with business targets if they own a substantial holding in our company and can increase its value through their own commitment," says CFO Werner Wenning. There will therefore be a stock incentive program for other senior managers too. Here, the shares held will receive "interest" in the form of free shares on condition that the DJ EURO STOXX 50^{SM} index is surpassed after two, six and ten years.

There will also be a two-part stock ownership program for middle and junior managers. They will be eligible for free shares on the basis of their own stock holdings after specified retention periods, and will also be able to purchase shares at a tax-free discount up to the legal limit. This model will also be offered to non-management employees. Says Hans-Jürgen Mohr, Management Board spokesman for human resources: "It is important to us that as many employees as possible are included in the stock ownership program, because everyone has his or her part to play in the success of our company. In addition, we want to strengthen the already strong bond between our staff and their company."

NeoPath and Diagnostics

EARLY DETECTION OF LUNG CANCER

Bayer Diagnostics is to develop an automated screening system for the early detection of lung cancer in collaboration with the U.S. company NeoPath, Inc., of Redmond, Washington. The objective of the project is to provide a cost-effective, efficient method of regularly screening at-risk patients, such as smokers, for early signs of cancer.

NeoPath researches, develops and commercializes technologies to automate the interpretation of medical images. NeoPath plans to develop a prototype for rapid and reliable screening by the end of 1999. In this process, sputum cells will be mixed with antibodies supplied by Bayer Diagnostics on standard microscope slides. NeoPath's technology will allow these samples to be examined automatically for changes in the cells. The research alliance is intended to expand Bayer Diagnostics' activities in the field of cell analysis.

Bayer's first biotech drug researched in Germany:

ASTHMA PRODUCT IN CLINICAL TRIALS

The first biotech drug from Bayer to emerge from research in Germany is now undergoing clinical testing. It is a new active compound for the treatment of asthma. The substance's action derives from inhibition of the activity of cytokines which play a major part in the bronchial inflammatory processes involved in asthma.

The American regulatory and health agency FDA recently approved Bayer's application for the substance to go into clinical trials. The active substance is now being fermented in the biotechnology pilot plant in Wuppertal.

The active substance was researched in close cooperation between Bayer's international research centers and Würzburg University's Biocenter.

If the clinical trials are successful, the documentation for worldwide registration of the product can be submitted to the health authorities at the end of 2003. Once it is introduced in the market, Bayer expects it to have maximum annual sales of some €700 million.

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