Shaping the Future

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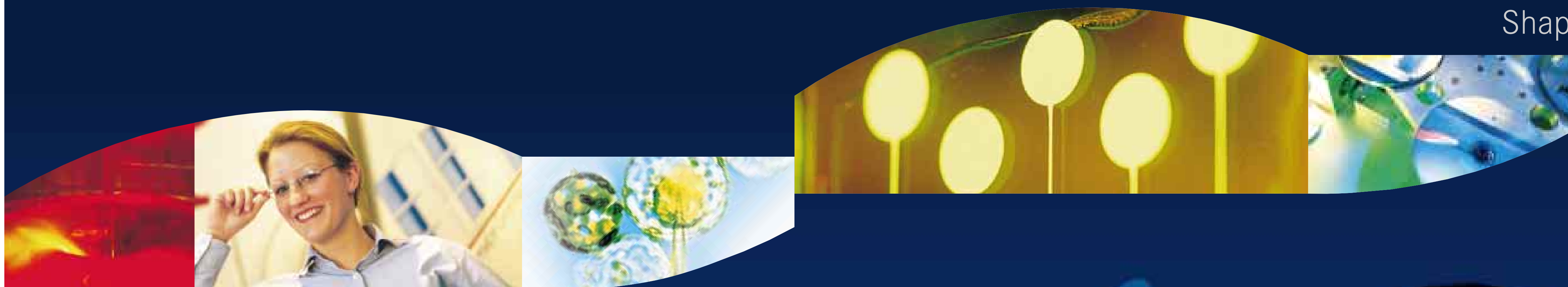


Board of Management

Dr. Manfred Schneider

Born in 1938. Doctorate in business administration. Joined Bayer AG in 1966, Board member since 1987, Board Chairman since 1992. Chairman of the Board Committee for Corporate Coordination and a member of the Board Committee for Finance.

Dr. Pol Bamelis

Born in 1939. Doctorate in chemistry. Joined Bayer AG in 1965, Board member since 1991. Chairman of the Board Committee for Research and Development and a member of the Board Committee for Technology and Environment; representative for the Agriculture business segment.

Dr. Frank Morich

Born in 1953. Doctorate in medicine. Joined Bayer AG in 1982, Board member since 2000. Member of the Board Committee for Research and Development and the Board Committee for Marketing and Logistics; representative for the Health Care business segment.

Dr. Attila Molnar

Born in 1948. Doctorate in chemistry. Joined Bayer AG in 1978, Board member since 1999. Labor Director, Chairman of the Board Committee for Human Resources and a member of the Board Committee for Technology and Environment; representative for the North America and Mexico region.

Dr. Udo Oels

Born in 1944. Doctorate in chemistry. Joined Bayer AG in 1976, Board member since 1996. Chairman of the Board Committee for Technology and Environment and a member of the Board Committees for Research and Development and Corporate Coordination.

Werner Wenning

Born in 1946. Joined Bayer AG as commercial trainee in 1966, Board member since 1997. Chairman of the Board Committee for Finance and a member of the Board Committees for Corporate Coordination and Human Resources; representative for the Central and South America, Africa and Middle East regions.

From left: Dr. Udo Oels, Werner Wenning, Dr. Pol Bamelis, Dr. Gottfried Zaby, Dr. Manfred Schneider, Dr. Attila Molnar, Dr. Frank Morich, Werner Spinner

Werner Spinner

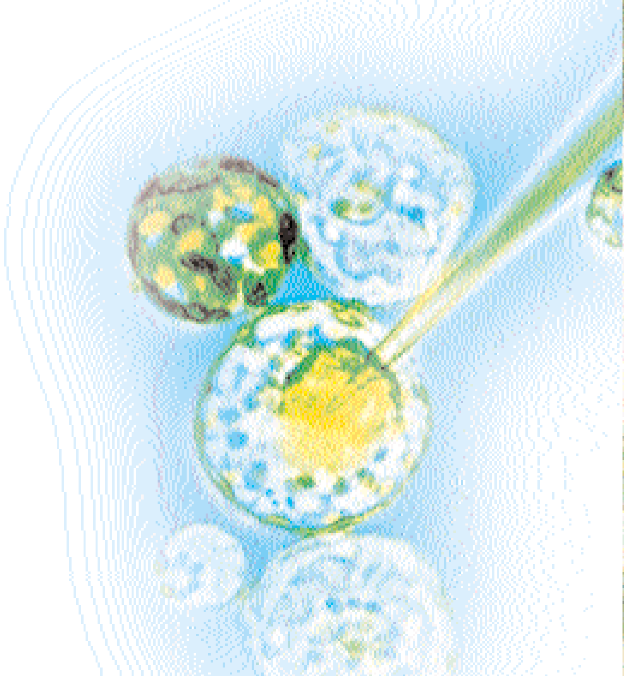
Born in 1948. Degree in business administration. Joined Bayer AG in 1974, Board member since 1998. Chairman of the Board Committee for Marketing and Logistics and a member of the Board Committee for Finance; representative for the Polymers business segment and the Far East region.

Dr. Gottfried Zaby

Born in 1950. Doctorate in chemistry. Joined Bayer AG in 1979, Board member since 2000. Member of the Board Committee for Marketing and Logistics and the Board Committee for Human Resources; representative for the Chemicals business segment and the Europe region.

State-of-the-art technology for tomorrow’s medicines

Continuing the search for drug candidates: Erin Chae works in Bayer Corporation’s High Technology Center in West Haven, Connecticut.



The complete mapping of the human genome is laying the foundations for the future of medicine. Bayer has risen to meet this great challenge, assembling a research platform that integrates all modern key technologies through strategic alliances, license agreements and scientific cooperations. The first drug product is expected to emerge from this platform within a few years.

It looks like an extra-terrestrial form of Morse code: “CTATGGT-TACTG” – four letters in random sequence – three billion characters all told, forming an unknown but absolutely fundamental language.

Deciphering and understanding this language is regarded as one of the greatest scientific challenges of our time, because the mysterious jumble of letters contains the secret of life: the building blocks of the deoxyribonucleic acid (DNA) found in the 23 human chromosome pairs. “A” stands for adenine, “C” for cytosine, “G” for guanine and “T” for thymine.

The seemingly chaotic sequence of these four letters forms the code containing the information for many thousands of human genes. As proteins, they control all the body’s functions. Yet they can also play a role in diseases, which is why they are so interesting and vital as potential targets for the medicines of the future. For one thing is certain: many serious illnesses are genetically predetermined.

The search for “targets” – the term scientists use to refer to therapeutically useful genes – is being carried out at a torrid pace. Over the past 100 years, pharmaceutical researchers have been able to identify only 500 such drug targets for use in pharmaceutical products. However, now that the human genome has been decoded, the number of possible drug targets will increase more than ten-fold in the coming years. This explains the importance of genomics for drug therapy – and for the pharmaceutical industry’s future economic success. After all, there is still no drug therapy available for two thirds of all known medical conditions.

Bayer is among the trendsetters in this field, and we expect to launch the first drug product from genome research within five to six years.

New enabling technologies have revolutionized production and research at West Haven. Above, David Eustice works with the high-throughput screening robot. Top left, Tevis Brunson inspects the dust collection hood of an automated weighing system.

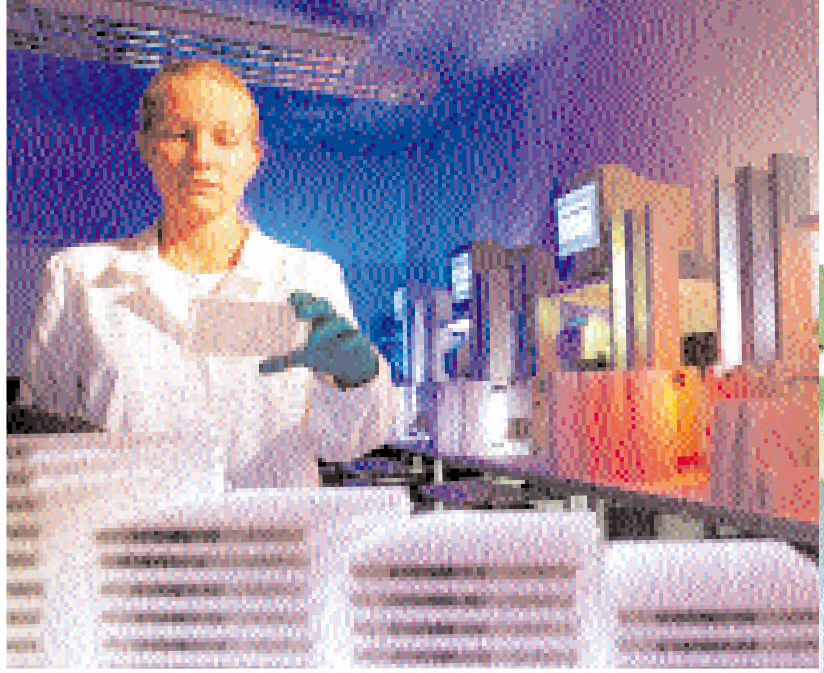
Our program is ambitious, but it is based on a solid foundation. The Pharmaceuticals Business Group set the course for these modern key technologies back in 1997 and has since registered an increase of more than 400 percent in the productivity of its research. This enhanced research capacity comes from cooperation and networking. Through alliances with leading research companies, we are combining our own competencies with specialist knowledge from external sources – giving us a pole position in all life-science research fields. We have so far invested a total of about €1 billion in strategic cooperations and license agreements in the life sciences.

In 1998 Bayer entered into the world’s largest genome research alliance with the U.S. company Millennium Pharmaceuticals. Since then about 300 Millennium experts have been working exclusively for Bayer. Their goal is to identify a total of 225 disease-related gene targets by 2003. By the end of 2000, Millennium had already identified about 90 therapeutically useful targets in the human genome. At the same time, we accepted into development the first drug candidate – for the indication cancer – to result from the alliance. Bayer is putting US$ 465 million into this collaboration – a promising investment in the future.

Systematic genome analysis is like an arithmetical problem with billions of unknowns. A torrent of numbers, data and information has been registered during the mapping of the genome. Every day, about 3,000 gene sequences and more than 2,000 other items of technical information are entered into hundreds of databases around the world for evaluation and analysis. The work of Millennium’s scientists alone has produced enough data to fill millions of printed pages. To sift through this data for the few sets it contains – the gene targets – that have the potential to yield useful results, we need powerful computers. In other words, work in the laboratories is supplemented by bioinformatics. The experts call this method “in silico.”

Bayer has a strong partner in this field, too: LION Bioscience AG, based in Heidelberg, Germany. This company is establishing the U.S.-based LION Bioinformatics Research Institute (LBRI) in Cambridge, Massachusetts, to regularly scan all available databases worldwide for gene targets that could be relevant in active ingredient development. LBRI has already supplied over 140 potential drug targets that are currently being tested in our laboratories. More than 60 patent applications from Bayer were made possible with the “in silico” target discovery method.

Pharmaceutical Research



At the pharmaceutical research center in Wuppertal, Marina Breuhaus inspects and sorts microtiter trays. Once these trays have been filled with test substances, they are passed through a high-throughput screening machine for evaluation of substance efficacy.

Finding potential target proteins in the genetic structure is one task on the path to new medicines – the other involves screening hundreds of thousands of substances against these targets. Both tasks require the use of new technologies, because in both cases the time factor is critical to achieving a competitive advantage.

Only a few years ago, about 100 substances were screened each day. This figure now stands at up to 200,000. A system developed jointly by Bayer scientists and experts from the Jena, Germany-based company CyBio AG is setting global standards in this field: in a matter of seconds, the CyBi® Screen Machine can test 1,536 different substances simultaneously on a handy microtiter tray and carry out an additional 90,000 measurements. State-of-the-art technology has placed this area of pharmaceutical research in the fast lane, where speed is crucial for success.

Bayer also exploits new technologies to produce the substances that are tested against the gene targets: using combinatorial chemistry – a rapid, systematic way of piecing together synthetic building blocks – our scientists are synthesizing 100 times as many substances as ten years ago. We now expect to come up with about 20,000 new substances yearly per laboratory unit. We have signed cooperation agreements with competent external partners who will supply a further 500,000 active substances by 2002. In this way, we are creating a substance library that is among the biggest and best in the pharmaceutical industry.

The decoding of the genome also gives scientists the opportunity to produce certain proteins in the laboratory for use as drugs, vaccines or antibodies. Here we have developed a network concept: our F.I.T. (Flexible Innovative Technologies) strategy covers everything from protein research to development and production. Bayer introduced the first medicine of this kind, Kogenate®, in 1993. This genetically engineered factor VIII has achieved worldwide success in the treatment of hemophilia. In the coming years, we will work with external cooperation partners to supplement Kogenate® with a number of promising biotech products that should place Bayer among the world's top five biotechnology companies:

- An interleukin-4 receptor antagonist currently in clinical development may offer improved treatment prospects for asthma patients.
- On the basis of the customized interleukin-2 selective agonist molecule, we are striving to develop a biotech medicine that strengthens the immune system against cancer and AIDS and kills malignant cells and viruses.
- The protein bikunin, which was discovered by Bayer researchers, will enable new therapies for cystic fibrosis.

Genome analysis, bioinformatics, high-throughput screening, combinatorial chemistry, biotechnology – the research platform assembled by Bayer incorporates all the current enabling technologies. Strategic alliances, the systematic use of advanced technologies in all areas and the profound scientific expertise of our researchers will create the basis for a successful future and for long-term growth driven by innovative medicines. Lehman Brothers' financial analysts, in a recent report, contend that "Bayer's research platform is one of the world's best in the pharmaceutical industry."

Shirley Hwang (above) is employed at Bayer's Berkeley, California facility, where the hemophilia drug Kogenate® is manufactured.

Our goal is to receive 20 new development candidates a year starting in 2004, from which we aim to launch two new pharmaceutical products annually. The prospects for this are bright: our Pharmaceuticals Business Group already took 11 new compounds from research into preclinical development in 2000. At the same time, the cash flow return on research – determined by comparing a product's research costs with its current net market value – will continue to improve steadily.

More than 80 percent of the new drug candidates that will soon be ready for market launch are considered "first in class," therefore signalling new therapeutic uses – and steady business growth. The products in our pipeline that will be introduced through 2005 have a combined peak annual sales potential of several billion euros.

In 10 years' time, this pipeline will contain only substances developed on the basis of Bayer's new research platform. The future of high-tech medicines has just begun.

The future is interactive

High speed, low costs, global competition – these are the advantages of electronic commerce. Bayer is steadily expanding its activities in this area, and within a few years the company will be doing about €5 billion a year in business through Internet auctions, electronic marketplaces or interactive customer portals.

Bayer headquarters, Leverkusen, Germany. Building K9, Room 233. It is just before four in the afternoon, and experts from the company's Procurement Division are meeting to decide on the purchase of 4.9 million plastic bottles for packaging various products of Bayer's Crop Protection Business Group. That's the yearly demand of all the company's European sites – and it represents a major transaction, worth more than €2.5 million. 14 suppliers are in the running. The next half hour will decide which of them make the final cut. So who's going to make the best offer? It's as simple as that.

After just a few minutes, the first offer appears on the computer screen: €10,000 below the starting price. The next one isn't far behind. The price curve on the screen starts to move. After half an hour, only two of the 14 suppliers are still in the running. They continue to undercut each other by €1,000 at a time. The race is on.

Then the gavel falls. The best offer is on the table. Going once, going twice, gone. The Bayer purchasers do the calculations – and they're satisfied. Their starting price was cut by more than 25 percent.

Bayer has been using Internet auction platforms since April 2000 to purchase goods and raw materials. And it's well worth it: since the proceedings take place online with 10 to 15 suppliers, this intensifies the competition and results in substantial savings.

Thus Internet auctions are becoming a key element of Bayer's worldwide e-commerce activities, which the company is steadily expanding with a team of more than 100 experts. The new technologies offer considerable advantages – not just in the purchasing of goods, but also in research and development, marketing and logistics – chiefly through closer links between Bayer and its partners and suppliers. In this way, day-to-day business processes can be made simpler, faster and more cost-effective.

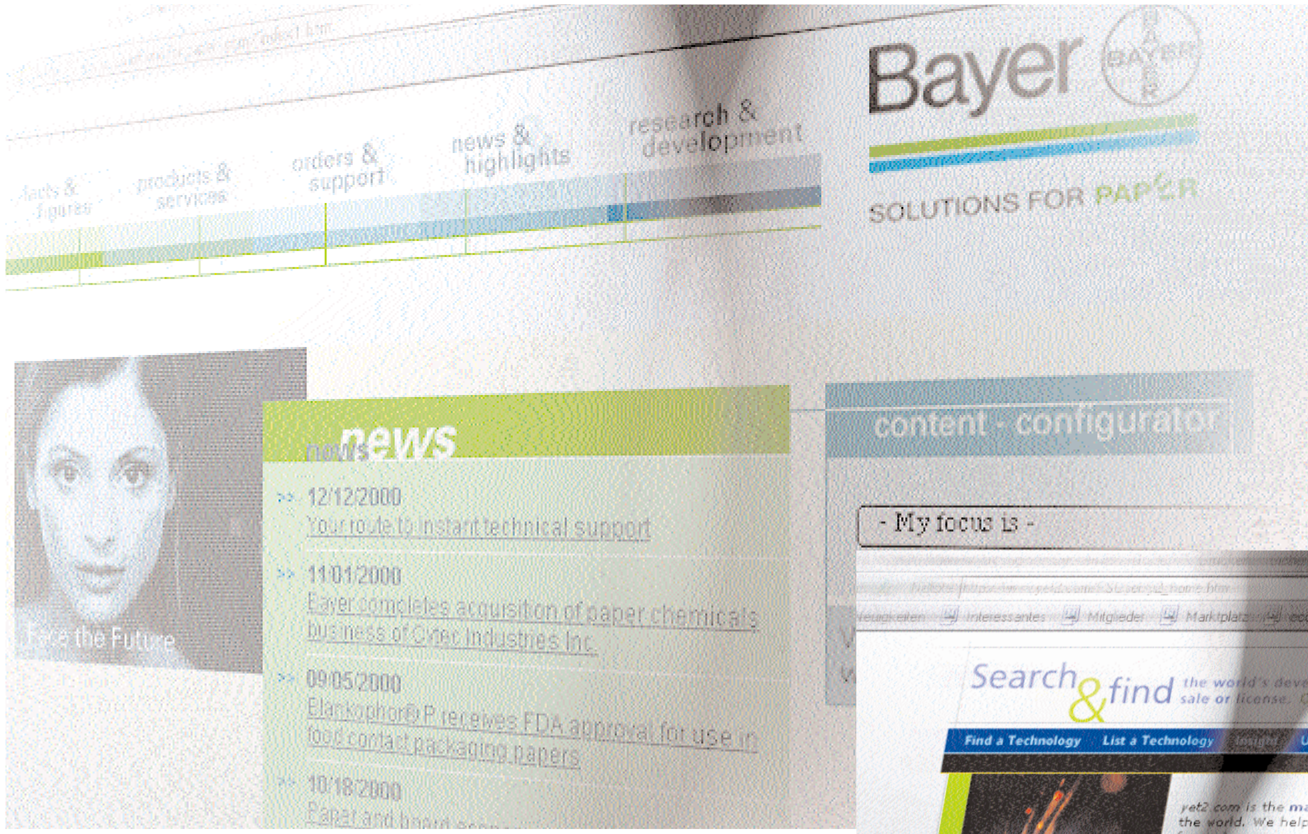
Bayer participates in a number of electronic marketplaces, including Omnexus (above), a trading platform for thermoplastics. Online auctions (right) are also becoming a part of day-to-day business at Bayer.

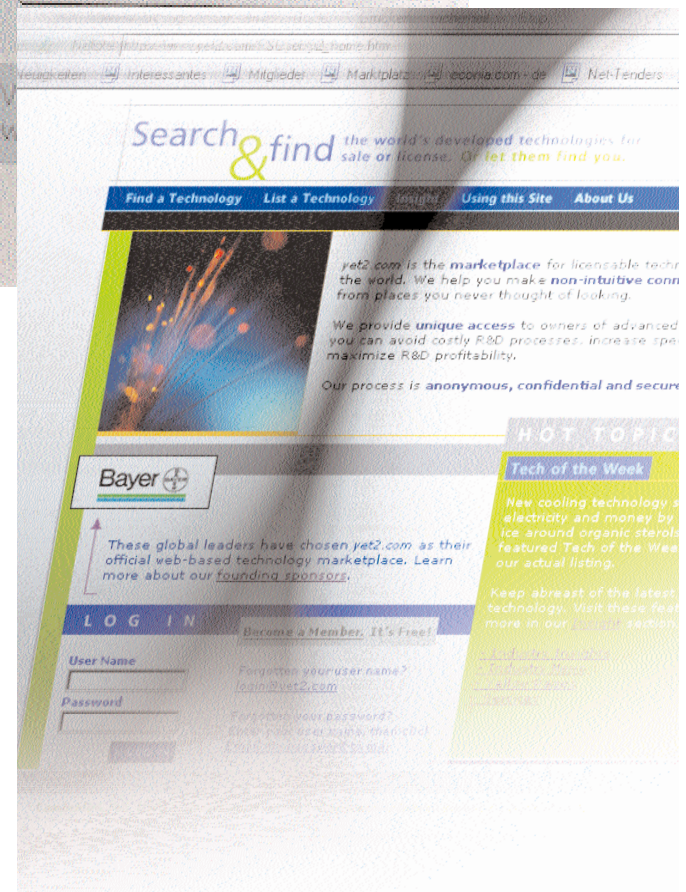
Brisk trade at virtual marketplaces

Online business-to-business (B2B) transactions form the cornerstone of Bayer's e-commerce activities. Bayer is both a participant in and a co-founder of a number of large electronic B2B marketplaces, at which raw materials and products, supplies, scientific expertise and services, even complete pre-assembled systems for production facilities are traded. Here are a few names and examples of Internet marketplaces:

- Elastomer Solutions for the elastomers sector (www.elastomersolutions.com)
- Elemica for chemical raw materials (www.elemica.com)
- Yet2.com for the exchange of patents, licenses and inventions – a technology platform for the marketing of companies' own know-how or fast access to new expertise (www.yet2.com)
- Omnexus – founded by major chemical companies – for thermoplastics (www.omnexus.com)

One example of how such marketplaces work is chemplorer, an independent platform set up specifically for the chemical industry by Bayer, Infraserv Höchst and Deutsche Telekom. Companies can use the site to trade supplies such as laboratory and electrical equipment and tools. Chemplorer – a prime example of one-stop shopping – pools the most important information about products and suppliers and compiles it in user-friendly catalogs at the address www.chemplorer.com. The simple touch of an electronic button is all it takes for the catalog on the screen to supply all the necessary facts – size, technical specification, color, delivery date and price. This makes it faster and simpler to order from the now more than 100 traders





Customers at "chemplorer" (above) can order at the click of a mouse from an electronic catalog containing nearly 800,000 frequently needed articles. Internet-based customer support is also gaining steadily in importance: for example, the "Solutions for Paper" portal (right) provides numerous ordering and information options for customers in the paper industry.

and distributors representing over 2,000 manufacturers. As a founding member of Chemplorer, Bayer contributed the electronic catalog which was created in 1998 and already contains more than 800,000 frequently needed articles. Internal procedures have been improved so that each organizational unit can order directly – by just a click of the mouse. This simplifies business processes and allows cost savings of over 60 percent compared to traditional purchasing methods.

Throughout the world, the volume of business transacted through virtual marketplaces is increasing all the time. Bayer aims to exploit this trend as a way of expanding its business and expects that e-commerce will soon account for sales of up to €5 billion a year. This is possible because these advanced processes have already reached large areas of the company: from procurement through manufacturing to sales, more than 100 such applications have been identified, with many already in place. And this trend continues.

Customer support via Internet

The real challenge of B2B is making the leap from neutral marketplaces to dedicated customer portals. We plan to use the new technologies to intensify contact with our customers and steadily improve products and services through the direct exchange of information. Bayer's customers can already place orders and call up information via Internet – around the clock. The existing customer portals of Bayer's business groups provide an overview of the products we supply and enable fast online transactions. Information portals specializing in customer service offer additional help with material selection, explain new developments and trends, and assist in planning. The solution portal www.plastics.bayer.com, online since November 2000, is an example of Internet-based support for our customers in the plastics processing industry. This gives a new, interactive dimension to customer relationship management.

At the end of 2000, about 100 of Bayer's biggest customers from the plastics and polyurethanes industries found a new Internet destination linking them directly with our company: www.bayerone.com. Following a successful launch, the portal is now open to all customers of the business groups in Bayer's Polymers and Chemicals segments. Detailed product information, order tracking and the ability to enter a new delivery address, for example, are now just a mouse-click away.

Other customer portals offer ordering facilities for agrochemical products (www.bayervalue.com); rubber supplies (www.bayerrubberone.com); coatings additives from the Bayer subsidiary Borchers (www.borchers.de); and other coating raw materials (www.bayer-ls.com). Customers from the paper industry can also access comprehensive information on Bayer products via Internet (www.solutionsforpaper.com).

Online business with consumers

Buying and selling at the click of a mouse, online information and customer support around the globe – the Internet is revolutionizing everyday business. Electronic trading with consumers is also becoming more and more common. Take online pharmacies, for example: since September 1999, Bayer Corporation in the United States has been distributing pharmaceutical products – especially Prolastin® for the treatment of hereditary pulmonary emphysema – at www.bayerdirect.com. Thus the Internet is allowing Bayer to enhance personal care and support for chronically ill patients.

Developing e-commerce structures

Our e-commerce activities are multifaceted – hardly surprising, considering that Bayer's range of sales products encompasses more than 10,000 articles. At the same time, we have to find a uniform entry into the virtual world market. One way we are achieving this is through the uniform design of Bayer's many Internet pages. We offer products and information online in some 200 business areas. Only uniform design and stringent navigation will allow us to achieve our goal of presenting one face to the customer.

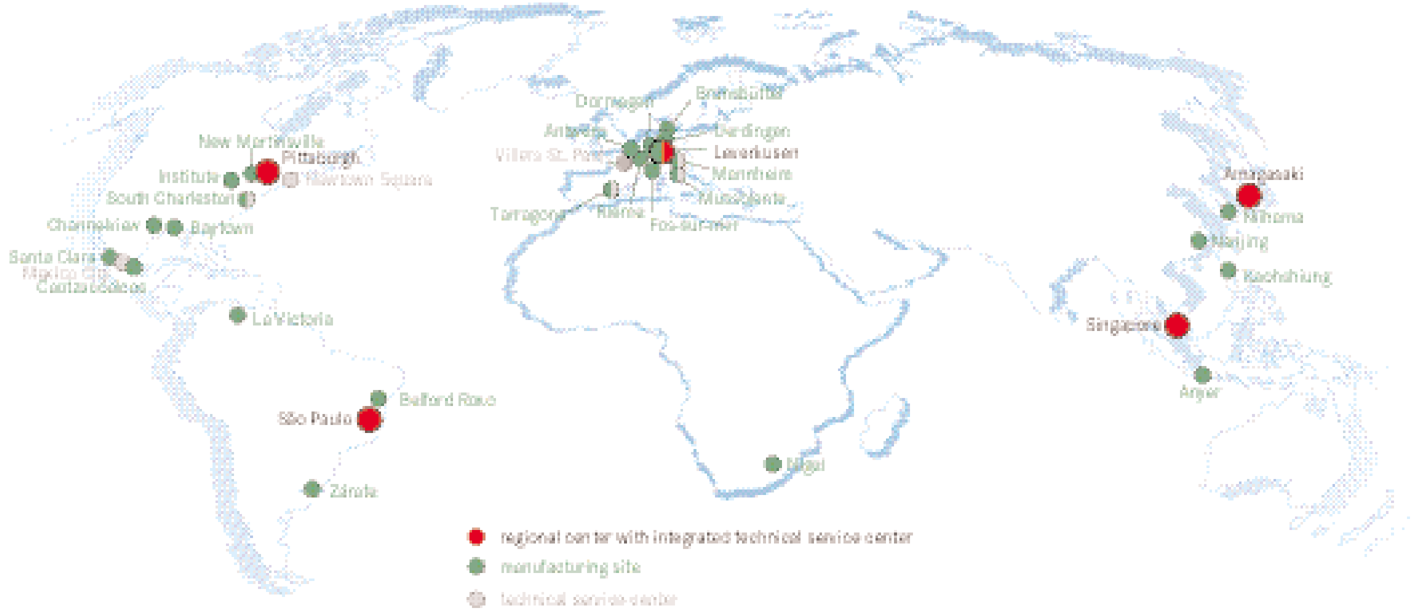
Integration forms the basis of our commitment to e-commerce. All areas of the company must be technically and organizationally prepared for the new technologies. We recognized long ago that the networking of internal processes – from ordering through manufacturing to accounting – is essential to ensure optimum internal continuation of our e-commerce activities. We will achieve this by introducing the standard business software SAP R/3 throughout the Bayer Group.

In 2000, the restructuring of business relationships through e-commerce gained considerable pace. Bayer views these new conditions as an opportunity. Wherever routine procedures take place automatically, Bayer will have more time to focus on its traditional strengths: customer orientation and support. Our goal is to achieve the best possible mix of the Old and New Economies.

The technology portal Yet2.com (above), in which Bayer is a participant, provides fast access to new information and allows companies to market their own expertise.

The start of a new era

The applications for modern polyurethane foams are virtually unlimited. Shoe soles (photo), mattresses, furniture cushioning and car seats are just a few examples.



Bayer is a global, all-round supplier of polyurethane raw materials, with more than 50 production facilities on five continents, including several in the United States. The photo above shows the plant at South Charleston, West Virginia. In the picture on the left is Dr. Bi Le-Khak, who conducts research into new polyurethane foam production technologies at Newtown Square, Pennsylvania.

The acquisition of the polyols business of the U.S. company Lyondell in April 2000 gives Bayer global market leadership in polyurethane raw materials.

"Welcome to the new world of Bayer polyurethanes" – this was how we greeted some 750 new employees at 82 sites around the world who joined the Bayer team following our acquisition of the polyols business of U.S.-based Lyondell Chemical Company in April 2000.

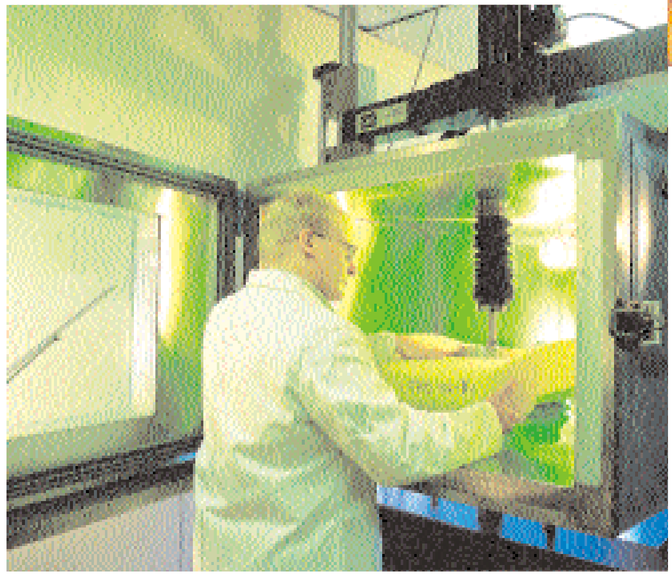
The acquisition changed the world of Bayer polyurethanes overnight, as our Polyurethanes Business Group became the world's leading supplier of all key raw materials for polyurethanes.

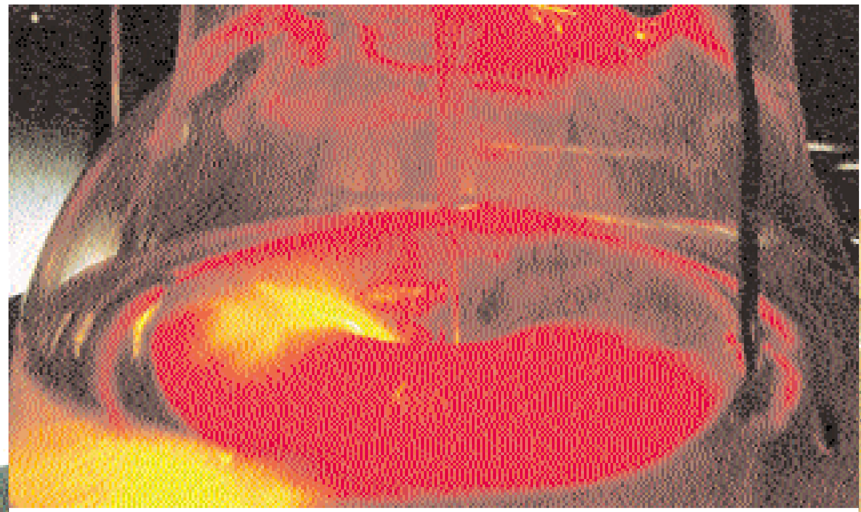
The US$ 2.45 billion acquisition of Lyondell's polyols business is among the largest in Bayer's history. It is an investment in an exceptionally dynamic sector that is recording annual growth rates of around 5 percent. Polyurethanes are found almost everywhere in the world around us: in mattresses, furniture, car seats, bumpers, insulation for refrigerators and buildings, leisure and safety footwear, surface coatings, adhesives and fibers – the list of applications for these engineering polymers is virtually endless. Global consumption of polyurethane raw materials amounted to more than 8 million tons in 2000 – about eight times as much as in 1970.

Bayer has traditionally enjoyed a strong position in the world polyurethanes market, with good reason. A team of Bayer researchers discovered these materials and developed marketable applications for them more than 60 years ago. Acquiring the polyols business of Lyondell ensures that our company's long history of success in the polyurethanes sector will continue.

The polyurethanes business is built on two keystones: isocyanates and polyols. These components can be combined to produce versatile rigid or flexible foams; processed into elastic, impact-resistant solid plastics; or used to formulate surface coatings. Although Bayer has long been a leader in the isocyanates field, the company previously lacked sufficient polyol capacity and access to the base product propylene oxide to be a world-scale supplier of both principal components of polyurethane raw materials. This strategic gap was closed by the acquisition of Lyondell. Bayer is now a global all-round supplier, with more than 50 production plants at 26 locations on five continents. That means we can respond more effectively to our customers' needs in terms of product deliveries, marketing, research and applications technology, providing an across-the-board service from a single source.

With our eleven former Lyondell plants at seven different sites producing some 700,000 tons of polyols annually, we can now offer adequate, balanced quantities of all main polyurethane components. Bayer's facilities account for more than one quarter of global polyurethane raw material production.





Left: Testing the durability of a polyurethane foam on exposure to heat and humidity. Above: Purifying a polyol to obtain a new raw material for car seat foams.

Integrating Lyondell's polyols technologies and business and working together with its experts has also opened up a wealth of new potential.

As part of the deal, for example, Bayer has secured access to supplies of propylene oxide, the most important base product for the manufacture of polyols, enabling us to meet three quarters of our needs at low cost. In addition, Bayer and Lyondell will build a joint facility for the production of propylene oxide and styrene in Rotterdam, Netherlands, that is scheduled to come on stream in 2003.

Then there is Lyondell's proprietary IMPACT technology for the production of ultra-high-purity polyols. This technology is already acknowledged as another milestone in polyurethane chemistry, partly because it allows significant increases in the production capacities of existing plants and partly because the polyols manufactured by this process open up new fields of application.

A new global logistics system has been set up to ensure steady supplies to our customers: Supply Chain Management (SCM) pools marketing and production logistic functions, takes over the planning of inventories and capacities, and coordinates the flow of goods. SCM eliminates overlaps, concentrates resources and exploits synergies for maximum efficiency – and for the benefit of Bayer's customers all over the world.

