Stockholders' Newsletter 2001

Interim Report for the First Quarter of 2001

Report on the 49th Annual Stockholders' Meeting

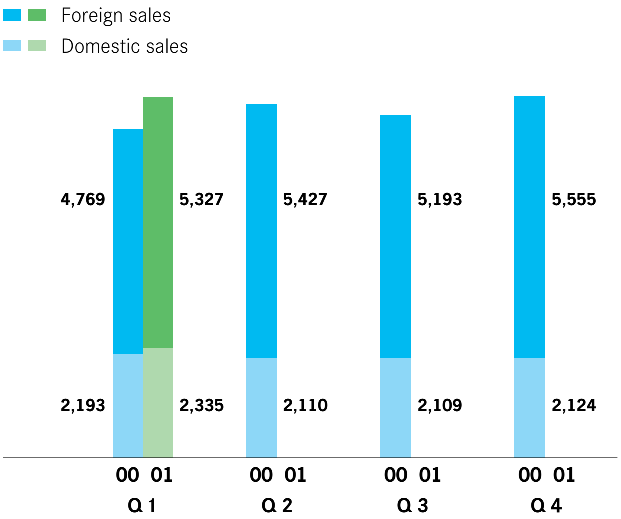
of Bayer AG on April 27, 2001 in Cologne

Bayer

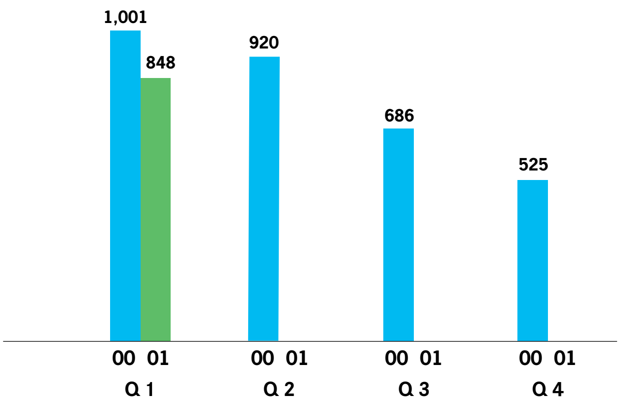
Confidence for the full year

Modest start to 2001

Sales from Continuing Operations (€ million)



Operating Result from Continuing Operations (€ million)



The economy showed a significant loss of momentum in the first quarter of 2001, mainly because of the slowdown in North America. Growth rates declined slightly in Europe but were maintained in Asia, except in Japan.

Against this background we posted a 10 percent advance in sales from continuing operations, to €7.7 billion, while the operating result slipped by 7 percent before exceptional items, to €0.9 billion, and by 15 percent after exceptional items, to €0.8 billion. Including the discontinuing operations of the Fibers and EC Erdölchemie business groups, sales rose by 8 percent to €7.9 billion, and the operating result fell by 18 percent. The main reasons for the drop in earnings are the exceptionally strong first-quarter profits in 2000 and the persistently high level of raw material costs which we have not so far been able to offset through higher selling prices. Temporary production problems for biological products also had an adverse effect.

Change in Sales

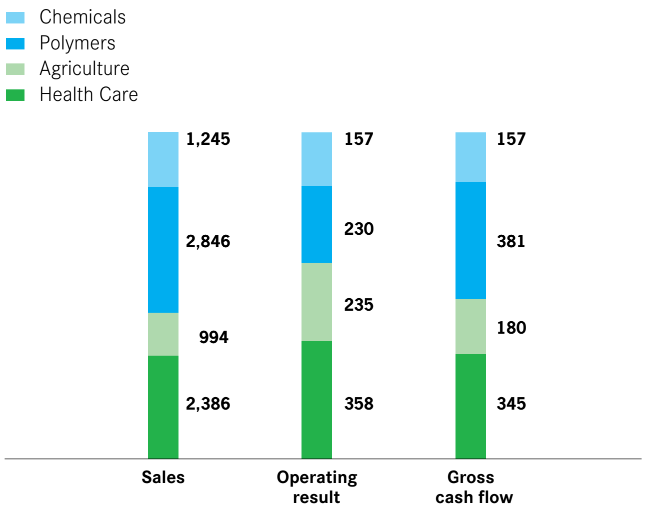
Reported	+ 7.8 %
Continuing operations	**+ 10.1 %**
Volumes	− 3 %
Prices	+ 6 %
Exchange rates	+ 1 %
Portfolio changes	+ 6 %

The growth in sales from continuing operations amounted to €0.7 billion. Portfolio changes accounted for 6 percentage points of the increase, exchange rate fluctuations for 1 point and higher selling prices for 6 points; lower volumes had a 3-point negative effect.

Business trend by segment

The €7.5 billion in total sales of our business segments generated an operating result – before exceptional items and reconciliation (mainly corporate costs) – of €1.0 billion, and a gross cash flow of €1.1 billion. Of the four segments, Polymers had the highest sales, amounting to €2.8 billion, while Health Care recorded the highest earnings, with operating profit of €0.4 billion. These segments also had the largest cash flows, of €0.4 billion and €0.3 billion respectively.

Performance by Business Segment (before reconciliation, € million)



Health Care

€ million	1st Quarter 2001	1st Quarter 2000	Full Year 2000
Sales	**2,386**	2,305	10,028
Operating result before exceptional items	**358**	340	1,476
Return on sales before exceptional items	**15.0 %**	14.8 %	14.7 %
Gross cash flow	**345**	309	1,419

Sales in the **Health Care** segment rose by 4 percent to €2.4 billion, with Pharmaceuticals expanding by 2 percent. Avalox®/Avelox® again performed very well, showing strong growth in sales despite intense competition in the anti-infectives market. The expansion of our field force, especially in the United States, also led to a pleasing performance by our cholesterol-lowering agent Lipobay®/Baycol®. Sales of biological products are being hampered by a delay on product releases of Kogenate®. The impact of this on full-year earnings cannot be finally assessed until the matter has been clarified with the U.S. Food and Drug Administration. Consumer Care was the fastest-growing business group in the Health Care segment, with sales up 8 percent and particularly strong increases in Europe and Latin America. Sales of Diagnostics increased by 3 percent. The steps taken to improve this business group's profitability are starting to bear fruit.

The operating result of the segment advanced by 5 percent to €0.4 billion, boosting the return on sales to 15 percent. The cash flow improved by 12 percent to €0.3 billion.

We have further extended our pharmaceutical research platform by entering into an alliance with the U.S. biotech company CuraGen in the fields of metabolic diseases and genomics technologies.

The Diagnostics Business Group has signed an agreement with Innogenetics of Ghent, Belgium, to sell and market HIV and hepatitis C virus tests.

Agriculture

€ million	1st Quarter 2001	1st Quarter 2000	Full Year 2000
Sales	**994**	1,025	3,455
Operating result before exceptional items	**235**	271	558
Return on sales before exceptional items	**23.6 %**	26.4 %	16.2 %
Gross cash flow	**180**	198	557

In the **Agriculture** segment, business declined by 3 percent to €1.0 billion, with Crop Protection sales down 2 percent. This was mainly the result of the economic slowdown in North America and weather-related sales delays in Europe. Sales in the Animal Health Business Group fell by 7 percent, mainly because of the BSE and FMD crises in Europe and the divestiture of the livestock vaccines business in the United States.

The operating result of the Agriculture segment decreased by 13 percent to €0.2 billion, and the gross cash flow was 9 percent lower, also at €0.2 billion. This segment remained an international leader in terms of profitability, with a 24 percent operating margin.

Acquisition of the fungicide FLINT® and the corn herbicide MIKADO® from Syngenta strengthens our crop protection activities at global level, and especially in Europe. These products have a combined annual sales potential of €350 million.

Polymers

€ million	1st Quarter 2001	1st Quarter 2000	Full Year 2000
Sales	**2,846**	2,434	10,893
Operating result before exceptional items	**230**	319	1,077
Return on sales before exceptional items	**8.1 %**	13.1 %	9.9 %
Gross cash flow	**381**	387	1,596

Sales of the **Polymers** segment advanced by 17 percent to €2.8 billion, with the largest contributions to growth coming from the Polyurethanes and Plastics business groups.

Eight percentage points of the increase are due to the acquisition of the polyols business of Lyondell Chemical Company.

The 28 percent decline in the operating result, to €0.2 billion, was mainly attributable to the very much higher raw material costs compared with the first quarter of 2000 and to expenses for integrating the Lyondell polyols business. The return on sales fell by 5 points to 8 percent.

We plan to divest the remaining activities of the Fibers Business Group, including the production facilities for Dorlastan® spandex fibers and Perlon® monofils.

Under the terms of a co-branding cooperation between the Plastics Business Group and the Dutch company MMore International BV, the latter will use Makrolon® for the production of its optical data storage media.

Chemicals

€ million	1st Quarter 2001	1st Quarter 2000	Full Year 2000
Sales	**1,245**	1,016	4,275
Operating result before exceptional items	**157**	128	442
Return on sales before exceptional items	**12.6 %**	12.6 %	10.3 %
Gross cash flow	**157**	143	600

Chemicals segment sales gained 23 percent to €1.2 billion. Contributing prominently to the increase was the H.C. Starck Business Group, which grew sales by a very gratifying 78 percent, mainly as a result of the high demand for tantalum metal powder.

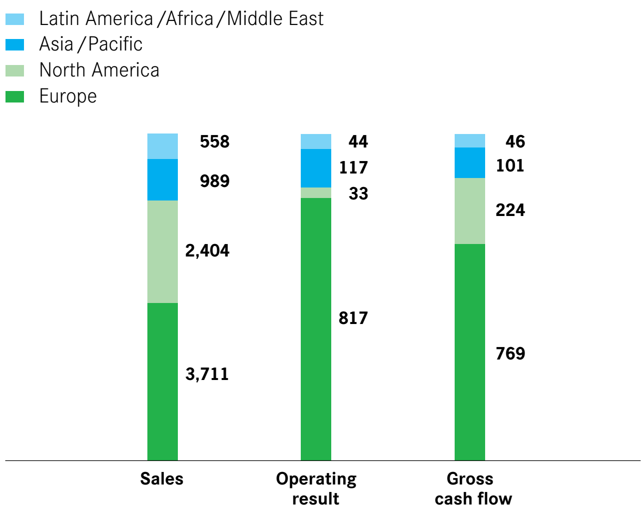
The operating result in this segment also rose by 23 percent, leaving the operating margin unchanged at 13 percent. The gross cash flow advanced by 10 percent to €0.2 billion.