What's different about polyurethane chemistry is that the polyurethanes themselves are produced by our customers. It is they who select the formulations and processes that convert our raw materials into finished products. We therefore have to provide a service tailored to the needs of individual customers along with exclusive solid and foam system solutions for a wide variety of applications. As the world's largest all-round supplier of polyurethane raw materials, Bayer also customizes component sets and product packages and offers back-up in the field of processing technology.

The Polyurethanes Business Group's new organizational structure emphasizes Bayer's role as a global player in this market and helps us to meet the industry-specific needs of our customers. In line with our policy of enhanced customer focus, the strategic marketing department determines the basic global alignment. Key functions here are interregional coordination, international key account management and the establishment of global marketing services. Five regional organizations, located close to our production sites and our customers, play an important role in our operating activities, providing service and expert advice on the spot. The many different market-based functions are performed by four business units – with the global focus on strategic alignment provided by the strategic marketing department, and the regional focus provided by the operating activities at the regional level:

Slabs of different foams – carefully labeled and indexed – are left to dry for 24 hours before undergoing a series of tests to determine whether the materials meet customer specifications.

- Automotive: Polyurethanes for all interior and exterior applications in the auto sector
- Comfort: Polyurethane slab foam for furniture cushioning, mattresses and technical applications
- Insulation: Rigid polyurethane foam insulation for the construction sector, pipe insulation, refrigerating appliances and container insulation, also polyurethane binders for building materials used both indoors and outdoors
- Specialties: Polyurethane molded foams for furniture, shoe soles, springs, wheels, housings, composite materials and a range of other specialty applications.

With the rapid and successful integration of the Lyondell activities, Bayer's Polyurethanes Business Group has set the course for its future development, welcoming its customers, too, to the new world of Bayer polyurethanes.

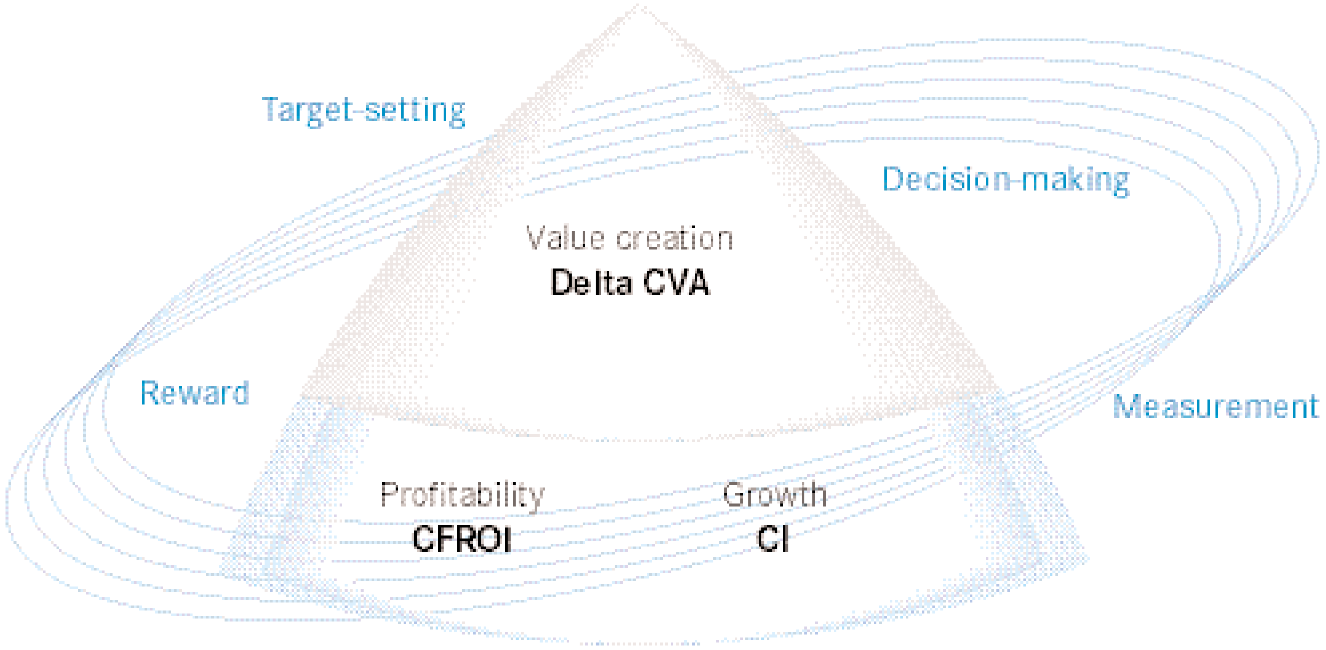
Value creation – a strategic objective

Another production facility for Makrolon® is due on stream at Bayer's site in Map Ta Phut, Thailand, (photo) in the fall of 2002. It was planned according the principles of value management.

The aim of Bayer's investment philosophy is to enable us to offer our customers top-of-the-line products and services while at the same time achieving a sustained increase in the company's value. This means all projects have to promise long-term profitability. The yardstick is the cost of capital, since we first have to earn this before we can create additional value. That applies not only to the Group as a whole, but to each project individually – such as the expansion of our Makrolon® capacities for the Asian market in Map Ta Phut.

Map Ta Phut in Thailand is a new and successful Bayer site where since 1996 we have been producing plastics for the growth markets of the Far East. One of the top-selling products manufactured there is Makrolon® – the versatile polycarbonate from which CDs, DVDs and CD-ROMs are made. Bayer's global capacity for this thermoplastic is to be more than doubled by 2005 to meet the enormous demand. This is a business with a future – a business that will make further substantial investment at Map Ta Phut worthwhile. Such investment includes the construction of a second 100,000 ton-a-year Makrolon® facility, due on stream in the fall of 2002.

Yet before ground is broken for a project like this, the planners and financial experts have their say. Detailed predictions of cash flows are made years in advance to ensure that the investment will in fact create value for Bayer. These calculations – based on raw material, manufacturing and distribution costs, along with many other factors – are designed to show future profitability in relation to the capital investment. From an analysis of the project and a ten-year forecast, we derive important business indicators such as net present value, amortization period, gross cash flow and cash flow return on investment (CFROI). All investment projects must be examined before they can be approved.



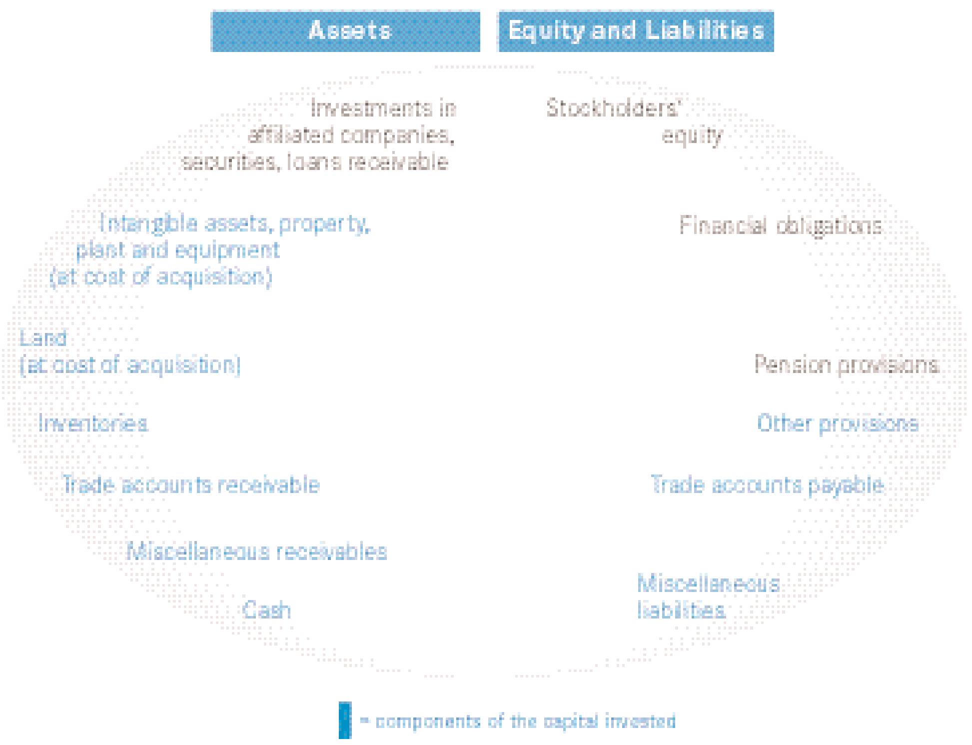
The main task of value management at Bayer is to align employee motivation and decision-making toward achieving a steady increase in corporate value.

The foundation for value-based corporate management at Bayer was laid in 1994. The integrated value management system was introduced for the entire company at the beginning of 1997 and became the basis for a new management culture that makes Bayer one of Germany's pioneers in this area.

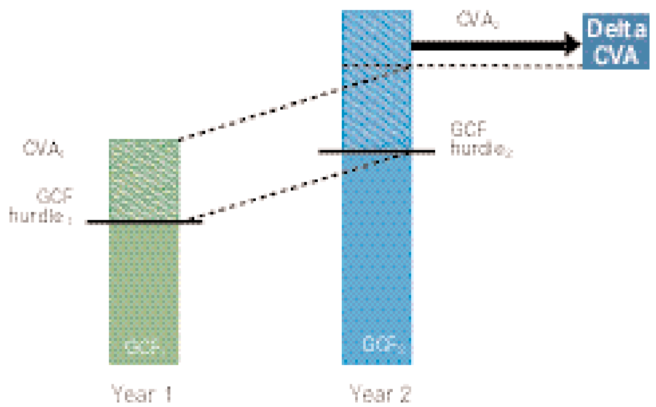
Without a doubt, value management requires a whole new way of thinking. It prioritizes far-sighted business planning over achieving individual short-term goals. The idea behind it is quite simple: corporate capital expenditures require money that earns interest on the capital market. So value management is based on capital market conditions. Every capital expenditure project must yield a return that is at least equal to the market rate of interest on the capital invested (CI) and also covers the cost of reproducing those assets that are subject to wear and tear over time. This minimum rate of return is known as the hurdle, which is redefined each year. It is important that the hurdle is always exceeded.

The aim of value management is to achieve profitable growth. Bayer's yardstick for profitability is the cash flow required to earn the cost of capital and of reproducing assets, expressed as the return rate on the capital invested – the CFROI hurdle. This can easily be compared to the actual return rate. But for a company in the process of expanding, the CFROI is not a sufficiently reliable indicator of long-term performance.

For purposes of business planning and performance monitoring, Bayer's experts decided to go beyond the CFROI and take as a basis the cash flow surplus that remains after deducting the cash flow needed to yield a return on the capital invested and reproduce the depletable components of it. If the cash flow exceeds the amount necessary for a market rate of return on the capital invested plus amortization, we speak of a positive CVA (cash value added). However, this figure refers to a particular year, while profitable growth only becomes apparent over a period. Our aim is not only to earn more than the cost of capital and of reproducing assets but to continuously improve the CVA from year to year: in other words, always to have a positive "delta CVA" – the difference between the CVAs of two consecutive years.



The capital invested comprises the assets required for a company's operations, minus interest-free liabilities. The diagram shows how it is calculated.



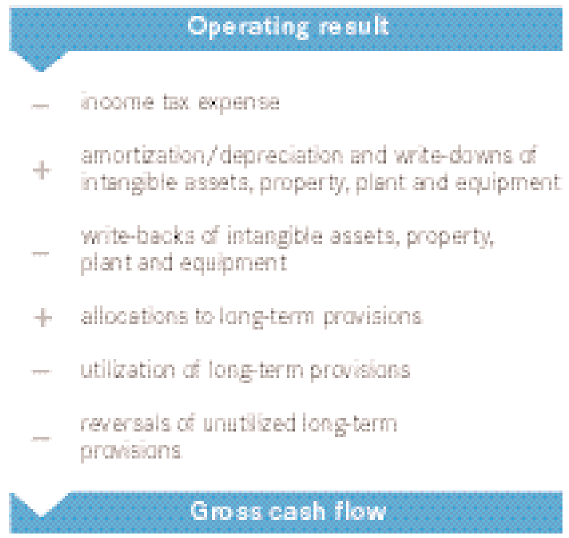
The only way to measure the value a company creates is by a year-on-year comparison, as this example shows: although a higher hurdle was set for year 2 than year 1, the gross cash flow in year 2 is so much greater that the difference between the actual cash flow and the hurdle – the cash value added (CVA) – still exceeds the CVA for year 1. The difference between the two CVAs is the "delta CVA".

There are basically two ways to achieve value creation (positive delta CVA):

1. Raising profitability
2. Changing the capital invested – in other words, either by growing the business profitably or by withdrawing from unprofitable areas.

For this principle to work, people at all levels in the company must think and act in terms of value management. This in turn requires transparency, which means linking the delta CVA to the value drivers to make it more readily understandable. Once these parameters have been identified and their impact on the delta CVA becomes clear, they can be actively influenced in the course of day-to-day operations so that they contribute to value creation.

Value drivers are identified by a method known as value improvement analysis (VIA), which is based on the simple realization that there are parameters relevant to value creation at every operational level: controlling parameters such as quality, delivery compliance, customer satisfaction or even the frequency of costly production changeovers. These parameters affect profitability right at the bottom of the value creation pyramid. The VIA method helps to clarify these value drivers so that every employee can appreciate the interplay between the various factors and can act accordingly.



Bayer computes the gross cash flow (GCF) from the operating result (above).

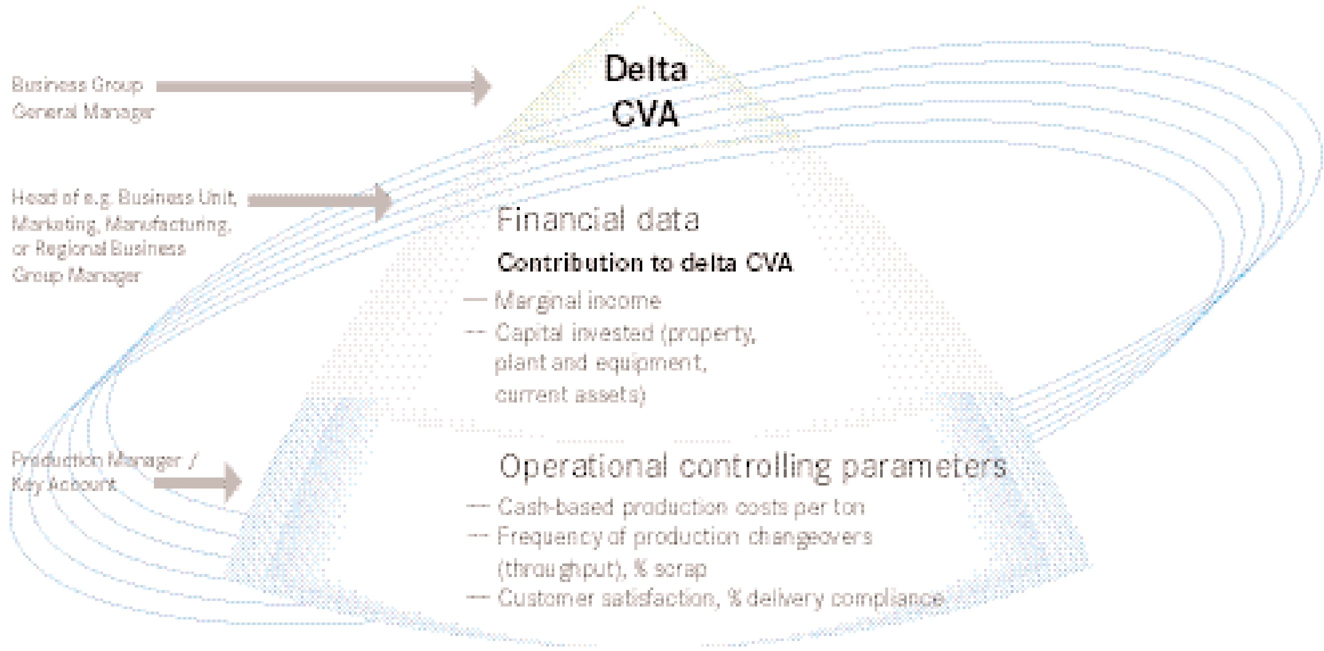
In other words, value management is everyone's concern. The incentive for employees to think in value terms and steer business processes using the delta CVA as a success criterion is provided by variable compensation components linked to profitability. The new stock ownership programs form part of this incentive system. The stock option program for top management, for example, is directly tied to the delta CVA.

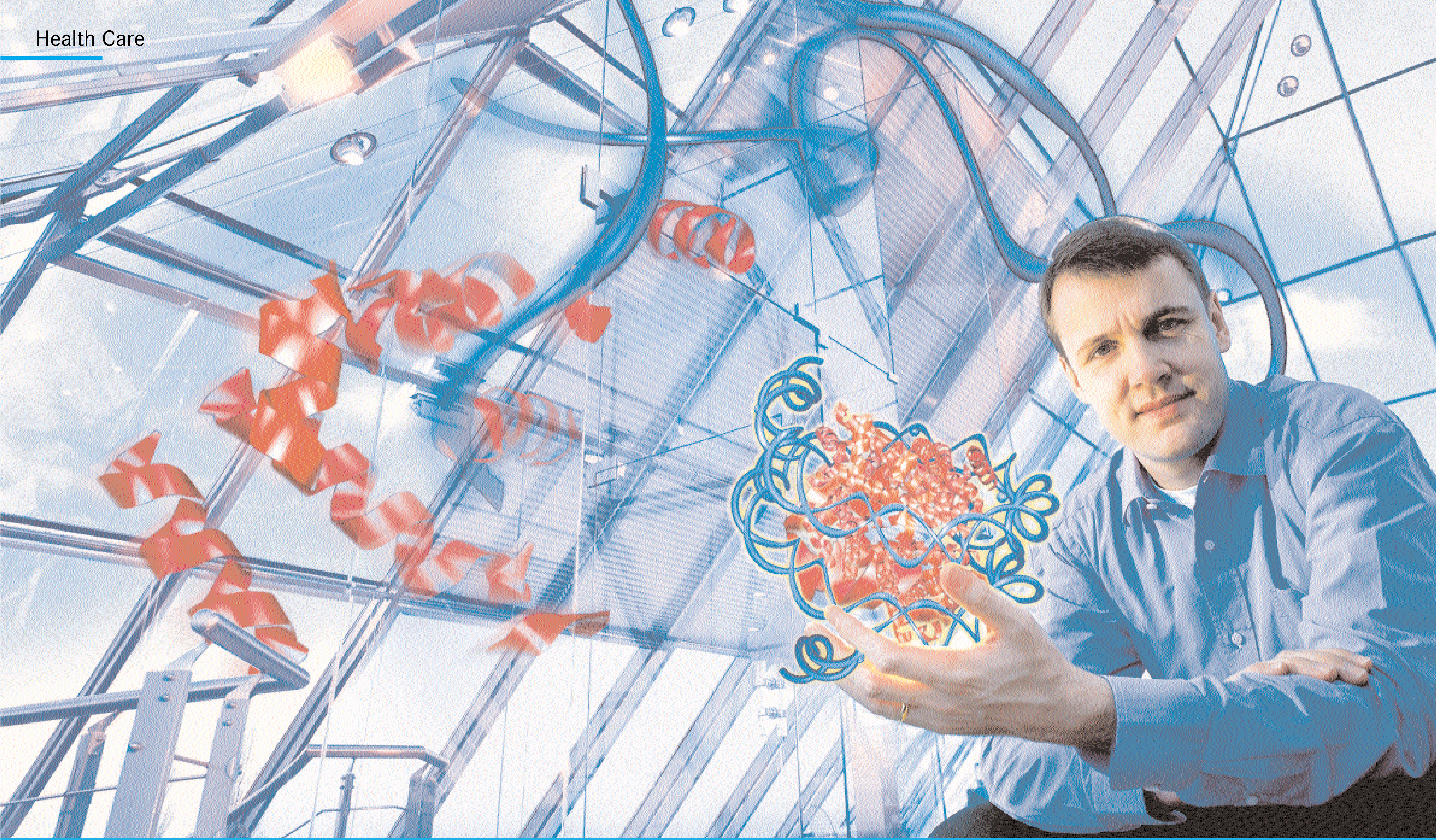
Bayer gives its employees the help they need to successfully apply value-based management. A communication and training program is in place throughout the Group to accompany the implementation of this concept and familiarize employees with its principles and objectives. And because this training demands more than just a few hours spent in seminars, we have provided a virtual classroom that employees can access from their office computers. It consists of interactive teaching programs offering additional information and practical exercises.

Value management is much more than just a set of financial calculations. It requires the inclusion of numerous factors, such as technological expertise, sound market knowledge, excellent customer relations, competitive financing – whether from cash flow or from the capital market – and every employee's commitment to quality and service.

The mathematics of value management are simple, but its implementation poses a major challenge for corporate management.

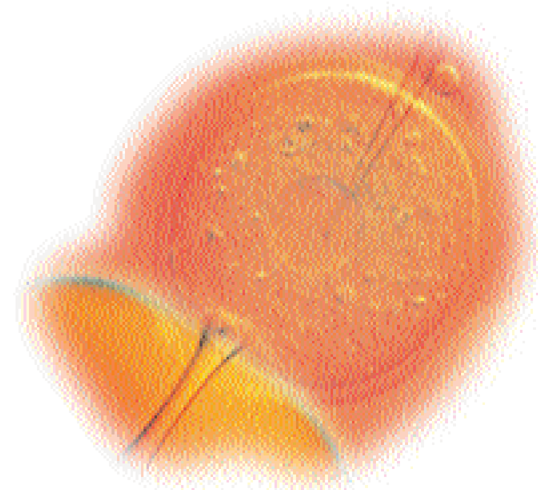
Value improvement analysis (below) looks at the factors affecting the delta CVA at the various levels in the company.





“Until the late 1980s, chemistry was the driving force behind active substance research. In the 1990s, it was biology. Yet no matter where the scientific focus lies, the lifeblood of modern active substance research is information. Bayer recognized this and acted upon it earlier than most other companies. We at LION are proud to support Bayer in this revolution with our know-how and our knowledge management platform for biological, chemical, preclinical and medical data. By providing the foundation for information management in Bayer’s high-tech platform, we are pleased to be contributing significantly to the success of its research.”

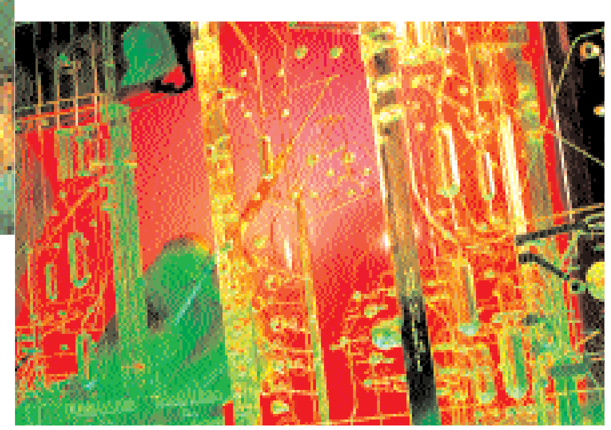
Dr. Friedrich von Bohlen, CEO, LION Bioscience AG, Heidelberg, Germany



More blockbusters in the pipeline

A successful product line forms the best foundation for growth in the pharmaceuticals business. Several Bayer drugs achieve annual sales of €500 million.

The recombinant blood clotting drug Kogenate® is manufactured at Berkeley, California. Here Amabel Tan works in the cooling chamber at the fermentation facility.



At left, Jin Weihua (left) and Liu Guiging test the dissolution behavior of Adalat® tablets at Bayer's site in Beijing, China. The Diagnostics Business Group's ADVIA® 120 hematology system is used in large laboratories to produce up to 120 blood cell analyses an hour. The heart of the system is the UniFluidics Module, which replaces about 26 meters of tubing.

Higher sales, improved operating profit, increasing margins – more than anything else, the success story of Bayer's Health Care segment is a story of innovative products, many of which are blockbusters with annual sales of at least €500 million.

Launched in 1986, the antibiotic Ciprobay®/Cipro®/Ciproxin® is Bayer's best-selling pharmaceutical product, remaining in the fast lane thanks to new indications and presentations. Another evergreen is the cardiovascular drug Adalat®, which once again provided impressive proof of its efficacy in a recent study involving more than 6,300 patients: according to the study, the calcium antagonist is just as effective in reducing cardiovascular disease frequency and mortality rates as diuretics – which are regarded as the "gold standard" in the treatment of hypertension – and has an excellent tolerance profile. In 2000, Adalat® achieved the highest sales in its 25 years on the market.

Systematic life cycle management is also ensuring additional sales growth for Aspirin®, the Consumer Care Business Group's globally known pain reliever.

Other Bayer blockbusters are the recombinant blood clotting drug Kogenate® and the lipid-lowering agent Lipobay®/Baycol®, which quickly doubled its market share in the United States. Also making great strides is the respiratory antibiotic Avelox®/Avalox®, launched in September 1999.

Over the past few years, Bayer has created the conditions for continued success by establishing a high-tech research platform that is among the best in the world, and the company's long-term goal is to launch at least two new pharmaceuticals a year. Our pipeline is already stocked with the blockbusters of the future.

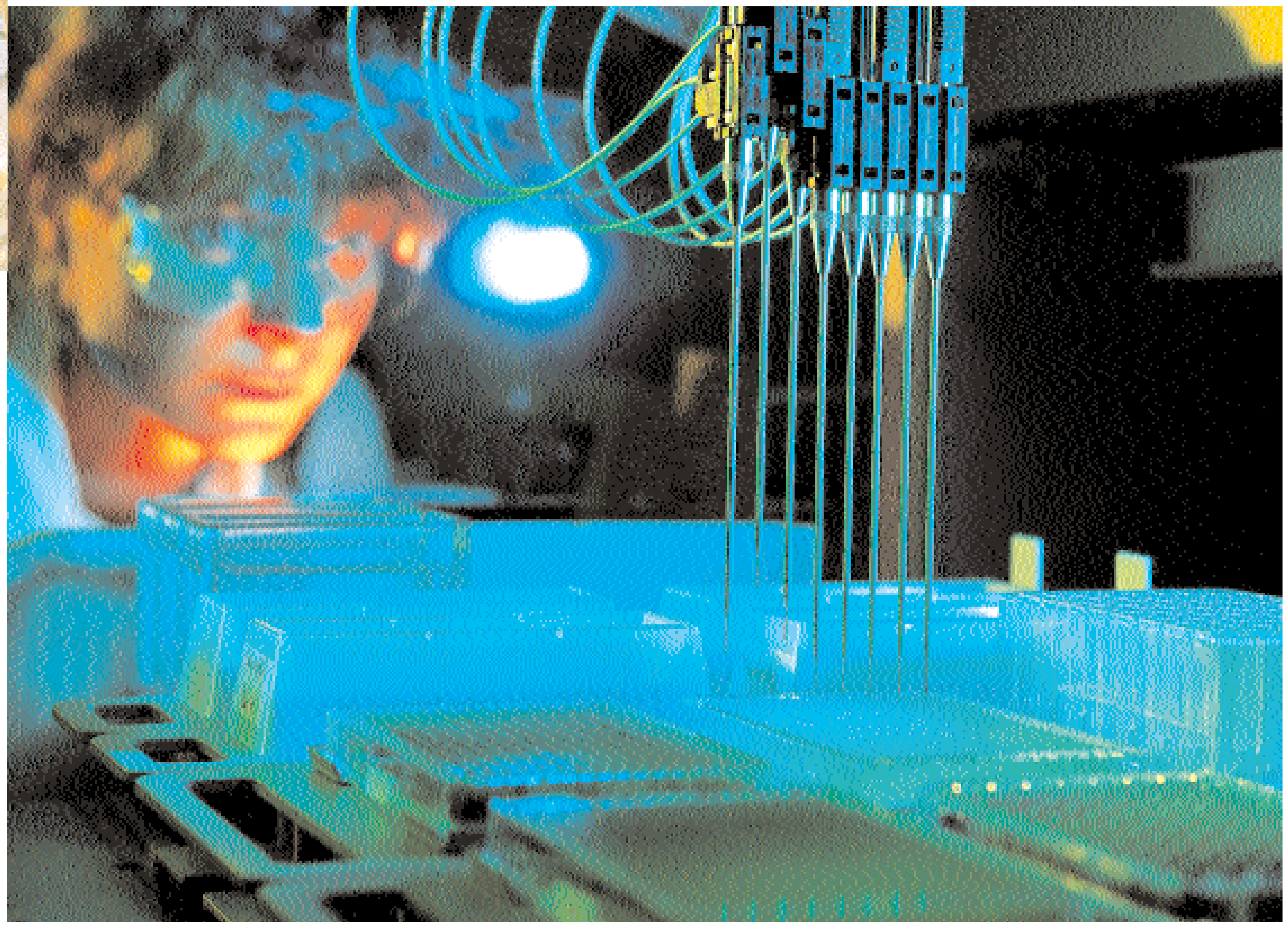
“The Kruger National Park is one of Africa’s largest wildlife reserves. Here we have 20,000 square kilometers of protected land for lions, rhinos, giraffes, leopards and many other species, including huge buffalo herds. The buffalo are our biggest concern at the moment, since more and more of them are becoming infected with bovine tuberculosis. For this reason we need to move them to tuberculosis-free areas outside of the Park, but we cannot do so until they are free of corridor disease which, although harmless to buffalo, is fatal to cattle. Bayer is supporting us in the breeding of disease-free buffalo by supplying a pour-on acaracide to control the ticks that transmit corridor disease. Once the animals are free of this disease, we can give them a new home outside of the park. Over time, new, healthy herds grow up. So far, we have already caught and trans-located more than 300 buffalo. Bayer’s trustworthy product was the key to the success of this elaborate but very effective protection program.”

Dr. Douw Grobler, veterinarian in the Kruger National Park, South Africa

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

A research strategy for the future

Expanding our own research capacity, exploiting new technologies and collaborating with leading high-tech companies, while making profitable additions to our portfolio: these are the strategies for growth in the Agriculture segment.



Modern high-throughput screening methods help agrochemical researchers to rapidly identify new potential active ingredients for crop protection products. Above: Dagmar Brattig develops test systems for compound discovery. Facing page, bottom: Hanako Matsuo inspects rice plants attacked by the Asiatic rice borer.

In agrochemicals as in health care, Bayer is assembling a cutting-edge research platform. Biotechnology plays a key role on that stage, the aim being to identify in plants, fungi and insects the genes, proteins and functions that can serve as targets for new active substances. This strategy allows Bayer to find new mechanisms of action more systematically and more quickly – an essential condition for significantly enhancing innovative capacity.

We are investing more than €200 million in this high-tech research platform, which exploits all modern key technologies – from gene analysis to high-throughput screening to bioinformatics. By the end of 2001, Bayer's crop protection substance library will contain more than 800,000 compounds for systematic screening against targets in the genome.

An important aspect of Bayer's crop protection research strategy is collaboration with entrepreneurial companies to identify new mechanisms of action using molecular biology, biochemistry and bioinformatics. One such company is Genoptera, the insecticide research joint venture with the U.S. company Exelixis. Bayer also has productive alliances with Paradigm Genetics in herbicides and LION Bioscience in fungicides.

Bayer is among the leading companies in the agrochemical industry in terms of research and development investment. The company's R&D commitment is paying off, with the business group boasting a well-stocked pipeline. The Animal Health Business Group will also benefit from the discovery of new compounds because of the substantial synergy potential with future insecticides, in particular.

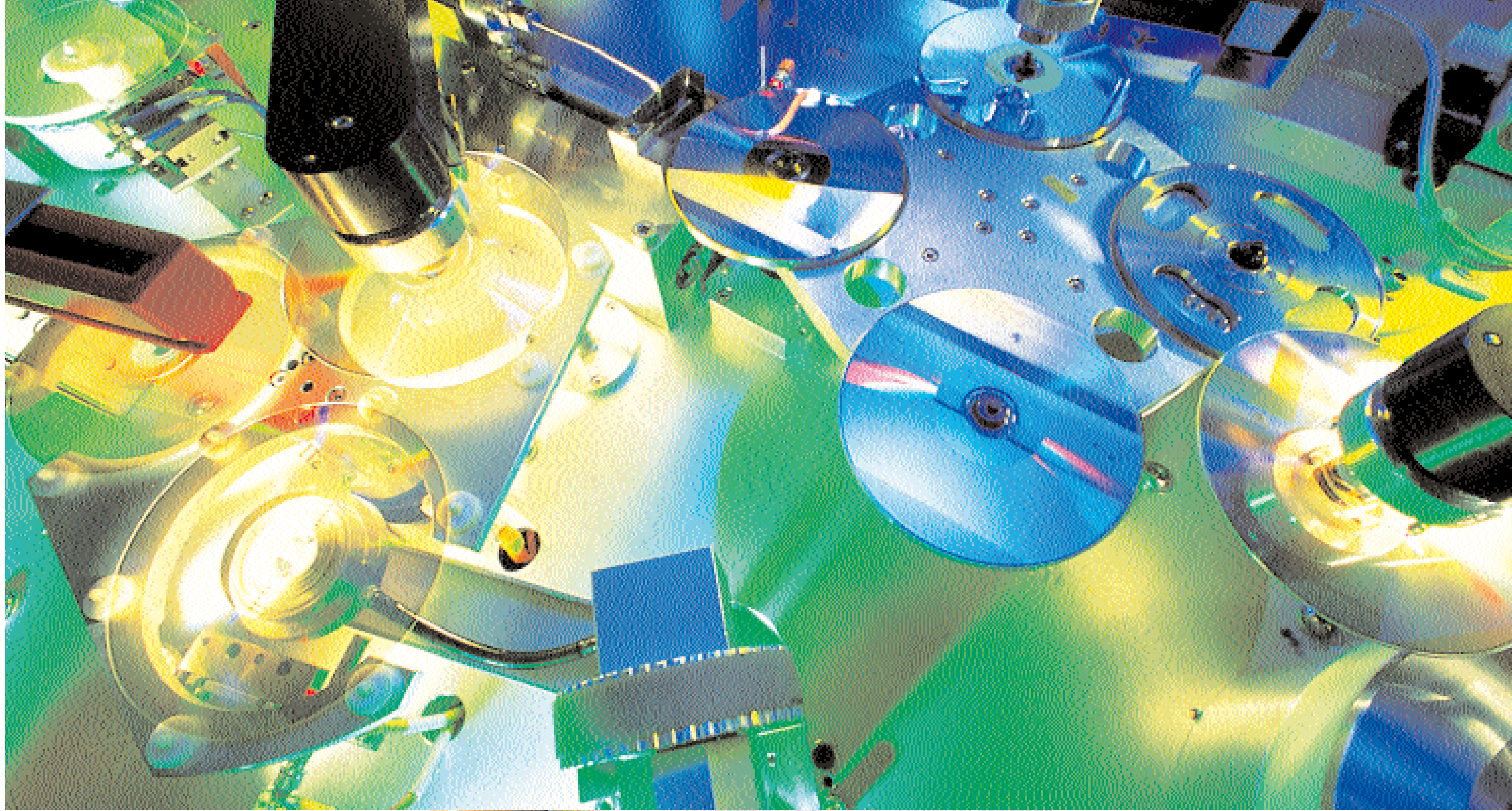
“An entire movie on compact disc? With several language tracks, subtitles and perfect picture and sound quality? Just a few years ago, this was little more than a dream. Today it’s a reality.
Digital versatile disc – or DVD for short – is the name of this fascinating storage medium which has only just begun to take the world by storm.
We started manufacturing the first DVDs back in 1997. At the beginning, we were producing just 15,000 a day. Now our daily output has risen to 175,000 DVDs, plus about 650,000 CDs.