To optimize its portfolio, Wolff Walsrode plans to sell its subsidiary Covexx Films Walsrode to Wipak, part of the Wihuri group of Finland, at the beginning of June subject to antitrust approvals.

The Basic and Fine Chemicals Business Group sold the H-acid production facilities in Brunsbüttel to Rütgers Elbechemie GmbH effective April 1, 2001.

This business group also plans to divest ChemDesign Corporation and its subsidiary SpecialtyChem Products Corporation.

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



Business trend by region

Sales by market increased in Europe by 12 percent to €3.3 billion, in Asia/Pacific by 20 percent to €1.2 billion and in Latin America/Africa/Middle East by 3 percent to €0.8 billion. In North American markets we had sales of €2.3 billion, which was only 5 percent more than in the same period last year on account of the economic slowdown in this region.

Our European companies posted €3.7 billion in sales and €0.8 billion in both operating profit and gross cash flow. They accounted for 81 percent of earnings and 67 percent of the Group's cash flow. The 22 percent return on sales was well above the Group average. Sales of our North American companies rose by 8 percent to €2.4 billion due to acquisitions. The operating result in this region before exceptional items fell by 76 percent to €33 million, while the gross cash flow dropped to €0.2 billion. In the Latin America/Africa/Middle East region, too, earnings and cash flow were down. By contrast, the trend in Asia/Pacific was favorable, with sales of our companies advancing by 18 percent and the operating result by 15 percent.

Liquidity and capital resources

The consolidated financial statements for the first quarter of 2001 have been prepared as for the year 2000 according to the rules issued by the International Accounting Standards Committee, 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, which is the cash flow from operating activities before changes in working capital, improved by 3 percent to €1.1 billion. The net operating cash flow declined by €0.1 billion, or 20 percent, mainly because of a €0.4 billion increase in inventories.

The net cash outflow for investing activities amounted to €0.7 billion, with €0.4 billion relating to property, plant and equipment, and €0.3 billion to investments.

Financing activities provided net cash of €0.4 billion, with net borrowings amounting to €0.5 billion and interest payments to €0.1 billion.

Cash Flow Statements (Summary, € million)	1st Quarter 2001	1st Quarter 2000
Cash and cash equivalents at beginning of year	**491**	2,812
Gross operating cash flow	**1,067**	1,037
Changes in working capital	**(770)**	(666)
Net cash provided by operating activities	**297**	**371**
of which discontinuing operations	*(39)*	*31*
Net cash used in investing activities	**(740)**	**(2,864)**
of which discontinuing operations	*(5)*	*(39)*
Net cash provided by financing activities	**415**	**799**
of which discontinuing operations	*(1)*	*2*
Exchange rate movements and changes in companies consolidated	**12**	(31)
Change in cash and cash equivalents	**(16)**	(1,725)
Cash and cash equivalents at end of first quarter	**475**	1,087

The net cash inflows of €0.3 billion from operating activities and €0.4 billion from financing activities were offset by the €0.7 billion net cash outflow for investing activities.

Cash and cash equivalents amounted to €0.5 billion, and marketable securities and other instruments to €0.2 billion, giving total liquid assets of €0.7 billion.

Earnings (€ million)	1st Quarter 2001	1st Quarter 2000	Full Year 2000
Operating result	**848**	1,034	3,287
of which discontinuing operations	*0*	*33*	*155*
Non-operating result	**(126)**	(82)	(297)
Income before income taxes	**722**	952	2,990
Net income	**442**	556	1,816

Earnings performance

The operating result – including the discontinuing operations of the Fibers and EC Erdölchemie business groups – dropped by 18 percent to €0.8 billion. The operating result from continuing operations was down by 15 percent after exceptional items of €0.1 billion; before exceptionals it diminished by €0.1 billion, or 7 percent, to €0.9 billion.

The non-operating result decreased by €44 million because of higher net interest expense, to minus €0.1 billion. Income taxes amounted to €0.3 billion, and the effective tax rate was down 2 points at 39 percent. Net income declined by 21 percent from the excellent first quarter of 2000, to €0.4 billion.

Balance Sheet Structure (€ million)

	March 31, 2001	March 31, 2000	Dec. 31, 2000
Noncurrent assets	**21,656**	18,173	20,344
Current assets	**16,631**	15,367	16,107
Stockholders' equity	**16,430**	15,091	16,377
Liabilities	**21,857**	18,449	20,074
Total assets	**38,287**	**33,540**	**36,451**

Asset and capital structure

Total assets increased during the first three months of 2001 by €1.8 billion, or 5 percent, to €38.3 billion.

Noncurrent assets grew by a total of €1.3 billion. Intangibles rose by €0.2 billion to €5.1 billion, with €0.1 billion of the increase coming from the acquisition of MIKADO®.

Property, plant and equipment showed a moderate increase of €0.2 billion. Capital expenditures amounted to €0.5 billion, while depreciation reduced the net carrying value of property, plant and equipment by €0.4 billion.

Of the increase in investments, €0.6 billion is due to the first-time application of IAS 39, which requires securities to be measured at fair value, while €0.2 billion is attributable to the DyStar group's switch to at-equity status.

Current assets grew by €0.5 billion, or 3 percent, compared with the end of 2000, with inventories and receivables each accounting for half of the increase.

Stockholders' equity remained almost unchanged from December 31, 2000. Income after taxes and the valuation of financial instruments contributed €0.4 billion each, while translation differences added €0.3 billion. The proposed dividend payment for 2000 and the changes in minority interests diminished stockholders' equity by €1.1 billion. The equity-to-assets ratio amounted to 43 percent, down from 45 percent at the end of 2000.

Liabilities (excluding provisions) rose by €1.8 billion during the first three months to €14.7 billion, due primarily to an increase of €0.7 billion in financial obligations and the dividend of €1.0 billion for 2000 that is scheduled for payment in the second quarter of 2001.

Net indebtedness grew by €0.7 billion compared with December 31, 2000, to €6.6 billion, and was therefore €2.5 billion greater than at March 31, 2000. Of this year-on-year increase, higher financial obligations – due mainly to utilization of the commercial paper program – accounted for €1.8 billion, while liquid assets were reduced by €0.6 billion.

Capital expenditures

In the first quarter we spent €541 million for intangible assets, property, plant and equipment. Europe accounted for 58 percent of this, North America for 21 percent, Asia/Pacific for 16 percent and Latin America/Africa/Middle East for 5 percent. Our German sites received 78 percent of the European total.

Our capital spending budget for the full year 2001 is €3.1 billion.

Employees

On March 31, 2001 the Bayer Group had 118,600 employees in its continuing operations, which was 600 more than at the start of the year. Headcount rose by 700 in North America and 200 in Asia/Pacific, but declined by 300 in Europe; in the Latin America/Africa/Middle East region it was unchanged at 12,000. Personnel expenses increased by 7 percent compared with the first quarter of 2000, to €1.9 billion.

Outlook

In the Health Care segment, we expect to overcome the temporary production difficulties for biologicals in the course of the year. Given the structure of our product portfolio, growth in the other businesses should at least keep pace with the world market. The operating margin will move closer to our target as the benefits of the ongoing restructuring programs are felt.

Our Agriculture segment will again outperform the market this year, remaining an industry leader in terms of profitability. The business harbors further substantial potential for the future, and we will capitalize on the enabling technologies to develop new products. We have reinforced our biotechnology research platform through alliances.

In Polymers, we are continuing to strengthen our market position. We are adding new capacities and opening up new markets, especially in Asia. Our short-term goal is to significantly improve the return on sales.

We will further optimize our portfolio in the Chemicals segment to achieve more favorable cost structures. A highlight here is the acquisition of CSM Industries, which provides us with an excellent base to benefit from a fast-growing and highly profitable market.

Global economic growth weakened rather more than we expected in the first quarter of 2001, with North America the worst affected region. We anticipate a recovery there in the second half of the year, with our biologicals business back to normal. We also predict a stable trend in western Europe and Asia. Against this background we are confident of surpassing last year's record earnings.

Highlights

	1st Quarter 2001	1st Quarter 2000	Full Year 2000
Sales (€ million)	**7,901**	**7,331**	**30,971**
of which discontinuing operations	*239*	*369*	*1,491*
Sales from continuing operations	**7,662**	**6,962**	**29,480**
Change	10.1%	22.1%	21.1%
Domestic companies	2,335	2,119	8,441
Change	10.2%	13.6%	11.8%
Foreign companies	5,327	4,843	21,039
Change	10.0%	23.2%	25.3%
Operating result (€ million)	**848**	**1,034**	**3,287**
of which discontinuing operations	*0*	*33*	*155*
Operating result from continuing operations	**848**	**1,001**	**3,132**
Change	– 15.3%	25.6%	43.6%
Operating result from continuing operations before exceptional items	**936**	**1,005**	**3,340**
Change	– 6.9%	27.1%	29.7%
Return on sales before exceptional items	**12.2%**	**14.4%**	**11.3%**
Net income (€ million)	**442**	**556**	**1,816**
Change	– 20.5%	26.4%	– 9.3%
Gross cash flow (€ million)	**1,067**	**1,037**	**4,164**
Change	2.9%	23.3%	30.5%
Capital expenditures (€ million)*	**527**	**452**	**2,545**
Domestic companies	238	222	1,162
Foreign companies	289	230	1,383
Number of employees*			
as of March 31	118,600	115,500	118,000
Personnel expenses (€ million)	1,891	1,767	7,518
Change	7.0%	8.3%	11.4%

* continuing operations

Bayer Group Statements for the First Quarter (Summary)

Consolidated Statements of Income (€ million)	1st Quarter 2001	1st Quarter 2000	Change %
Net sales	**7,901**	**7,331**	**7.8%**
Net sales from discontinuing operations	*(239)*	*(369)*	*– 35.2%*
Net sales from continuing operations	7,662	6,962	10.1%
Cost of goods sold	(3,990)	(3,561)	12.0%
Gross profit	**3,672**	**3,401**	**8.0%**
Selling expenses	(1,723)	(1,489)	15.7%
Research and development expenses	(577)	(543)	6.3%
General administration expenses	(262)	(205)	27.8%
Other operating expenses – net	(262)	(163)	60.7%
Operating result from continuing operations	**848**	**1,001**	**– 15.3%**
Operating result from discontinuing operations	*0*	*33*	*– 100.0%*
Operating result	**848**	**1,034**	**– 18.0%**
Non-operating result	**(126)**	**(82)**	**– 53.7%**
Income before income taxes	**722**	**952**	**– 24.2%**
Income taxes	(284)	(392)	– 27.6%
Income after taxes	**438**	**560**	**– 21.8%**
Minority stockholders' interest	(4)	4	•
Net income	**442**	**556**	**– 20.5%**
Earnings per share (€)	**0.61**	**0.76**	**– 19.7%**

Consolidated Balance Sheets (€ million)	March 31, 2001	March 31, 2000	Dec. 31, 2000
Assets			
Noncurrent assets	**21,656**	**18,173**	**20,344**
Inventories	6,454	5,151	6,095
Receivables	9,312	8,491	8,895
Liquid assets	677	1,309	704
Current assets	**16,443**	**14,951**	**15,694**
Deferred taxes	**188**	**416**	**413**
	38,287	**33,540**	**36,451**
of which discontinuing operations	*673*	*979*	*1,156*
Stockholders' Equity and Liabilities			
Capital stock and reserves	4,812	4,812	4,812
Retained earnings	10,257	9,036	9,047
Net income	442	556	1,816
Translation differences	811	505	465
Minority stockholders' interest	108	182	237
Stockholders' equity	**16,430**	**15,091**	**16,377**
Long-term liabilities	8,934	8,198	8,461
Short-term liabilities	11,311	9,036	10,018
Liabilities	**20,245**	**17,234**	**18,479**
of which discontinuing operations	*240*	*470*	*574*
Deferred taxes	**1,612**	**1,215**	**1,595**
	38,287	**33,540**	**36,451**

2000 figures restated

The first-quarter statements are unaudited.

Changes in Stockholders' Equity (Summary, € million)

	Capital stock and reserves	Retained earnings and minority interest	Net income	Translation differences	Total
December 31, 1999	**4,812**	**8,141**	**2,002**	**227**	**15,182**
Income after taxes			560		560
Dividend payments			(949)		(949)
Exchange differences				278	278
Allocation to retained earnings		1,071	(1,053)		18
Minority stockholders' interest		6	(4)		2
March 31, 2000	**4,812**	**9,218**	**556**	**505**	**15,091**
December 31, 2000	**4,812**	**9,284**	**1,816**	**465**	**16,377**
Income after taxes			438		438
Dividend payments			(1,022)		(1,022)
Exchange differences				346	346
Special item		346			346
Allocation to retained earnings		796	(794)		2
Minority stockholders' interest		(61)	4		(57)
March 31, 2001	**4,812**	**10,365**	**442**	**811**	**16,430**

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

Business Segments	**Health Care**		**Agriculture**		**Polymers**		**Chemicals**		**Reconciliation**		**Bayer Group**	
	1st Quarter 2001	1st Quarter 2000	1st Quarter 2001	1st Quarter 2000	1st Quarter 2001	1st Quarter 2000	1st Quarter 2001	1st Quarter 2000	1st Quarter 2001	1st Quarter 2000	1st Quarter 2001	1st Quarter 2000
Sales	**2,386**	**2,305**	**994**	**1,025**	**2,846**	**2,434**	**1,245**	**1,016**	**430**	**551**	**7,901**	**7,331**
of which discontinuing operations									*239*	*369*	*239*	*369*
Sales from continuing operations	**2,386**	**2,305**	**994**	**1,025**	**2,846**	**2,434**	**1,245**	**1,016**	**191**	**182**	**7,662**	**6,962**
Change in €	3.5%	22.5%	-3.0%	17.3%	16.9%	23.0%	22.5%	18.7%			10.1%	22.1%
Change in local currencies	2.0%	11.1%	-3.1%	8.1%	15.1%	16.9%	21.5%	13.1%			8.8%	14.1%
Operating result	**344**	**315**	**235**	**266**	**212**	**312**	**106**	**126**	**(49)**	**15**	**848**	**1,034**
of which discontinuing operations									*0*	*33*	*0*	*33*
Operating result from continuing operations	**344**	**315**	**235**	**266**	**212**	**312**	**106**	**126**	**(49)**	**(18)**	**848**	**1,001**
Operating result from cont. ops. before exceptional items	**358**	**340**	**235**	**271**	**230**	**319**	**157**	**128**	**(44)**	**(53)**	**936**	**1,005**
Change	5.3%	98.8%	-13.3%	8.8%	-27.9%	9.6%	22.7%	-1.5%			-6.9%	27.3%
Return on sales before exceptional items	**15.0%**	**14.8%**	**23.6%**	**26.4%**	**8.1%**	**13.1%**	**12.6%**	**12.6%**			**12.2%**	**14.4%**

Regions	**Europe**		**North America**		**Asia/ Pacific**		**Latin America/ Africa/Middle East**		**Reconciliation**		**Bayer Group**	
	1st Quarter 2001	1st Quarter 2000	1st Quarter 2001	1st Quarter 2000	1st Quarter 2001	1st Quarter 2000	1st Quarter 2001	1st Quarter 2000	1st Quarter 2001	1st Quarter 2000	1st Quarter 2001	1st Quarter 2000
Sales by market	3,314	2,948	2,299	2,196	1,232	1,027	817	791	239	369	7,901	7,331
Change	12.4%	12.7%	4.7%	26.6%	20.0%	44.9%	3.3%	22.8%			7.8%	4.8%
Sales by point of origin	**3,711**	**3,379**	**2,404**	**2,222**	**989**	**839**	**558**	**522**	**239**	**369**	**7,901**	**7,331**
of which discontinuing operations									*239*	*369*	*239*	*369*
Sales from continuing operations	**3,711**	**3,379**	**2,404**	**2,222**	**989**	**839**	**558**	**522**			**7,662**	**6,962**
Change in €	9.8%	12.9%	8.2%	29.0%	17.9%	50.4%	6.9%	21.7%			10.1%	22.1%
Change in local currencies	9.7%	12.3%	2.8%	13.3%	22.2%	23.8%	3.8%	7.4%			8.8%	14.1%
Operating result	**793**	**810**	**(22)**	**102**	**113**	**102**	**44**	**59**	**(80)**	**(39)**	**848**	**1,034**
of which discontinuing operations									*0*	*33*	*0*	*33*
Operating result from continuing operations	**793**	**810**	**(22)**	**102**	**113**	**102**	**44**	**59**	**(80)**	**(72)**	**848**	**1,001**
Operating result from cont. ops. before exceptional items	**817**	**781**	**33**	**135**	**117**	**102**	**44**	**59**	**(75)**	**(72)**	**936**	**1,005**
Change	4.6%	0.9%	-75.6%	141.1%	14.7%	•	-25.4%	103.4%			-6.9%	27.3%
Return on sales before exceptional items	**22.0%**	**23.1%**	**1.4%**	**6.1%**	**11.8%**	**12.2%**	**7.9%**	**11.3%**			**12.2%**	**14.4%**

2000 figures restated

Management Board Chairman Dr. Manfred Schneider reported to the stockholders on business trends at Bayer and outlined the company's strategy.

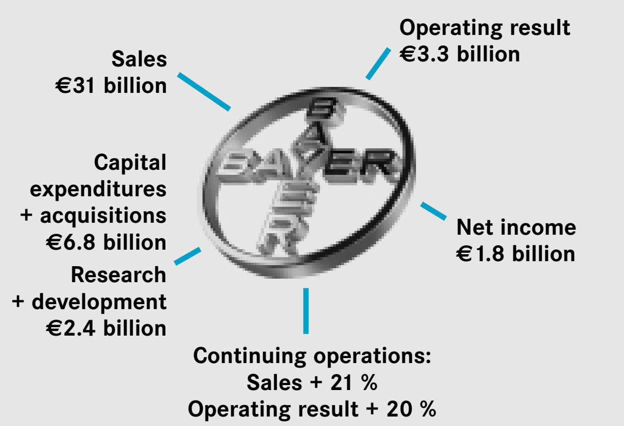
"We see good prospects for a steady increase in the company's value"

At the 49th Annual Stockholders' Meeting of Bayer AG in Cologne, Dr. Manfred Schneider, Chairman of the Board of Management, gave a review of business developments and expressed confidence for the current year. His presentation appears in full on the following pages.

Ladies and gentlemen,

On behalf of the Board of Management, may I welcome you to our Annual Stockholders' Meeting. We are pleased to report that 2000 was a very successful year. Bayer achieved strong growth, and we again improved our competitive strength and our market position.

2000 Key Data



The key data for the Bayer Group set new records: sales advanced to €31 billion and the operating result came to €3.3 billion.

At the same time, we made capital expenditures and acquisitions totaling a record €6.8 billion. R&D expenses rose a further 6 percent to €2.4 billion. So we not only had a successful year but also continued to pave the way for future growth.

Group net income was €1.8 billion, only 9 percent lower than in 1999. So we almost offset the effect of the fact that the previous year's earnings contained €1 billion in non-recurring income from the flotation of Agfa.

Sales from our continuing operations – in other words, disregarding Agfa, DyStar and Erdölchemie – rose by 21 percent, or over €5 billion, to €30 billion.

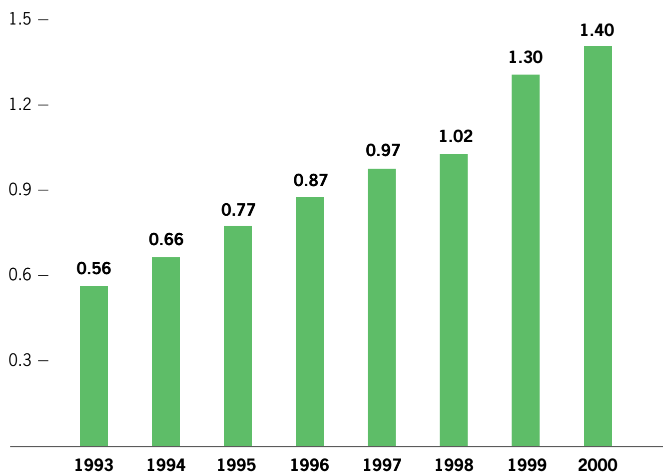
The operating result before exceptional items climbed by 20 percent to €3.3 billion.