This makes us one of Europe’s largest suppliers of optical audio and video discs. It goes without saying that we need a particularly high-quality substrate for these high-tech products, and Makrolon® is our material of choice. This polycarbonate from Bayer also has excellent potential for the future.

And with the next high-performance DVD generation already under development, that’s very important.”

Wolfgang Schröder, senior member of the applications technology team at Warner Music Manufacturing, Alsdorf, Germany

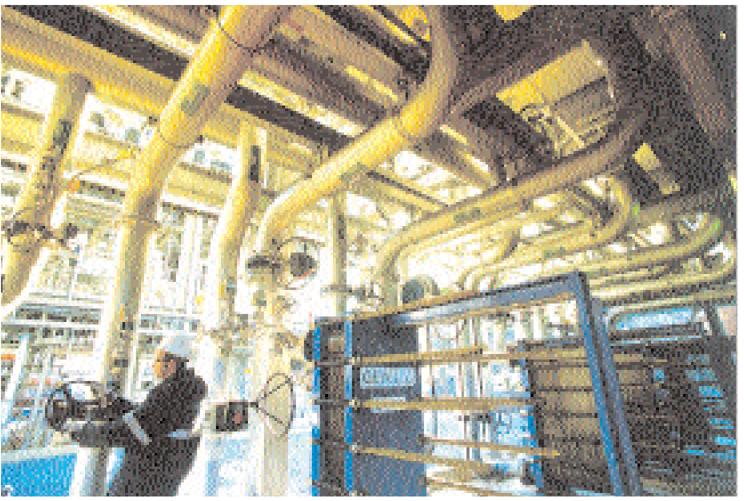
Makrolon® is used to make digital versatile discs (DVDs) that can store nearly 25 times as much data as a compact disc (CD). The picture on the right shows a fully automated unit in the Leverkusen DVD laboratory for bonding the two halves of the substrate.



Innovation across the board

The business groups in the Polymers segment continue to expand their leading positions in important markets with trendsetting high-tech products.

Environmentally friendly powder coatings are being systematically improved by Bayer researchers. The photo on the left shows Frauke Chmielewski spraying test objects in a booth.



A new plant to manufacture Therban® specialty rubber came on stream in Leverkusen in the fall of 2000. This material, noted for its heat and oil resistance, is used mainly in automotive engineering and oil production.

Technological leadership is the goal of the many pioneering projects currently under way in the business groups that form Bayer's Polymers segment: projects that demonstrate our expertise in the respective fields and our potential for innovations that contribute to a cleaner, safer and more pleasant environment.

For example, Bayer has made great strides in the development of environmentally compatible coating systems. We are the only company in the world to offer polyaspartate systems – which were developed by Bayer researchers – for formulating extremely durable, fast-drying, solvent-free coatings. Moreover, Bayer is constantly improving the technology of powder coatings, which are also applied without using solvents that may impact the environment. The acquisition of the U.S. company Sybron Chemicals substantially strengthens our position in this promising area. Emission-free powder coatings are of growing interest for a number of uses, such as automotive engineering.

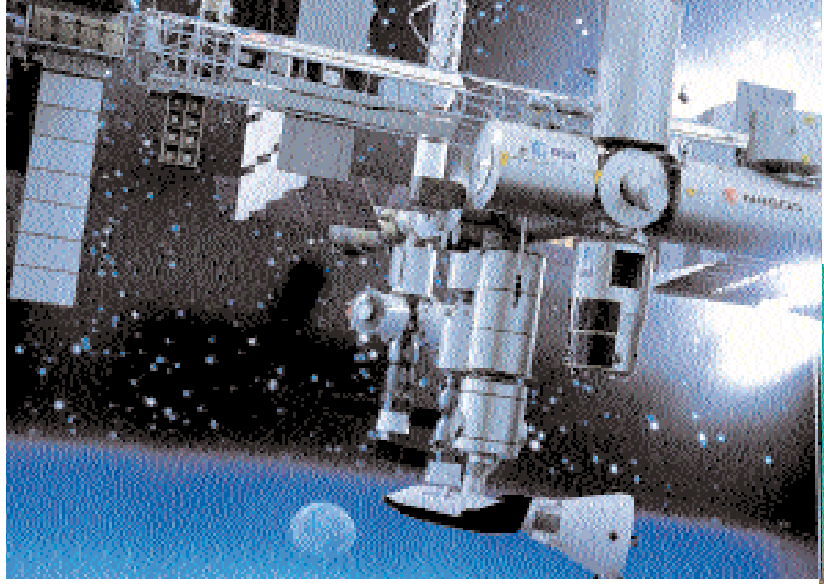
In the rubber field, too, Bayer is a valued partner of automotive engineers. Butyl rubber, for example, is the material of choice for innerliners that extend the service life of tires, and the specialty rubber Therban® is used for heavy-duty components such as timing belts.

Bayer plastics Lustran®, Bayblend®, Novodur® and Makrolon® are tried-and-true materials not only for automotive but for many other applications as well. Start-up of the new melt polycarbonate plant in Antwerp, Belgium, in 2000 represents a technological milestone in Makrolon® production. This 40,000 ton-a-year facility can produce Makrolon® in all viscosity grades with outstanding optical properties.

“Thanks to the colorful world of cellular telephones, it’s easier than ever to stay in touch. Mobile phones can be found almost everywhere, and there’s no sign of this market boom letting up. That’s good news for us, since nearly all of these little telephones contain one of our capacitors – produced with high-quality tantalum powder from H.C. Starck. Our close cooperation with that Bayer subsidiary was a key factor in making us Europe’s premier supplier of tantalum capacitors.

We’re confident that in future, we’ll be able to expand our business with H.C. Starck, both in the currently dominant mobile communications sector and in other important areas such as automotive electronics and Internet access technologies.”

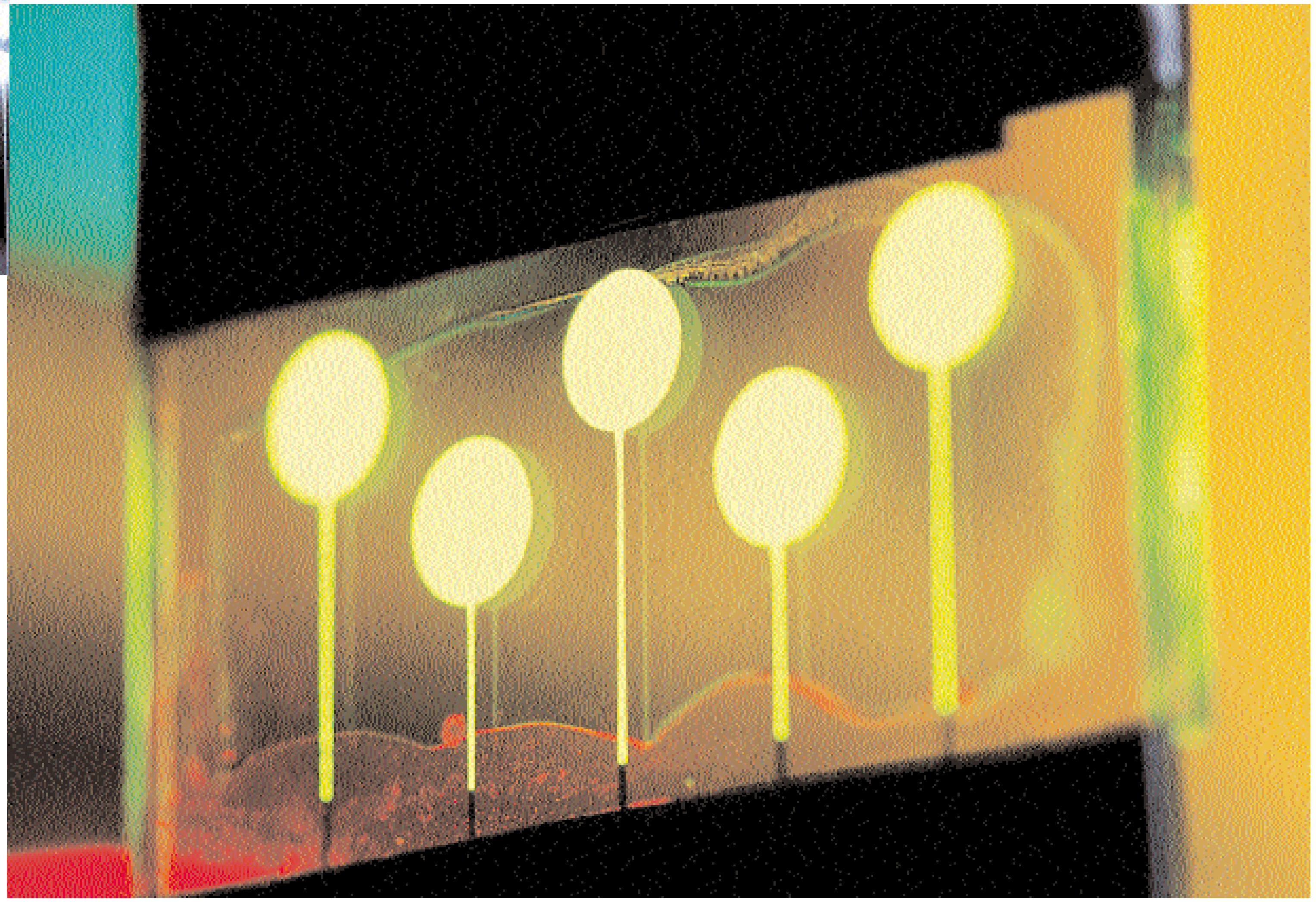
Dr. Josef Gerblinger, Head of the Tantalum Electrolytic Capacitors Department, EPCOS AG, Heidenheim, Germany and Evora, Portugal



Film from Wolff Walsrode serves as an oxygen barrier in the walls of the International Space Station, a model of which is pictured above.

Specialties for high-tech products

The strength of Bayer's chemicals business lies in the variety of products – from basic and fine chemicals to ion exchange resins and cellulose-based building materials. Our specialty powders for electronic devices also have a bright future.



One of the most worthwhile uses for Bayer's Baytron® polymer is in prolonging the service life of organic light-emitting diodes (OLEDs), a greatly magnified prototype of which is shown above. Electronics companies are using this technology to develop a new generation of color TV screens.

Tantalum is the metal no modern electronic device can do without. It is used in the form of a fine powder to manufacture the high-performance electrolytic capacitors needed for appliances such as cell phones, personal computers and CD players. Bayer subsidiary H.C. Starck meets a major part of world demand for this special metal powder, enjoying great success in the market.

We are systematically expanding this strong position as a supplier of essential intermediates for electronic components. The acquisition of the U.S. Group CSM has added significantly to our existing line of products for electronic and medical equipment.

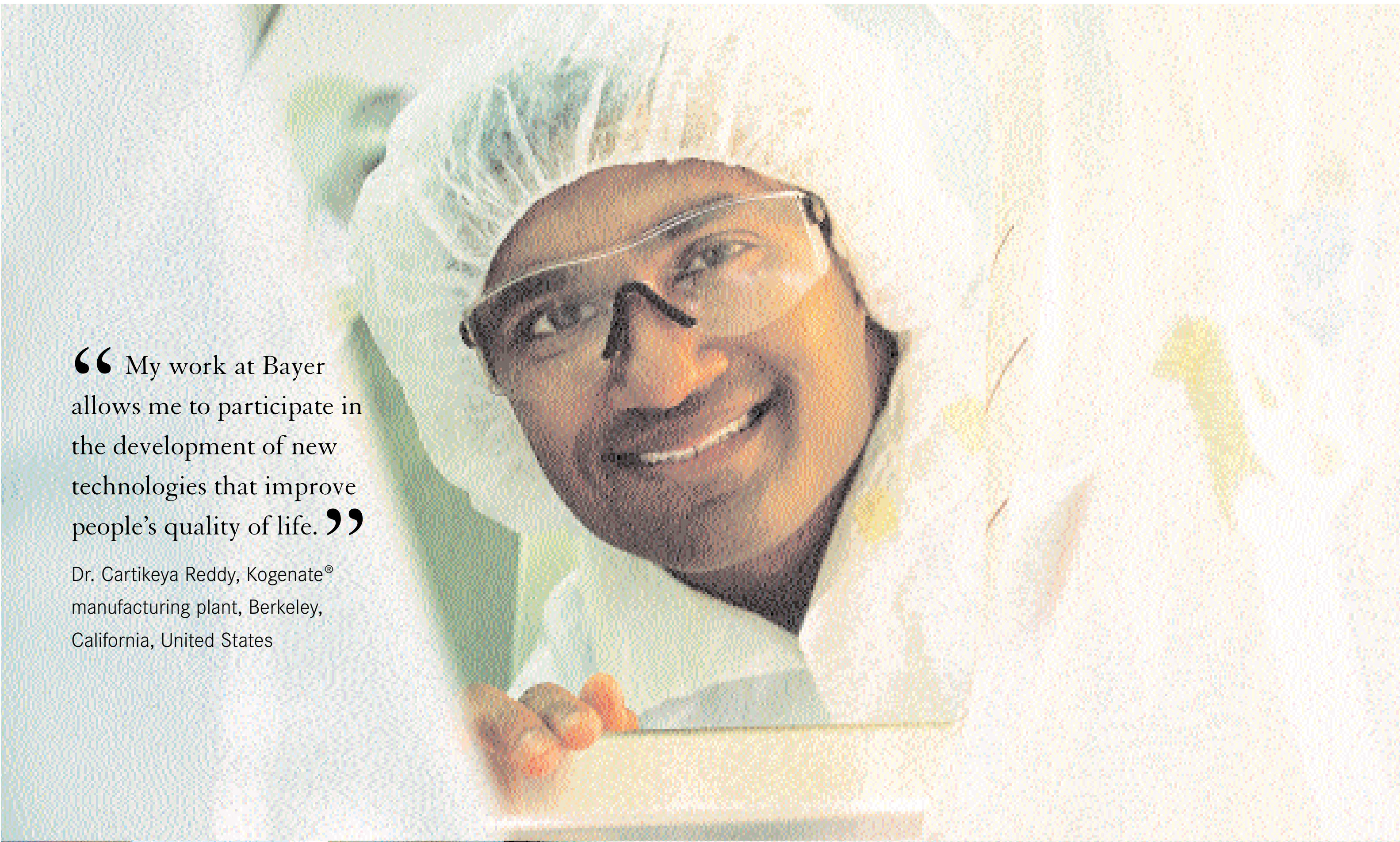
Another Bayer product that has become indispensable in microelectronics – a highly profitable and growing market – is Levasil®. These specialty silica sols are used in the surface planarization of computer chips and silicon wafers, increasing their storage capacity.

Now causing a stir in the electronics industry is Bayer's new Baytron® P. This transparent, conductive polymer can be used to manufacture organic light-emitting diodes (OLEDs) with long service life and low energy consumption. OLEDs mark the dawning of a new era in displays and flat-panel TV screens.

The Specialty Products Business Group further enhanced its position in the world market with two acquisitions. The purchase of major parts of the paper chemicals business of Cytec Industries Inc. provides Bayer with the latest technology and access to the U.S. market for process chemicals, while the acquisition of Sybron Chemicals improves the market position of the Textile Processing Chemicals and Special Fields unit, particularly in North America and Europe.

Another successful specialist in the Chemicals segment is Bayer subsidiary Wolff Walsrode. Its core competency lies in cellulose derivatives for use in a wide variety of building materials as well as in emulsion paints, printing inks, coatings, pharmaceutical products and cosmetics. A strategic realignment has geared Wolff Walsrode for success in its future markets: in addition to the establishment of a service company, four new companies have been formed for the chemical and film businesses, including a competence center for cellulosics. Here we work closely with customers to develop advanced technologies and innovative applications for products made with renewable raw materials.

Our People

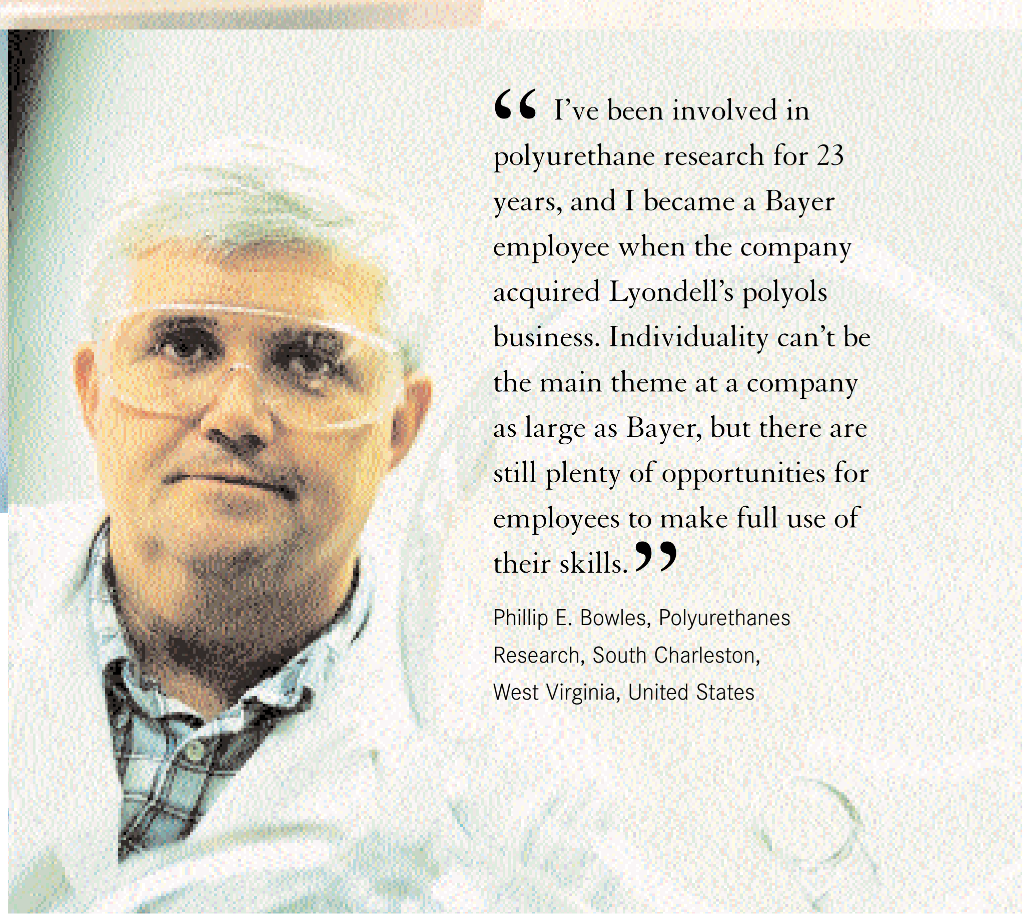


“My work at Bayer allows me to participate in the development of new technologies that improve people’s quality of life.”

Dr. Cartikeya Reddy, Kogenate® manufacturing plant, Berkeley, California, United States

“One thing I like about Bayer is the wide range of educational opportunities that enable me to steadily improve my skills.”

Archara Suwannakerd, Quality Management, Map Ta Phut, Thailand



“I’ve been involved in polyurethane research for 23 years, and I became a Bayer employee when the company acquired Lyondell’s polyols business. Individuality can’t be the main theme at a company as large as Bayer, but there are still plenty of opportunities for employees to make full use of their skills.”

Phillip E. Bowles, Polyurethanes Research, South Charleston, West Virginia, United States

“I worked at a small biotech company before I joined Bayer. Here I have every opportunity to gain new experience and put ideas into practice.”

Nell Prause, Pharmaceutical Research Center, West Haven, Connecticut, United States

“Working at Bayer is very special because of the people and the great teamwork here. We all pull together to achieve the tasks at hand, and that makes my job enjoyable – every day.”

S.T. Mukherjee, Site Security, Thane, India

“It’s very motivating that Bayer gives young people a chance to assume responsibility at an early stage. I also think it’s nice that we have the opportunity to work outside of Germany and gain international experience.”

Rike Johnsen, Bayer Industrieprodukte, Cologne, Germany

Opportunities through change

Bayer is adapting its human resources policies to the growth in its markets and preparing its employees for cutting-edge technologies, flexible working hours and international cooperation. These necessary changes provide both the company and its employees with new opportunities.

Teamwork, e-commerce, acquisitions, globalization – just a few of the concepts that are increasingly defining modern working life. New working methods, organizational structures, technologies and markets require us to change our way of thinking: tried-and-true processes are being reevaluated and have to be adapted or replaced by future-oriented methods in the interest of commercial success and international competitiveness.

There can be no doubt that the necessary changes create great challenges for management and staff. Yet they also provide a unique opportunity to steer the company and its employees toward a successful future.

Bayer's international human resources policies center around change management. The necessary transformation processes are actively shaped and systematically supported by management and staff, with the goal of increasing the acceptance for these changes among all Bayer employees and enhancing their ability to adapt.

Flexibility in personnel deployment and working hours

The foundations for flexible personnel deployment are provided by a new agreement to safeguard the future of Bayer AG's German sites that builds on the successful first agreement signed in 1997. The second agreement, which went into effect at the beginning of 2001, contains a catalog of measures that will help to strengthen the company's international competitiveness. In keeping with the change management concept, a primary theme of the agreement is the employees' flexibility with respect to working times and the location of their assignments. Further provisions deal with the restructuring of certain service functions, giving us the opportunity to achieve competitive cost structures and thus secure jobs in these areas. Examples include the establishment of Bayer's own logistics company, employing about 1,400 people, and the integration of all of the company's site restaurant staff into the subsidiary Bayer Restaurant + Service GmbH. Service restructuring concepts have also proven successful abroad, giving us additional flexibility in countries such as Spain. The former Lyondell employees throughout the world were very successfully integrated into the reorganized Polyurethanes Business Group.

From employee to part-owner

The skills, motivation and commitment of Bayer's employees remain among the most important factors in our success. We foster these qualities around the globe through innovative human resources policies, organizing special training programs to further the personal initiative of all our employees and enhance their abilities. For example, the beginning of 2001 saw the start of our "Bayer Academy Program," which seeks to more closely link actions with learning, support change processes and promote the acquisition of general and individual qualifications and competencies. The new program includes vocational and continuing education seminars, process support, e-learning and management training.

An important tool for the motivation of Bayer's employees around the world is our remuneration concept, which is now linked even more closely to the company's business success. The concept features higher variable compensation components that depend on the achievement of performance targets, with special rewards for high value creation. Further incentives include the new stock ownership programs initiated at Bayer AG in the summer of 2000 and scheduled for launch in other countries soon. Programs for the affiliated companies are currently being implemented.

Defining an international personnel policy

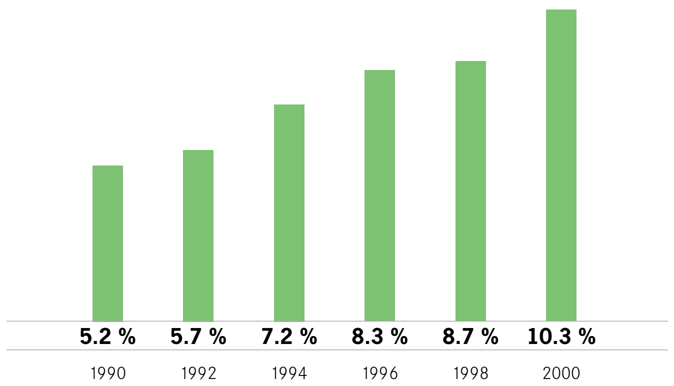
An international presence is crucial to our future success. Bayer generates 85 percent of its sales outside Germany, and we are continuously expanding our global network of production facilities, research centers and sales organizations.
This international focus also defines our succession planning for Bayer's management. Currently, nearly 800 people from Germany are employed at our foreign subsidiaries, while about 150 delegates from outside Germany work at Bayer AG alone.

We have spelled out our goals in the form of mandatory guidelines. The basic principle is that top management positions should be held only by people with international experience, with performance and expertise carrying greater weight than an applicant's nationality. Special local programs are also in place to train the increasing number of managers we need in the growth markets. Our customized Assessment Centers and training courses in China, for example, have helped us in the selection and advancement of highly skilled staff. Similar programs are successful in Canada and Mexico.

At the same time, Bayer's policy is to actively support the assignment of managerial employees to positions in Group companies outside of their native countries. The new "European Leadership Development Program," which we launched at the beginning of 2001 in Germany, Italy and the United Kingdom, is designed to play a role in this. Selected candidates for top management positions take part in the program, which prepares them for international teamwork at the head of the Group's operations.

The same principles also apply for staff at other levels throughout the company, with foreign assignments giving employees the opportunity to acquire new expertise. This, in turn, helps to foster the Bayer Group's international culture.

Proportion of Female Managerial Employees at Bayer AG



More and more women in management positions

Equal opportunity has always been the guiding principle in the advancement of our employees. And there are impressive numbers to prove it: over the past ten years, the proportion of female managerial employees at Bayer AG alone has increased from 5.2 to 10.3 percent, and this trend is accelerating. Women account for one in every four newly employed university graduates at Bayer. These are excellent figures for the chemicals sector, since most graduates in technical and scientific fields are still men. Bayer has twice been awarded the "Total E-Quality" rating given to German companies that excel in promoting equal-opportunity employment for men and women.

Our company is also an industry leader in its commitment to vocational training, with a total of 3,500 young people currently preparing for a career. In 2000, more than 1,000 youths began traineeships with the Group's German companies, 800 of them at the five sites of Bayer AG. That means that this year, the company is again training 150 more young people than it is likely to need.

“ Environmental awareness is growing steadily in Thailand, and a lot has already been achieved. Yet there's still much to be done, which is why Bayer has joined with the Association for Life and Environment and the Asia Pacific Office of the United Nations Environment Program to organize the 'Young Environmental Envoys Project.' Hundreds of students take part each year, developing new ideas for protecting the environment. Bayer invited me and some of the other participants in this year's project to Germany to learn about environmental protection strategies at Bayer's plants. We've gained a lot of insight here that we look forward to discussing with people back home. Thanks to Bayer, we can use our influence as Environmental Envoys to help shape the future of environmental protection in Thailand. ”

Paruedee Nguitragool (second from left), participant in the Young Environmental Envoys Project, Thailand

Ecology and economy in harmony

Bayer has succeeded in using resources more effectively and reducing emissions significantly over the past decade, mainly by applying the principle of in-process environmental protection. Consistent enhancement of our safety measures has brought a significant decline in work-related injuries. And now, we are contributing even more to sustainability and safety with a novel type of eco-check, carefully examining major new products from a number of different angles.

Thermally stable butadiene-acrylonitrile – tradename Therban® – is a special-purpose rubber for sealing gaskets, hoses, timing belts and other high-performance rubber components used in the automotive sector. Bayer is one of the world's leading manufacturers of this rubber and now sets the pace with a new production technology that excels in terms of environmental protection and resource conservation.

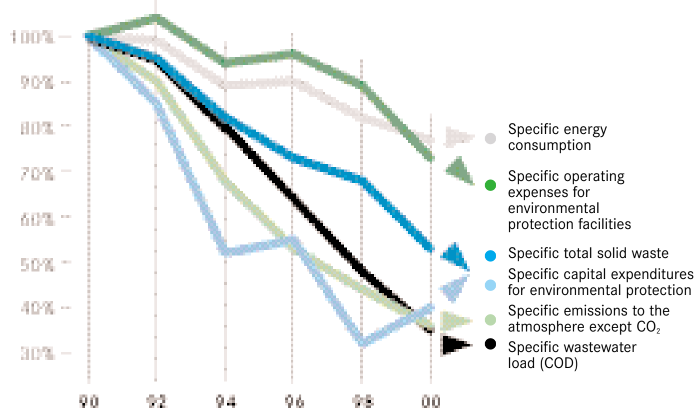
Annual reductions of up to 20,000 metric tons in steam consumption, 300,000 cubic meters in nitrogen consumption and 5,000 cubic meters in emissions of solvent-containing waste gas are the most significant environmental performance achievements of the process, employed at a new facility in Leverkusen that came on stream in October 2000. In line with the company's own safety concept, the unit has been subjected to continuous checks right from the planning and engineering stage. The results of these analyses enable risks to be identified in advance and eliminated. The safety concept also includes detailed planning and monitoring of the apparatus used and a comprehensive training program for employees. This €60 million project is seen as a model, which is why it received an approximately €700,000 subsidy from the German environment ministry.

Attending the inauguration of the Therban® plant, the environment minister emphasized the significance of in-process environmental protection. This most effective and up-to-date way to conserve resources and reduce emissions involves developing innovative processes and products that enable end-of-pipe measures to be reduced or even eliminated.

Bayer has spent more than €2 billion around the world over the past ten years to construct new waste management systems, and a further €11 billion to operate them. This corresponds to an average of €4 million a day spent on environmental protection.

In-process environmental protection, however, gives us the opportunity to achieve even higher standards in the future while maintaining or even reducing costs. Both the environment and the company, and thus ecology and economy in general, are benefiting from the application of this concept, which demonstrates how "sustainable development" can be achieved in practice.

Continued Progress in Environmental Protection
relative to 1990



50 percent reduction in greenhouse gases

The sustainable development concept also necessitates a responsible approach toward the greenhouse gases suspected of affecting the Earth's climate. The German government has issued a recommendation for a 45 percent reduction in emissions of these substances by 2020 compared with 1990. Bayer AG will already achieve such a reduction by the end of the decade. Our experts will meet the target by modifying processes, applying state-of-the-art technology, decommissioning old production facilities and building modern power plants. In keeping with this objective, a modern combined-cycle power plant operated by RWE Energie AG was built at Bayer's Dormagen site in 2000. This facility, which replaced a 40-year-old brown-coal-fired power station, reduces annual carbon dioxide emissions by around 600,000 tons compared with 1990.

Eco-check for products points the way forward

The principle of Responsible Care is now being applied more than ever to the products of the chemical industry. Society rightly expects products to have considerable benefit for the user, no notable areas of risk and as little impact on the environment as possible.

To meet these strict demands even more effectively than before, we have developed our own system. We call it Product Excellence – the Bayer eco-check. This system puts us at the leading edge of a new quality offensive at the international level, applying systematic, across-the-board testing and evaluation to every product. The check covers six areas: economy, health, ecology, life cycle assessment, technology and public value. It enables potential improvements to new products to be identified at the planning stage and allows development aims to be redefined if the results of the check demand it.

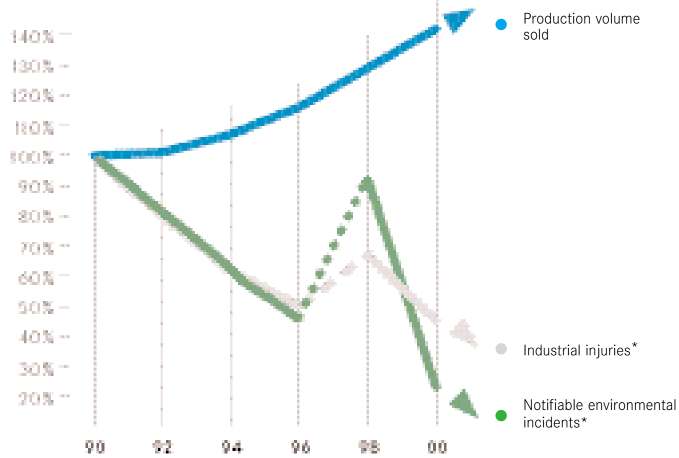
Around two dozen important Bayer products from various business groups are already being assessed, and major new products will be subjected to this eco-check in future. Product Excellence is our way of aligning our portfolio even more closely to the principles of sustainable development.

Recognition from politicians and investors

The Bayer Group's long-standing commitment to environmental protection is acknowledged all over the world, as illustrated by the distinguished honors we have been awarded during the year under review:

- U.S. President Bill Clinton presented Bayer Corporation with the coveted Presidential Green Chemistry Challenge Award for the development of water-soluble coatings systems.
- Thanks to the company's sustainable and forward-looking business approach, Bayer AG's listing in the Dow Jones Sustainability Group Index was reaffirmed.
- The leading Scandinavian financial services company Storebrand Investments, which only invests in companies with a responsible attitude to the environment, rated Bayer's performance as above-average in six out of seven criteria.

Improvements in Safety relative to 1990 (%)



*notification criteria changed effective 1998

New rubber production facility

Advances in environmental protection

Therban® rubber is manufactured at the new facility by an exemplary, environmentally friendly process.

October: Bayer receives accolades from German environment minister Jürgen Trittin for the company's achievements in the field of environmental protection. Trittin's comments come at the inauguration ceremony for a new, environmentally friendly production facility in Leverkusen for Bayer's Therban® synthetic rubber. The production site, the only one of its kind in Europe, doubles Bayer's capacity for hydrogenated nitrile rubber, which is mainly used in the automotive industry for sealing gaskets, hoses and timing belts. The new facility also further improves the company's position as one of the world's leading producers of synthetic rubber. The plant's designers placed particular emphasis on ecological factors. Lower raw material and energy consumption and reduced waste and emission volumes are the result of a new production process that will serve as a model for future facilities. The German environment ministry helped to finance the €60 million project with a subsidy of €700,000.

United States

Honor for Dr. Schneider

June: Bayer CEO Dr. Manfred Schneider receives the Vernon A. Walters Award in recognition of his "outstanding contribution in fostering German-American relations." This award is presented every year by the Atlantik-Brücke and the U.S. Armonk Institute. The Atlantik-Brücke was founded by prominent personalities from Hamburg, Germany, in 1952 to help normalize and strengthen U.S.-German relations after the Second World War. The Armonk Institute, New York, was founded in 1989 by Theodore Ellenoff, a past President of the American Jewish Committee. The institute is dedicated to overcoming historical stereotypes and prejudices.

New York:
Dr. Schneider (right) receives the Vernon A. Walters Award from Dr. Arend Oetker.

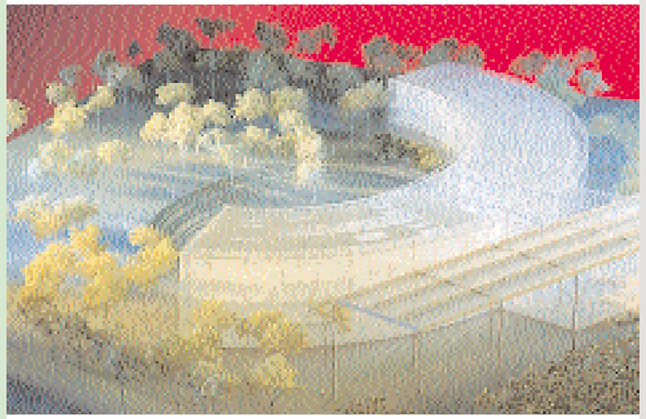
Crop protection

Bayer acquires FLINT® fungicide

October: Bayer aims to achieve a sustained enhancement of its crop protection business – a key element of its life-science activities – through the acquisition of the FLINT® strobilurin product line from Novartis. With annual sales potential for this promising fungicide – which contains one of a new class of active substances – estimated at €300 million per year, the purchase will give Bayer another top-selling product. FLINT® has already been registered in 35 countries, including important markets such as the United States and the United Kingdom. Global launch is expected to be completed by 2003.

Construction project

New Group headquarters being built in Leverkusen



Model of the new Bayer Group headquarters.

May: North Rhine-Westphalia Premier Wolfgang Clement describes the Bayer Group's decision to build its new headquarters in Leverkusen as "a good sign for the economy of our state." At the groundbreaking ceremony, Clement emphasizes North Rhine-Westphalia's position as Germany's number one location for the chemical industry. The new €50 million building, which is scheduled for completion early in 2002, will have office facilities for 275 employees.

Breaking ground: North Rhine-Westphalia Premier Wolfgang Clement, Employee Committee Chairman Erhard Gipperich, Bayer CEO Dr. Manfred Schneider, Leverkusen Site Manager Dr. Ludwig Schmidt (partly obscured), Leverkusen Mayor Paul Hebbel and construction foreman Peter Krombacher

January

– Through an agreement with the U.S. company Incyte Pharmaceuticals, Bayer gains access to a database of more than 480 patented human genes for research purposes.

– Bayer signs an agreement with the U.S. company Exelixis Pharmaceuticals to form a joint venture in crop protection research.

February

– The Diagnostics Business Group opens its first Asian training center in Singapore.

March

– Bayer participates actively in electronic marketplaces to steadily expand its e-commerce activities.

– Bayer signs a research and licensing agreement with the U.K. company Oxford GlycoScience in the field of proteomics technology, which should help to identify the causes of respiratory diseases.

– The Crop Protection Business Group acquires the South Korean company Misung Ltd. to enhance its position in the Asian market.

– The new medicine "Aspirin® for migraine headaches" is approved for sale in Germany.

April

– Bayer becomes the world's largest supplier of polyurethane raw materials through its acquisition of the polyols business of U.S.-based Lyondell Chemical Company.

– Bayer invests roughly €10 million in the construction of a Technical Polymer Center in Shanghai, China.

– Bayer completes the first construction phase for one of the world's largest test substance repositories at its Wuppertal pharmaceutical research center.

– Bayer and the Japanese company Dainippon Ink & Chemicals form a thermoplastic polyurethanes joint venture.

May

– The 20 billionth music CD is produced from Bayer's Makrolon® polycarbonate.

– Bayer completes capital spending of €250 million to further reinforce its position as a leading global supplier of synthetic rubber.

– The Animal Health Business Group brings a new €10 million production facility on stream at Chengdu in Sichuan Province, China.

June

– A new robot at Bayer's agricultural center in Monheim doubles analysis capacity.

– U.S. President Bill Clinton honors the social commitment of Bayer Corporation, presenting the company with the "President's Service Award." Bayer also receives an environmental prize, the coveted "Presidential Green Chemistry Challenge Award."

– Bayer's recombinant blood clotting agent Kogenate® FS receives marketing approval in the United States.

July

– Bayer announces it will sell its Dralon® business to the Fraver group of Italy effective January 1, 2001.

– Makroform GmbH, a joint venture between Bayer and Röhm GmbH, launches operations. The company produces and markets polycarbonate and thermoplastic polyester sheet.

August

– Bayer sells its subsidiary Bayer Solar GmbH of Freiberg, Germany to the SolarWorld group, Bonn.

– A new melt polycarbonate plant for manufacturing Makrolon® polycarbonate comes on stream at Bayer's site in Antwerp, Belgium.

September

– Bayer acquires major parts of the paper chemicals business of the U.S. company Cytec Industries for US$ 90 million.

– Bayer's plant in Bitterfeld, Germany, produces its 10 billionth Aspirin® tablet.

– The Basic and Fine Chemicals Business Group invests €50 million to expand the Central Organics Pilot Plant, which serves as a link between research and manufacturing.

Inauguration

Chancellor Schröder dedicates new pharmaceutical pilot plant

The new pharmaceutical pilot plant in Wuppertal.

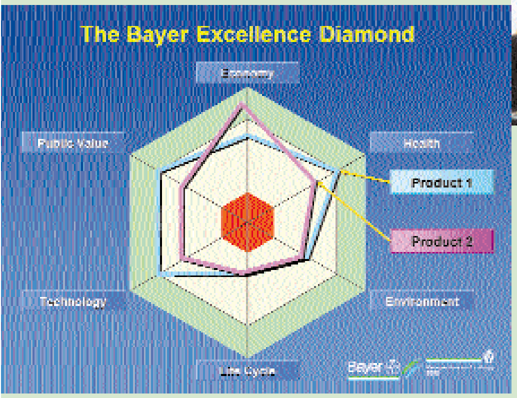
October: Bayer's new €90 million pharmaceutical pilot plant is inaugurated in Wuppertal. German Chancellor Gerhard Schröder and Bayer CEO Dr. Manfred Schneider are on hand to dedicate this state-of-the-art facility in which 20 new pharmaceutical active ingredients will be manufactured for clinical testing, creating 70 long-term jobs. Bayer's long-term goal is to launch two new pharmaceutical products each year.

Dr. Schneider (left) and German Chancellor Gerhard Schröder start up the pilot plant with a symbolic push of the button.

Environmental performance

Eco-check for Bayer products

Bayer's environment forum was attended by 120 journalists from all over the world.

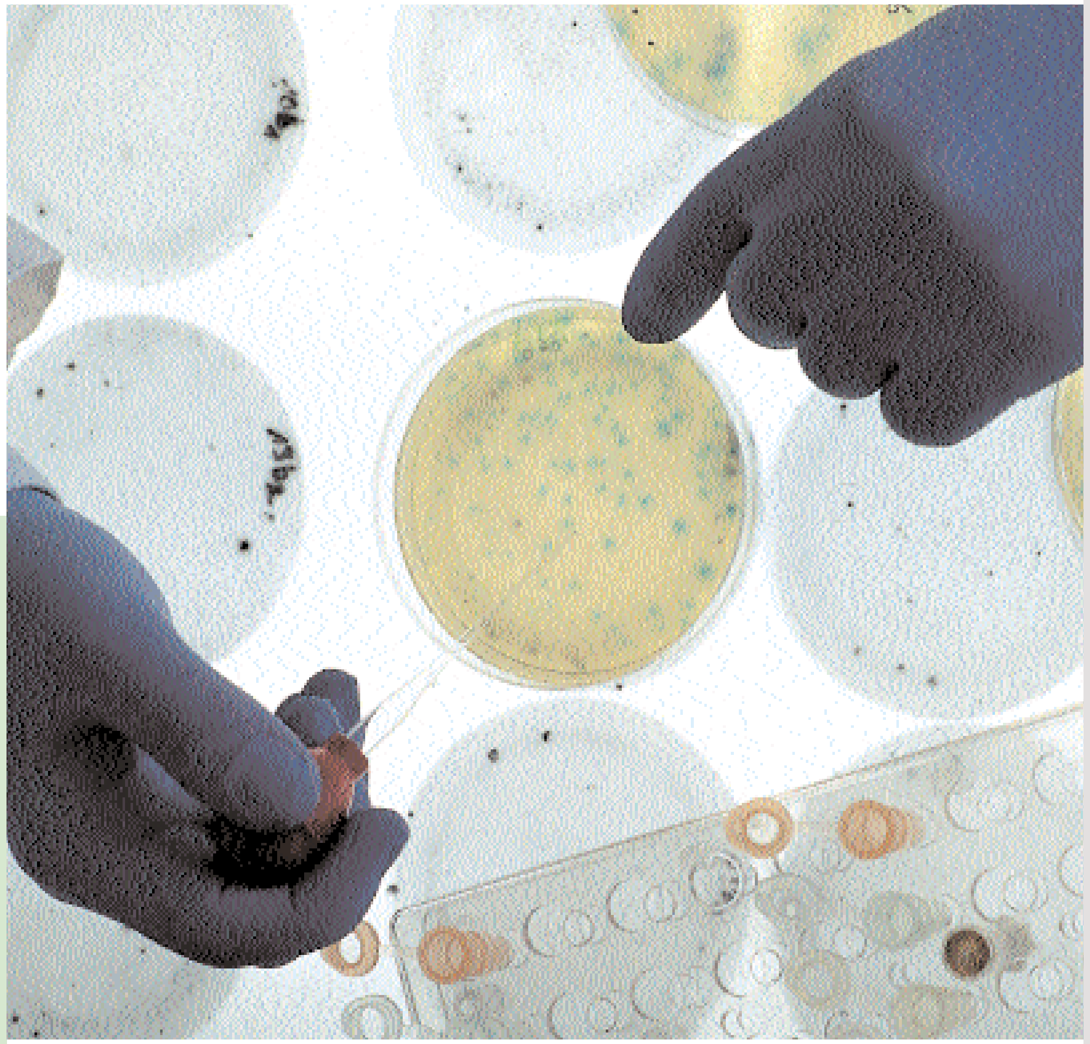


The results of an eco-check to compare two products, portrayed as a diamond.

September: Before an international audience of 120 journalists at a media forum entitled "Bayer's Perspective on Ecology 2000," Bayer CEO Dr. Manfred Schneider gives details of Bayer's excellent environmental record. Over the past 10 years Bayer significantly reduced its emissions, in some areas by as much as 90 percent, while increasing production volumes by more than one third. Schneider also introduces the Product Excellence quality offensive, which amounts to a new-style sustainability audit. Principal new products are closely scrutinized with regard to their environmental compatibility, health considerations, technology and public value, including a life cycle assessment. In tandem with the sustainable development ideal, this eco-check allows Bayer to identify a product that no longer meets the company's high standards and remove it from the portfolio if improvement is not a viable option.

Pharmaceutical research

Research into AIDS



AIDS research: Part of one of the genes in the HIV, the virus that causes AIDS, is reproduced for research purposes.

November: The Pharmaceuticals Business Group announces plans to enter the field of AIDS research. Bayer's scientists are confident that strategies and technologies that have already been successful with other viral diseases can also be applied to HIV. The goal is to identify a substance with an innovative mechanism that is effective even against resistant viruses. Bayer expects to supply the first candidate for development within about two years. Other indications Bayer will research include urinary tract infections and neurodegenerative disorders such as dementia and Parkinson's disease. Pharmaceutical research at Bayer will focus on 13 therapeutic fields.

October

– Bayer signs a further agreement with Heidelberg, Germany-based LION Bioscience AG to enhance active substance discovery in the life sciences.

– Bayer subsidiary H.C. Starck announces plans to acquire the CSM group of companies in the United States. CSM's activities include manufacturing molybdenum and tungsten mill products.

November

– Bayer and the U.S. biotechnology company Avigen Inc. sign an agreement granting Bayer worldwide marketing and distribution rights for Coagulin-B™, a gene therapy treatment for hemophilia B.

– 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.

– Bayer inaugurates a new herbicide production facility in Thailand.

December

– Bayer plans to spend €1 billion through 2005 to expand its global capacities for Makrolon® polycarbonate.

– Together with Lyondell Chemical Company of the United States, Bayer will construct a world-scale facility in Rotterdam, Netherlands to manufacture polyurethane base products. The plant is scheduled to come on stream in 2003.

Board of Management

Board of Management	Member of Board Committees for (Chairman in bold type)	Representative for Business Segment	Representative for Region(s)	Chairman of Central Conference(s)/ Committee(s) (CC)
M. Schneider **Chairman**	**Corporate Coordination** Finance			Bayer Group Strategy Conference Bayer Group Conference Bayer AG Management Conference
P. Bamelis	**Research and Development** Technology and Environment	Agriculture		CC Research and Development
A. Molnar Labor Director	**Human Resources** Technology and Environment		North America Mexico	CC Human Resources CC Environmental Protection and Safety
F. Morich	Research and Development Marketing and Logistics	Health Care		
U. Oels	**Technology and Environment** Research and Development Corporate Coordination			CC Manufacturing and Technology
W. Spinner	**Marketing and Logistics** Finance	Polymers	Far East	CC Marketing CC Logistics and Business Processes
W. Wenning	**Finance** Corporate Coordination Human Resources		Central and South America, Africa, Middle East	Executive Management Development Conference
G. Zaby	Marketing and Logistics Human Resources	Chemicals	Europe	

Business Groups

Health Care		**Agriculture**	
Pharmaceuticals	D. Ebsworth	Crop Protection	J. Wulff
Consumer Care	G.S. Balkema	Animal Health	F. Berschauer
Diagnostics	R.A. Classon		

Polymers		**Chemicals**	
Plastics	H. Noerenberg	Basic and Fine Chemicals	M. Wienkenhöver
Rubber	J. Ick	Specialty Products	R. Pott
Polyurethanes	H.-J. Kaiser	EC Erdölchemie*	K.-H. Hagen
Coatings and Colorants	U. Koemm	Haarmann & Reimer	L. Courth
Fibers	K. Schrewe	H.C. Starck	P. Kählert
		Wolff Walsrode	A.-C. Heitmann

* Bayer's interest 50 %

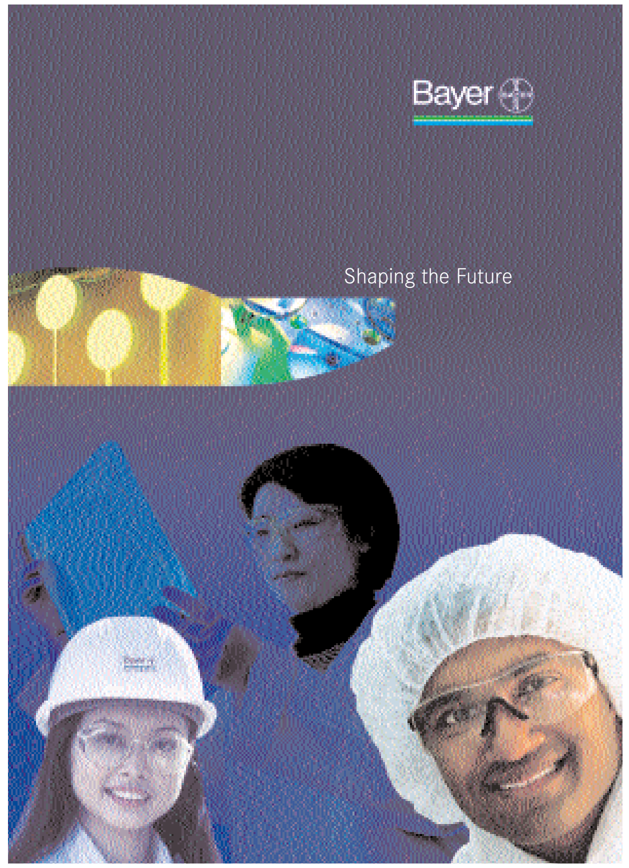
Corporate Divisions

Corporate Planning and Controlling	G. Plumpe
Finance	K. Kühn
Legal, Patents, Licenses and Insurance	R. Hartwig
Corporate Communications	H. Springer
BPR/SAP Program Management Bayer	H. Läpple

Central Service Divisions

Procurement	G. Römer
Information Systems	B. Fink
Human Resources	W. Böckly
Enterprise Accounting and Reporting	B.-J. Menn
Site Services, Environmental Protection and Safety	L. Schmidt
Central Research	F.-R. Heiker
Central Logistics	A. Endlicher
Central Technology	K.-P. Ochel

as of January 1, 2001



Bayer's 2000 Annual Report – our most comprehensive and systematic yet – is split into two publications for easy reference. This brochure contains feature articles and news items about important events in 2000, recounts strategic developments in the four business segments, outlines trends in our human resources policies and provides an overview of our environmental protection activities. As in the previous Annual Report, we also introduce a number of external partners and some of our employees – the people who help us shape the future.

The second book in the folder is the Financial Report detailing economic and business developments. It includes the management report, consolidated financial statements, Chairman's letter to stockholders, report of the Supervisory Board and other information of interest to investors.

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Bayer on the Internet
www.bayer.com

ISSN 0343-1975

Forward-looking information
This brochure contains statements and forecasts relating to the future development of the Bayer Group as a whole and the individual consolidated companies. Such forecasts constitute estimates we have made on the basis of all the information currently available to us. Should the assumptions underlying these forecasts prove unreliable or should risks materialize, the companies' actual performance may differ from current expectations.

Bayer

Financial Report 2000

Bayer Key Data

Bayer Group

		2000	1999	Change in %
Sales	€ million	**30,971**	27,320	+13.4
Operating result	€ million	**3,287**	3,357	– 2.1
Income before income taxes	€ million	**2,990**	2,836	+ 5.4
Net income	€ million	**1,816**	2,002	– 9.3
Gross cash flow	€ million	**4,164**	3,192	+ 30.5
Stockholders' equity	€ million	**16,377**	15,182	+ 7.9
Total assets	€ million	**36,451**	31,279	+ 16.5
Capital expenditures	€ million	**2,647**	2,632	+ 0.6
Employees	at year end	**122,100**	120,400	+ 1.4
Personnel expenses	€ million	**7,735**	7,549	+ 2.5
Research and development expenses	€ million	**2,393**	2,252	+ 6.3

Bayer AG

		2000	1999	Change in %
Total dividend payment	€ million	**1,022**	949	+ 7.7
Dividend per share	€	**1.40**	1.30	+ 7.7
Tax credit	€	**0.45**	0.08	•

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Leverkusen, March 2001

Dear stockholders:

We're pleased to report that 2000 was a successful year for Bayer. Sales from our continuing operations – that's to say disregarding Agfa, Erdölchemie and DyStar – grew by €5 billion, or 21 percent, to €30 billion. The operating result before exceptional items climbed by 20 percent to €3.3 billion. Both figures represent an all-time high for Bayer.

We obviously want you, our stockholders, to benefit from this strong performance, so we will propose to this year's Annual Stockholders' Meeting that the dividend be raised to €1.40 – the seventh consecutive increase.

Bayer's commercial success is also reflected in the price of our stock, which significantly outperformed the DAX and the EURO STOXX 50. The investment return amounts to 23 percent including the dividend. This is a solid performance, even by international standards.

Our Health Care business once again grew faster than the world market, with operating profit advancing by 35 percent. Successful new products and the innovative capability of our pharmaceutical research give us strong potential for further growth and substantially higher profitability in this segment. Our Agriculture segment expanded its sales and remained an industry leader in terms of operating margin, despite the weakness of the world market. Here, too, a well stocked product pipeline gives us confidence for the future.

Sharp increases in raw material prices marred earnings in our Polymers segment, but restructuring and cost-containment programs in all of its business groups should improve margins again in 2001. We face particularly tough challenges in the Chemicals segment in view of the difficult business environment. Despite high earnings from specialties, we cannot yet be satisfied with the segment's performance overall, and we will press on with our restructuring program.

During 2000 we continued to optimize our portfolio. The US$ 2.5 billion acquisition of Lyondell's polyols business has made Bayer the world's largest supplier of polyurethane raw materials, with a global market share exceeding 25 percent. We enhanced our crop protection business for the long term by acquiring the FLINT® fungicides line from Novartis for €880 million.

On the other hand, we are divesting activities that we no longer consider to be core businesses. One example is the sale of the Dralon® business of Bayer Faser GmbH to the Fraver group of Italy effective January 1, 2001.

To strengthen our international competitiveness, we are pushing ahead with the reorganization of intragroup structures, processes and services. At the beginning of 2001, for example, the accounting operations of Bayer AG were successfully switched to SAP, and the business groups' processes will follow in the next 18 months. To enhance the efficiency of cross-border customer support structures, we will establish regional centers, particularly in Europe and Asia. We will also make our service functions in Germany more competitive: we have set up a separate company for our data center, for instance, with further areas – such as central logistics – to follow.

The motivation and dedication of our employees are crucial to the success of our company. With this in mind, we last year initiated a stock option program for top management and two stock ownership programs for all other employees of Bayer AG. The programs have met with a very positive response at all levels in the company.

On behalf of the entire Board of Management, I would like to thank our employees in Germany and around the world for their dedication and their contribution to Bayer's success.

We will continue to optimize our portfolio and expand our research platform in 2001. In the first quarter we divested our 20 percent minority interest in Kerr-McGee Pigments GmbH & Co. KG and acquired the corn herbicide MIKADO® from Syngenta. We plan to sell our 50 percent interest in EC Erdölchemie to Deutsche BP, the other partner in the joint venture, effective April 1, 2001. And we have signed cooperation agreements with the U.S. biotech company CuraGen in the fields of metabolic diseases and genomics.

We are again budgeting for double-digit increases in sales and operating profit from our continuing operations – despite first signs that economic growth is slowing. We expect the greatest boost to come from Health Care, which already contributes 44 percent to the Group operating result and is only marginally dependent on the economic climate. We currently have no reason to expect any prolonged adverse cyclical effects on our industrial businesses. Following a period of restrained growth in the fourth quarter of 2000 and the first quarter of 2001, these activities should benefit from falling raw material prices, robust domestic demand in Germany and Europe, and the exchange rates for the euro, which remain favorable.

As you can see, we have every reason to be confident about the trend for the coming months.

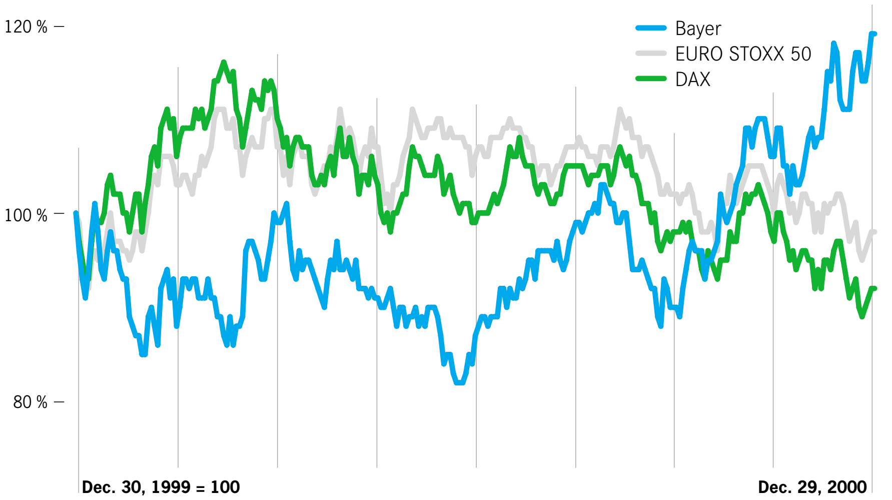
Finally, may I thank you for the trust you have shown in Bayer's management and staff. We will continue to do everything in our power to enhance our corporate value and thus to justify your support.

Dr. Manfred Schneider

High-yielding investment with a future

Bayer's solid business performance is also reflected in our share price. Our stock bucked the downward market trend, closing 2000 at €56.25. The dividend of €1.40 per share represents an all-time high.

Bayer Share Price (indexed)



Comparative Performance of Bayer Stock 2000

	1 Year 2000 (p.a.)	5 Years 1996-2000 (p.a.)	10 Years 1991-2000 (p.a.)	15 Years 1986-2000 (p.a.)
Bayer stock				
Price	+ 19 %	+ 24 %	+ 18 %	+ 10 %
Performance including cash dividend	+ 23 %	+ 27 %	+ 22 %	+ 14 %
Performance including gross dividend	+ 23 %	+ 28 %	+ 24 %	+ 16 %
FAZ stock price index	– 9 %	+ 19 %	+ 13 %	+ 8 %
DAX 30 performance index	– 8 %	+ 23 %	+ 17 %	+ 11 %
Dow Jones EURO STOXX 50 performance index	– 2 %	+ 28 %	+ 22 %	–

All data as of year end

Well positioned in promising growth markets

The strong performance of our four business segments continues to make Bayer stock an attractive investment. Earnings in our Health Care segment are firmly back on track, with strategic products registering high growth rates and substantially higher research productivity in the wake of R&D expansions. Our Agriculture segment is posting double-digit growth against the market trend with innovative products and an attractive business mix. Our Polymers segment further shored up its leading market positions. The high-earning parts of our Chemicals segment continue to gain in importance.

We will further expand our four business segments within Bayer's existing corporate structure, with the emphasis on Health Care and Agriculture in the medium term. The clear alignment of our portfolio management to achieve sustained value creation should contribute to a continued rise in our share price over the long term.

Bayer stock significantly outperforms the DAX 30

Although Bayer's share price fluctuated in the first few months of 2000 – a period in which the capital markets were still dominated by the trends in technology stocks – strong demand for Bayer stock, especially in the last quarter of 2000, led to an above-average increase in the price over the year as a whole. Bayer stock closed 2000 at €56.25, up 19 percent from €47.15 at year end 1999. The investment return amounts to 23 percent if the cash dividend is included. By contrast, the German share index DAX 30 was down by 7.5 percent over the same period, its first year-on-year decline since 1994.

Bayer stock also performed better than the European average. In contrast to the positive development of Bayer's share price, the Dow Jones EURO STOXX 50 index, which comprises the 50 most important stocks in the euro zone, lost 2 percent in 2000.

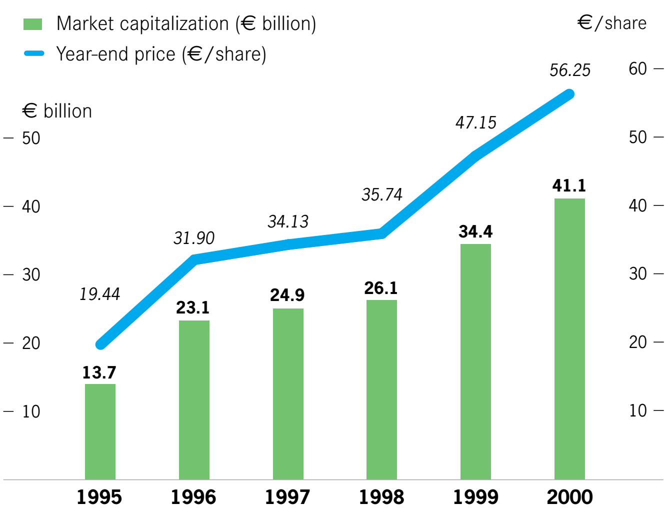
A further rise in the dividend

To allow our stockholders to benefit appropriately from the strong performance of our continuing operations, the Board of Management and the Supervisory Board are proposing to this year's Annual Stockholders' Meeting that the dividend be raised for the seventh consecutive year, to €1.40 per share. The total payout will thus reach a new high of €1,022 million, while the payout ratio comes to 56 percent. The yield based on the gross dividend of €1.85 per share and the share price of €56.25 at year end 2000 amounts to 3.3 percent.

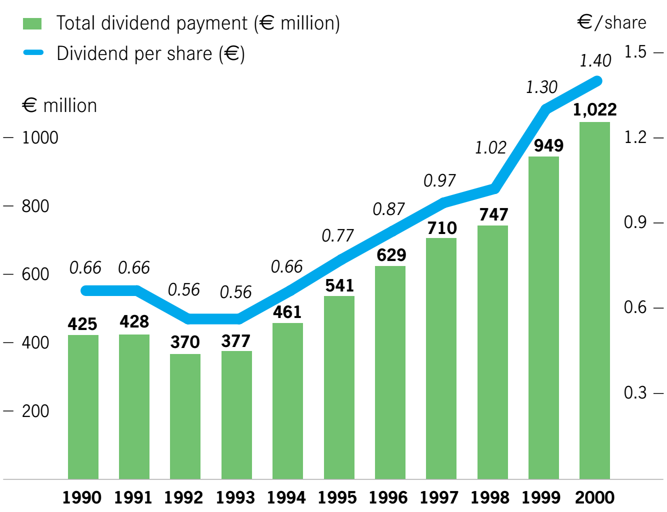
An actively traded DAX 30 stock

In the German stock index DAX 30, the Bayer share had a weighting of 4.59 percent at year end 2000 due to the high trading volume and our market capitalization of €41.1 billion. Global turnover in Bayer stock amounted to 814 million shares, of which 648 million (including Xetra trading) – with a total value of €29.4 billion – were traded on German stock exchanges. This makes Bayer one of the most actively traded securities in the German share index.

Bayer Market Capitalization since 1995



Dividends Paid since 1990



U.S. listing in 2001

Bayer plans to list its shares on the New York Stock Exchange, the world's most important financial market, on September 26, 2001. Our goal is to increase the attractiveness of our stock for U.S. investors and gain a broader stockholder base in the United States.

Employee stock programs introduced

Following the introduction of a stock option program for members of the Board of Management and the first management level below the Board at the beginning of 2000, all remaining employees of Bayer AG were also given the opportunity starting in mid-2000 to participate in stock ownership programs. An index-linked stock incentive program was introduced for senior managers under which participants receive free shares in return for a personal investment, provided certain stock performance and retention criteria are met. All other employees have the opportunity to participate in a stock ownership program as well, under which they qualify for free shares on the basis of their personal holdings after specified retention periods and can also purchase a limited number of shares at a tax-free discount.

These programs proved very popular, with an uptake of 91 percent for the stock option program and 77 percent for the stock incentive program. Under the general stock ownership program, 550,000 shares were registered for retention and 250,000 shares

Bayer Stock Data

		2000	1999**
Dividend	€	**1.40**	1.30
Tax credit	€	**0.45**	0.08
Earnings per share	€	**2.49**	2.74
Cash flow per share	€	**5.70**	4.37
Equity per share	€	**22.42**	20.79
Year-end price*	€	**56.25**	47.15
High for the year*	€	**56.25**	47.15
Low for the year*	€	**38.75**	30.25
Shares issued as of year end	million	**730.34**	730.34
Shares to be issued upon the exercise of warrants	million	**0.0**	0.0
Share turnover on German stock exchanges	million	**648**	559
	€ billion	**29.4**	21.4
Market capitalization at year end	€ billion	**41.1**	34.4
Total dividend payment	€ million	**1,022**	949
Price / earnings ratio		**22.6**	17.2
Price / cash flow ratio		**9.9**	10.8
Dividend yield	%	**3.3**	2.9

* fixing on the Düsseldorf Stock Exchange
** 1999 figures restated

were bought at a discount, giving an overall uptake of 57 percent. The success of the programs demonstrates both the high level of acceptance for this performance-related stock ownership model and the employees' confidence in their company's stock as a long-term investment. What's more, employee stock programs support our strategy of value-based corporate management.

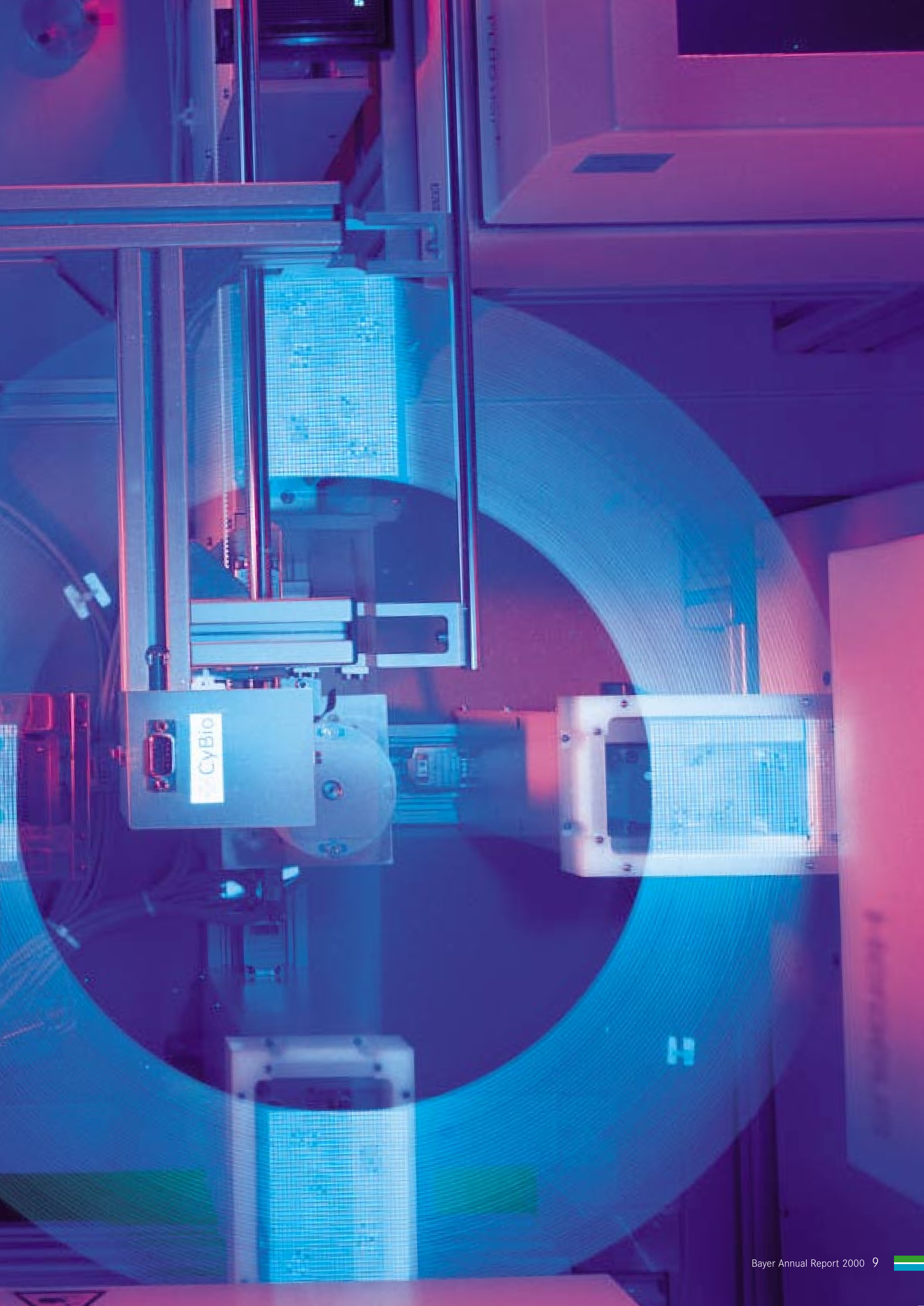
Corporate reporting – corporate dialogue

Timely, frank and open dialogue with investors and financial analysts is the focus of our investor relations activities. Our goal is to achieve a fair valuation of Bayer stock by providing the capital markets with comprehensive and reliable information. To this end, we further expanded our range of services and information in 2000, undertaking a total of 29 roadshows, investor conferences and specialist conferences in cities including New York, Boston, London, Paris, Zurich, Edinburgh, Frankfurt and Leverkusen. We also held a series of individual meetings with analysts and investors to discuss our corporate strategy and current business performance.

In addition to this direct dialogue, we are increasingly making use of the Internet to communicate with investors. Our investor relations website features extensive information on the company and Bayer stock, as well as annual and quarterly reports and presentations for investors. Visitors to the site can watch broadcasts of our events on a live video channel. The website is accessed up to 280,000 times a month – confirming the importance of this communications medium for our investor relations work.

Double-digit increases in sales and earnings

Modern pharmaceutical research: Using the latest generation of ultra-high-throughput screening robots, Bayer can test the efficacy of up to 200,000 compounds a day.



Health Care expanding with strong profit growth

Dividend €1.40 – Payout exceeds €1 billion

Good start to 2001

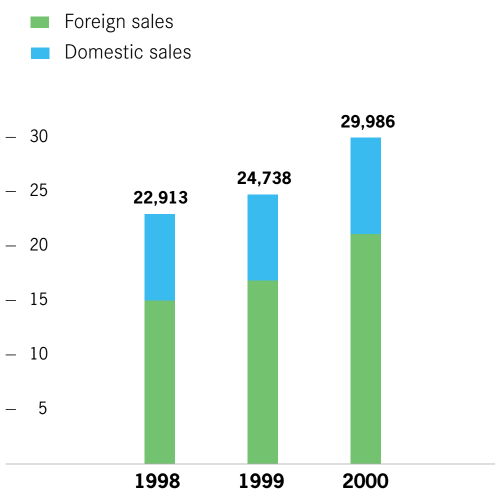
The continued improvement in the market positions of our core businesses, coupled with a generally favorable economic climate, led to double-digit growth in both sales and operating profit in 2000. Group sales from continuing operations advanced by 21 percent to €30 billion, and the operating result before exceptional items climbed by 20 percent to €3.3 billion. The operating result after exceptionals advanced by 45 percent to €3.2 billion. Including the discontinuing operations of EC Erdölchemie and DyStar, sales increased to €31 billion and the operating result was €3.3 billion.