The very healthy state of our business is also shown by the improvement of 37 percent, or €1.1 billion, in the gross cash flow, to €4 billion.

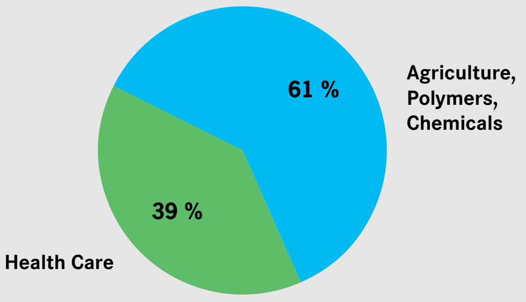
We obviously want you, ladies and gentlemen, to benefit from this strong business performance. So we are proposing that the dividend be raised by 10 cents to €1.40 per share, bringing the total payout to our stockholders to over €1 billion for the first time.

This seventh consecutive dividend increase again testifies to the attractiveness of Bayer stock as a long-term investment. With an eye to the current state of the capital markets, the continuity of our dividend policy is designed to meet stockholders' demands for a steady increase in value and an appropriate return on their investment.

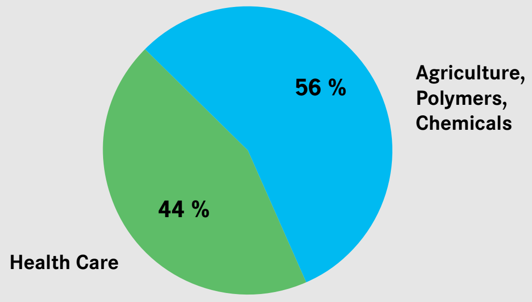
Dividends (€/share)



Portfolio



Earnings Contribution 1999



Earnings Contribution 2000

We are encouraged by the fact that the Health Care segment's share of earnings rose to 44 percent in 2000, thanks to a 35 percent increase in its operating result. Including the Agriculture segment, the life sciences now account for over 60 percent of Group earnings.

We are delighted that Bayer's good business performance in 2000 – with 21 percent growth, 35 percent higher earnings in the Health Care segment and an operating margin of 11 percent – was rewarded by a stock performance of 23 percent.

May I take this opportunity to express my appreciation to all of our employees on behalf of the Board of Management. Their hard work was instrumental in our success. I am sure you will join me in thanking them.

Challenges

Successful Year 2000	
Strong growth	+ 21 %
Health Care earnings	+ 35 %
Return on sales	11 %
Stock performance	+ 23 %

Market Opinions
Undervalued/ Acquisition target?
Demerger?
Pharmaceutical mega-merger?
Consolidation in chemicals?

Last year's success, of course, is no reason for us to rest on our laurels. We believe that our portfolio and the expertise of our four business segments give our stock further upside potential. This is an opportunity, a challenge and an obligation.

Despite our unquestionable success, there is no lack of calls for radical change at Bayer. As we are all aware, these range from touting Bayer as a takeover target and demands to split up our operations to calls for a mega-merger, preferably in pharmaceuticals.

Far be it from us to dismiss these views as unobjective simply on the grounds of our success in recent years and especially in the year 2000. We take such opinions and such ideas very seriously and carefully examine the implications and options for our corporate strategy.

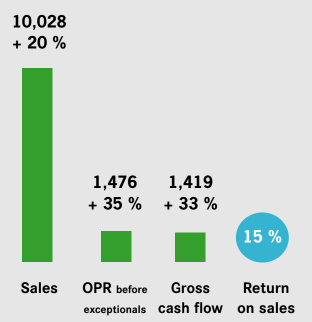
There have been substantial changes in our operating environment. First, there is the capital market, which expects different things from the different industry sectors in which we operate, and then there is the consolidation taking place both in life sciences and in chemicals. There are also changes in our markets, not least as a result of new information technologies.

Journalists, financial analysts, consultants and above all our shareholders have every right to participate in the discussion of these issues and to expect us, the Board of Management, to come up with a convincing response to these challenges.

However, I would like to stress at the same time that we should not allow ideas, theories and imagination to obscure either basic commercial principles or the underlying facts.

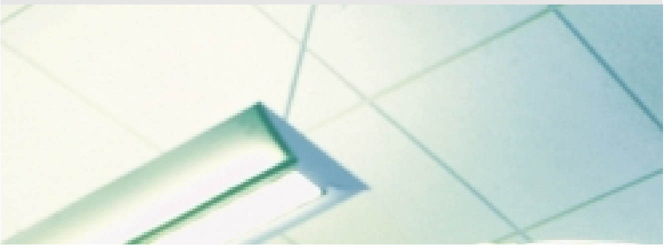
Let me therefore outline the performance and strategic positioning of our four business segments – Health Care, Agriculture, Polymers and Chemicals – before I go on to draw some conclusions for our corporate strategy.

Health Care (€ million)



Continue Upward Trend

- Grow at least as fast as the world market
- 20 % ROS in 2002
- Boost innovative potential by 25 % p.a. thru 2004
- Concentrate on internal growth, remain open for external growth



The **Health Care** segment lifted sales 20 percent to €10 billion, with all three business groups outpacing growth in the global market. The main reasons for this expansion were our successful pharmaceutical products Cipro®, Adalat®, Baycol®, Kogenate® and Avelox®, all of which registered double-digit percentage sales growth. Baycol® did particularly well, doubling its market share in the United States and recording more than 80 percent higher sales in total.

Consumer Care also did very well, led by Aspirin®, and we expect Diagnostics to lift earnings substantially this year.

Particularly gratifying is the 35 percent increase in this segment's operating result – a figure I make no apologies for repeating. The operating margin was 15 percent, or two percentage points above the previous year.

We aim to continue the upward trend in the Health Care segment.

On the basis of our current product structure, we expect all three business groups to grow at least as fast as the world market in the next few years.

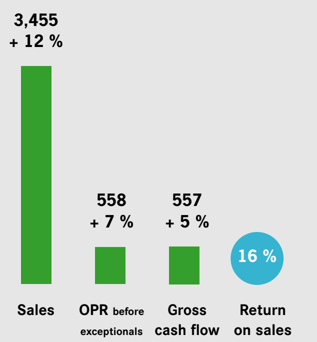
We also aim to enhance our profitability. Our goal for 2002 is a 20 percent return on sales. We intend to achieve this primarily by growing our business, but also through the restructuring programs that are already in place. These measures to improve cost structures in the Pharmaceuticals, Consumer Care and Diagnostics business groups are proceeding on schedule.

Innovative capacity is very important for our long-term performance, especially in Pharmaceuticals. Our strong research platform will enable us to raise the number of development candidates from currently 11 to 20 per year by 2004. On this basis we then plan to bring two new products to market each year.

This heightens the demands on our development and marketing functions. In addition to making internal efficiency improvements, we remain on the look-out for alliances that would bring a sustained improvement in our market position. Last year, agreements with SmithKline Beecham, U.S.A., and Fournier, France, on the joint marketing of Baycol® generated excellent results, as did the agreements signed with Alza in the U.S.A. and Eli Lilly in Italy on the co-marketing of Avelox®.

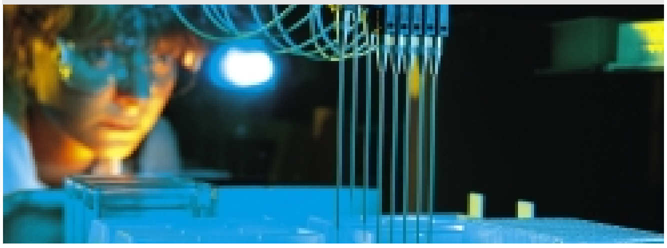
Ladies and gentlemen, we have a strong health care business. All three business groups remain able to achieve organic growth at least in line with the market in the future, accompanied by a sustained improvement in margins. We are concentrating fully on realizing this potential, yet at the same time we remain open to opportunities for collaboration to strengthen our health care business.

Agriculture (€ million)



Expand and Remain a Leader in Profitability

- Grow faster than the world market
- Capitalize on technological edge
- 2 – 3 new products a year from the pipeline thru 2004
- Participate in industry consolidation



Although operating conditions remained difficult last year, our **Agriculture** segment reaffirmed its leading position with a return on sales of 16 percent.

We actively participated in the consolidation of the agrochemicals sector by acquiring the fungicide FLINT®, the herbicide MIKADO® and two companies - Misung in Korea and Pursell in the United States. We also streamlined our Animal Health portfolio by divesting the livestock vaccines business in the United States.

The Agriculture segment's strategic goal for the future is to press ahead with growth while at the same time maintaining its leading operating margin.

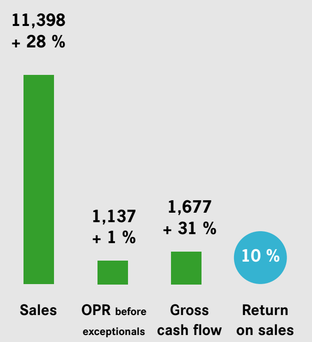
There are signs of recovery in the world crop protection market. Having shrunk in 1999, this market expanded by 1 percent in dollar terms in 2000. We anticipate that it will grow by 2 percent a year in the medium term and hope to grow our business faster than this.

Our basis for doing so is our technological edge in chemical plant protection agents, both in insecticides, fungicides and seed treatment and in garden and professional care. We have expanded our research capability in crop protection. Over the past three years we have invested 12.5 percent of sales in R&D, which is above the average of our top six competitors, while maintaining our leading operating margin. Our biotechnology research platform has been expanded through alliances totaling €200 million. Here too, as in Pharmaceuticals, we are relying heavily on the use of modern enabling technologies to develop new products.

Our pipeline is well stocked with 17 development candidates, and we plan to launch two to three new products every year through 2004.

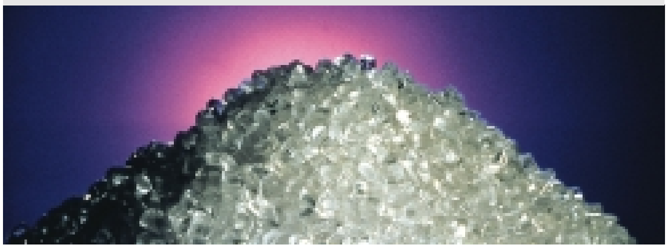
All in all, we feel that we are very well positioned to achieve above-average organic growth through innovative products in both the business groups in this segment and keep up our leading return on sales. Nevertheless, we will go on actively exploiting consolidation opportunities in this segment, provided the conditions are right.

Polymers (€ million)



Expand Leading Positions Worldwide

- Maximize shares of growth markets
- Consolidate technological leadership
- Reduce costs in all areas (> €300 million p. a. by 2003)
- Improve margins



We achieved very strong growth in the **Polymers** segment, particularly in high-performance plastics and polyurethane systems. Sales rose 28 percent to €11.4 billion.

Our portfolio was strengthened by the acquisition of Sybron in the field of powder coatings and the integration of the Lyondell activities in polyurethanes. At the same time, we continued to streamline our polymers portfolio by divesting the Dralon® fibers business.

The cash flow rose by a substantial 31 percent to €1.7 billion. Despite the sharp rise in the cost of raw materials, we also managed to achieve a double-digit return on sales.

Of course we would have liked to report an even stronger increase in earnings and thus a higher operating margin. But this was not possible, chiefly because of the exceptionally sharp rise in raw material prices. The Bayer Group had to pay €1.4 billion more for the same volume of raw materials than a year earlier. Nearly 90 percent of this increase was borne by the Polymers segment.

We intend to expand our leading global positions in polymers, and believe that our forecast of dynamic growth in the markets for high-performance plastics and polyurethane systems will be borne out in the long term.

In particular, we will be stepping up our presence on the Asian market and expanding our production facilities in this region. At the end of last year, we received approval from the Chinese authorities to build a production plant for coating raw materials in Shanghai, where we also plan to build world-scale facilities for bisphenol A and Makrolon®. We are optimistic that the final hurdles in the permiting process will be overcome in the first half of this year. Our medium-term plans also include the construction of a major polyurethanes facility in Shanghai, and we have already submitted the necessary documents for approval.

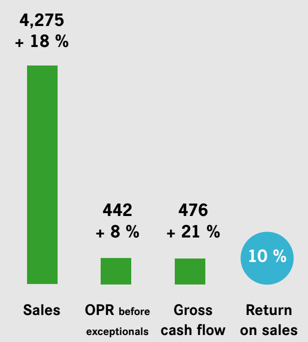
We will safeguard our technological edge through ongoing development and the use of new processes to optimize cost structures at our large-scale facilities.

Alongside this, we have introduced cost-containment programs in all areas of the Polymers segment. These should generate savings of over €300 million a year by 2003.

We have taken this action to combat the current pressure on margins in the Polymers segment, because last year the return on sales dropped from one quarter to the next, finally reaching only 8 percent. Pressure on the raw materials front should ease from the middle of this year. Moreover, we have had some initial success in raising prices, especially in Europe, although we have not yet achieved price increases on the necessary scale in the United States.

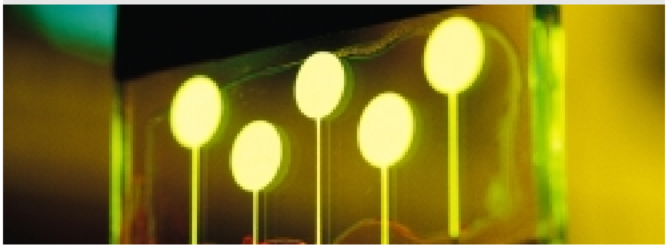
All in all, despite the adverse economic trend in the United States and the continuing high level of raw material costs, we believe that the Polymers segment will improve margins again this year.

Chemicals (€ million)



Increase Operating Margin

- Continue with restructuring
- Contain costs in basic chemicals
- Focus on high-performance specialties
- Enhance competitiveness



The **Chemicals** segment matched the previous year's double-digit operating margin with strong sales growth of 18 percent.

The DyStar and solar silicon operations no longer form part of this segment's portfolio.

H.C. Starck should be singled out here for its outstanding performance in tantalum powder as a result of the rapid growth in mobile telecommunications.

The strategic goal for the future of our chemicals operations is to raise margins by continuing to optimize the portfolio and by improving cost structures.

We have already streamlined our portfolio of basic chemicals quite considerably. We will continue along this path: this year we have divested the H-acid activities in Brunsbüttel, and the disposal of our stake in Erdölchemie has now been approved. Most recently, our subsidiary Wolff Walsrode sold its Combitherm film business to the Finnish company Wipak. We have also announced our intention to divest ChemDesign in the United States.

We will develop our activities in basic chemicals, such as our integrated manufacture of chlorine-based products, in line with the principles of stringent cost management.

The focus, however, will be on high value-added specialties that offer scope for improving margins. To reinforce our position in this business we have acquired CSM and the paper chemicals business of Cytec in the United States. Our successful specialties also include electronic chemicals, biocides to protect materials and the cellulosics operations of our subsidiary Wolff Walsrode, which will be concentrating fully on this business in the future.

This structure will enable us to utilize the core competencies we undoubtedly possess in our Chemicals segment in order to improve our competitive position and enhance our operating margin.

Strategic Priorities

1 **Performance:**
Match leading competitors on growth and margins

2 **Portfolio I:**
Eliminate remaining weaknesses

3 **Portfolio II:**
Examine options for external growth in life sciences

Following this overview of the prospects for our business segments, I would like to come back to our corporate strategy and the alignment of the group.

Our strategy is based on the conviction that we have excellent growth potential in all four business segments. In the future, we will remain in a position not only to manage these businesses successfully but also to achieve growth on the basis of a sound financial strategy. We will respond flexibly to changing market conditions. Alongside our responsibility towards our employees, our focus will be on a sustained improvement in the value of the investment made in Bayer by you, our stockholders.

Over the past year, we have made substantial headway in our efforts to achieve growth and margins on a par with our leading competitors in each segment. Our aim now is to build on this success. We believe that a further improvement in our performance will help convince the capital market of the potential Bayer holds in its portfolio as a whole. The capital market will reward an improvement in our profitability and in the competitive standing of our individual business operations.

However, actions speak louder than words. For our pharmaceuticals operations in particular, it is essential to achieve organic growth at least on a par with the world market and to align our operating margins more closely with those of our leading competitors within a reasonable timeframe. A sustained upward trend in Health Care is a key element in our corporate strategy and will underscore the long-term competitiveness of this segment.

What is more, we will continue to streamline our portfolio to systematically eliminate remaining weaknesses in areas where we can neither expand nor achieve leading profitability levels in the foreseeable future.

Finally, we stand by our strategic statement that we are open to acquisitions and alliances, especially in the life sciences, providing they are a good strategic fit and meet our requirements in terms of management control and cost-effectiveness. As we are all well aware, the options are limited at the moment by high market valuations, especially for pharmaceutical companies.

Last year's progress in terms of both growth and margins in our individual businesses is generally acknowledged. By contrast, our active portfolio management is not always sufficiently appreciated.

Portfolio 2000/2001

Divestitures	Acquisitions/ Cooperations
Agfa	FLINT®
Dralon®	CuraGen
Solar	Millennium
Erdölchemie	MIKADO®
DyStar	Exelixis
Tropon	Sybron
Basics	Lyondell polyols
Schein	RID
H-acid	LION Bioscience
U.S. livestock vaccines	Misung
Combitherm films	Pursell
ChemDesign	CSM

Annual sales of all transactions since 1996:
€10 billion = 1/3 of total portfolio

Without wishing to go into details of the individual transactions, here is a list that shows the general thrust of our portfolio management activities. Some areas of the capital market are often unaware of the many small steps we have taken.

However, every step is based on a very careful analysis and is part of a considered policy. If we conclude that specific operations do not have adequate prospects within the Bayer Group, we look for alternative solutions for them. From the number of transactions we have undertaken in the past couple of years alone, it is quite clear that we are indeed consistently streamlining our portfolio.

At the same time, we are selectively investing to strengthen our core competencies.

Our total acquisitions and divestments since 1996 equate to annual sales of €10 billion. So over the past five years we have restructured activities equivalent to about one third of our current portfolio.

Of course we would basically be prepared to transact a so-called "mega-merger". However, our yardsticks are the criteria I already mentioned – management control, strengthening our core business, and cost efficiency – not simply the degree of publicity we could attract.

Organization

1. **Preserve corporate identity**
2. **Maintain unified organizational framework**
3. **Be flexible for cooperations and alliances**

Of course there are alternatives to our corporate strategy – including the resolution put forward at today's meeting by the U.S. investment company Tweedy, Browne that the company should be split up.

However – as already explained in our written statement – we do not believe that dividing Bayer AG into a number of separate entities is the right way forward. We have frequently examined such options in recent years because we believe that one of the Board of Management's fundamental responsibilities is to regularly consider which structures and forms of organization are most conducive to achieving the company's strategic goals and creating value in the long term.

No-one should lay claim to absolute wisdom on this point. Evidently, there can be no certain truths, any more than there is any single "right" way forward that will guarantee success.

The important thing is to choose the alternative with an acceptable risk profile that offers the best long-term value creation potential.

We are firmly convinced that splitting up the company would not satisfy these conditions. The related costs and risks would be considerable. The idea that the value of the independent entities could rise faster than that of the company in its current form is based largely on speculative assumptions about future trends and valuations.

The favorable or unfavorable experience gained by other companies that have chosen demerger is not in itself a convincing argument. After all, every case is different.

We can see clear synergy potentials in running our various businesses as parts of a unified group. These arise not least from joint management and the use of a common global infrastructure.

This generates additional opportunities, for example in opening up new markets. The innovative strength and growth potential of the whole unit is greater and can be utilized more effectively than if it were broken down into its component parts.