Several factors were responsible for the €5.2 billion increase in sales:

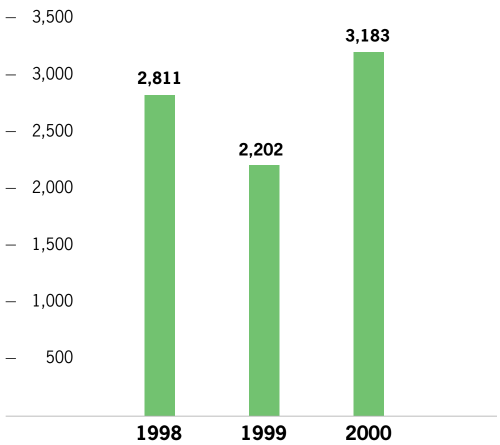
Volumes rose by 7 percent, reflecting the strong demand for our products. Our success in implementing price increases in the second half of the year brought the urgently needed improvement in margins and accounted for 2 percentage points of the growth in sales.

The lower value of the euro boosted sales by 9 percent, while portfolio changes – particularly the acquisition of the polyols business of Lyondell Chemical Company – lifted sales by another 3 percent.

Sales from Continuing Operations (€ million)



Operating Result from Continuing Operations (€ million)



Change in Sales

Reported	+ 13 %
Continuing operations	**+ 21%**
Volumes	+ 7 %
Prices	+ 2 %
Exchange rates	+ 9 %
Portfolio changes	+ 3 %

Economic Environment

Overall economic situation

The overall business environment was positive in 2000. However, the acute increase in raw material prices – particularly in the Polymers and Chemicals segments – had a tangible effect on earnings.

The robust economic growth continued in North America, although a significant slowdown was registered in the fourth quarter. Latin America continued to stabilize. Business conditions in Asia remained favorable, particularly in Southeast Asia and China. Only Japan was slow in recovering from the recession. The European economies also became more stable, key factors being deregulation, market reforms and lower tax burdens in almost all European countries.

Economic situation by industry sector

The pharmaceuticals market is experiencing above-average growth worldwide, due in particular to launches of innovative products, improved diagnostic methods, and the increasing research and use of new enabling technologies. State intervention continues to have a negative impact, however, especially in Europe and Japan.

The agriculture sector is marked by increasing consolidation and stiff competition from generic products. In crop protection, additional factors are the stagnating demand and heavy pressure on herbicide prices in the world market.

The automotive and electronics industries, which are key customers of our Polymers segment, developed favorably in 2000. We increased our shares of these markets, particularly through the Lyondell polyols acquisition.

Demand for chemical products increased in all of our major foreign markets and in some German customer industries during 2000. Average chemicals output for the year as a whole was up 3 percent from the previous year.

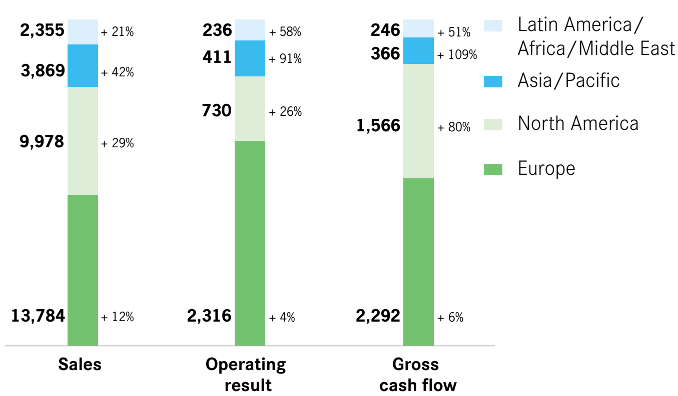
Business Trend by Region

Sales by market in Europe, our most important region, increased by €1.2 billion, or 11 percent, while in North America business expanded by 27 percent to €9.6 billion.

In line with our controlling criteria, we regrouped the countries in our former Asia/Africa/Australia and Latin America regions to form new Asia/Pacific and Latin America/Africa/Middle East regions.

Sales by market in the Asia/Pacific region grew by 45 percent to €5.0 billion; business in the Latin America/Africa/Middle East region was up 14 percent.

Performance by Region
(by point of origin, before reconciliation, cf. pp. 52-53; € million)



Europe

€ million	2000	Change
Sales	**13,784**	+ 11.7 %
Operating result before exceptional items	**2,316**	+ 3.6 %
Return on sales before exceptional items	**16.8 %**	– 1.3
Gross cash flow	**2,292**	+ 6.2 %
CFROI	**13.4 %**	– 0.4

Our European companies took advantage of the favorable economic conditions, expanding sales by 12 percent to €13.8 billion. The operating result rose by 4 percent to €2.3 billion. We were not yet able to pass on the entire raw material cost increases to the market. Restructuring expenses of €86 million were offset by income of €94 million from the divestiture of non-core activities, resulting in net exceptional income of €8 million.

The return on sales and the cash flow return on investment (CFROI) – at 17 and 13 percent, respectively – exceeded the Group average of 11 and 12 percent. The gross cash flow rose by €134 million to €2.3 billion.

North America

€ million	2000	Change
Sales	**9,978**	+ 29.2 %
Operating result before exceptional items	**730**	+ 25.9 %
Return on sales before exceptional items	**7.3 %**	– 0.2
Gross cash flow	**1,566**	+ 80.4 %
CFROI	**11.3 %**	+ 3.2

Sales of our North American companies grew by 29 percent (14 percent in local currencies) to €10 billion, due largely to strong demand for our pharmaceutical products. The Lyondell polyols acquisition accounted for 4 percentage points of this increase. The operating result before exceptional items increased by 26 percent to €730 million, while the return on sales and CFROI amounted to 7 and 11 percent, respectively.

Exceptional charges totaling €169 million in the Health Care and Polymers segments were only partially offset by the €25 million gain from the divestiture of the U.S. biologicals business of the Animal Health Business Group.

Asia/Pacific

€ million	2000	Change
Sales	**3,869**	+41.8 %
Operating result before exceptional items	**411**	+ 91.2 %
Return on sales before exceptional items	**10.6 %**	+ 2.7
Gross cash flow	**366**	+109.1 %
CFROI	**13.7 %**	+ 5.0

Sales of our companies in the Asia/Pacific region climbed by 42 percent to €3.9 billion, with currency fluctuations accounting for 16 percent of this increase. The operating result and the gross cash flow each doubled to €0.4 billion. Exceptional charges of €21 million were incurred for restructuring, mainly in the Health Care segment.

The return on sales improved to 11 percent, while the CFROI rose by 5 percentage points to 14 percent.

Latin America/Africa/Middle East

€ million	2000	Change
Sales	**2,355**	+ 20.7 %
Operating result before exceptional items	**236**	+ 58.4 %
Return on sales before exceptional items	**10.0 %**	+ 2.4
Gross cash flow	**246**	+ 50.9 %
CFROI	**15.4 %**	+ 4.3

Our companies in this region significantly improved their performance in a favorable economic environment. Sales were up by 21 percent – in local currencies by 8 percent – to €2.4 billion, while operating profit before exceptional items jumped by a gratifying 58 percent to €236 million.

The gross cash flow climbed 51 percent to €246 million; the CFROI increased by 4 percentage points to 15 percent.

Business Trend by Segment

Global responsibility for Bayer's activities lies with our 15 business groups, which we have strategically pooled in the Health Care, Agriculture, Polymers and Chemicals segments.

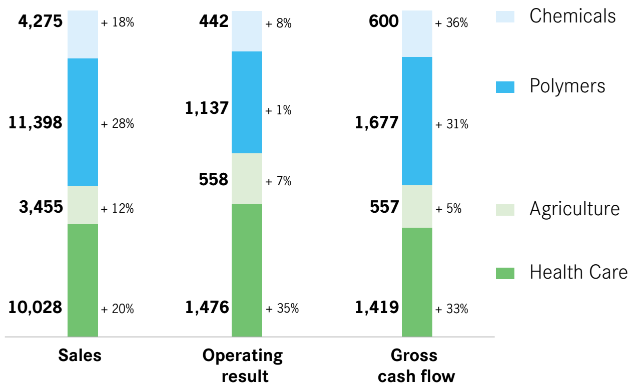
Business Segment	Business Groups
Health Care	Pharmaceuticals; Consumer Care; Diagnostics
Agriculture	Crop Protection; Animal Health
Polymers	Plastics; Rubber; Polyurethanes; Coatings and Colorants; Fibers
Chemicals	Basic and Fine Chemicals; Specialty Products; Haarmann & Reimer; H.C. Starck; Wolff Walsrode

Wolff Walsrode has been transferred to the Chemicals segment due to that business group's strategic realignment. The previous year's figures have been restated accordingly.

As in the previous year, the activities of the textile dyes company DyStar are reported as discontinuing operations. They were integrated into an expanded joint venture with BASF at the end of the third quarter of 2000. EC Erdölchemie, our joint venture with Deutsche BP, is also no longer reported under continuing operations. We plan to sell our interest to Deutsche BP effective April 1, 2001. The previous year's figures are restated to facilitate comparison.

Performance by Business Segment

(before reconciliation, cf. pp. 52-53; € million)



Sales of our four business segments – disregarding revenues from sideline operations – advanced by 21 percent altogether, to €29.2 billion. The operating result of the segments before exceptional items and the reconciliation expanded by 15 percent to €3.6 billion, and their combined gross cash flow moved ahead by 28 percent to €4.3 billion. The Polymers segment contributed the largest share of Group sales and gross cash flow, namely €11.4 billion and €1.7 billion, respectively; the Health Care segment recorded the largest operating result, amounting to €1.5 billion.

Health Care

€ million	2000	Change
Sales	**10,028**	+ 19.9 %
Operating result before exceptional items	**1,476**	+ 34.8 %
Return on sales before exceptional items	**14.7 %**	+ 1.6
Gross cash flow	**1,419**	+ 32.6 %
CFROI	**15.4 %**	+ 2.5

The Health Care segment posted sales of €10 billion and operating profit of €1.5 billion, equivalent to a 33 percent share of Group sales from continuing operations and a 44 percent contribution to the Group operating result. Sales were up by 20 percent, while the operating result and gross cash flow climbed by 35 and 33 percent, respectively. The return on sales and CFROI each advanced to 15 percent. Restructuring and a voluntary product recall resulted in exceptional charges of €139 million.

€ million	2000	1999	Change
Sales: Pharmaceuticals	**6,140**	5,003	+ 22.7 %

Sales growth in the **Pharmaceuticals** Business Group was particularly strong in North America and Japan. We scored great success in 2000 with our lipid-lowering agent Lipobay®/ Baycol® and with our biological product range. Lipobay®/ Baycol® surpassed the €500 million sales threshold for the first time, and doubled its market share in the United States. We compensated for past production shortfalls for biological products. Sales of Kogenate® jumped by 30 percent. Sales of our antihypertensive drug Adalat® rose once again despite an increasingly difficult business environment.

Best-Selling Bayer Health Care Products

	€ million	Change
Ciprobay®/ Cipro®	**1,785**	+ 18 %
Adalat®	**1,155**	+ 13 %
Lipobay® / Baycol®	**636**	+ 82 %
Aspirin®	**632**	+ 12 %
Kogenate®	**491**	+ 30 %
Glucometer® Elite	**472**	+ 33 %
Gamimune® N	**350**	+ 22 %

Like the blockbuster Ciprobay®/Cipro®/Ciproxin®, our new antiinfective Avalox®/Avelox® also has great potential, which is confirmed by its successful launch in the major markets. In the United States, we aim to more fully realize our products' sales potential through a co-promotion agreement with Alza Corporation and by further expanding our field force.

To further enhance the profitability of our Pharmaceuticals Business Group, we have introduced a broadly based cost containment program. In the medium and long term we are relying on the innovative potential of our outstanding research platform based on enabling technologies.

The research alliance with Millennium Pharmaceuticals is already bearing fruit. For example, the first development candidate to emerge from this collaboration – for the indication cancer – has already been accepted into preclinical trials. We expect to receive 20 candidates a year starting in 2004, from which we plan to launch two new pharmaceutical products annually following the necessary clinical trials.

€ million	2000	1999	Change
Sales: Consumer Care	**1,923**	1,683	+ 14.3 %

Consumer Care continued to perform well, with particularly solid growth in Indonesia, Germany and the United Kingdom. In Indonesia we acquired a marketing company. Four new products were added to Consumer Care's portfolio. Sales advanced by 14 percent to €1.9 billion, although operating profit was hampered by the recall of our Alka-Seltzer Plus® cold remedy containing the active ingredient phenylpropanolamine (PPA). The business group plans to launch a new formulation of this product in 2001.

€ million	2000	1999	Change
Sales: Diagnostics	**1,965**	1,681	+ 16.9 %

The **Diagnostics** Business Group increased sales by 17 percent to €2.0 billion, outperforming the market. In a move designed to counteract the current disadvantages of its U.S. manufacturing base that result from the strength of the dollar, the business group has embarked on a cost containment project to improve margins.

Agriculture

€ million	2000	Change
Sales	**3,455**	+ 11.7 %
Operating result before exceptional items	**558**	+ 7.3 %
Return on sales before exceptional items	**16.2 %**	– 0.6
Gross cash flow	**557**	+ 5.5 %
CFROI	**13.9 %**	– 1.8

The business environment in the agriculture sector has become much more difficult as a result of stiff competition and lower farm incomes. In spite of this, sales of the Agriculture segment rose by 12 percent to €3.5 billion.

The Crop Protection Business Group boosted sales by 13 percent, while Animal Health added 9 percent. The operating result and the gross cash flow improved by 7 and 5 percent, respectively, to €0.6 billion each. Our Agriculture segment was again a global industry leader in terms of performance, with a 16 percent return on sales.

Best-Selling Bayer Crop Protection and Animal Health Products

	€ million	Change
Confidor®/Gaucho®/Admire®/Provado®	**560**	+ 21 %
Folicur®/Raxil®	**251**	+ 6 %
Advantage®	**204**	+ 14 %
Baytril®	**170**	+ 13 %

€ million	2000	1999	Change
Sales: Crop Protection	**2,456**	2,177	+ 12.8 %

Sales of the **Crop Protection** Business Group moved up 13 percent to €2.5 billion. There was particularly good growth in demand for our insecticides containing the active ingredient imidacloprid (Confidor®/Gaucho®), as well as for our seed treatments and the products of our garden/professional care business unit.

We strategically enhanced our fungicides business, adding €300 million in potential annual sales with the acquisition of the FLINT® strobilurin line from Novartis. The acquisition restores Bayer to the number two position in the fungicides market. The successful integration of Misung Ltd. in South Korea has crucially increased our share of this strategically important market. Our goal is to achieve growth in all areas of chemical crop protection with innovative products. We also expanded our biotech agrochemical research platform through collaborations worth a total of €200 million.

To develop new products we exploit modern key technologies ranging from genomics to substance libraries to high-throughput screening. This innovative technology platform will safeguard our leading position among research-based agrochemical companies.

€ million	2000	1999	Change
Sales: Animal Health	**999**	917	+ 8.9 %

Sales of the **Animal Health** Business Group were up 9 percent to €1 billion. Our flagship product Advantage® registered double-digit sales growth.

Our hygiene business unit turned in a particularly solid performance, successfully introducing new rodenticides and insecticides to the market. The effects of divesting the animal health biologicals business in the United States were compensated by the strength of the business group's other U.S. activities.

Polymers

€ million	2000	Change
Sales	**11,398**	+ 27.8 %
Operating result before exceptional items	**1,137**	+ 1.0 %
Return on sales before exceptional items	**10.0 %**	– 2.6
Gross cash flow	**1,677**	+ 31.0 %
CFROI	**11.2 %**	+ 0.1

Sales of the Polymers segment expanded by 28 percent to €11.4 billion. Polymers remained our largest segment in terms of sales, significant factors in its success being the favorable economic climate, new applications for our products, positive currency effects and the acquisition of the polyols business of Lyondell Chemical Company.

The operating result moved ahead by 1 percent to €1.1 billion, the sharp rise in raw material prices being the main obstacle to a more substantial increase. Although the return on sales declined to 10 percent, the gross cash flow advanced by 31 percent to €1.7 billion. The CFROI remained stable year-on-year, at 11 percent, despite high capital expenditures. Exceptional charges of €105 million were incurred for integration and restructuring in the Polyurethanes and Plastics business groups.

Our goal is to achieve a 15 percent return on sales by 2004, partly through continued business expansion, especially in Asia, and partly through price increases and cost containment programs in all areas. We expect these measures to result in savings of more than €200 million annually in the coming years.

€ million	2000	1999	Change
Sales: Plastics	**3,520**	2,770	+ 27.1 %

The global increase in demand for high-performance plastics, the strong U.S. dollar and successfully implemented price increases contributed to a very pleasing performance by the **Plastics** Business Group, with average revenues for all products well in excess of the previous year. Sales climbed by 27 percent to €3.5 billion.

To further expand our businesses, we concluded an agreement with DuPont to establish a manufacturing joint venture for polybutylene terephthalate (PBT) base polymers in Europe. The facility is scheduled to come on stream early in 2003. We also formed joint ventures with Röhm GmbH in Europe for transparent polycarbonate and poly-ester sheet, and with Dainippon Ink & Chemicals, Inc. (DIC) for thermoplastic polyurethanes.

The acquisition of the South Korean plastic sheet manufacturer Sewon Enterprise Co., Ltd. has strengthened our position in the Asian market for solid polycarbonate sheet.

€ million	2000	1999	Change
Sales: Rubber	**2,296**	1,857	+ 23.6 %

Sales were up for all products of the **Rubber** Business Group, due largely to significantly higher volumes and positive currency effects. We grew faster than the market, particularly in rubber grades for the tire industry, although we experienced delays in passing on raw material price increases to the market. Sales advanced by 24 percent overall, to €2.3 billion.

In Leverkusen, the business group brought on stream an environmentally friendly production plant for Therban® synthetic rubber. The facility doubles our capacity for this profitable hydrogenated nitrile rubber, which is used primarily in the automotive industry.

€ million	2000	1999	Change
Sales: Polyurethanes	**3,131**	2,175	+ 44.0 %

In the **Polyurethanes** Business Group the year was marked by increased volume sales, particularly for polyols. Sales jumped by 44 percent to €3.1 billion. We have further strengthened our leading position in this area. However, substantial cost increases for the main raw materials propylene, toluene and benzene put pressure on margins.

We significantly enhanced our position by acquiring the polyols business of Lyondell Chemical Company and an equity interest in that company's production of propylene oxide. We have also agreed to cooperate with Lyondell in technology development and in the construction of new manufacturing facilities for propylene oxide. A new production facility for propylene oxide and styrene is due on stream in the Netherlands in 2003. The acquisition gives us access to proprietary technologies and products and enables us to supply our customers with a complete range of raw materials and comprehensive technical service.

€ million	2000	1999	Change
Sales: Coatings and Colorants	**1,946**	1,729	+ 12.6 %

Sales in the **Coatings and Colorants** Business Group rose by 13 percent, with higher volumes accounting for 7 and currency translations for 5 percentage points. The coating resins and the special and adhesive raw materials business units registered above-average growth.

Our purchase of Sybron Chemicals Inc., a producer of polymers and specialty chemicals, broadens our expertise in solvent-free powder coatings, which are expected to show above-average growth because of their good environmental compatibility. The acquisition thus adds another application for our polyurethane coating building blocks, which already hold an excellent position in the market.

€ million	2000	1999	Change
Sales: Fibers	**505**	391	+ 29.2 %

The 29 percent growth in sales of our **Fibers** Business Group was due to higher selling prices and increased demand in all regions. To streamline its portfolio, the business group sold its Dralon® activities to the Fraver group of Biella, Italy, effective January 1, 2001.

Chemicals

€ million	2000	Change
Sales	**4,275**	+ 17.8 %
Operating result before exceptional items	**442**	+ 7.5 %
Return on sales before exceptional items	**10.3 %**	– 1.0
Gross cash flow	**600**	+ 36.4 %
CFROI	**9.8 %**	+ 2.0

Sales of the Chemicals segment were up by 18 percent to €4.3 billion; one third of this increase was due to currency effects. The operating result amounted to €442 million. Here again, earnings were hampered by higher raw material prices, especially in the Basic and Fine Chemicals Business Group. The gross cash flow improved by a particularly gratifying 36 percent to €600 million. The return on sales dipped slightly to 10 percent, while the CFROI rose by 2 percentage points to 10 percent.

€ million	2000	1999	Change
Sales: Basic and Fine Chemicals	**1,006**	886	+ 13.5 %

Sales of the **Basic and Fine Chemicals** Business Group climbed by 14 percent to €1 billion, with all business units except life science intermediates contributing to this strong growth. The electronic chemicals business – which is to be expanded in the current year – performed especially well, with double-digit growth in sales.

The realignment of this business group should have a positive effect and ensure higher profitability. We will separate basic chemicals from fine chemicals, since these businesses have different success factors with respect to costs, technology and marketing. By sharpening the focus in each area, we aim to realign our life science intermediates business, in particular, to the external pharmaceutical market.

€ million	2000	1999	Change
Sales: Specialty Products	**1,312**	1,149	+ 14.2 %

The **Specialty Products** Business Group registered sales growth in all business units, due to higher volumes and more favorable exchange rates. Very few price increases were possible in the face of sustained competitive pressure and customer concentration. Our chrome tanning materials and optical brighteners businesses, in particular, are experiencing intense pressure on prices worldwide. Specialty Products nevertheless grew sales by 14 percent to €1.3 billion, due chiefly to developments in the growth markets of Asia and Latin America.

The acquisitions of Sybron Chemicals Inc. and major parts of the paper chemicals business of Cytec Industries Inc. strengthened the Specialty Products Business Group in important ways. Sybron's chemicals business complements our textile processing chemicals, while the paper chemicals acquired from Cytec are a commercially essential addition to our optical brighteners and dyes. These acquisitions will increase sales by an estimated €260 million in 2001.

€ million	2000	1999	Change
Sales: Haarmann & Reimer	**865**	775	+ 11.6 %

Haarmann & Reimer enhanced its position in the face of continued stiff competition. This business group's 12 percent increase in sales was due chiefly to growth in demand.

€ million	2000	1999	Change
Sales: H.C. Starck	**665**	435	+ 52.9 %

Sales of **H.C. Starck** advanced by an impressive 53 percent to €665 million.

We are consistently exploiting business opportunities in the fast-growing and highly profitable microelectronics and telecommunications sectors. One example is the December 2000 acquisition of U.S.-based CSM Industries, Inc. This group's high-quality mill products made from refractory metals – combined with our existing product line – give us forward integration into the rapidly growing medical and electrical equipment markets.

€ million	2000	1999	Change
Sales: Wolff Walsrode	**427**	385	+ 10.9 %

Sales of **Wolff Walsrode** rose by 11 percent to €427 million, with growth in all business units resulting from higher volumes and positive price/currency effects. The largest share of sales growth came from an increase in volume sales, for which the cellulosics business was chiefly responsible.

Financial Condition

As a globally operating company, we prepare our financial statements according to the rules issued by the International Accounting Standards Committee (IASC), London.

This provides our stockholders and all other interested parties with a reliable, internationally comparable basis for evaluating our company and its financial performance. It also serves as the foundation for our value-based corporate controlling, in which the central profitability indicator is the cash flow return on investment (CFROI).

Liquidity and capital resources

Our internal financing capability is measured by the gross cash flow (GCF). Our yardstick of performance is the cash value added (CVA). This is the difference between the GCF and the GCF hurdle which, in turn, is computed from the capital invested, the cost of capital and the strategic useful life of the assets. The capital invested is the gross carrying amount of the assets, less interest-free liabilities.

The GCF hurdle for 2000 was €3.3 billion, while the actual gross cash flow from continuing operations amounted to €4.0 billion. The resulting CVA of €0.7 billion shows that the Bayer Group exceeded by this amount the cash flow required to yield a market rate of return on the capital invested and cover the cost of reproducing depletable assets.

The GCF is also the numerator of the CFROI, which we use to measure the profitability of the Bayer Group as a whole and of the business groups individually. The denominator is the capital invested, which increased substantially in 2000 due to the high level of capital expenditures and acquisitions. However, the gross cash flow increased by an even larger proportion, raising the CFROI to 12 percent, which is 2 percentage points above the previous year and also 2 percentage points above the CFROI hurdle of 10 percent for 2000.

€ million	2000	1999
Gross cash flow	**4,031**	2,940
CVA	**741**	92
CFROI	**11.5 %**	9.8 %
Average capital invested	**35,103**	29,853

continuing operations
1999 figures restated

The **cash flow statement** shows the cash inflows and outflows from operating, investing and financing activities. The operating cash flow before changes in working capital (**gross cash flow**) rose by 30 percent to €4.2 billion. However, the business expansion led to a substantial increase in working capital and a consequent reduction of €0.1 billion, or 3 percent, in the **net cash flow** from operating activities. The main reasons for the higher working capital were the growth in inventories, accounting for €0.8 billion, and the increase in trade accounts receivable, which accounted for €0.5 billion; these factors were only partly offset by the €0.4 billion reduction coming from an increase in trade accounts payable.

Summary Cash Flow Statements

€ million	2000	1999
Cash and cash equivalents at beginning of year	**2,812**	1,184
Gross operating cash flow	**4,164**	3,192
of which discontinuing operations	*133*	*252*
Changes in working capital	**(1,073)**	1
Net cash provided by operating activities	**3,091**	3,193
of which discontinuing operations	*104*	*241*
Net cash provided by (used in) investing activities	**(6,224)**	214
of which discontinuing operations	*(152)*	*2,678*
Net cash provided by (used in) financing activities	**772**	(1,669)
of which discontinuing operations	*18*	*(29)*
Exchange rate movements / Changes in companies consolidated	**40**	(110)
Change in cash and cash equivalents	**(2,321)**	1,628
Cash and cash equivalents at end of year	**491**	2,812

1999 figures restated

The cash outflow for **investing activities** amounted to €6.2 billion. Disbursements of €4.2 billion for acquisitions (including those of the Lyondell polyols business, the fungicide FLINT®, and Sybron Chemicals) and €2.7 billion for additions to property, plant, equipment and investments were partly offset by a total of €0.7 billion in cash receipts from sales of property, plant and equipment and inflows related to investments.

Financing activities provided net cash of €0.8 billion, with net borrowings amounting to €2.1 billion and dividend and interest payments to €1.3 billion.

New lines of credit were established through the global US$ 5 billion commercial paper program.

Under a €2 billion European Medium-Term Notes (EMTN) program, not only Bayer AG but also its subsidiaries Bayer Corporation, United States; Bayer Ltd., Japan; and Bayer Capital Corporation B.V., Netherlands, can issue debt in all major currencies.

Cash and cash equivalents showed a total year-on-year decline of €2.3 billion.

Earnings performance

Summary Income Statement

€ million	2000	Change
Operating result	**3,287**	– 2.1 %
of which discontinuing operations	*104*	*– 91.0 %*
Non-operating result	**(297)**	+ 43.0 %
Income before income taxes	**2,990**	+ 5.4 %
Net income	**1,816**	– 9.3 %

The **operating result from continuing operations** – before exceptional items – advanced by €0.6 billion to €3.3 billion. After net exceptional charges of €157 million, it improved by about €1.0 billion, or 45 percent.

		2000	1999
Cost of goods sold (%)	Cost of goods sold / Net sales	**53.2**	53.4
R&D expenses (%)	R&D expenses / Net sales	**7.9**	8.7

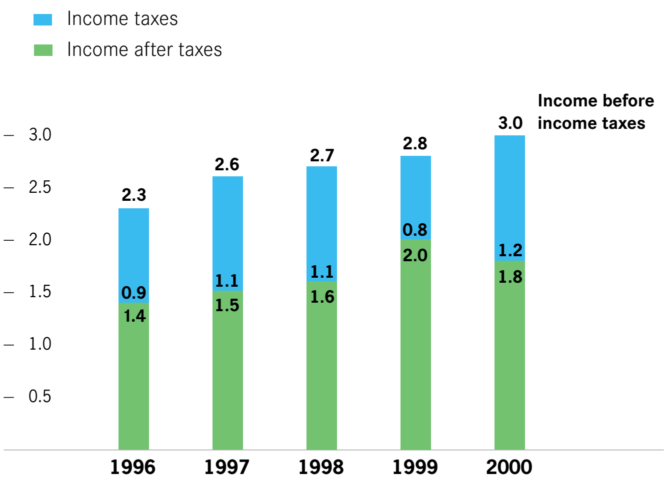
The **operating result from discontinuing operations** comprises €5 million from the DyStar group and €99 million from Erdölchemie.

The previous year's numbers included Agfa's operating result for the first five months of 1999, amounting to €103 million, and the gain of €1,030 million from the initial public offering of its stock.

The profit figures for continuing and discontinuing operations combine to give a reported **operating result** of €3.3 billion, which is 2 percent below 1999.

The improvement of €224 million, or 43 percent, in the **non-operating result**, to minus €297 million, was due mainly to an increase of €314 million in income from affiliated companies. This increase, in turn, was primarily the result of gains from the sale of our interests in Schein Pharmaceuticals and Myriad Genetics. Net interest expense, however, rose by €115 million due to new issuances of debt to finance capital expenditures and acquisitions.

Earnings (€ billion)



Reported **income before income taxes** grew by €154 million, or 5 percent, while that from continuing operations climbed by €1.2 billion, or 70 percent.

The €1.2 billion in **income taxes** – up €0.3 billion, or 40 percent from 1999 – included €0.4 billion in deferred taxes. The effective tax rate advanced by 9 percentage points to 38 percent, the previous year's low rate having been attributable to tax-free income from the sale of Agfa shares.

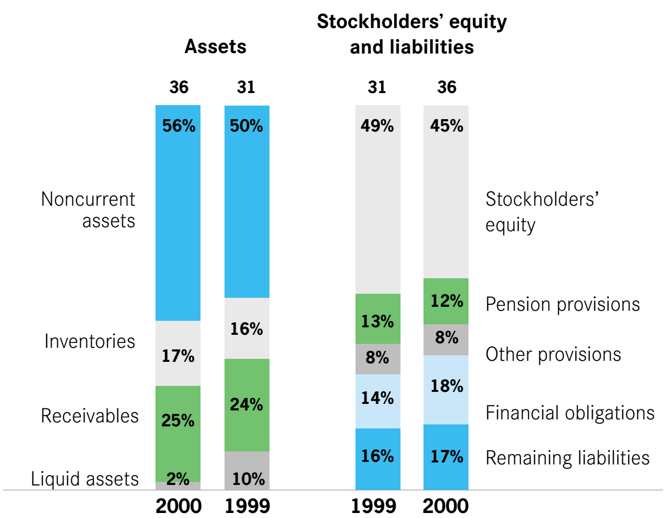
While reported **net income** including discontinuing operations dropped by €0.2 billion to €1.8 billion, net income from continuing operations climbed by €0.8 billion to €1.7 billion.

The Group profitability ratios computed from the financial statements were as follows:

		2000	1999
Return on sales before exceptional items (%)	Operating result before exceptional items / Net sales	**11.1**	11.2
Return on stock-holders' equity (%)	Income after taxes / Average stockholders' equity	**11.7**	14.4
Return on total assets (%)	Income before income taxes and interest expense / Average total assets	**10.2**	10.5

Asset and capital structure

Balance Sheet Structure (€ billion)



Total assets increased by €5.2 billion during 2000, to €36.5 billion.

Changes in the various balance sheet items were as follows:

Summary Balance Sheets

€ million	Dec. 31, 2000	Dec. 31, 1999
Noncurrent assets	**20,344**	15,614
Current assets	**16,107**	15,665
Stockholders' equity	**16,377**	15,182
Liabilities	**20,074**	16,097
of which discontinuing operations	*404*	*362*
Balance sheet total	**36,451**	**31,279**
of which discontinuing operations	*819*	*641*

Noncurrent assets grew by €4.7 billion, of which the Lyondell polyols, FLINT® and Sybron acquisitions accounted for €3.5 billion. Capital expenditures equaled the previous year's level of €2.6 billion. Depreciation and amortization amounted to €2.1 billion.

Current assets rose by only €0.4 billion, or 3 percent, from the end of 1999.

Inventories grew by €1.1 billion, or 22 percent, while liquidity decreased by €2.4 billion, or 78 percent.

	2000	1999
Noncurrent assets / Total assets (%)	**55.8**	49.9
Depreciation / Capital expenditures (%)	**80.2**	66.3
Net sales / Inventories	**5.1**	5.5
Net sales / Trade accounts receivable	**5.0**	5.1

Stockholders' equity expanded by €1.2 billion during the year. This figure included €1.0 billion added out of Group net income after payment of the dividend and €0.2 billion added by exchange differences. The equity-to-assets ratio was 45 percent.

	2000	1999
Stockholders' equity / Total assets (%)	**44.9**	48.5
Stockholders' equity / Noncurrent assets (%)	**80.5**	97.2
Short-term liabilities / Total liabilities (%)	**53.8**	46.1

Of the €20.1 billion in **liabilities**, provisions account for €7.2 billion, financial obligations for €6.7 billion and the remaining liabilities for €6.2 billion.

Pension provisions amount to €4.3 billion. The €2.9 billion in other provisions are for other personnel commitments, taxes, environmental protection and trade-related commitments.

Utilization of the commercial paper program was the main reason for the €2.2 billion increase in financial obligations, while liquid assets diminished by €2.4 billion, causing net indebtedness to rise in 2000 by €4.6 billion to €6.0 billion.

The €6.2 billion in remaining liabilities are mainly trade accounts payable, taxes and payroll liabilities.

Value Added

Total operating performance advanced by 22 percent to €30.5 billion. The value added by continuing operations – after deducting the cost of materials, depreciation and other expenses – was 11 percent above the previous year, at €11.3 billion. Of this value added, €7.6 billion was distributed to employees, €1.4 billion to governments, €1.0 billion to stockholders and €0.5 billion to lenders; €0.8 billion will be retained by the company.

Proposal for Distribution of the Profit

Under German law the dividend is paid out of the balance sheet profit of the parent company Bayer AG.

Bayer AG had net income for 2000 of €1,702 million, and a gross cash flow of €980 million.

Its operating result improved to €754 million and the non-operating result to €1,380 million. After €432 million in tax expense and a €680 million allocation to retained earnings, the balance sheet profit amounts to €1,022 million.

We will propose to the Annual Stockholders' Meeting on April 27, 2001 that the balance sheet profit be used to pay a dividend of €1.40 (1999: €1.30) per share (730,341,920 shares) on the capital stock of €1,870 million entitled to the dividend for 2000. Domestic stockholders will also receive a tax credit of €0.45 (1999: €0.08) per share.