By contrast, demerger would provide neither operational nor strategic benefits, because our current structure already ensures that each business can be managed and controlled according to the success factors that are specific to the markets and technologies concerned.

Despite all the theories and all the pros and cons, the decisive factor in the end is commercial success. What counts are good figures and an adequate, sustained increase in value that is not superficial or speculative in nature. These are the criteria on which we intend to be judged.

In the past six months we have obtained the advice of two renowned investment banks to review our strategy for optimum value creation.

Following extensive analyses, they confirmed that we can realize our potential to raise value as a conglomerate with a single corporate identity on the capital market and that we can remain successful in the future provided that we ensure profitable growth on a par with that achieved by the leading companies in each of our fields.

Since we believe we have good reason to be confident about the prospects for continued profitable and competitive growth of our business, we have again decided to make systematic use of the opportunities inherent in our present structure as a single legal entity.

We will focus our attention on achieving these goals rather than on demergers or spin-offs that involve considerable risks and expense but do not in themselves enhance performance.

We are confident that the future development of our company will justify the decision to remain a single entity.

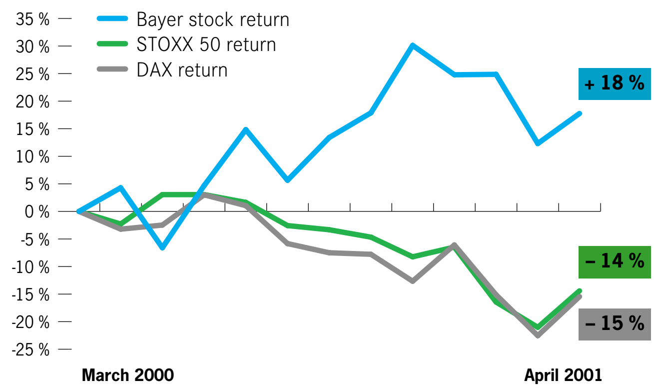
I know that the vast majority of our employees at all levels support this course of action. And we regard the motivation of our employees as another major factor in the success of our operations. We are all committed to ensuring that Bayer continues to develop successfully through competitiveness and high earning power in all of its businesses – not to splitting its identity and unity.

Despite a unitary structure, we remain flexible enough to respond if real opportunities arise for significant external growth in the life sciences. If such opportunities require a reorganization of the group, our existing structure provides the scope for a swift response and does not limit us at all in this respect.

However, our strategic focus remains on our potential for organic growth. In short, we see no reason to split up the company at present. However, we will continue to monitor the situation and we are sure that we will find the right response to the challenges facing us.

May I therefore ask you to reject the resolution proposed by Tweedy, Browne, to divide the company into separate entities.

Bayer Stock (12 months)



1st Quarter 2001: Key Data

Sales from continuing operations €7,662 million (+ 10 %)

OPR from continuing operations before exceptionals €936 million (– 7 %)

Gross cash flow €1,067 million (+ 3 %)

Net income €442 million (– 21 %)

Last year our corporate strategy was also rewarded on the stock market. With a performance of 23 percent despite very difficult market conditions, Bayer stock did far better than either the EURO STOXX 50 or the DAX. Similarly, looking at the past 12 months, we had a clear outperformance of more than 30 percentage points relative to these two indices.

The trend in our share price in the first four months of this year was obviously disappointing. However, the same applied to the DAX and the EURO STOXX 50.

If we include the dividend payment that is to be voted on today, Bayer stock again outperformed the market in the first four months of this year.

After an outstanding performance in 2000, we got off to a more modest start in the first quarter of this year.

We posted a 10 percent advance in sales from continuing operations, to €7.7 billion, while the operating result slipped by 7 percent before exceptional items, to €936 million. The gross cash flow improved by 3 percent to €1.1 billion. Net income declined by 21 percent year-on-year to €442 million, partly because of higher charges for restructuring.

In evaluating these figures, we clearly need to take into account our very strong performance a year ago. The first quarter of 2000 was the best in Bayer's history, with sales amounting to €7 billion, a quarterly operating result exceeding €1 billion for the first time ever, and a similarly high figure for the gross cash flow.

Against this backdrop, our 10 percent advance in sales in the first quarter of this year and the 3 percent increase in the gross cash flow to €1.1 billion deserve special mention.

6 percentage points of this sales growth were due to price increases, while a further 6 points resulted from acquisitions and 1 point from favorable exchange rates. Lower volumes diminished sales by 3 percentage points.

This decline in volume sales was due mainly to the weaker business in North America, were sales were only 5 percent above last year. By contrast, we again posted double-digit growth rates in Europe and the Far East.

We have taken steps to counter the decline in operating profit. For example, we are pressing ahead with cost-containment programs in our U.S. operations and in the business groups.

1st Quarter 2001: Business Segments (€ billion)

	Sales	Change	OPR	Change	ROS %
Health Care	2.4	+ 4 %	0.36	+ 5 %	15
Agriculture	1.0	– 3 %	0.24	– 13 %	24
Polymers	2.8	– 17 %	0.23	– 28 %	8
Chemicals	1.2	+ 23 %	0.16	+ 23 %	13
Reconciliation	0.3		– 0.05		
Group (cont. ops.)	7.7	+ 10 %	0.94	– 7 %	12

Our earnings performance was characterized by varying trends in the business segments, with both positive and negative developments to report.

Operating profit in the Health Care segment advanced by 5 percent to €360 million despite the difficulties in our biological products business. This performance maintains the segment's 15 percent return on sales.

We currently expect that the production shortfalls for biologicals will be overcome in the second half of the year. Our other products continue to perform well, so the upward trend in our health care business will then continue.

We remain committed to our target of a 20 percent return on sales in Health Care in 2002.

The Agriculture segment was affected by a weak start to 2001 in the United States. Business declined by 3 percent, while the operating result decreased by 13 percent. Nonetheless, this segment maintained its leading return on sales of 24 percent. An improving business environment and increasing sales of the newly acquired product lines FLINT® and MIKADO® will allow us to gain ground during the year.

We are not satisfied with the current situation in the Polymers segment, where the pressure on margins continued. Sales advanced by 17 percent, while the operating result declined by 28 percent, due mainly to the very much higher raw material costs compared with the first quarter of 2000. Our short-term goal remains to significantly improve our margins.

The Chemicals segment registered satisfactory 23 percent growth rates in both sales and operating profit, mainly in light of strong performances from the specialty chemicals operations of our subsidiaries.

We look to the full year 2001 with confidence.

The principal risk factors are the economic situation in the United States and the current delay in getting product releases for our biologicals back to normal.

Giving us grounds for optimism, however, are the more favorable trend in raw material costs, overall economic stability in Europe and Asia, and a recovery in the agriculture sector.

Against this background, it is difficult to make clear forecasts. We continue to budget for an improvement in earnings over the previous year.

Ladies and gentlemen, allow me to sum up:

Bayer is an extremely healthy and successful company that has generated an average stock market performance of 22 percent over the past ten years.

2000 was a year of strong growth in all core businesses.

Our goal for 2001 remains to raise sales and operating profit above the previous year's high levels.

We believe the Bayer Group has a bright future and see good prospects for a steady increase in the company's value.

I am optimistic that in 2001 our stock will achieve a strong performance for the eleventh year in succession.

Thank you for your attention.

Keen interest in the company's fortunes: 7,300 people came to the Annual Stockholders' Meeting in Cologne to hear about business developments at Bayer.

Support for Bayer's strategy

About 7,300 stockholders, stockholders' nominees and guests attended the 49th Annual Stockholders' Meeting of Bayer AG at the Cologne Exhibition Center. Roughly 36 percent of the €1,870 million capital stock was represented. Following a speech of welcome by Supervisory Board Chairman Hermann J. Strenger, Management Board Chairman Dr. Manfred Schneider reported on the company's performance. The Board of Management and Supervisory Board then took questions from stockholders and their nominees.

"If Bayer is managed as well in the future as it has been until now, no drastic changes will have to be made. The figures are clearly in Bayer's favor. I can only say to the Board of Management and the employees: keep up the good work!" This was how one of the first speakers expressed support for Bayer's strategy, urging the Board of Management to stand firm in the face of a U.S. investment fund's proposal that the company's operations be divided up into separate entities. The representative of an association of small stockholders advised the company to stand by its proven four-pillar strategy: "The majority of Bayer stockholders will back you up in this decision," she said. The question of which corporate structure is best for Bayer was a major focus throughout the discussion.

Dr. Schneider, who had already explained the management's position at length in his speech, once again took a firm stance during the discussion: "We are absolutely convinced that our course is not just strategically correct, it is also the best way to enhance our corporate value over the medium and long term." He argued that while the principal reason put forward for splitting

Before the start of the event, visitors gathered in the lobby of the Cologne Exhibition Center (above). A number of booths had been set up, providing information on products such as Canesten®, a medicine to combat fungal infections (left).

up the company was the possibility of a short-term rise in the price of the stock, this would depend mainly on speculative factors. For Dr. Schneider, one thing was clear: dividing Bayer into several separate entities would have very little significance for either the strategic management or the day-to-day running of the company's operations. "Why should a demerged pharmaceutical company perform any better than our business group?" he asked. "If our Pharmaceuticals Business Group really is too small – as some people are implying – then spinning it off will not help."

Asked why Bayer was reluctant to make new acquisitions, the Bayer CEO replied that he didn't see it that way. "We take advantage of every opportunity when a business is a good strategic fit for us and offers the right kind of financial perspectives." However, 50 to 60 percent of all possible deals did not meet these basic requirements.

"We're certainly not going to do anything simply in order to get bigger, to make the headlines, or to follow what may sometimes be dubious advice proffered by outside experts. Because unlike them, we have to live with the consequences of wrong decisions." Dr. Schneider said it was important to remember that mega-transactions can jeopardize a company's existence, its stockholders' capital, and not least the livelihood of thousands of people.

When asked about the agrochemical business of Aventis, his reply was: "Aventis would be a possible way to strengthen our crop protection business." In this context, he described the strengths of Bayer's agrochemical business, saying that the key factors are innovative, high-earning products and an efficient organizational structure. "We have both these things, along with a leading global position in fungicides, insecticides and the highly profitable home garden business. Here we can compete with anyone." In this connection, Schneider pointed out that Bayer also has a first-class animal health business.