Value Added by Continuing Operations

Source

€ million	2000	Change in %
Net sales	29,986	+ 21.2
Other income	494	>+ 100.0
Total operating performance	**30,480**	**+ 22.3**
Cost of materials	10,559	+ 41.4
Depreciation	2,105	+ 23.8
Other expenses	6,558	+ 16.7
Value added	**11,258**	**+ 11.1**

Distribution

€ million	2000	Share in %
Stockholders	1,048	9.3
Employees	7,585	67.4
Governments	1,374	12.2
Lenders	457	4.0
Earnings retention	794	7.1
Value added	**11,258**	**100.0**

Summary Financial Statements of Bayer AG[1]

Income Statements

€ million	2000	1999
Net sales	**10,816**	**9,749**
Cost of goods sold	**6,612**	6,000
Gross profit	**4,204**	**3,749**
Selling, R&D and administration expenses	**3,454**	3,080
Other operating income (expenses) – net	**4**	(98)
Extraordinary personnel expenses	**0**	573
Operating result	**754**	**(2)**
Non-operating result	**1,380**	**1,118**
Income before income taxes	**2,134**	**1,116**
Income taxes	**432**	40
Net income	**1,702**	**1,076**

Balance Sheets

€ million	2000	1999
Intangible assets, property, plant and equipment	**3,428**	2,519
Investments	**9,294**	6,952
Noncurrent assets	**12,722**	**9,471**
Inventories	**1,468**	1,288
Receivables	**4,609**	4,652
Liquid assets	**344**	2,672
Current assets	**6,421**	**8,612**
Total assets	**19,143**	**18,083**
Stockholders' equity[2]	9,195	8,442
Provisions[2]	4,790	4,809
Other liabilities	5,158	4,832
Total stockholders' equity and liabilities	**19,143**	**18,083**

[1] The complete financial statements of Bayer AG with an unqualified opinion by the auditors are published in the "Bundesanzeiger" and have been included in the Commercial Register in Leverkusen. They are available from Bayer AG in English or German.

[2] including share of special item with an equity component

Cash Flow Statements

€ million	2000	1999
Cash and cash equivalents at beginning of year	**2,431**	**683**
Gross operating cash flow		
– before exceptional items	**1,026**	**959**
– after exceptional items	**980**	**913**
Increase in working capital	(624)	(289)
Net cash provided by operating activities	**356**	**624**
Net cash used in investing activities	(1,691)	(806)
Net cash provided by (used in) financing activities	(955)	1,930
Change in cash and cash equivalents	**(2,290)**	**1,748**
Cash and cash equivalents at end of year	**141**	**2,431**
Marketable securities and other instruments	203	241
Liquid assets as per balance sheets	**344**	**2,672**

Employees

The number of employees in the Bayer Group increased in 2000 by 1,700 to 122,100. Portfolio changes boosted the payroll by 2,800, while labor turnover led to a reduction of 1,100.

A breakdown of the work force by business segment and region is given on pages 52-53 in the Notes.

The average number of employees in continuing operations declined to 118,900. Personnel expenses rose by 11 percent compared with 1999, to €7.6 billion, with more than half of the increase due to currency effects. The ratio of personnel expenses to sales was 25 percent. The value added per employee increased by 11 percent to €95,000.

Capital Expenditures

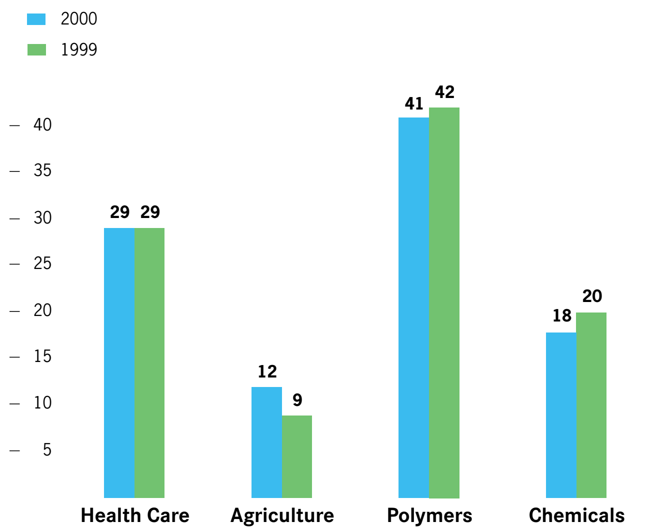
As in the previous year, we spent a total of €2.6 billion on intangible assets, property, plant and equipment in 2000. Capital expenditures of €2.3 billion were made for:

€ billion	2000	Change
Capacity expansions	**1.0**	– 4.1 %
Replacement and modernization	**1.0**	+ 14.9 %
Efficiency improvements	**0.3**	– 27.3 %
Total capital expenditures	**2.3**	– 0.5 %

A significant proportion of this capital spending went to projects undertaken as part of our Responsible Care program. These include expenditures made in the areas of health, safety and environment to conserve resources and optimize environmental protection and safety.

Of the capital expenditure projects completed in 2000, the Responsible Care program accounted for a total of €0.3 billion.

Capital Expenditures
(by business segment in %; segments total 100 %)



Major projects included:

Health Care

Investment volume: €0.7 billion

- Construction of a facility for packaging and storage of biological products, Berkeley, California
- Construction of a process development pilot plant, Wuppertal, Germany (completed 2000)
- Expansion of solids plant, Bitterfeld, Germany

Agriculture

Investment volume: €0.3 billion

- Fungicides production facility, Dormagen, Germany (completed 2000)
- Expansion of solids formulation plant (parasiticides, insecticides, rodenticides), Belford Roxo, Brazil

Polymers

Investment volume: €1.0 billion

- Expansion of polycarbonate capacities (Makrolon® and bisphenol A), Map Ta Phut, Thailand
- Expansion of films capacity, Map Ta Phut, Thailand, and Dormagen, Germany
- Expansion of polyamide facility, Uerdingen, Germany (completed 2000)
- Construction of a new facility for polycarbonate production by the melt polycarbonate process (new technological basis for global capacity expansion), Antwerp, Belgium (completed 2000)

- Construction of a Therban® facility, Leverkusen, Germany (completed 2000)
- Toluene diisocyanate (TDI) facility, Baytown, Texas (brought on stream)
- World's first facility for continuous production of long-chain polyethers by Bayer's IMPACT process, Channelview, Texas (brought on stream)
- Expansion of capacity for aqueous dispersions, Dormagen, Germany
- Expansion of coating raw materials production, Leverkusen, Germany
- Expansion of dyestuff production for transparent plastics, Leverkusen, Germany
- Expansion of coating raw materials production, Baytown, Texas (completed 2000)
- Expansion of iron oxide capacities for toners, Uerdingen, Germany (completed 2000)

Chemicals

Investment volume: €0.5 billion

- Construction of a sulfuric acid facility, Leverkusen, Germany
- Expansion/modification of the electrolysis plant, Leverkusen, Germany
- Construction of a polyaspartic acid facility, Leverkusen, Germany
- Capacity expansion for intermediates, Uerdingen, Germany (completed 2000)
- Expansion of tantalum production at H.C. Starck, Germany and Japan
- Process technology center, Goslar, Germany
- Modernization and expansion of the nitrocellulose facility, Bomlitz, Germany

Capital expenditure projects

Our planned investment volume for 2001 is €3.1 billion.

Capital expenditures totaling €0.7 billion are planned for the **Health Care** segment worldwide, with the emphasis on expanding active substance and tabletting capacities for our blockbuster Lipobay®/Baycol® in Germany and on constructing a manufacturing facility for this product in the United States. We are also planning to build a facility for immunoglobulins in Italy.

In the **Agriculture** segment, we will make capital expenditures totaling €0.3 billion, of which €0.1 billion is being spent to construct a multi-purpose facility for crop protection agents at Dormagen that is scheduled to come on stream in 2002. The plant will produce a wide range of active substances and intermediates, and will replace our agrochemical production facilities at Leverkusen and Wuppertal. By merging our production capacities at Dormagen, we will improve our cost structures and more effectively exploit existing synergy potential.

The **Polymers** segment will again be the main focus of capital spending in 2001, with an investment volume of €1.4 billion. We aim to further enhance our market position by constructing new facilities, and plan to double output of our Makrolon® polycarbonate by 2005. The focus of our capacity increases will be the fast-growing markets of the Asia/Pacific region, where double-digit growth rates for polycarbonate are predicted. A production plant is already under construction in China. We are also expanding our existing facilities in Europe and North America.

As one of the leading suppliers of polycarbonate film, we will significantly increase capacities for Makrofol® and Bayfol® over the next three years. In the summer of 2001, we will complete the construction of a plant in Dormagen, Germany, while an additional production line will expand capacity at our site in Berlin, Connecticut, United States.

To meet the growing demand for synthetic rubber, we are spending €100 million to expand the existing EP(D)M (ethylene-propylene-diene rubber) facilities at Marl, Germany, and Orange, Texas, by 2003. These investments will strengthen our position as one of the world's leading suppliers of synthetic rubber.

In the polyurethanes field, we will invest €150 million to increase our polyether capacities in Europe and the United States and expand our production facilities for isocyanates.

We are responding to steadily growing demand for coating raw materials by investing €100 million over the next few years to build production facilities near Shanghai in China, which is one of the most important growth markets for coating raw materials. These projects supplement the coating raw materials plant currently being built at Leverkusen, Germany, which is due to come on stream in 2002.

Investment of €0.7 billion is planned for the **Chemicals** segment in 2001. We will expand H.C. Starck's tantalum production in Germany, the United States, Japan and Thailand in view of the strong upward business trend. The Wolff Walsrode Business Group plans to expand and modernize its methylcellulose and nitrocellulose facilities at Bomlitz, Germany.

Acquisitions

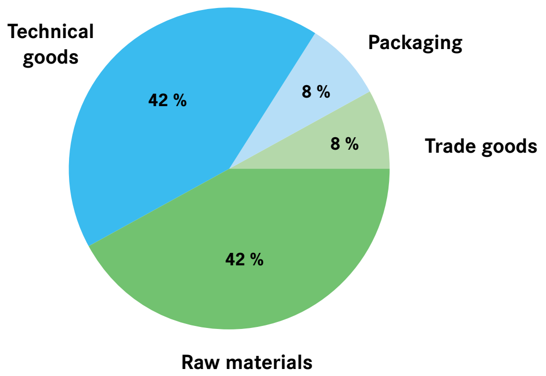
We spent €4.6 billion on acquisitions in 2000. These included:

- the acquisition of the Lyondell polyols business for €2.6 billion
- the purchase of the FLINT® strobilurin line from Novartis for €0.9 billion
- the acquisition of the CSM group for €0.1 billion and the Sybron group for €0.4 billion

Procurement

Procurement as a service function for the business groups is an important aspect of our value management. Our purchasing of raw materials, trade goods, packaging materials and technical goods is increasingly being organized at global level. The procurement volume amounted to roughly €12 billion in 2000.

Procurement Volume



After reaching an all-time low in the previous year, petrochemical feedstock prices rose sharply in 2000, adding more than €1.4 billion to the procurement volume. The main causes were a temporary three-fold increase in oil prices and the continued strength of the U.S. dollar. The positive economic situation worldwide and the related rise in demand also contributed to higher raw material prices.

Our international procurement network ensured a smooth supply of goods and mitigated the effects of price increases in the market. As a result, the prices we paid for inorganic raw materials and organic intermediates remained more or less stable.

E-commerce applications are becoming increasingly important for developing more effective and efficient procurement processes. Tools such as reversed auctions and online exchanges have already allowed us to achieve considerable cost savings.

We have successfully implemented Intranet-based ordering of general supplies, with more than 8,000 users taking advantage of this time-saving application by the end of 2000. The click of a mouse is all it takes to make selections from roughly 800,000 articles supplied by 2,000 manufacturers. The new process is seamlessly integrated into Bayer's SAP system, giving users access to online marketplaces like "chemplorer," a joint venture we operate together with Infraserv Höchst and Deutsche Telekom.

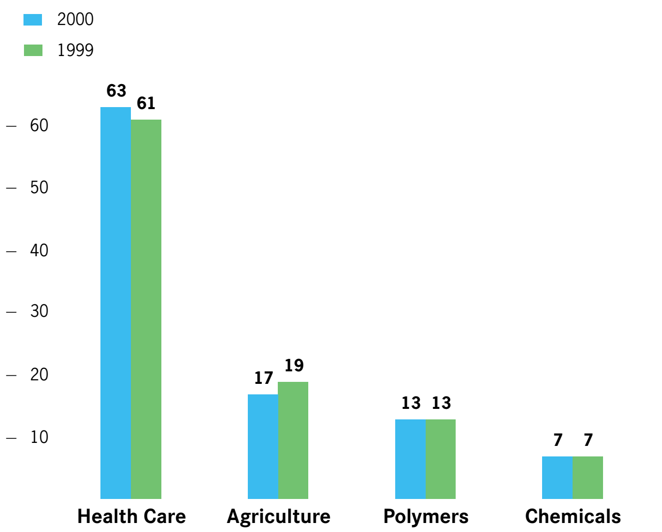
We use "chemplorer" for procuring general supplies and packaging materials. This enables data exchange between customers and suppliers via the Internet, leading to a tangible reduction in process costs. Yet the key strategic competitive advantage of "chemplorer" lies in the provision of managed content, an application for optimized selection of products and services that is tailored to the needs of the chemical industry. This means that suppliers and customers are able to complete transactions without additional negotiations, significantly enhancing the efficiency of purchasing and ordering processes. We will continue to follow this system integration approach.

Bayer was one of five companies recognized by the University of St. Gallen, Switzerland, for "the exemplary use of e-commerce applications in procurement." The award was presented following a global benchmarking study involving 180 companies.

Research and Development

Innovative capability is the key factor in global competition. This means that newly developed products and processes form the basis for sustained, profitable corporate growth. In addition to acquisitions and spending for property, plant and equipment, we will continue with our intensive research and development activities, particularly in the Health Care and Agriculture segments. The steady expansion of our research infrastructure, systematic deployment of cutting-edge technologies in all areas and the wealth of scientific expertise at our disposal are creating the foundation for a substantial increase in our research productivity and the achievement of our ambitious growth targets. In addition, strategic alliances and collaborations with the world's leading research companies have enabled us to cut costs and save time by linking our own expertise with external know-how, particularly in the Pharmaceuticals and Crop Protection business groups.

Research and Development
(by business segment in %; segments total 100 %)



We spent €2.4 billion on research and development in 2000. Roughly 12,000 of our employees work in R&D at 25 sites around the world.

Health Care

In 2000 we spent €1.4 billion, or 63 percent of the Group's research and development budget, in the Health Care segment.

There is still no drug treatment available for a large percentage of known diseases, presenting us with a challenge that we aim to meet with our investment potential and years of experience. We are already working intensively to develop tomorrow's medicines: we are searching the human genome for "targets" against which we screen hundreds of thousands of potential medicines from our substance libraries using customized test systems; we are developing efficient and cost-effective diagnostic systems; and we are expanding the range of indications for over-the-counter medicines such as Aspirin®.

At our pharmaceutical research centers in Germany, the United States and Japan, we are focusing on 13 important indications. Through strategic alliances, license agreements and scientific collaborations with partners who are technological leaders in their respective fields, we have secured access to today's all-important enabling technologies for active substance discovery. To identify potential drug targets, we employ not only genome research, but also bioinformatics – an interdisciplinary science combining biology and informatics – and proteomics technology, which compares protein patterns in diseased and healthy tissue. We apply combinatorial chemistry to assemble large substance libraries and conduct automated searches of these libraries for new active substance candidates using high-throughput screening.

In 1998 we signed a cooperation agreement with Millennium Pharmaceuticals under which that company agreed to furnish us with 225 disease-relevant gene targets through 2003. By the end of 2000, Millennium had identified about 90 therapeutically useful targets in the human genome. Our bioinformatics partner LION Bioscience AG of Heidelberg, Germany, has also identified 140 patentable targets that are currently being screened in our laboratories. In addition, we are working with a number of entrepreneurial research companies to build a large substance library containing more than one million individual compounds. To enable storage and in-time access to these substances, we have constructed one of the world's largest fully-automated compound repositories at our pharmaceutical research center in Wuppertal.

This extensive research platform, which is among the best in the global industry, allows us to steadily increase the productivity of our R&D.

A further component of this resolute long-term strategy in pharmaceuticals is the new developmental pilot plant at our Wuppertal site. The facility will produce active ingredients for 20 development candidates that will then undergo clinical testing as potential new drug products. The project represents a major step toward achieving our growth objectives, and we can already point to a significant increase in the number of drug candidates developed. Another focus of our activities is the research and development of therapeutic proteins. The first product of this kind was Kogenate®, Bayer's recombinant blood clotting factor VIII, and further medicines will follow in the coming years: an interleukin-4 receptor antagonist to treat asthma, an interleukin-2-selective agonist to strengthen the immune system against cancer and AIDS, and bikunin for the treatment of cystic fibrosis.

Systematic life cycle management is also keeping Aspirin® young – even after our Bitterfeld facility produced its ten billionth tablet in September 2000. The new medicine "Aspirin® for migraine headaches" was approved for sale in Germany in March 2000.

Agriculture

We spent €0.4 billion on research and development in the Agriculture segment in 2000, one of the highest budgets of any research-based agrochemical manufacturer. We contribute significantly to safeguarding the world's food supplies with our innovative crop protection and animal health products that excel in terms of efficacy, user-friendliness and cost-effectiveness.

We strive to identify in the genomes of plants, fungi and insects new active substance targets that play a vital role in harmful organisms. With this information, we can discover innovative substances faster and more systematically, which is essential for increasing the performance of our research centers in Germany, the United States and Japan. Of critical importance here are enabling technologies such as gene expression analysis, ultra-high-throughput screening and bioinformatics, and a major focus of our research strategy is cooperation with entrepreneurial companies to identify new mechanisms of action with the aid of molecular biology, biochemistry and bioinformatics. Examples include our joint venture Genoptera with the U.S. company Exelixis for the development of selective insecticides; our alliance with Paradigm Genetics, also in the United States, to decipher the genetic codes in weeds and identify targets for the development of specific, safe herbicides; and our collaboration with Heidelberg, Germany-based LION Bioscience in fungicides research.

We are also further enhancing the efficiency of our crop protection research by expanding our screening technology. A new analysis robot at our agricultural center in Monheim, Germany, is helping to accelerate the discovery of modern crop protection agents. The chemical compounds from our substance libraries are systematically screened against targets derived from harmful organisms. Bayer's goal is to remain among the industry leaders in the highly competitive, international race to develop the best and most innovative crop protection products.

The Animal Health Business Group will also benefit from these new active substances and mechanisms of action over the long term.

Polymers

Research and development expenditures in the Polymers segment totaled €0.3 billion in 2000.

The business groups of our Polymers segment further enhanced their leading market positions with cutting-edge products designed for maximum environmental compatibility, safety and comfort. The startup of our new melt polycarbonate plant in Antwerp, Belgium, represents a technological milestone. This new, environmentally friendly process will enable us to produce 40,000 tons a year of our high-performance thermoplastic Makrolon®, from which the world's 20 billionth compact disc was made in May 2000.

We were highly commended at the dedication in Leverkusen of a new facility for our Therban® specialty rubber, a material for heavy-duty components. This plant's designers placed special emphasis on ecological considerations, with an exemplary new production process ensuring less raw material and energy use as well as lower waste and emission volumes.

We also made considerable progress in the development of environmentally friendly coating systems: Bayer is the world's only supplier to offer solvent-free coatings based on polyaspartate systems, which were developed by our researchers, and in June 2000 we received the coveted "Presidential Green Chemistry Challenge Award" from the U.S. Environmental Protection Agency for the development of waterborne coating systems. Our emission-free powder coatings are the subject of growing interest for a number of applications, including use in the automotive industry, and the acquisition of the U.S. company Sybron Chemicals will enhance our position in this futureoriented market.

We became the world's largest single-source supplier of polyurethane raw materials by acquiring the polyols business of the U.S. company Lyondell at the end of March 2000. This acquisition secured us access to the proprietary IMPACT technology for producing ultra-high-purity polyols, enabling us to significantly boost the capacity of our production facilities and open new areas of application.

In Shanghai, China, we will set up a technical service center for the Polymers segment. The center will provide our growing number of customers in China with local access to our polymers expertise.

Chemicals

We spent €0.2 billion on R&D in the Chemicals segment in 2000. The strength of our chemicals business lies in the diversity of its product range, which stretches from basic and fine chemicals to ion exchange resins and cellulose-based building materials to flavors and fragrances. Also showing good growth perspectives are our tantalum powders, which are used in the manufacture of powerful electrolytic capacitors for cellular phones, computers and CD players. Bayer subsidiary H.C. Starck meets a major part of world demand for this special metal powder, and this business group is steadily expanding its already strong position as a supplier of key intermediates for electronic components. For example, we tapped additional value creation potential by acquiring the U.S.-based CSM group, which manufactures molybdenum and tungsten mill products along with fabrications made from alloys of other refractory metals. We supply a number of other innovative products to the highly profitable and growing microelectronics and electronics markets. Our transparent, conductive polymer Baytron® P, for example, can be used to manufacture organic light-emitting diodes (OLEDs) with long service life and low energy consumption. OLEDs mark the dawning of a new era in displays and flat-panel TV screens.

The cellulosics specialist Wolff Walsrode works closely with customers to develop advanced technologies and innovative applications for products made with renewable raw materials.

Risk Management

Entrepreneurial responsibility demands an awareness of the opportunities and risks inherent in a company's operations. In pursuing our activities, we endeavor to identify risks at an early stage, assess their potential consequences and take precautions where necessary.

Our risk management system, formulated by our Board of Management and implemented in accordance with our organizational and management structure, employs a number of processes and instruments depending on the specific risk profile.

Risk management is an integral part of all decisions and business processes in the Bayer Group. The management structure, the planning system and the reporting and information systems, in particular, form the basis for the integration of risk management into business processes.

Reporting plays a central role in monitoring and verifying the economic risks of our everyday business. The data and indicator systems compiled according to international standards are sufficiently detailed to alert the various management levels to possible risks at an early stage. To ensure that the risk management system is functional at all times, the existing monitoring and control systems are adjusted immediately should circumstances change.

The internal audit department and external auditors examine at regular intervals the risk management system's efficiency and functionality. Any identified risks are evaluated regularly with respect to their possible commercial and financial effects and the likelihood that they will materialize. This allows us to take suitable precautionary measures at an early stage.

We counter possible financial risks by financing our business in the local currency or hedging currency and interest positions. Derivative financial instruments are employed on the basis of detailed guidelines, taking into account the respective risk assessments.

We address potential product and environmental risks by certifying our activities to international standards, continually upgrading our plants and processes, and developing new and improved products. Our high quality requirements are ensured by uniform global standards. We are committed to the international Responsible Care initiative and to our own safety and environmental management system, which we report on at regular intervals. Specially developed guidelines on product stewardship, occupational safety and environmental protection are designed to ensure that all of our employees act competently and responsibly.

By concluding insurance agreements to guard against possible liability risks and claims, we ensure that risks are kept within reasonable limits or excluded. The extent of insurance cover is continuously reexamined and adjusted where necessary. Even if there can be no guarantee that the sums insured cover all conceivable risks, we can fairly state that any claims would not affect the Group's assets, financial position or earnings situation to the extent of jeopardizing the company's existence.

When making entrepreneurial decisions it is also necessary to address possible legal risks. We evaluate our decisions in advance on the basis of comprehensive legal advice provided both by our own experts and by acknowledged external specialists.

We establish provisions in the balance sheet for any risks resulting from new laws or court decisions that apply retroactively.

Commercial risks also result from decisions concerning acquisitions, capital expenditures and research and development. These future-oriented activities are vital to the continued existence of the Group, yet they harbor risks because of the associated uncertainties. We control and reduce operating risks by exercising due diligence prior to acquisitions, capital expenditures or new research projects and by tracking the progress of such activities. This allows us to determine not only whether our budgets and original forecasts can be met, but also the potential for new financial or technological risks.

Our future business success depends in no small part on the dedication, motivation and abilities of our employees. We must be capable at all times of attracting qualified specialist and managerial personnel, successfully integrating them and ensuring that they stay with us over the long term. With this goal in mind, we offer our employees internal education and training opportunities, as well as attractive compensation systems that include, for example, our stock option programs.

To ensure that our employees act responsibly from both a professional and a legal point of view within their respective fields of work, we have introduced a worldwide code of behavior ("legal compliance"), supported by thorough training, that obligates employees to observe laws and regulations. Complying with the rules at all times and monitoring the way employees handle risks are among the basic duties of all managers and supervisors throughout the Group.

Subsequent Events

In January 2001 we further enhanced our position in the highly competitive crop protection market by acquiring MIKADO®, a leading corn herbicide in Europe, from Syngenta for €115 million. The product will increase Bayer's annual herbicide sales by €50 million. The acquisition basically comprises the business within the E.U. and the associated patents, registrations and trademarks, as well as production and formulation know-how. Bayer will begin marketing MIKADO® in 2001.

In addition, Bayer and CuraGen Corporation signed two landmark cooperation agreements. The first is a comprehensive alliance to discover, develop and jointly commercialize innovative drugs to treat obesity and adult-onset diabetes. The second collaboration involves the application of special genomics technologies to evaluate the clinical development potential of the substances in Bayer's pipeline. The agreements will enable us to boost the efficacy of our pharmaceutical research and product development activities.

We formed a joint venture with Lyondell Chemical Company of Houston, Texas, for the construction of a world-scale production facility for polyurethane base products. The new facility, to be built in Rotterdam, Netherlands at a cost of over €500 million, is scheduled to come on stream in 2003. Bayer and Lyondell each hold a 50 percent equity interest in the new joint venture, and each company will take one half of annual output. The boards of both companies have already given their approval to the project.

Effective January 1, 2001, the Dralon® business of the Fibers Business Group was sold to the Fraver group of Biella, Italy.

We plan to sell our 50 percent interest in EC Erdölchemie GmbH to Deutsche BP, the other partner in the joint venture, effective April 1, 2001. We have concluded supply contracts to secure long-term access to petrochemical feedstocks from EC Erdölchemie.

We also sold our 20 percent minority interest in Kerr-McGee Pigments GmbH & Co. KG.

Strategy

Our Health Care, Agriculture, Polymers and Chemicals segments hold major potential for the continued development of the company. We are confident that we possess the resources, expertise and performance capability to maintain our position in the face of increasing changes in the market.

We are concentrating on controlling the factors critical to success, boosting our profitability and tapping new growth opportunities. For the purpose of strategic analysis, we divide our business portfolio into basic, growth, development and problem businesses.

Basic and growth businesses are core activities in which we compete successfully and hold leading positions in the respective markets. Such businesses have the task of generating the necessary cash flow to finance the research, capital expenditures and acquisitions that will secure those positions. Our goal for growth businesses is to expand our positions and capitalize fully on existing market potential.

The purpose of development businesses is to provide access to new markets or fields of business that will provide opportunities for corporate growth in the long term.

Problem businesses are those for which we need to develop new perspectives with a view to repositioning them, implementing restructuring concepts or streamlining the portfolio.

We provide the necessary support for both development and problem businesses if it is feasible to transform them into core businesses within a reasonable timeframe.

This categorization of businesses is under constant review, with businesses being regularly re-evaluated according to their actual performance. It also serves as a yardstick for the strategic deployment of resources.

The **Health Care** segment is characterized by very attractive markets with sustained high growth rates. We are confident that we will be able to achieve organic growth in the coming years at least as fast as the world market, substantially boosting profitability. Here we will rely particularly on the strong position of our pharmaceutical research activities, where we have further strengthened our research platform based on modern key technologies. We have intensified our bioinformatics alliance with LION Bioscience and entered the field of AIDS research, which means that we are now concentrating on 13 therapeutic fields. In this way, we strive to combine technological feasibility with long-term growth and cost-effectiveness.

In the **Agriculture** segment, we are already a technology leader in chemical crop protection. We have spent about 12 percent of sales on research over the past few years, which puts us ahead of our competitors. What's more, we are expanding our biotech research platform through collaborations such as Genoptera, a joint venture with the U.S. company Exelixis. As in the Pharmaceuticals Business Group, we are exploiting modern enabling technologies to develop new agrochemical products, which should allow us to introduce a steady stream of new active substances to the market over the coming years. The stagnating global crop protection market and the strong consolidation trend in the industry represent a strategic challenge that we have already addressed with the FLINT® and MIKADO® acquisitions. We are prepared to take further such action whenever a product or line constitutes a good strategic fit. The Animal Health Business Group in future will focus on investigating the substances developed by Crop Protection and Pharmaceuticals with a view to adapting these substances for animal health applications. This approach will allow us to exploit synergies within our life-science network.

We are focusing on innovative and above all organic growth for our life-science operations. We do not rule out acquisitions or cooperations, yet any such moves must meet our requirements in terms of cost-effectiveness, value creation and management control.

In the **Polymers** segment, our strategy for the Plastics Business Group is based primarily on an expansive investment policy, which includes the important Chinese market. We are number one in the world rubber market, and our goal is to boost our earnings power and achieve profitable growth. The Lyondell polyols acquisition significantly enhances our already strong position in polyurethanes, and we have secured the long-term, low-cost supply of propylene oxide – particularly in Europe – through the formation of a joint venture with Lyondell. It is of great strategic significance that we accurately assess growth potential in the markets of Asia, so that the required new, large-scale production facilities – from base products through polyethers and isocyanates to system products – can be successfully constructed from an economic, technical and logistical standpoint. The strategic challenge for the Coatings and Colorants Business Group is to safeguard the leadership positions it holds in its technologies. An important step toward this goal was the Sybron acquisition, which broadened our base of expertise in solvent-free powder coatings technology.

The **Chemicals** segment is concentrating on niches in specialty, fine and electronic chemicals. In addition, our wealth of technological expertise in exclusive synthesis is opening up major opportunities in life-science intermediates. In basic chemicals, we need to optimize cost structures and if necessary streamline our portfolio.

Overall we are confident of achieving a sustained increase in the sales operating margins of our four business segments. We aim to improve our performance and enhance our corporate value. This objective is supported by a consistent value management policy based on specific operating targets to be met by the business groups. Linked to the achievement of these goals are the stock option programs introduced at the beginning of 2000 and the employees' variable income component.

Outlook

Global Economic Trend

We anticipate that growth in the individual regions will decline slightly compared to 2000 but remain positive overall. Crude oil prices should gradually drop, while interest rates are unlikely to rise significantly as long as inflation remains low. The euro may well continue to stabilize over the course of the year.

In Europe we expect that deregulation, market reform and lower tax burdens will spur domestic demand and lead to a further upswing.

We also anticipate growth in Asia. The recovery in Japan should continue, and we foresee stronger growth in China.

The situation in Latin America will probably be more varied. While we expect the upward trend to continue in Brazil, we do not foresee an economic recovery in Argentina in the short term.

The previously robust economic growth in North America has slowed noticeably. We anticipate that the economy will rebound over the course of the year after a period of slower growth.

Objectives for 2001

We got off to a good start in 2001. Both sales and earnings in the first two months are ahead of budget and above last year.

We will further enhance our position in the Polymers segment in 2001, particularly in the growth markets of Asia, and are steadily improving our margins. We are optimistic about our future performance, since internal actions aimed at boosting profitability are also proving effective.

The planned restructuring in the Chemicals segment will lead to higher earning power.

We further improved our position in the Agriculture segment with the recent product acquisitions in insecticides and fungicides, which will enable us to maintain our high earnings level in a difficult business environment.

We are particularly confident about the business trend in the Health Care segment. Our outstanding product range should allow a further significant improvement in this segment's operating result.

Overall we expect double-digit increases in our already high sales and earnings levels in 2001.

Upward trend in Europe
Success in North America
Growth opportunities in Asia

Europe

The European economy showed a positive trend in 2000, including real GDP growth of 3 percent in **Germany**. *Demand for our products increased in all important markets. We also benefited from currency effects and from the strong economic growth recorded worldwide.*

Sales of **Bayer AG** advanced 11 percent to €10.8 billion, with all business groups contributing to this increase. The operating result increased significantly, due to higher capacity utilization and the extraordinary charges incurred in the previous year relating to our corporate pension plan. The non-operating result improved by €0.3 billion, and while tax expenses were also higher, net income grew by €0.6 billion to €1.7 billion.

H.C. Starck GmbH & Co. KG, a leading manufacturer of specialty metals, continued to benefit from the strong upward trend in the microelectronics and telecommunications sectors. Sales climbed by 43 percent to €478 million, while net income jumped by 54 percent to a record €43 million. We moved ahead with our forward integration strategy by acquiring the U.S.-based CSM Industries Inc., a manufacturer of mill products.

Bayer Faser GmbH registered encouraging business growth. Higher selling prices led to a 29 percent increase in sales, to €311 million. Despite higher raw material prices, income before transfer more than doubled to €38 million, with all business units contributing to this increase.

Sales of **Wolff Walsrode AG**, a producer of cellulose derivatives and high-grade films, were up slightly to €404 million, with net income improving to €17 million. The company has strategically realigned its chemicals and films businesses to enhance customer focus.

Continuing strong foreign demand for fragrances and flavors and the success of marketing activities for cosmetic active ingredients led to an increase in sales and net income of **Haarmann & Reimer GmbH** to €386 million and €12 million, respectively.

Rhein Chemie Rheinau GmbH, a supplier of specialty chemicals and additives, expanded its sales by 5 percent, while earnings improved substantially.

Sales of **PolymerLatex GmbH & Co. KG**, our joint venture with Degussa AG, increased slightly in a market characterized by moderate growth. Cost savings brought an improvement in earnings, despite higher raw material prices.

Bayer Vital GmbH, our domestic marketing company for life-science products, expanded sales by 7 percent to €1 billion. Net income grew by €23 million to €38 million, due in part to the business process reengineering project initiated in the previous year and strict cost management.

Sales of **Bayer Industrieprodukte GmbH & Co. KG**, our marketing company for products of the Polymers and Chemicals segments, were up 15 percent to €2.1 billion. Net income increased to €13 million, thanks to intensified marketing activities.

In **Belgium** *the economy grew by 4 percent, spurred by higher investment and export demand.*

Sales of **Bayer Antwerpen N.V.**, which operates mainly in the Polymers segment, climbed by 29 percent to €1.2 billion, due largely to an increase in demand for Makrolon® and to its acquisition of Lyondell's polyols activities in Belgium. Earnings rose only slightly, in view of the higher raw material costs and necessary restructuring expenses.

Bayer Rubber N.V. grew sales by 15 percent, to €211 million. With earnings hurt by higher manufacturing costs, net income was down by 12 percent.

Significant growth in exports and stronger domestic demand led to economic growth of 2 percent in **Denmark**. *Unemployment was at its lowest level for 25 years.*

Sales of **Bayer A/S** expanded by a gratifying 20 percent to €212 million. The Diagnostics and Basic and Fine Chemicals business groups benefited from increases in demand. Earnings were down as a result of higher marketing and distribution costs.

The **French** *economy grew by 3 percent despite a slight cooling-off in the second half. The inflation rate of 2 percent was well below the E.U. average.*

Bayer S.A., our marketing company for crop protection and industrial products, did not quite match the previous year's sales, although net income advanced to a gratifying €18 million.

Sales of **Bayer Pharma S.A.** rose by 9 percent to €313 million. We gained market share with the acquisition of an antibiotic; net income increased to €8 million.

The strength of the British pound compared to the euro, coupled with an inflation rate of only 2 percent, led to higher domestic demand and economic growth of 3 percent in the **United Kingdom**.

Sales of **Bayer plc** declined slightly to €564 million. Higher raw material costs in the Chemicals segment hampered earnings, with net income declining to €12 million.

Economic expansion in **Italy** *fell just short of the 3 percent target, with growth slowing in the second half. An increase in energy prices, in particular, led to a higher inflation rate than in most other E.U. countries, and thus to more restrained domestic demand.*

Bayer S.p.A., our manufacturing and marketing company mainly for the Health Care and Agriculture segments, benefited from the favorable business environment. Sales increased 3 percent to €837 million, while net income improved significantly to €38 million.

The economy of **Switzerland** *had one of its best years in recent memory, with 3 percent growth in GDP and an unemployment rate of 2 percent.*

Bayer International S.A., which markets our synthetic rubber and polyurethanes, expanded sales to €601 million and its net income by 50 percent to €66 million.

Growth in the **Spanish** *economy remained robust, at 4 percent. With Spain now accounting for one third of all new jobs created in the E.U., unemployment declined and purchasing power continued to increase.*

Sales of **Bayer Hispania, S.A.** rose to €391 million. Despite higher costs for petrochemical feedstocks, unfavorable weather conditions and a number of exceptional charges, the company generated net income of €39 million.

Sales of **Química Farmacéutica Bayer, S.A.**, our life-science company, were up by 11 percent to €344 million, chiefly as a result of new product launches. Net income more than doubled to €35 million.

With economic growth in the **Netherlands** *reaching 4 percent, consumer and export demand remained high.*

Bayer B.V. had sales of €264 million, with the Diagnostics and Crop Protection business groups largely responsible for this expansion. Net income advanced to €6 million.

North America

The continuing robustness of the **United States** *economy was largely the result of high domestic demand.*

Bayer Corporation grew its sales by 14 percent to €10.9 billion. This increase was due almost equally to organic growth and to acquisitions. At the end of March, we acquired Lyondell's polyols business and a share in that company's propylene oxide production, with Bayer Corporation accounting for 80 percent of the acquisition. The purchases of Sybron Chemicals Inc. and major parts of the paper chemicals business of Cytec Industries Inc. were completed in October and November, respectively, giving us access to new technologies and products. Despite exceptional charges of €169 million for integration and restructuring activities in the Health Care and Polymers segments, net income improved by 33 percent to €217 million.

Economic development in **Canada** *remained strong. Exports benefited from close trade relations with the United States, while rising incomes and stable employment levels led to high demand for consumer and industrial goods.*

Bayer Inc. further expanded its business in the health care, agriculture and rubber areas. Sales climbed by 39 percent to €1.1 billion, while net income increased to €15 million.

Asia/Pacific

Three years after the beginning of the Asian financial crisis, the economies of the region have restabilized. Several Southeast Asian countries have carried out structural reforms of their monetary and fiscal policies, and confidence in the economy is increasing steadily.

Real GDP increased by 2 percent in **Japan***, although growth in the region as a whole remains modest. The positive economic development is supported by strong exports and growing corporate investment.*

The encouraging performance of our pharmaceutical company **Bayer Yakuhin Ltd.** continued in 2000. Sales expanded to €909 million, while net income advanced to €58 million.

Sales of **Bayer Ltd.** increased by 36 percent to €289 million. While the Animal Health Business Group registered gains in sales and operating profit, Polymers suffered from growing pressure on margins. The company posted net income of €8 million.

Nihon Bayer Agrochem K.K. continued to suffer from difficult market conditions. The previous year's high sales level increased even further, however, due to the company's strong product line and to positive currency effects, while earnings declined slightly.

Sumitomo Bayer Urethane Co., Ltd., which operates in the Polymers and Chemicals segments, increased sales to €279 million. Net income increased to €9 million, chiefly as a result of good business in polyurethanes.

Strong domestic and export demand contributed to further robust growth in the economy of **Singapore***, with real GDP up by 10 percent.*

Bayer (South East Asia), Ltd. generates most of its sales from export business. Sales again rose by 13 percent in the favorable business environment, and cost containment in manufacturing helped increase net income to €4 million.

After two years of recession, real GDP in **Hong Kong** *grew by 10 percent as a result of high demand for its exports.*

Strong growth in the Polymers segment and the Consumer Care Business Group enabled our marketing company **Bayer China Co., Ltd.** to increase its sales to €356 million and its net income to €8 million.

Favorable economic development continued in **Australia***, too, with further expansion in the economy despite higher inflation and a weaker currency.*

Sales of **Bayer Australia Ltd.** declined by 4 percent to €213 million. While earnings in the Agriculture segment were slightly down due to unfavorable weather conditions, profits in Polymers increased substantially. Net income advanced to €6 million.

Latin America/Africa/Middle East

The modest upswing continued in Latin America, with the economy picking up in all countries except **Argentina***. In* **Mexico***, real GDP grew by more than 7 percent while the inflation rate was low. In* **Brazil***, a considerable drop in interest rates led to more investment and an increase in industrial output.*

Stable economic conditions once again led to growth in sales and operating profit of **Bayer de México, S.A. de C.V.** The non-operating result also moved higher and net income amounted to €54 million.

Bayer S.A. in Argentina expanded sales by 21 percent, to €346 million, in a difficult business environment. Restructuring measures initiated in the previous year began to pay off, with net income rising to €29 million.

Despite a stagnating agricultural business, **Bayer S.A.** in Brazil maintained its market share. The company reported encouraging increases in sales and net income, to €622 million and €12 million, respectively.

Unfavorable weather conditions led to slower growth in South Africa. Despite a high unemployment rate, the South African economy expanded by 3 percent.

Sales of **Bayer (Proprietary) Ltd.** were up by 24 percent to €240 million, partly as a result of the Lyondell polyols and Chiron acquisitions. Net income remained stable at €11 million. The merger between Bayer Animal Health (Pty.) Ltd. and Milborrow Animal Health (Pty.) Ltd. is expected to result in cost savings and greater profitability.

Principal Consolidated Companies

Company Name and Place of Business	Bayer's interest (%)	Stockholders' equity € million	Sales* € million	Net* income € million	Employees
Germany					
H.C. Starck GmbH & Co. KG, Goslar	100	139	478	43	1,660
Bayer Faser GmbH, Dormagen	100	66	311	38**	885
Wolff Walsrode AG, Walsrode	100	118	404	17	1,902
Haarmann & Reimer GmbH, Holzminden	100	303	386	12	1,690
Rhein Chemie Rheinau GmbH, Mannheim	100	36	211	10	558
PolymerLatex GmbH & Co. KG, Marl	50	28	258	(3)	570
Bayer Vital GmbH & Co. KG, Cologne	100	115	1,009	38	1,620
Bayer Industrieprodukte GmbH & Co. KG, Leverkusen	100	3	2,053	13	214
Other European Countries					
Bayer Hispania, S.A., Spain	100	256	391	39	1,098
Bayer S.p.A., Italy	100	256	837	38	2,195
Química Farmacéutica Bayer, S.A., Spain	100	158	344	35	1,027
Bayer Rubber N.V., Belgium	100	135	211	23	492
Bayer plc, U.K.	100	106	564	12	1,287
Bayer Antwerpen N.V., Belgium	100	1,113	1,190	8	2,523
Bayer Pharma S.A., France	99.9	56	313	8	690
Bayer International S.A., Switzerland	100	69	601	66	84
Bayer S.A., France	99.9	257	377	18	550
Bayer B.V., Netherlands	100	16	264	6	255
Bayer A/S, Denmark	100	17	212	1	134
North America					
Bayer Corporation (group)	100	5,408	10,901	217	23,171
Bayer Inc., Canada	100	450	1,118	15	2,248
Asia/Pacific					
Bayer Yakuhin Ltd., Japan	75.6	611	909	58	1,593
Sumitomo Bayer Urethane Co., Ltd., Japan	60	71	279	9	148
Bayer Ltd., Japan	100	141	289	8	273
Bayer Australia Ltd., Australia	99.9	58	213	6	598
Bayer (South East Asia), Singapore	100	20	184	4	228
Nihon Bayer Agrochem K.K., Japan	99.5	238	253	(5)	325
Bayer China Co., Ltd., Hong Kong	100	35	356	8	255
Latin America/Africa/Middle East					
Bayer de México, S.A. de C.V., Mexico***	100	287	444	54	2,192
Bayer S.A., Argentina***	99.9	252	346	29	985
Bayer S.A., Brazil***	99.9	309	622	12	2,284
Bayer (Proprietary) Ltd., South Africa	100	72	240	11	1,138

* The figures are taken from the respective financial statements prepared in line with local regulations. Foreign companies' figures are translated at average rates of exchange.

** income before transfer

*** These figures are taken from the hard-currency statements used for the consolidation.

Financial Statements 2000

Management's Statement of Responsibility for Financial Reporting

The consolidated financial statements of the Bayer Group have been prepared by the management, who are responsible for the substance and objectivity of the information contained therein. The same applies to the management report, which is consistent with the financial statements.

Our financial reporting takes place according to the rules issued by the International Accounting Standards Committee, London.

Effective internal monitoring procedures instituted by Group management at the consolidated companies along with appropriate staff training ensure the propriety of our reporting and its compliance with legal provisions. Integrity and social responsibility form the basis of our corporate principles and of their application in areas such as environmental protection, quality, product safety, plant safety and adherence to local laws and regulations. The worldwide implementation of these principles and the reliability and effectiveness of the monitoring procedures are continuously verified by our Corporate Auditing Department.

These measures in conjunction with a uniform reporting system throughout the Group ensure that Group companies present the management with an accurate view of their business operations, enabling us to discern risks to our assets or fluctuations in the economic performances of Group companies at an early stage and at the same time providing a reliable basis for the consolidated financial statements and management report.

The Board of Management conducts the business of the Group in the interests of the stockholders and in awareness of its responsibilities toward employees, communities and the environment in all the countries in which we operate. Our declared aim is to deploy the resources entrusted to us in order to increase the value of the Bayer Group as a whole.

In accordance with the resolution of the Annual Stockholders' Meeting, the Supervisory Board appointed PwC Deutsche Revision Aktiengesellschaft as independent auditors of the consolidated financial statements and of their compliance with the International Accounting Standards. The scope of the auditors' report, which appears on the following page, also includes Bayer's risk management system, which they have audited in light of the German Law on Corporate Supervision and Transparency. The consolidated financial statements, the management report and the auditors' report were discussed in detail, in the presence of the auditors, by the Presidial Committee of the Supervisory Board and at a plenary meeting of the Supervisory Board. The Report of the Supervisory Board appears on pages 78–79 of this Annual Report.

The Board of Management

Independent Auditors' Report

We have audited the consolidated financial statements of the Bayer Group, comprising the income statement, the balance sheet, the statement of changes in stockholders' equity and the statement of cash flows as well as the notes to the financial statements for the financial year from January 1 through December 31, 2000. The preparation and the content of the financial statements according to the International Accounting Standards of the IASC (IAS) are the responsibility of the Board of Management of Bayer AG. Our responsibility is to express an opinion, based on our audit, about whether the consolidated financial statements are in accordance with IAS.

We conducted our audit of the consolidated financial statements in accordance with German auditing standards, the German principles for the auditing of financial statements drawn up by the Institut der Wirtschaftsprüfer (IDW), and the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements, as of December 31, 2000 give a true and fair view of the net worth, financial position, results of operations and cash flows of the Bayer Group for the financial year in accordance with IAS.

Our audit, which – according to German auditing regulations – also extends to the Group management report prepared by the Board of Management for the financial year from January 1 through December 31, 2000, has not led to any objections. In our opinion, the management report provides, on the whole, a fair understanding of the Group's position and adequately presents the risks related to its future development. In addition, we confirm that the consolidated financial statements of the Bayer Group and the Group management report for the financial year from January 1 through December 31, 2000 satisfy the conditions required for the company's exemption from its obligation to prepare the consolidated financial statements and the Group management report in accordance with the German Commercial Code.

Essen, February 28, 2001

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

P. Albrecht	J. Schilling
(Certified Public Accountant)	(Certified Public Accountant)

Bayer Group Consolidated Statements of Income

€ million	Note	2000	1999*
Net sales	[1]	**30,971**	**27,320**
Net sales from discontinuing operations	[5]	*(985)*	*(2,582)*
Net sales from continuing operations		29,986	24,738
Cost of goods sold		(15,949)	(13,217)
Gross profit		**14,037**	**11,521**
Selling expenses		(6,884)	(5,635)
Research and development expenses	[2]	(2,382)	(2,140)
General administration expenses		(932)	(765)
Other operating income	[3]	439	685
Other operating expenses	[4]	(1,095)	(1,464)
Operating result from continuing operations		**3,183**	**2,202**
Operating result from discontinuing operations	[5]	*104*	*125*
Income from the Agfa divestiture			*1,030***
Operating result	[6]	**3,287**	**3,357**
Income (Expenses) from investments in affiliated companies – net	[7]	283	(31)
Interest expense – net	[8]	(311)	(196)
Other non-operating expenses – net	[9]	(269)	(294)
Non-operating result		**(297)**	**(521)**
Income before income taxes		**2,990**	**2,836**
Income taxes	[10]	(1,148)	(818)
Income after taxes		**1,842**	**2,018**
Minority stockholders' interest	[12]	(26)	(16)
Net income		**1,816**	**2,002**
Earnings per share(€)	[13]	**2.49**	**2.74**

* 1999 figures restated

** The income from the sale of Agfa-Gevaert shares was tax-free

Bayer Group Consolidated Balance Sheets

€ million	Note	Dec. 31, 2000	Dec. 31, 1999*
Assets			
Noncurrent assets			
Intangible assets	[17]	4,843	2,213
Property, plant and equipment	[18]	13,345	11,986
Investments	[19]	2,156	1,415
		20,344	**15,614**
Current assets			
Inventories	[20]	6,095	4,992
Receivables and other assets			
Trade accounts receivable	[21]	6,244	5,333
Other receivables and other assets	[22]	2,414	1,576
		8,658	**6,909**
Liquid assets	[23]	704	3,140
		15,457	**15,041**
Deferred taxes	[24]	**413**	**407**
Deferred charges	[25]	**237**	**217**
		36,451	**31,279**
of which discontinuing operations	[34]	*819*	*641*
Stockholders' Equity and Liabilities			
Stockholders' equity			
Capital stock of Bayer AG		1,870	1,870
Capital reserves of Bayer AG		2,942	2,942
Retained earnings		9,047	7,965
Net income		1,816	2,002
Translation differences		465	227
Minority stockholders' interest		237	176
	[26]	**16,377**	**15,182**
Liabilities			
Long-term liabilities			
Long-term financial obligations	[29]	2,803	2,359
Miscellaneous long-term liabilities	[31]	196	232
Provisions for pensions and other post-employment benefits	[27]	4,254	4,178
Other long-term provisions	[28]	1,208	1,192
		8,461	**7,961**
Short-term liabilities			
Short-term financial obligations	[29]	3,862	2,107
Trade accounts payable	[30]	2,016	1,556
Miscellaneous short-term liabilities	[31]	2,274	1,801
Short-term provisions	[28]	1,701	1,344
		9,853	**6,808**
		18,314	**14,769**
of which discontinuing operations	[34]	*404*	*362*
Deferred taxes	[24]	**1,595**	**1,157**
Deferred income	[33]	**165**	**171**
		36,451	**31,279**

* 1999 figures restated

Bayer Group Consolidated Statements of Changes in Stockholders' Equity

€ million	Capital stock of Bayer AG	Capital reserves of Bayer AG	Retained earnings	Net income	Bayer stock-holders' interest	Trans-lation differ-ences	Minority stock-holders' interest	Total
Dec. 31, 1998	1,867	2,945	7,121	1,614	13,547	(979)	211	12,779
Changes in stockholders' equity resulting from capital contributions and dividend payments								
Capital contributions	3	(3)			0			0
Dividend payments				(747)	(747)		(23)	(770)
	3	**(3)**		**(747)**	**(747)**		**(23)**	**(770)**
Other changes in stockholders' equity not recognized in income								
Exchange differences						1,206		1,206
Other differences			(23)		(23)		(28)	(51)
			(23)		**(23)**	**1,206**	**(28)**	**1,155**
Changes in stockholders' equity recognized in income								
Allocation to retained earnings			867	(867)	0			0
Income after taxes for 1999				2,002	2,002		16	2,018
			867	**1,135**	**2,002**		**16**	**2,018**
Dec. 31, 1999	1,870	2,942	7,965	2,002	14,779	227	176	15,182
Changes in stockholders' equity resulting from capital contributions and dividend payments								
Capital contributions							2	2
Dividend payments				(949)	(949)		(4)	(953)
				(949)	**(949)**		**(2)**	**(951)**
Other changes in stockholders' equity not recognized in income								
Exchange differences						238		238
Other differences			29		29		37	66
			29		**29**	**238**	**37**	**304**
Changes in stockholders' equity recognized in income								
Allocation to retained earnings			1,053	(1,053)	0			0
Income after taxes for 2000				1,816	1,816		26	1,842
			1,053	**763**	**1,816**		**26**	**1,842**
Dec. 31, 2000	**1,870**	**2,942**	**9,047**	**1,816**	**15,675**	**465**	**237**	**16,377**

Bayer Group Consolidated Statements of Cash Flows

€ million	Note	2000	1999*
Cash and cash equivalents at beginning of year		**2,812**	**1,184**
Operating result		3,287	3,357
Income taxes currently payable		(873)	(834)
Depreciation and amortization		2,139	1,811
Change in long-term provisions		(316)	(167)
Gains on retirements of noncurrent assets		(73)	(975)
Gross cash provided by operating activities		**4,164**	**3,192**
(Increase) Decrease in inventories		(750)	134
(Increase) in trade accounts receivable		(548)	(459)
Increase (Decrease) in trade accounts payable		351	(11)
Changes in other working capital		(126)	337
Net cash provided by operating activities	[38]	**3,091**	**3,193**
of which discontinuing operations	[41]	*104*	*241*
Cash outflows for additions to property, plant and equipment		(2,647)	(2,632)
Cash inflows from sales of property, plant and equipment		322	63
Cash inflows and outflows related to investments		(45)	2,775
Cash outflows for acquisitions		(4,160)	(347)
Interest and dividends received		191	146
Cash inflows from marketable securities		115	209
Net cash provided by (used in) investing activities	[39]	**(6,224)**	**214**
of which discontinuing operations	[41]	*(152)*	*2,678*
Capital contributions		2	10
Bayer AG dividend and dividend payments to minority stockholders		(953)	(770)
Issuances of debt		3,952	1,222
Retirements of debt		(1,893)	(1,831)
Interest paid		(336)	(300)
Net cash provided by (used in) financing activities	[40]	**772**	**(1,669)**
of which discontinuing operations	[41]	*18*	*(29)*
Change in cash and cash equivalents due to business activities		**(2,361)**	**1,738**
Change in cash and cash equivalents due to changes in companies consolidated		32	(124)
Change in cash and cash equivalents due to exchange rate movements		8	14
Cash and cash equivalents at end of year	[42]	**491**	**2,812**
Marketable securities and other instruments		213	328
Liquid assets as per balance sheets		**704**	**3,140**

* 1999 figures restated

Notes to the Consolidated Financial Statements of the Bayer Group

Accounting policies

The consolidated financial statements of the Bayer Group are prepared – pursuant to Article 292a of the German Commercial Code – in accordance with the rules of the International Accounting Standards Committee (IASC), London, in effect at the closing date. They comply with the European Union's guidelines on consolidation of financial statements (Directive 83/349/EEC).

The financial statements of the consolidated companies are prepared according to uniform recognition and valuation principles. Valuation adjustments made for tax reasons are not reflected in the Group statements. The individual companies' statements are prepared as of the closing date for the Group statements.

Certain income statement and balance sheet items are combined for the sake of clarity, as explained in the Notes. A distinction is made in the balance sheet between long-term and short-term liabilities in accordance with IAS 1 (Presentation of Financial Statements). Liabilities are stated as short-term if they mature within one year.

Changes in recognition and valuation principles are explained in the Notes. The previous year's figures are restated accordingly.

In a few instances, estimates and assumptions have to be made. These affect the classification and valuation of assets, liabilities, income, expenses and contingent liabilities. The actual values may vary from the estimates.

Companies consolidated

The financial statements of the Bayer Group as of December 31, 2000 include Bayer AG and 37 German and 191 foreign consolidated subsidiaries in which Bayer AG, directly or indirectly, has a majority of the voting rights or which are under its uniform control. The number of companies consolidated has risen by 41 from the previous year. Excluded from consolidation are 93 subsidiaries that in aggregate are of minor importance to the net worth, financial position and earnings of the Bayer Group; they account for less than 1 percent of Group sales.

We have included 41 joint ventures – one fewer on aggregate than in the previous year – by proportionate consolidation in compliance with IAS 31 (Financial Reporting of Interests in Joint Ventures). Their effect on the Group balance sheet and income statement is as follows:

	€ million
Noncurrent assets	547
Current assets	815
Pension provisions	(81)
Other provisions	(76)
Financial obligations	(187)
Remaining liabilities	(408)
Net assets	**610**

	€ million
Income	1,989
Expenses	1,876
Income after taxes	**113**

While 14 companies are stated at equity, 59 associated companies that in aggregate are of minor importance are stated at their accounting values.

Included for the first time are 50 companies, 27 of which belonged to the Sybron group, which we acquired in 2000, and six of which were acquired along with the polyols business of Lyondell. Ten previously consolidated companies are excluded.

In 2000 a total of €4.2 billion was spent on **acquisitions**. The purchase prices of the foreign acquisitions are translated at the exchange rates in effect at the respective dates of acquisition.

Effective March 31, 2000 Bayer acquired the polyols business of Lyondell Chemical Company, Houston, Texas, United States. The acquisition comprised U.S. production facilities in Institute and South Charleston, West Virginia, and Channelview, Texas; European plants in Rieme, Belgium, and Fos-sur-Mer, France; companies in Indonesia, Singapore and Taiwan; and research facilities in Newtown Square, Pennsylvania; South Charleston, West Virginia; Villers St. Paul, France; and Singapore. The total purchase price, including an equity interest in propylene oxide production, was €2.6 billion.

The Crop Protection Business Group acquired the FLINT® line of crop fungicides from Novartis effective December 7, 2000. This €880 million acquisition includes global ownership of all associated intellectual property rights, registrations and trademarks, production and formulation know-how and the production facilities in Muttenz, Switzerland. At the same time Bayer acquired the exclusive right to market certain products based on the active ingredient cyproconazole in the European Union.

On October 21, 2000 Bayer Corporation, the U.S. subsidiary of Bayer AG, purchased 99.6 percent of the approximately 5.7 million outstanding shares of U.S. polymers and specialty chemicals producer Sybron Chemicals Inc., Birmingham, New Jersey, at a price of US$ 35 per share. The total purchase price, including all of Sybron's liabilities, was approximately €386 million. The acquisition provides Bayer's Coatings and Colorants Business Group and Specialty Products Business Group with access to new technologies and products. The acquired goodwill totaling €248 million will be amortized over an estimated useful life of 15 or 20 years.

Effective November 17, 2000 Bayer subsidiary H.C. Starck GmbH & Co. KG of Goslar, Germany acquired the CSM group of companies, headquartered in Cleveland, Ohio, United States, for €146 million. CSM is a manufacturer of molybdenum and tungsten mill products as well as machined components and fabrications made from alloys of other refractory metals. Since it was purchased late in the year and is of minor importance to the financial statements of the Bayer Group, the CSM group is not yet included in the consolidation.

Our U.S. subsidiary Bayer Corporation acquired major parts of the paper chemicals business – including patents and know-how – of the U.S. specialty chemicals manufacturer Cytec Industries Inc., West Paterson, New Jersey, for €107 million, effective November 1, 2000.

On June 1, 2000 the Consumer Care Division of Bayer Corporation purchased the complete RID® line of head lice treatments from Pfizer Inc. The €99 million acquisition includes all the related patents.

Effective January 1, 2000 we acquired for €27 million the remaining 50.1 percent of the shares of Misung Ltd., Pyongtaek, South Korea, which up till that time had been a joint venture with Aventis S.A. Misung formulates and markets a wide range of crop protection products in South Korea. The acquired goodwill of €20 million will be amortized over a five-year period.

On December 15, 2000 Bayer Ltd., Japan, purchased a further 10 percent of the shares of Sumitomo Bayer Urethane Co., Ltd., Japan, a joint venture with Sumitomo Chemicals Co. Ltd., for €7 million, thereby raising Bayer's interest to 60 percent. The company is fully consolidated as of the date of acquisition of the additional shares.

The Consumer Care Business Group strengthened its skin care products business and improved its position in the British market through the acquisition by U.K. subsidiary Bayer plc of the Germoloid® brand effective January 1, 2000. The purchase price paid to GlaxoSmithKline was €11 million.

Significant **divestitures** in 2000 were as follows:

Bayer sold its 25 percent interest in Schein Pharmaceutical Inc., Florham Park, New Jersey, United States, to Watson Pharmaceuticals Inc. effective July 31, 2000 for €170 million.

Also effective July 31, 2000 the Animal Health Division of Bayer Corporation sold the U.S. livestock vaccines business to the animal health company Intervet International, a subsidiary of Akzo Nobel, Arnhem, Netherlands, for €81 million.

Bayer Corporation sold its 11 percent interest in Myriad Genetics of Salt Lake City, Utah, United States, for €76 million.

Effective October 18, 2000 we sold the subsidiary Bayer Solar GmbH to the SolarWorld group of Bonn, Germany in return for a cash payment of €38 million and an approximately 9 percent interest in the photovoltaics company SolarWorld AG. The total proceeds of this divestiture amounted to €56 million.

Acquisitions and divestitures of subsidiaries or businesses affected the Group's assets and liabilities as of the dates of acquisition or divestiture as follows:

€ million	Acquisitions	Divestitures
Noncurrent assets	3,846	136
Current assets (excluding liquid assets)	728	90
Liquid assets	39	–
Assets	**4,613**	**226**
Pension provisions	15	29
Other provisions	51	2
Financial obligations	188	–
Remaining liabilities	159	48
Liabilities	**413**	**79**

Lists of Bayer AG's direct and indirect holdings have been included in the Leverkusen commercial register. They also are available directly from Bayer AG on request.

The following domestic subsidiaries availed themselves in 2000 of certain exemptions granted under Articles 264, paragraph 3 and 264 b, No. 4 of the German Commercial Code regarding the preparation, auditing and publication of financial statements: Bayer Bitterfeld GmbH, Greppin; Bayer Buna GmbH, Marl; Bayer-Kaufhaus GmbH, Leverkusen; Bayer Kautschuk GmbH, Leverkusen; Generics Holding GmbH, Leverkusen; IAB Ionenaustauscher GmbH, Greppin; KVP Pharma+Veterinär Produkte GmbH, Kiel; Bayer Industrieprodukte GmbH & Co. KG, Leverkusen; ScaleOn GmbH & Co. KG, Leverkusen; iSL-Chemie GmbH & Co. KG, Kürten; CFI GmbH & Co. KG, Rödental.

Foreign currency translation

The financial statements for 2000 are drawn up in euros (€).

Most foreign currency receivables and payables of the consolidated companies are hedged, and are translated at the hedged rates in their financial statements. The remaining foreign currency receivables and payables are translated at closing rates.

The majority of foreign consolidated companies are to be regarded as foreign entities since they are financially, economically and organizationally autonomous. Their functional currencies according to IAS 21 (The Effects of Changes in Foreign Exchange Rates) are thus the respective local currencies. The assets and liabilities of these companies are therefore translated at closing rates, income and expense items at average rates for the year.

Where the operations of a foreign company are integral to those of Bayer AG, the functional currency is the euro. A temporal translation method is therefore used that is recognized in income.

Property, plant and equipment, intangible assets, investments in affiliated companies and other securities included in investments are translated at the average exchange rates in the year of addition, along with the relevant amortization, depreciation and write-downs. All other balance sheet items are translated at closing rates. Income and expense items (except amortization, depreciation and write-downs) are translated at average rates for the year.

Companies operating in hyperinflationary economies prepare their statements in hard currency and thus, in effect, by the temporal method described above.

Exchange differences arising from the translation of foreign companies' balance sheets are shown in a separate stockholders' equity item. In case of divestiture, the respective exchange differences are reversed and recognized in income.

The exchange rates for major currencies against the euro varied as follows:

€1		Closing rate 2000	Closing rate 1999	Average rate 2000	Average rate 1999
U.S.A.	USD	0.93	1.00	0.93	1.07
U.K.	GBP	0.62	0.62	0.61	0.66
Japan	JPY	106.92	102.73	99.74	121.05
Canada	CAD	1.40	1.46	1.37	1.59
Switzerland	CHF	1.52	1.61	1.56	1.60

Consolidation methods

Capital consolidation is performed according to IAS 22 (Business Combinations) by offsetting investments in subsidiaries against the underlying equities at the dates of acquisition. The identifiable assets and liabilities of subsidiaries and joint ventures are included at their fair values in proportion to Bayer's interest. Remaining differences are recognized as goodwill.

Where the statements of individual consolidated companies reflect write-downs or write-backs of investments in other consolidated companies, these are reversed for the Group statements.

Intragroup sales, profits, losses, income, expenses, receivables and payables are eliminated.

Deferred taxes are recognized for temporary differences related to consolidation entries.

Joint ventures are included by proportionate consolidation according to the same principles.

Intercompany profits and losses on transactions with companies included at equity were immaterial in 2000.

Cash flow statement

The cash flow statement shows how the liquidity of the Bayer group was affected by the inflow and outflow of cash and cash equivalents during the year. The effects of acquisitions, divestitures and other changes regarding the companies consolidated are eliminated. Cash flows are classified by operating, investing and financing activities in accordance with IAS 7 (Cash Flow Statements). An adjustment is shown to reconcile cash and cash equivalents at the end of the year to the liquid assets reflected in the balance sheet.

The amounts reported by foreign consolidated companies are translated at average exchange rates for the year, with the exception of cash and cash equivalents, which are translated at closing rates as in the balance sheet. The effect of changes in exchange rates on cash and cash equivalents is shown separately.

Notes to the Statements of Income

[1] Net sales

While total reported sales rose by €3.7 billion compared with 1999, to €31 billion, sales from continuing operations advanced by €5.2 billion. This increase comprised €1.7 billion from higher volumes, €0.6 billion from improvements in selling prices, €2.2 billion from favorable shifts in exchange rates and €0.7 billion from the net positive effect of acquisitions and divestitures. Acquisitions and divestitures during 2000 and 1999 affected the comparison between the two years' sales figures by the following amounts:

	€ million
Acquisitions	
Polyols business (from Lyondell)	646
Plastic sheet business (from DSM on April 1, 1999)	80
Purchase of further interest in Misung Ltd., Pyongtaek, South Korea	58
Sybron Chemicals Inc., Birmingham, New Jersey, United States	35
Paper chemicals business (from Cytec Industries)	14
	833
Divestitures	
U.S. livestock vaccines business to Intervet International	(27)
Troponwerke GmbH & Co. KG	(24)
Other	(34)
	(85)
Net effect on sales from continuing operations	748
Sale of 70 percent of the shares of the Agfa-Gevaert group (May 31, 1999)	(1,801)
	(1,053)

Breakdowns of net sales by business segment and by region are given in the table on pages 52–53.

[2] Research and development expenses

According to IAS 38 (Intangible Assets), research costs cannot be capitalized; development costs can only be capitalized if specific conditions are fulfilled. Development costs must be capitalized if it is sufficiently certain that the future economic benefits to the company will cover not only the usual production, selling and administrative costs but also the development costs themselves. There are also several other criteria relating to the development project and the product or process being developed, all of which have to be met to justify asset recognition. As in previous years, these conditions are not satisfied.

[3] Other operating income

Among the items of other operating income from continuing operations for 2000 are €86 million (1999: €120 million) from reversals of unutilized provisions, €74 million (1999: €16 million) from retirements of noncurrent assets, and €25 million (1999: €35 million) from sideline operations. The cost of goods sold incurred for sideline operations has been offset against the corresponding revenues to more clearly reflect the earnings position.

[4] Other operating expenses

Included in other operating expenses for continuing operations for 2000 are €38 million (1999: €54 million) in write-downs of receivables, €98 million (1999: €160 million) in amortization of acquired goodwill and €27 million (1999: €54 million) in losses from the sale of property, plant and equipment.

In addition, €200 million (1999: €449 million) was spent on restructuring. These expenses related mainly to the integration of Chiron Diagnostics, acquired in 1998, and the polyols business of Lyondell Chemical Company, Houston, Texas, acquired on March 31, 2000, which accounted for €61 million and €48 million, respectively. The streamlining of the styrenics activities of the Plastics Business Group accounted for €23 million.

[5] Discontinuing operations

Following the sale of 70 percent of the shares of Agfa-Gevaert N.V., the companies of the Agfa-Gevaert group ceased to be consolidated as of June 1, 1999. Bayer's remaining 30 percent interest in Agfa-Gevaert N.V. is stated at equity. The operating result for 1999 shown in the table below comprises that of the Agfa business up to the date of divestiture and the €1,030 million in income from the sale of the shares.

Bayer intends to sell its 50 percent interest in EC Erdölchemie GmbH, Cologne, to the joint venture partner Deutsche BP AG, Hamburg. The €99 million (1999: €46 million) operating result of the Erdölchemie Business Group, which was formerly included in the Chemicals segment, is reflected under discontinuing operations.

Effective October 1, 2000, the textile dyes business of our joint venture DyStar was combined with that of BASF. The operating result of the DyStar Business Group, amounting to €5 million (1999: minus €24 million) is reflected under discontinuing operations.

The non-operating results and the income taxes attributable to Agfa, Erdölchemie and DyStar are reflected in the corresponding items of the income statement.

A breakdown of the results of discontinuing operations is given below.

€ million	Erdölchemie		DyStar		Agfa	Total	
	2000	1999	2000	1999	1999	2000	1999
Net sales	**635**	**456**	**350**	**325**	**1,801**	**985**	**2,582**
Cost of goods sold	(481)	(368)	(223)	(241)	(1,098)	(704)	(1,707)
Selling expenses	(45)	(44)	(68)	(65)	(388)	(113)	(497)
Research and development expenses	(2)	(1)	(9)	(10)	(101)	(11)	(112)
General administration expenses	(9)	(8)	(21)	(27)	(81)	(30)	(116)
Other operating income	7	17	6	4	1,055	13	1,076
Other operating expenses	(6)	(6)	(30)	(10)	(55)	(36)	(71)
Operating result from discontinuing operations	**99**	**46**	**5**	**(24)**	**1,133**	**104**	**1,155**
Non-operating result	(1)	(2)	(18)	(7)	(23)	(19)	(32)
Income (Loss) before income taxes	**98**	**44**	**(13)**	**(31)**	**1,110**	**85**	**1,123**
Income taxes	–	(10)	1	(4)	(24)	1	(38)
Income (Loss) after taxes	**98**	**34**	**(12)**	**(35)**	**1,086**	**86**	**1,085**

[6] Operating result

Breakdowns of the operating result by business segment and by region are given in the table on pages 52–53.