Another question concerned the new products in Bayer's pharmaceutical pipeline. Dr. Schneider replied that the erectile dysfunction treatment vardenafil is the next promising pharmaceutical the company plans to launch. This product's peak sales potential is put at €900 million. Bayer's first cancer drug

A large poster drew attention to Bayer's upcoming listing on the New York Stock Exchange in September 2001.

Stockholder Horst J. Steinharter praised Bayer's management and employees.

Information at the click of a mouse: the Internet café was also a big hit.

– Viadur® to treat prostate cancer – was introduced just a month ago, and is expected to achieve annual sales of about €150 million. "This will be followed in 2003 by two further cancer treatments with combined sales potential of €800 million and an antibiotic called faropenem that we believe will achieve sales of €500 million a year," said Bayer's CEO.

In the course of the discussion, Dr. Schneider referred several times to the company's alliances in pharmaceuticals: "This research network of ours is clearly setting standards that even much larger companies basically are not exceeding."

One attendee asked at which German site Bayer's recombinant factor VIII drug Kogenate® would be manufactured. Dr. Schneider emphasized that no decision had yet been made between Bitterfeld – where the state of Saxony-Anhalt has offered €100 million in financial incentives – and Wuppertal. He stressed that Bitterfeld would not be an option were it not for these incentives, since Wuppertal has an established infrastructure, close proximity to research facilities and the capacity for biotechnological process development.

Another topic of discussion was whether patent-protection issues in South Africa are putting pressure on research-based pharmaceutical companies. Dr. Schneider outlined Bayer's basic position on this subject: "We are convinced – and experience has shown quite clearly – that the principles of market economics, such as freedom of pricing and supply – including the related earnings potential – are crucial to the innovative capability of the pharmaceutical industry. Secure patent protection plays a pivotal role, because without the prospect of a reasonable profit, neither investors nor companies would provide the necessary funding for the extremely costly and financially risky research activities." According to Dr. Schneider, however, profit margins in the pharmaceutical industry are increasingly under threat, with the recent developments in South Africa definitely a contributory factor. He said those who see an exclusive focus on pharmaceutical activities as the only acceptable strategy and the absolute key to success would do well to remember this.

Yet Dr. Schneider also stressed that the pharmaceutical industry should do everything in its power to ensure that all those afflicted by illness have access to the necessary drug treatment wherever possible: "We mean what we say on this. We provided the World Health Organization with drugs to combat sleeping sickness – free of charge."

Pleased with the outcome of the Annual Stockholders' Meeting: Hermann J. Strenger, Chairman of the Supervisory Board, and Bayer CEO Dr. Manfred Schneider.

One bank representative asked about the Polymers segment's prospects for growth, which Dr. Schneider described as very good: "The growth rates we anticipate for the medium term range from 9 percent for Makrolon® to between 2 and 3 percent for our rubber business." Bayer will invest roughly €1.5 billion in its polymer activities this year alone.

Regarding the agreement to safeguard the future of the German sites, one attendee questioned whether Bayer can afford its policy of not dismissing any staff for economic reasons, considering the stiff global competition. Dr. Schneider responded that Bayer has a social responsibility to work together with employee representatives to achieve the sometimes difficult adjustments and restructuring goals at its German sites. "You can imagine what the alternative would be if we didn't do things this way," he said. "That's why we believe this consensus model is the right way to go." At the same time, he added, it was important to remember that Bayer AG has reduced its workforce from 63,000 to 40,000 over the past ten years to help achieve the necessary reduction in costs.

As well as words of praise and appreciation for the achievements of management and employees, there was some criticism on issues such as compensation for World War Two forced laborers, raw material procurement in Third World countries, and drug safety. Dr. Schneider refuted these claims, which were without foundation.

Also, as in past years, "critical" stockholders again spoke in their usual manner on such topics as the use of crop protection products and allegedly unfair competitive practices. Dr. Schneider replied: "Once again, the polemics and the mixture of opinions, supposed facts and repeated allegations that we have heard do not justify any of the proposed counter-resolutions."

At the end of the meeting, an overwhelming majority of the stockholders voted in favor of the resolutions proposed by the management (see box at left). All the counter-resolutions were rejected.

Resolutions of the Annual Stockholders' Meeting

Of the €1,870 million capital stock, 36 percent was represented at the Meeting. All the resolutions proposed by the Board of Management and the Supervisory Board were passed by overwhelming majorities. The decisions taken were as follows:

- The balance sheet profit of €1,022 million will be used to pay a dividend of €1.40 per share.
- The actions of the Supervisory Board and the Board of Management are ratified.
- The Articles of Incorporation are revised in accordance with the proposal.
- New Authorized Capital is created and Article 4 of the revised Articles of Incorporation is amended accordingly.
- The Board of Management is authorized to buy back shares of the company.
- PwC Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Essen, are appointed as auditors for the 2001 fiscal year.
- The additional resolution submitted to the Meeting pursuant to Article 122, paragraph 2 of the German Corporations Act (Aktiengesetz) is rejected.


Dr. Pol Bamelis


Dieter Meinhardt


Dr. Klaus Alberti


Detlef Fahlbusch


Petra Kronen


Dr. Eugen Velker


Siegfried Wendlandt

Changes on the Supervisory Board and Board of Management

At the start of the Annual Stockholders' Meeting, Hermann J. Strenger, Chairman of the Supervisory Board, bade farewell to Management Board member Dr. Pol Bamelis upon his retirement and to Supervisory Board members Dieter Meinhardt, Dr. Klaus Alberti and Detlef Fahlbusch.

He welcomed three new members of the Supervisory Board: Petra Kronen, Dr. Eugen Velker and Siegfried Wendlandt. The full text of Mr. Strenger's speech is printed below.

Dr. Bamelis,

You will finish your active duty on the Board of Management in just a few days at the end of April.

You have served our company for 36 years and have been a member of the Board of Management for the last 10 years. You made special contributions as Chairman of the Board Committee for Research and Development, as a member of the Board Committee for Technology and Environment and as the representative for the Agriculture business segment.

You studied chemistry at the Catholic University of Leuven, Belgium, and started your career with Bayer AG in 1965 at the Central Scientific Laboratory in Leverkusen. After working for many years at Bayer Antwerpen N.V., you became General Manager of the Rubber Business Group in Leverkusen in 1986. In 1989 you transferred to the Corporate Staff Division as head of Corporate Planning, and on May 1, 1991 – almost 10 years ago to the day – you were appointed to the Board of Management.

Dr. Bamelis, may I take this opportunity to express my gratitude to you, both personally and on behalf of the Supervisory Board, for your exemplary dedication and loyalty. We wish you the best of health and every happiness in the future.

Ladies and gentlemen,

During last year Dieter Meinhardt and Dr. Klaus Alberti left the Supervisory Board after three and more than eight years of service, respectively. At the end of this month, Detlef Fahlbusch will also step down from the Supervisory Board to assume new duties.

On behalf of the Supervisory Board, I would like to thank these gentlemen for their constructive and valuable contributions to our work. We wish them the best of luck for the future.

The seats vacated by Mr. Meinhardt and Dr. Alberti were filled last year by Petra Kronen and Dr. Eugen Velker.

On May 1 of this year, Siegfried Wendlandt will succeed Mr. Fahlbusch as a member of the Supervisory Board. Mr. Wendlandt is North Rhine District Secretary of the German Mine, Chemical and Power Workers' Union.

Mr. Wendlandt, I look forward to working with you.

Alliance between Bayer and Millennium yields rapid success

First drug candidate from genome research to enter clinical testing

The world's largest pharmaceutical research alliance – between Bayer and Millennium Pharmaceuticals of Cambridge, Massachusetts, U.S.A. – is proving successful. In an unusually short period of time, the two companies discovered the first new genomics-derived drug candidate – a substance to effectively combat a target protein in human cells that plays a role in cancer development. Clinical trials are expected to begin shortly.

In less than 18 months, Bayer and Millennium succeeded in finding a pathogenic gene and a drug candidate to combat it. Bayer developed specific screening models to identify chemical compounds that block the adverse effect of a certain protein.

Mass spectrometry is one of the techniques Millennium's researchers use in drug discovery.

With the help of high-throughput screening, which is used to test up to 200,000 substances a day, a specific active substance candidate was discovered that has proven highly effective in several cancer models in animals. The substance will now undergo clinical testing in humans.

"Genomics-based drug discovery has enormous potential," says Professor Wolfgang Hartwig, head of worldwide pharmaceutical research at Bayer. "The discovery of this new active substance is an important milestone for the pharmaceutical industry and for the alliance between Bayer and Millennium. It confirms Bayer's strategy of using leading-edge genomic technologies for drug discovery. We look forward to the continued success of the alliance."

"Genome research is extremely valuable in drug discovery," says Millennium CEO Mark Levin. "This new compound for cancer therapy is an excellent example of the efficiency of our technology platform. The alliance with Bayer allows us to tap synergy potential for the development of new therapies that can revolutionize medicine and drug discovery."

The alliance between Bayer and Millennium began in September 1998. In return for total payments of more than €450 million, including an equity investment in Millennium, Bayer receives access to key technologies in modern genome research and a flow of new genomics-based targets for drug development.

Under the terms of the five-year agreement, Millennium will supply 225 previously unknown pathogenic genes for exclusive use by Bayer in the fields of cardiovascular disease, cancer, pain, hematology, urology and viral infections. The companies also plan to expand their collaboration to include new HIV and thrombosis research programs.

More than 90 validated drug targets were identified during the first two years of the alliance. This success led the two companies to expand the agreement's initial objectives in May 2000. Millennium will aim to double the number of targets it supplies each year from 50 to 100.

Drug targets are proteins that are expressed by human genes and can cause diseases such as cancer. They are investigated using test systems designed to discover new drug products. About 500 targets have been identified by pharmacological research over the past 100 years. Genome research will enable the identification of thousands of new targets to serve as the basis for treating diseases that have so far proven incurable.

Agreements on research, development and commercialization

Alliance with U.S. biotech company CuraGen

Bayer and CuraGen Corporation of New Haven, Connecticut, U.S.A., have announced an unprecedented collaboration comprising two agreements. The first creates a comprehensive alliance to discover, develop and jointly commercialize innovative medicines to treat obesity and adult-onset diabetes. The second agreement concerns the application of special genomic technologies to evaluate the clinical development perspectives of Bayer's early-stage pipeline of pharmaceutical compounds. The goal is to make pharmaceutical research and product development at Bayer more effective.

The obesity and diabetes agreement will enable the companies to develop breakthrough medications using gene analysis. CuraGen will provide 80 drug targets over the first five years of the collaboration and grant Bayer access to its functional genomic technologies and pharmacogenomic expertise. Bayer will contribute its high-throughput screening, its pharmacology and development expertise and other technologies in the search for compounds to combat the pathogenic target proteins supplied by CuraGen. The companies aim to bring to clinical development 12 candidates against obesity and diabetes. The research and development costs of up to US$ 1.34 billion will be split 56 percent to 44 percent between Bayer and CuraGen over a 15-year period. The companies will also share profits in the same ratio.

The second agreement involves using pharmacogenomic and toxicogenomic technologies to evaluate the success potential of Bayer's early-stage drug candidates. This will cut the cost and time of product development and help to create more effective medicines. The expandable collaboration – which is initially scheduled to run for five years – involves an investment by Bayer of $124 million, comprising $39 million in committed funding and an $85 million equity stake in CuraGen.

Dr. Michael McKenna, Vice President of CuraGen, with a DNA model.

Further crop protection purchase

Bayer acquires corn herbicide from Syngenta

Bayer has further enhanced its crop protection business in Europe by acquiring the leading corn herbicide MIKADO® from Syngenta. The €115 million purchase will increase Bayer's annual herbicide sales by €50 million. It is a further step in Bayer's strategy of investing in profitable core businesses, following the acquisition of the FLINT® line from Novartis.

MIKADO® gives corn protection from weeds.

MIKADO® is registered in the nine most important corn (maize) growing countries in Europe. It has high brand value and excellent properties with respect to crop safety and its spectrum of efficacy.

The acquisition is an important strategic move to further strengthen Bayer's herbicide business. MIKADO® fits extremely well into the company's existing herbicide portfolio. The MIKADO® purchase includes the business in the European Union and EFTA, as well as associated patents, registrations, trademarks, and production and formulation know-how.

Bayer's Crop Protection Business Group is one of the world's leading suppliers of agrochemical products. Its 7,500 employees generated sales in 2000 of approximately €2.5 billion.

U.S. listing in September

Bayer stock to be traded on Wall Street

Bayer plans to list its shares on the New York Stock Exchange – the world's most important financial market – on September 26, 2001.
The aim is to increase the attractiveness of Bayer stock for U.S. investors and thus broaden its stockholder base. The move will also allow Bayer to use its shares as a currency to finance possible collaborations or acquisitions in the United States.

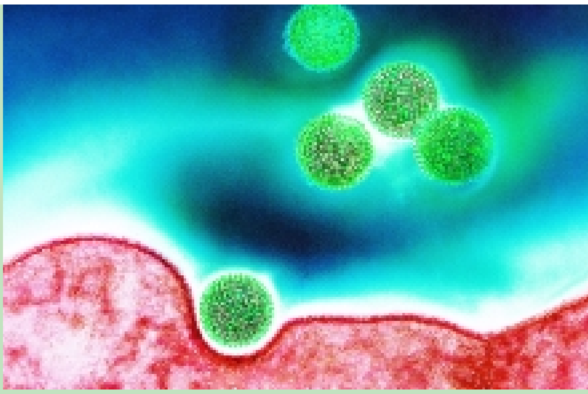
Numerous investor relations and marketing activities are planned in the period leading up to the listing to increase awareness for Bayer among investors and customers in the United States.

Bayer Diagnostics und Innogenetics

HIV and hepatitis C tests

The Tarrytown, New York-based Diagnostics Business Group of Bayer Corporation has signed an agreement with Innogenetics of Ghent, Belgium, concerning HIV and hepatitis C tests. Under the terms of the agreement, Bayer acquires the exclusive worldwide rights to sell and market Innogenetics' LiPA HIV and LiPA HCV products and their future generations. These high-quality tests are a perfect complement to Bayer's existing portfolio of nucleic acid-based HIV, HCV and HBV (hepatitis B) tests. They will be sold under the tradename VERSANT™. The agreement gives Bayer the largest range of HCV and HIV nucleic acid-based tests.

Innogenetics will be responsible for the research, development and manufacturing of the existing products and their future generations over the term of the agreement. Included is an initial payment of €10.4 million by Bayer Diagnostics, as well as future milestone payments and R&D funding. In addition, Bayer will make an equity investment of €10 million in Innogenetics.



On the trail of HIV (photo) and hepatitis viruses: Bayer has acquired worldwide rights to sell and promote HIV and HCV tests from Innogenetics.

Production base for Asian crop protection market expanded

New herbicides facility in Thailand

To further expand its production base in the Asian crop protection market, Bayer inaugurated a new US$ 1.4 million herbicide production facility at its site in Bangpoo, Thailand.

The new unit at Bangpoo has a formulation capacity of more than 2,000 tons per year of crop protection products, and this volume can be quickly expanded depending on market development. The plant's main products will be the new rice herbicide fentrazamide – which will be marketed under the trade names Lecs® and Lecspro® in Asia – and the new vegetable and grass herbicide Drago® containing the active ingredient flufenacet.

The efficacy of rice herbicides is tested on seedlings in the laboratory.

Asia is one of the most important markets for Bayer's Crop Protection Business Group, accounting for about 20 percent of sales.

Rubber production

€100 million investment

To meet the rising demand for synthetic rubber, Bayer is investing over €100 million to expand its EP(D)M (ethylene-propylene-diene rubber) production facilities at Marl, Germany and Orange, Texas. The addition of a third production line in Marl will boost the capacity of that facility by 60,000 tons to 115,000 tons, while the modernization of the plant in Orange will increase capacities in the United States to 70,000 tons.

With the expansion of these two production facilities, Bayer's long-term aim is to establish itself as one of the world's largest producers of EP(D)M.

U.S. magazine “Fortune” publishes its list of most respected companies

Bayer is among the top companies in the United States

Bayer is one of the most respected companies in the United States. It ranked third in the chemicals category of “Fortune” magazine's list of “America's Most Admired Companies.” U.S. companies DuPont and Dow Chemical topped the list.

Bayer was named the best non-American company in the chemicals sector.

“We are pleased with the trust and high regard that the top managers and analysts in the U.S. have for us,” said Bayer CEO Dr. Manfred Schneider. “The United States is our most important single market.”

Overall, 10,000 leading business executives and securities analysts took part in the Fortune poll. The companies were graded using eight different criteria: innovativeness, management quality, employee talent, financial soundness, use of assets, long-term investment value, social responsibility, and product quality and services. Fortune has compiled its list of “America's Most Admired Companies” for the past 19 years.

Top honors from 3,000 European pharmacists

OTC Mirror Award 2000

There's one thing Europe's pharmacists agree on: they're more than satisfied with the service they get from Bayer. The maker of Aspirin® gives them precisely the support they need to run an efficient, customer-oriented business. This was the outcome of a Europe-wide survey conducted by the U.K.-based Institute for Medical Statistics (IMS), which deals exclusively with the world of pharmaceuticals. The IMS presented Bayer's Consumer Care Business Group with the "OTC Mirror Award 2000" in recognition of the survey's results.

Approximately 3,000 pharmacists in 11 countries were asked to rate their cooperation with 16 international pharmaceutical companies and the image of their products. Bayer took top honors, as the majority of pharmacists agreed that "Bayer supplies very effective and high-quality products." Those surveyed were also especially satisfied with Bayer's information and training activities for pharmacy staff.

Bayer received top honors from Europe's pharmacists.

Supply of polyurethane base products

Bayer and Lyondell to build production facility in Rotterdam

A joint venture for the construction and operation of a world-scale production facility for polyurethane base products has been set up by Bayer and Lyondell Chemical Company of Houston, Texas. The new facility, which is to be built in Maasvlakte near Rotterdam, Netherlands at a cost of more than €500 million, is scheduled to come on stream in 2003. Bayer and Lyondell will each have a 50 percent share in the joint venture, and each company will off-take half of the annual production of 285,000 tons of propylene oxide and 640,000 tons of styrene. The boards of the two companies have already given their approval to the project.

The project represents another important step towards safeguarding and optimizing Bayer's propylene oxide supplies. It also gives the company long-term access to this base product for polyols at low cost. Bayer's share of the styrene production roughly corresponds to its captive requirements.

The Polyurethanes Business Group currently has more than 20 production facilities in Europe, North and Latin America, and Asia.

Europe

Accounting functions reorganized

Bayer will merge its European accounting functions by the end of 2002, opening shared services centers in Leverkusen and Barcelona that will operate as separate companies within the Bayer Group.

The shared services centers will make the accounting procedures for the business groups and European subsidiaries more efficient, improve service support and facilitate a unified reporting system.

Boost for German sites

€8 billion investment through 2004

Bayer plans to enhance the international competitiveness of its German sites, and thus secure jobs over the long term, with investment totaling roughly €8 billion through the end of 2004. More than €2.3 billion is earmarked for new facilities and capacity expansions alone, while a further €5.7 billion will be spent on maintenance and R&D. All sites of Bayer AG will be significantly strengthened through investment in expanding existing facilities and erecting new ones. Projects include the expansion of isocyanate and precursor production at Brunsbüttel; Makrolon® and MDI production at Uerdingen; and TDI and films production at Dormagen, as well as expansion of that site's crop protection facilities and the announced shift in focus from basic to specialty chemicals at the Leverkusen site. A further example is the €48 million investment to expand capacities for the important coating raw material precursor HDI. A new HDI plant is currently under construction on a 3,000-square-meter site in Leverkusen. This 35 meter-tall production facility with its adjacent tank farm is to go on stream in mid-2002 and will double the current capacity to 60,000 tons per year. The company processes HDI into Desmodur® N predominantly in Leverkusen and Dormagen, primarily for use in automotive coatings.

Expansion of Makrolon® capacities at Uerdingen is helping to safeguard jobs.

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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.