Key Data by Business Segment and Region

Business Segments € million	2000 Health Care	1999	2000 Agriculture	1999	2000 Polymers	1999
Net sales (external)	10,028	8,367	3,455	3,094	11,398	8,922
- Change in €	19.9%	19.1%	11.7%	5.6%	27.8%	6.3%
- Change in local currencies	9.3%	15.2%	2.5%	2.5%	21.3%	4.8%
Intersegment sales	16	32	69	58	128	175
Other operating income	141	138	79	110	80	209
Operating result before exceptional items	1,476	1,095	558	520	1,137	1,126
Return on sales before exceptional items	14.7%	13.1%	16.2%	16.8%	10.0%	12.6%
Exceptional items	(139)	(247)	26	13	(98)	(230)
Operating result	1,337	848	584	533	1,039	896
Gross cash flow	1,419	1,070	557	528	1,677	1,280
Capital invested	9,694	8,774	4,741	3,490	16,141	12,224
CFROI	15.4%	12.9%	13.9%	15.7%	11.2%	11.1%
Equity-method income	0	(8)	0	2	(1)	0
Equity-method investments	20	25	0	10	639	13
Remaining liabilities	1,305	1,169	451	383	1,435	1,164
Capital expenditures	745	730	283	217	1,043	1,079
Amortization and depreciation	529	528	183	154	959	697
Research and development expenses	1,362	1,193	370	370	288	255
Number of employees (as of Dec. 31)	42,300	42,300	14,900	14,800	36,200	35,000

Regions € million	2000 Europe	1999	2000 North America	1999	2000 Asia/Pacific	1999
Net sales (external) - by market	11,887	10,663	9,636	7,578	4,981	3,445
Net sales (external) - by point of origin	13,784	12,335	9,978	7,723	3,869	2,729
- Change in €	11.7%	1.5%	29.2%	15.1%	41.8%	33.2%
- Change in local currencies	11.2%	1.5%	13.7%	11.3%	26.1%	18.0%
Interregional sales	3,195	2,598	1,638	1,082	240	162
Other operating income	266	563	63	34	65	41
Operating result before exceptional items	2,316	2,235	730	580	411	215
Return on sales before exceptional items	16.8%	18.1%	7.3%	7.5%	10.6%	7.9%
Exceptional items	8	(244)	(144)	(214)	(21)	(12)
Operating result	2,324	1,991	586	366	390	203
Gross cash flow	2,292	2,158	1,566	868	366	175
Capital invested	18,553	15,760	14,631	11,363	2,823	2,357
CFROI	13.4%	13.8%	11.3%	8.1%	13.7%	8.7%
Equity-method income	0	(5)	0	(8)	(1)	2
Equity-method investments	255	197	582	39	2	11
Remaining liabilities	2,205	1,731	1,583	1,393	483	383
Capital expenditures	1,492	1,430	762	916	206	128
Amortization and depreciation	1,028	774	866	696	125	99
Research and development expenses	1,380	1,256	699	617	87	75
Number of employees (as of Dec. 31)	69,500	69,600	25,000	23,900	12,400	11,500

2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Chemicals		Reconciliation		Continuing Operations		Discontinuing Operations		Bayer Group	
4,275	3,630	830	725	29,986	24,738	985	2,582	30,971	27,320
17.8%	– 1.4%			21.2%	8.0%			13.4%	– 2.6%
11.7%	– 3.2%			11.9%	5.5%			4.5%	– 4.7%
466	478	(679)	(743)						
49	117	90	111	439	685	13	46	452	731
442	411	(273)	(372)	3,340	2,780	116	1,154	3,456	3,934
10.3%	11.3%			11.1%	11.2%			11.2%	14.4%
20	(63)	34	(51)	(157)	(578)	(12)	1	(169)	(577)
462	348	(239)	(423)	3,183	2,202	104	1,155	3,287	3,357
600	440	(222)	(378)	4,031	2,940	133	252	4,164	3,192
6,304	5,881	736	731	37,616	31,100	909	896	38,525	31,996
9.8%	7.8%			11.5%	9.8%			11.6%	10.4%
5	0	(5)	(5)	(1)	(11)	72	(17)	71	(28)
18	7	182	210	859	265	487	448	1,346	713
589	495	700	466	4,480	3,677	171	83	4,651	3,760
470	521	23	30	2,564	2,577	83	55	2,647	2,632
359	232	75	89	2,105	1,700	34	111	2,139	1,811
159	146	203	176	2,382	2,140	11	112	2,393	2,252
24,500	24,100	1,600	1,500	119,500	117,700	2,600	2,700	122,100	120,400

2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Latin America/ Africa/Middle East		Reconciliation		Continuing Operations		Discontinuing Operations		Bayer Group	
3,482	3,052			29,986	24,738	985	2,582	30,971	27,320
2,355	1,951			29,986	24,738	985	2,582	30,971	27,320
20.7%	– 2.6%			21.2%	8.0%			13.4%	– 2.6%
7.9%	– 5.1%			11.9%	5.5%			4.5%	– 4.7%
115	82	(5,188)	(3,924)						
45	47			439	685	13	46	452	731
236	149	(353)	(399)	3,340	2,780	116	1,154	3,456	3,934
10.0%	7.6%			11.1%	11.2%			11.2%	14.4%
0	(57)	0	(51)	(157)	(578)	(12)	1	(169)	(577)
236	92	(353)	(450)	3,183	2,202	104	1,155	3,287	3,357
246	163	(439)	(424)	4,031	2,940	133	252	4,164	3,192
1,624	1,552	(15)	68	37,616	31,100	909	896	38,525	31,996
15.4%	11.1%			11.5%	9.8%			11.6%	10.4%
0	0			(1)	(11)	72	(17)	71	(28)
20	18			859	265	487	448	1,346	713
209	170			4,480	3,677	171	83	4,651	3,760
101	102	3	1	2,564	2,577	83	55	2,647	2,632
85	128	1	3	2,105	1,700	34	111	2,139	1,811
13	16	203	176	2,382	2,140	11	112	2,393	2,252
12,000	12,000	600	700	119,500	117,700	2,600	2,700	122,100	120,400

Notes on segment reporting

In accordance with IAS 14 (Segment Reporting), a breakdown of certain data in the financial statements is given by business segment and geographical region; the business segments and regions are the same as those used for internal reporting. The aim is to provide users of the financial statements with information regarding the profitability and future prospects of the Group's various activities. To allow a more accurate appraisal of continuing operations, the discontinuing operations are shown separately.

The business segments shown as continuing operations embrace the following activities:

- The Health Care segment comprises the Pharmaceuticals, Consumer Care and Diagnostics business groups, which develop, manufacture and market throughout the world both prescription and over-the-counter pharmaceuticals, diagnostic systems and household insecticides.
- The Agriculture segment consists of the Crop Protection and Animal Health business groups. These research, develop and market crop protection products for all climate zones as well as healthcare, nutrition and grooming products for livestock and companion animals.
- The business groups in the Polymers segment develop, manufacture and market a wide variety of polymeric materials for diverse applications. In addition to the Plastics, Rubber, Polyurethanes, and Coatings and Colorants business groups, this segment also includes the subsidiary Bayer Faser.
- In the Chemicals segment, organic and inorganic chemical products and specialty chemicals for industrial use are developed, manufactured and marketed. The segment comprises the Basic and Fine Chemicals and the Specialty Products business groups, along with the subsidiaries Haarmann & Reimer, H.C. Starck and Wolff Walsrode. The latter company is assigned to the Chemicals segment for the first time in view of its increasing proportion of business in this field; the previous year's figures are restated accordingly.

In line with internal financial controlling principles, the table shows the data for the business segments before consolidation. A reconciliation to the Group totals is given in a separate column; this 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.

Business activities which Bayer has already divested or intends to divest are shown as discontinuing operations. These are the DyStar Business Group; the Erdölchemie Business Group, which in the 1999 Annual Report was still included in the Chemicals segment; and, for 1999, the former Agfa business segment.

In line with our controlling criteria, we regrouped the countries in our former Asia/Africa/Australia and Latin America regions to form new Asia/Pacific and Latin America/Africa/Middle East regions. The 1999 figures are restated accordingly.

The business segment and regional data are calculated as follows:

- The intersegment and interregional sales reflect intragroup transactions effected at transfer prices fixed on an arm's-length basis.
- The other operating income comprises that reflected in the income statement, including such income from discontinuing operations.
- Comparability of the operating results of different years may be restricted by exceptional items relating particularly to restructuring measures and acquisitions or divestitures of companies or businesses. For this reason the operating result before exceptional items is shown in addition.
- The return on sales before exceptional items is the ratio of the operating result before exceptional items to external sales.
- Gross operating cash flow is the excess of cash receipts over cash disbursements before application of funds.
- The capital invested comprises all the assets that serve a business segment and are required to yield a return, less interest-free liabilities. It is stated as of December 31.
- The CFROI is the ratio of the gross cash flow to the average capital invested for the year.
- The equity items are those reflected in the balance sheet and income statement. They are allocated to the business segments where possible.
- The remaining liabilities do not include the financial obligations shown in the balance sheet.
- Capital expenditures, amortization and depreciation relate to intangible assets, property, plant and equipment.
- The research and development expenses are those reflected in the income statement.

[7] Income (Expenses) from investments in affiliated companies – net

This comprises the following items:

€ million	2000	1999
Dividends and similar income • *of which €8 million (1999: €2 million) from subsidiaries*	18	9
Income from profit and loss transfer agreements • *of which €1 million (1999: €1 million) from subsidiaries*	1	1
Income (Expense) from companies included at equity	71	(28)
Gains from the sale of investments in affiliated companies	204	0
Losses from the sale of investments in affiliated companies	(1)	(2)
Write-downs of investments in affiliated companies	(10)	(11)
	283	**(31)**

The increase in this item is due to the gain from the sale of the interests in Schein Pharmaceutical (€142 million) and Myriad Genetics (€65 million) and the equity income from the Agfa-Gevaert group.

[8] Interest expense – net

Interest income and expense comprises:

€ million	2000	1999
Income from other securities and loans included in investments	10	16
Other interest and similar income • *of which €4 million (1999: €3 million) from subsidiaries*	143	150
Interest and similar expenses • *of which €24 million (1999: €4 million) to subsidiaries*	(464)	(362)
	(311)	**(196)**

Finance leases are capitalized under property, plant and equipment in compliance with IAS 17 (Leases). The interest portion of the lease payments, amounting to €13 million in 2000, is reflected in interest expense. The 1999 figures are restated to include the €11 million in lease interest previously reflected in miscellaneous non-operating expenses.

Interest expense incurred to finance the construction phase of major investment projects is not included here. Such interest expense, amounting in 2000 to €28 million (1999: €32 million), is capitalized as part of the cost of acquisition or construction of the property, plant or equipment concerned, based on an average capitalization rate of 5 percent.

[9] Other non-operating expense – net

This item comprises:

€ million	2000	1999
Interest portion of interest-bearing provisions	(272)	(275)
Exchange loss – net	(21)	(27)
Miscellaneous non-operating expenses	(18)	(13)
Miscellaneous non-operating income	42	21
	(269)	**(294)**

The net exchange loss pertaining to non-operating activities also reflects hedging costs of €38 million (1999: €19 million).

Miscellaneous non-operating income includes €18 million (1999: €9 million) in gains from the sale of marketable securities.

The 1999 figures are restated to reflect the reclassification of lease interest as interest expense.

[10] Income taxes

This item comprises the income taxes paid or accrued in the individual countries, plus deferred taxes. Deferred taxes arise from temporary differences between the carrying amounts of assets or liabilities in the accounting and tax balance sheets, from consolidation measures and from realizable loss carryforwards. Deferred taxes are calculated at the rates which – on the basis of the statutory regulations in force, or already enacted in relation to future periods, as of the closing date – are expected to apply in the individual countries at the time of realization.

The breakdown of income taxes by origin is as follows:

€ million	2000	1999
Income taxes paid or accrued		
– Germany	442	71
– Other countries	321	429
	763	**500**
Deferred taxes		
– from temporary differences	383	305
– from loss carryforwards	2	13
	385	**318**
	1,148	**818**

Changes in tax rates diminished deferred tax expense for 2000 by €21 million; in 1999, such changes increased it by €41 million.

The deferred taxes are allocable to the various balance sheet items as follows:

€ million	Dec. 31, 2000 Deferred tax assets	Dec. 31, 2000 Deferred tax liabilities	Dec. 31, 1999 Deferred tax assets	Dec. 31, 1999 Deferred tax liabilities
Intangible assets	87	72	101	28
Property, plant and equipment	68	1,745	18	1,409
Investments	2	79	10	40
Inventories	298	86	266	92
Receivables	116	51	76	28
Other current assets	51	132	14	74
Pension provisions	327	202	265	131
Other provisions	144	46	210	26
Other liabilities	163	40	150	32
Loss carryforwards	15	–	–	–
Changes in companies consolidated	**1,271**	**2,453**	**1,110**	**1,860**
Set-off*	(858)	(858)	(703)	(703)
	413	**1,595**	**407**	**1,157**

* According to IAS 12 (Income Taxes), deferred tax assets and deferred tax liabilities should, under certain conditions, be offset if they relate to income taxes levied by the same taxation authority.

Changes in companies consolidated in 2000 account for €122 million in deferred tax assets and €167 million in deferred tax liabilities.

Utilization of tax loss carryforwards from previous years diminished the amount of income taxes paid or accrued in 2000 by €7 million (1999: €9 million) and increased deferred tax expense by €2 million (1999: €13 million). The potential tax savings relating to tax loss carryforwards are only recognized as deferred tax income if it is sufficiently certain that this income will be realized. Tax loss carryforwards of €204 million (1999: €181 million) remained unutilized.

The actual income tax expense of €1,148 million for 2000 is €31 million less than the €1,179 million that would result from applying to the pre-tax income of the Group a tax rate of 39.5 percent (1999: 42.7 percent), which is the weighted average of the theoretical tax rates for the individual Group companies.

The reconciliation of theoretical to actual income tax expense for the Group is as follows:

	2000		1999	
	€ million	%	€ million	%
Theoretical income tax expense	1,179	100	1,212	100
Lower taxes due to tax-free income	(151)	(13)	(434)	(36)
Higher taxes due to non-tax-deductible expenses	93	8	90	7
Other tax effects	27	2	(50)	(4)
Actual income tax expense	**1,148**	**97**	**818**	**67**
Effective tax rate in %	38.4		28.8	

The income tax expense for 2000 does not include any prior-period items. The 1999 figure includes €1 million in prior-period income.

[11] Other taxes

Other taxes amounting to €229 million (1999: €189 million) are included in the cost of goods sold, selling expenses, research and development expenses or general administration expenses. These are mainly property-related taxes.

[12] Minority stockholders' interest

Minority interest in income amounts to €29 million (1999: €16 million), and minority interest in losses to €3 million (1999: €0 million), yielding net minority interest of €26 million (1999: €16 million) in Group income after taxes.

[13] Earnings per share

Earnings per share are determined according to IAS 33 (Earnings Per Share) by dividing the net income by the average number of shares.

In 2000, as in 1999, the number of shares remained constant at 730,341,920. Earnings per share were €2.49 (1999: €2.74).

There were no subscription rights outstanding in 2000 or 1999, and therefore no dilutive potential shares.

[14] Cost of materials

The total cost of materials for continuing operations amounted to €10,559 million (1999: €7,466 million), comprising €9,866 million (1999: €6,896 million) in expenses for raw materials, supplies and goods purchased for resale, and €693 million (1999: €570 million) in expenses for purchased services.

The cost of materials for the discontinuing operations was €649 million (1999: €1,676 million). While Erdölchemie incurred costs of €545 million (1999: €371 million) entirely for raw materials and supplies, DyStar accounted for €104 million (1999: €125 million), including €1 million (1999: €1 million) for purchased services. In 1999, Agfa accounted for €1,180 million, which included €14 million for purchased services.

[15] Personnel expenses

Personnel expenses for continuing operations rose in 2000 by €768 million to €7,585 million. Half of the increase is due to exchange rate fluctuations.

The breakdown of personnel expenses is as follows:

€ million	Continuing Operations 2000	1999	Discontinuing Operations EC 2000	1999	DyStar 2000	1999	Agfa 1999
Wages and salaries	6,052	5,428	55	56	67	64	417
Social expenses	1,533	1,389	15	22	13	12	161
of which pension expenses	*[408]*	*[355]*	*[5]*	*[12]*	*[3]*	*[3]*	*[76]*
	7,585	**6,817**	**70**	**78**	**80**	**76**	**578**

[16] Number of employees

The average number of employees in continuing operations, classified by corporate functions, was as follows:

	2000	1999
Marketing	34,560	34,682
Technology	62,718	62,440
Research	11,603	12,080
Administration	10,051	9,954
	118,932	**119,156**
of which trainees	2,771	2,629

The employees of joint ventures are included in the above figures in proportion to Bayer's interests in the respective companies. The total number of people employed by our joint ventures in 2000 was 1,103 (1999: 1,121).

The figures in the above table do not include people employed in discontinuing operations. In 2000, DyStar employed on average 3,788 people (1999: 3,216), while Erdölchemie employed on average 2,131 people (1999: 2,247).

Notes to the Balance Sheets

[17] Intangible assets

Acquired intangible assets other than goodwill are recognized at cost and amortized over a period of 4 to 15 years, depending on their estimated useful lives. Write-downs are made for any declines in value that are expected to be permanent. Assets are written back if the reasons for previous years' write-downs no longer apply.

Goodwill, including that resulting from capital consolidation, is capitalized in accordance with IAS 22 and amortized on a straight-line basis over a maximum estimated useful life of 20 years. The value of goodwill is reassessed regularly and written down if necessary.

Self-created intangible assets are not capitalized.

Changes in intangible assets in 2000 were as follows:

€ million	Acquired concessions, industrial property rights, similar rights and assets, and licenses thereunder	Acquired goodwill	Advance payments	Total
Gross carrying amounts, Dec. 31, 1999	1,903	944	84	2,931
Exchange differences	126	22	6	154
Changes in companies consolidated	5	36	–	41
Acquisitions	2,268	301	–	2,569
Capital expenditures	293	5	56	354
Retirements	(95)	(28)	–	(123)
Transfers	66	9	(75)	–
Gross carrying amounts, Dec. 31, 2000	**4,566**	**1,289**	**71**	**5,926**
Accumulated amortization and write-downs, Dec. 31, 1999	479	239	–	718
Exchange differences	39	5	–	44
Changes in companies consolidated	1	(3)	–	(2)
Amortization and write-downs in 2000	345	99	–	444
• *of which write-downs*	[–]	[1]	[–]	[1]
Write-backs	(1)	(1)	–	(2)
Retirements	(91)	(28)	–	(119)
Transfers	–	–	–	–
Accumulated amortization and write-downs, Dec. 31, 2000	**772**	**311**	**–**	**1,083**
Net carrying amounts, Dec. 31, 2000	**3,794**	**978**	**71**	**4,843**
Net carrying amounts, Dec. 31, 1999	1,424	705	84	2,213

The exchange differences are the differences between the carrying amounts at the beginning and the end of the year that result from translating foreign companies' figures at the respective different exchange rates and changes in their assets during the year at the average rate for the year.

[18] Property, plant and equipment

Property, plant and equipment is carried at the cost of acquisition or construction. Assets subject to depletion are depreciated over their estimated useful lives. Write-downs are made for any declines in value that are expected to be permanent, aside from those reflected in depreciation. Assets are written back if the reasons for previous years' write-downs no longer apply.

The cost of construction of self-constructed property, plant and equipment comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads, and an appropriate share of the depreciation and write-downs of assets used in construction. It includes the shares of expenses for company pension plans and discretionary employee benefits that are attributable to construction.

If the construction phase of property, plant or equipment extends over a long period, the interest incurred on borrowed capital up to the date of completion is capitalized as part of the cost of acquisition or construction.

Expenses for the repair of property, plant and equipment are normally charged against income, but they are capitalized if they result in an enlargement or substantial improvement of the respective assets.

Property, plant and equipment is depreciated by the straight-line method, except where the declining-balance method is more appropriate in light of the actual utilization period.

The following depreciation periods, based on the estimated useful lives of the respective assets, are applied throughout the Group:

Buildings	20 to 50 years
Outdoor infrastructure	10 to 20 years
Plant installations	6 to 20 years
Machinery and apparatus	6 to 12 years
Laboratory and research facilities	3 to 5 years
Storage tanks and pipelines	10 to 20 years
Vehicles	4 to 8 years
Computer equipment	3 to 5 years
Furniture and fixtures	4 to 10 years

In accordance with IAS 17 (Leases), assets leased on terms equivalent to financing a purchase by a long-term loan (finance leases) are capitalized at the lower of their fair value or the present value of the minimum lease payments. The leased assets are depreciated over their estimated useful life except where subsequent transfer of title is uncertain, in which case they are depreciated over their estimated useful life or the respective lease term, whichever is shorter. The future lease payments are recorded as financial obligations.

Changes in property, plant and equipment in 2000 were as follows:

€ million	Land and buildings	Machinery and technical equipment	Furniture, fixtures and other equipment	Construction in progress and advance payments to vendors and contractors	Total
Gross carrying amounts, Dec. 31, 1999	7,529	17,860	2,360	1,458	29,207
Exchange differences	129	399	28	49	605
Changes in companies consolidated	(32)	98	1	–	67
Acquisitions	57	207	10	317	591
Capital expenditures	115	522	295	1,361	2,293
Retirements	(142)	(589)	(276)	(17)	(1,024)
Transfers	322	1,489	95	(1,906)	–
Gross carrying amounts, Dec. 31, 2000	**7,978**	**19,986**	**2,513**	**1,262**	**31,739**
Accumulated depreciation and write-downs, Dec. 31, 1999	3,867	11,742	1,605	7	17,221
Exchange differences	42	122	17	–	181
Changes in companies consolidated	(18)	77	1	–	60
Depreciation and write-downs in 2000	238	1,174	283	–	1,695
• *of which write-downs*	*[5]*	*[11]*	*[–]*	*[–]*	*[16]*
Write-backs	–	(2)	–	–	(2)
Retirements	(37)	(530)	(194)	–	(761)
Transfers	–	–	–	–	–
Accumulated depreciation and write-downs, Dec. 31, 2000	**4,092**	**12,583**	**1,712**	**7**	**18,394**
Net carrying amounts, Dec. 31, 2000	**3,886**	**7,403**	**801**	**1,255**	**13,345**
Net carrying amounts, Dec. 31, 1999	3,622	6,118	755	1,451	11,986

The exchange differences are as defined for intangible assets.

Capitalized property, plant and equipment includes assets with a total net value of €199 million (1999: €188 million) held under finance leases. The gross carrying amounts of these assets total €277 million (1999: €245 million). These assets are mainly furniture and fixtures where the present value of the minimum lease payments covers substantially all of the cost of acquisition, or buildings where title passes to the lessee on expiration of the lease.

Also included are products leased to other parties, except where the lessee is to be regarded as the economic owner and the relevant agreements therefore constitute finance leases as defined in IAS 17 (Leases); in this case a receivable is recognized in the balance sheet in the amount of the discounted future lease payments.

[19] Investments

Investments in non-consolidated subsidiaries, other affiliated companies and other securities are carried individually at cost. Write-downs are made for any declines in value that are expected to be permanent. Investments are written back if the reasons for previous years' write-downs no longer apply.

The cost of acquisition of investments in companies included at equity is adjusted annually in line with any changes in these companies' total stockholders' equity.

In the first-time consolidation, differences between the cost of acquisition and the underlying equities at the dates of acquisition of the investments are allocated to assets or liabilities by the same method applied to fully consolidated subsidiaries.

Loans receivable that are interest-free or bear low rates of interest are carried at present value; other loans receivable are carried at nominal value.

Changes in investments in 2000 were as follows:

€ million	Investments in subsidiaries	Loans to subsidiaries	Investments in other affiliated companies: Associated companies	Investments in other affiliated companies: Other companies	Loans to other affiliated companies	Other securities	Other loans	Total
Gross carrying amounts, Dec. 31, 1999	186	7	820	147	10	121	239	1,530
Exchange differences	5	–	(1)	2	(1)	6	(2)	9
Changes in companies consolidated	(47)	(3)	(39)	(10)	–	1	(10)	(108)
Acquisitions	69	2	563	5	–	–	–	639
Other additions	21	–	147	13	5	35	51	272
Retirements	(2)	(3)	(21)	–	–	(13)	(35)	(74)
Transfers	–	–	–	–	–	–	–	–
Gross carrying amounts, Dec. 31, 2000	**232**	**3**	**1,469**	**157**	**14**	**150**	**243**	**2,268**
Accumulated write-downs, Dec. 31, 1999	22	–	77	–	–	1	15	115
Exchange differences	–	–	–	–	–	–	–	–
Changes in companies consolidated	(8)	–	2	–	–	–	–	(6)
Write-downs in 2000	–	–	4	–	–	–	3	7
Write-backs	–	–	–	–	–	–	(3)	(3)
Retirements	–	–	–	–	–	–	(1)	(1)
Transfers	–	–	–	–	–	–	–	–
Accumulated write-downs, Dec. 31, 2000	**14**	**–**	**83**	**–**	**–**	**1**	**14**	**112**
Net carrying amounts, Dec. 31, 2000	**218**	**3**	**1,386**	**157**	**14**	**149**	**229**	**2,156**
Net carrying amounts, Dec. 31, 1999	164	7	743	147	10	120	224	1,415

The exchange differences are as defined for intangible assets.

The investments in associated companies comprise mainly the 30 percent interest in Agfa-Gevaert N.V., Belgium. The additions to investments in associated companies relate mainly to the joint venture with Lyondell. The fair value of other securities included in investments exceeds their carrying amount by €4 million (1999: €7 million).

[20] Inventories

Raw materials, supplies, and goods purchased for resale are valued at the cost of acquisition; work in process and finished goods are valued at the cost of production. If the inventory values are lower at the closing date because of a drop in market prices, for example, the lower amounts are shown. Of the €6,095 million in inventories carried as of December 31, 2000, €431 million represents those included at their net realizable value.

Inventories are normally valued by the weighted-average method.

The cost of production comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads, and an appropriate share of the depreciation and write-downs of assets used for production.

It also includes the shares of expenses for company pension plans and discretionary employee benefits that are attributable to production. Administrative costs are included where they are attributable to production.

Work in process and finished goods are grouped together in light of the production sequences characteristic of the chemical industry.

Inventories are comprised as follows:

€ million	Dec. 31, 2000	Dec. 31, 1999
Raw materials and supplies	1,041	978
Work in process, finished goods and goods purchased for resale	5,046	4,006
Advance payments	8	8
	6,095	**4,992**

[21] Trade accounts receivable

Trade accounts receivable are stated at nominal value, less write-downs of €204 million (1999: €173 million) for amounts unlikely to be recovered.

Trade accounts receivable as of December 31, 2000 include €6,235 million (1999: €5,325 million) maturing within one year and €8 million (1999: €8 million) maturing after one year. Of the total, €11 million (1999: €25 million) is receivable from subsidiaries, €87 million (1999: €77 million) from other affiliated companies and €6,146 million (1999: €5,231 million) from other customers.

[22] Other receivables and other assets

Other receivables and other assets are stated at nominal value, less any necessary write-downs for amounts unlikely to be recovered. As of December 31, 2000 they include, among other items, claims for tax refunds (€662 million), short-term loans receivable (€87 million) and accrued interest on loans receivable (€23 million).

Lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets (finance leases) give rise to accounts receivable in the amount of the discounted future lease payments. These receivables amount to €96 million, while the interest portion pertaining to future years amounts to €23 million. The lease payments are due as follows:

€ million	Lease payments	Of which interest	Account receivable
2001	25	4	21
2002 to 2005	59	11	48
After 2005	35	8	27
	119	**23**	**96**

Total other receivables and other assets include €149 million (1999: €85 million) pertaining to subsidiaries and €44 million (1999: €50 million) pertaining to other affiliated companies.

Total other receivables and other assets in the amount of €442 million (1999: €297 million) mature in more than one year; of this amount, €31 million (1999: €32 million) pertains to subsidiaries.

The main item of other assets is €23 million (1999: €34 million) in accrued interest, representing income earned in the fiscal year but not due to be received until after the closing date.

[23] Liquid assets

€ million	Dec. 31, 2000	Dec. 31, 1999
Marketable securities and other instruments	213	328
Cash and cash equivalents	491	2,812
	704	**3,140**

Marketable securities are shown at the lower of cost of acquisition or fair value as of the closing date. The fair values of marketable securities and other instruments as of December 31, 2000 amount to €247 million (1999: €376 million).

[24] Deferred taxes

Deferred taxes result primarily from temporary differences between the accounting and tax balance sheets of individual consolidated companies with regard to the recognition and/or valuation of certain items. They may also result from consolidation measures. The deferred taxes are computed according to IAS 12 (Income Taxes). Deferred taxes are comprised as follows:

€ million	Dec. 31, 2000	Dec. 31, 1999
Deferred tax assets	413	407
• of which from consolidation measures	[251]	[237]
Deferred tax liabilities	1,595	1,157

[25] Deferred charges

Deferred charges as of December 31, 2000 include unamortized debt discounts of €17 million (1999: €22 million). The debt discounts are amortized annually over the lives of the underlying liabilities.

Total deferred charges include €179 million that is expected to be used up in 2001.

[26] Stockholders' equity

The capital stock of Bayer AG amounts to €1,870 million and is divided into 730,341,920 no-par bearer shares of a single class.

Authorized capital totaling €256 million was approved by the Annual Stockholders' Meeting on April 30, 1997. It expires on April 30, 2002. The authorized capital can be used to increase the capital stock through the issuance of new shares against cash contributions.

Conditional capital of €83 million existed at December 31, 2000. This capital may only be utilized to the extent necessary to issue the requisite number of shares as and when conversion or subscription rights are exercised by the holders of convertible bonds or of warrants conferring subscription rights, respectively, that may be issued by Bayer AG or a wholly owned direct or indirect subsidiary through April 29, 2004.

Capital reserves include the paid-in surplus from the issuance of shares and subscription rights by Bayer AG.

The retained earnings contain prior years' undistributed income of companies included in the consolidation.

Minority interest mainly comprises third parties' shares in the equity of the consolidated subsidiaries Bayer Yakuhin Ltd., Japan; Sumitomo Bayer Urethane Co., Ltd., Japan; the Makroform GmbH group; Bayer (India) Ltd.; and Bayer ABS Ltd., India.

The changes in the various components of stockholders' equity during 2000 and 1999 are shown in the statements of changes in stockholders' equity.

[27] Provisions for pensions and other post-employment benefits

Group companies provide retirement benefits for most of their employees, either directly or by contributing to independently administered funds.

The way these benefits are provided varies according to the legal, fiscal and economic conditions of each country, the benefits generally being based on the employees' remuneration and years of service. The obligations relate both to existing retirees' pensions and to pension entitlements of future retirees.

Group companies provide retirement benefits under defined contribution and/or defined benefit plans.

In the case of **defined contribution plans**, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the company has no further payment obligations. The regular contributions constitute expenses for the year in which they are due and as such are included in the cost of goods sold, selling expenses, research and development expenses or general administration expenses, and thus in the operating result. In 2000, these expenses totaled €419 million (1999: €399 million). A further €18 million in contributions was paid with respect to discontinuing operations, principally Erdölchemie (1999: €92 million including Agfa-Gevaert).

All other retirement benefit systems are defined benefit plans, which may be either unfunded, i.e. financed by provisions (accruals), or funded, i.e. financed through pension funds. In 2000, expenses for defined benefit plans for continuing operations amounted to €323 million (1999: €350 million). These expenses – except for the interest portion – are generally included in the cost of goods sold, selling expenses, research and development expenses or general administration expenses. They are comprised as follows:

€ million	Pension plans in Germany		Pension plans in other countries		Discontinuing operations	
	2000	1999	2000	1999	2000	1999
Expenses for pension entitlements earned during the year	123	125	137	126	3	8
Expenses for pension entitlements earned in prior years	–	6	12	15	–	–
Interest portion of pension entitlements earned in prior years	457	412	155	139	9	34
Return on plan assets	(349)	(312)	(207)	(173)	(9)	(27)
Amortization of actuarial gains/losses	(8)	20	3	(8)	–	26
	223	**251**	**100**	**99**	**3**	**41**

The pension provisions for defined benefit plans are calculated in accordance with IAS 19 (Employee Benefits – revised 1998) by the projected unit credit method. The future benefit obligations are valued by actuarial methods on the basis of a prudent assessment of the relevant parameters. Benefits expected to be payable after retirement are spread over each employee’s entire period of employment, allowing for future changes in remuneration.

All defined benefit plans necessitate actuarial computations and valuations. These are based not only on life expectancy but also on the following parameters, which vary from country to country according to economic conditions:

	Parameters for Germany		Parameters for other countries	
	Dec. 31, 2000	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 1999
Discount rate	6.5 %	6.5 %	3.0 to 7.3 %	3.0 to 7.3 %
Projected future remuneration increases	3.0 %	3.0 %	1.0 to 7.0 %	1.0 to 5.4 %
Projected future pension increases	2.0 %	2.0 %	1.0 to 4.5 %	1.0 to 5.4 %
Projected employee turnover (according to age and gender)	2.0 %	2.0 %	empirical data	
Projected return on plan assets (where applicable)	6.5 %	6.5 %	3.0 to 8.5 %	3.0 to 19.0 %

In Germany, the status of unfunded and funded defined benefit obligations, computed using the appropriate parameters, is as follows:

€ million	2000	1999
Present value of defined benefit obligation (unfunded)	3,801	3,722
Present value of defined benefit obligation (funded)	3,794	3,727
Defined benefit obligation	**7,595**	**7,449**
Fair value of included plan assets	4,379	4,330
Adjustment for unrecognized actuarial gains/losses	(69)	88
Net recognized liability	**3,147**	**3,207**

The adjustments, as yet unrecognized in the income statement, represent the difference between the defined benefit obligation – after deducting the fair value of plan assets – and the net liability recognized in the balance sheet. They arise mainly from actuarial gains or losses caused by differences between actual and previously assumed trends in employee turnover and remuneration. In accordance with IAS 19 (Employee Benefits), these amounts are reflected in the balance sheet and will be recognized in the income statement over the expected remaining working lives of existing employees (currently 15 years in Germany).

The net liability under these defined benefit plans changed as follows:

€ million	2000	1999
Net liability recognized at beginning of year	3,207	3,623
Service cost	226	292
Pension payments	(263)	(257)
Agfa divestiture	–	(458)
Changes in companies consolidated	(23)	7
Net liability recognized at end of year	**3,147**	**3,207**

The capital of pension funds is invested worldwide in real estate, stocks and fixed-income securities. The funded retirement benefit obligations of the foreign affiliated companies are as follows:

€ million	Plans with assets in excess of obligation		Plans with obligation in excess of assets	
	2000	1999	2000	1999
Defined benefit obligation	3,029	3,965	415	383
Fair value of plan assets	3,425	4,691	350	292
Excess	**396**	**726**	**(65)**	**(91)**

Funds and benefit obligations are valued on a regular basis at least every three years. For all major funds, comprehensive actuarial valuations are performed annually.

Provisions are also set up under this item for the obligations of Group companies, particularly in the United States, to provide health care and certain other benefits (“other post-retirement benefits”) to their retirees, since these obligations are similar in character to pension obligations. Like pension obligations, they are valued in line with international standards; the valuation is based on the assumption that health care costs will increase at an annual rate of 5 percent in the long term. In 2000 such obligations amounted to €349 million (1999: €258 million). The resulting expenses for 2000 amounted to €34 million, comprising €25 million in expenses for entitlements earned during 2000, €1 million in expenses for entitlements earned in prior years, €37 million in interest cost, €28 million in return on plan assets and €1 million in actuarial gains.

Other post-employment benefits covered by provisions also include severance payments and early retirement benefits. These benefit obligations are determined using actuarial methods on the basis of local discount rates.

[28] Other provisions

Other provisions are valued in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) using the best estimate of the extent of the obligation. Interest-bearing provisions are discounted to present value.

€ million	Dec. 31, 2000		Dec. 31, 1999	
	Total	Maturing in 2001	Total	Maturing in 2000
Provisions for taxes	537	370	493	254
Provisions for personnel commitments	1,044	555	947	456
Provisions for environmental protection	230	12	246	32
Provisions for trade-related commitments	411	397	254	254
Miscellaneous provisions	687	367	596	348
	2,909	**1,701**	**2,536**	**1,344**

Personnel commitments mainly include annual bonus payments, long service awards and other personnel costs. The miscellaneous provisions include €131 million for restructuring.

Provisions for environmental protection relate to future relandscaping, landfill modernization and the remediation of land contaminated by past industrial operations. Sufficient provisions have been established for such commitments.

Changes in provisions were as follows:

€ million	Jan. 1, 2000	Changes in companies consolidated	Currency effects	Allocation	Utilization	Reversal	Dec. 31, 2000
Provisions for taxes	493	2	5	738	(688)	(13)	537
Provisions for personnel commitments	947	11	12	579	(480)	(25)	1,044
Provisions for environmental protection	246	10	5	51	(78)	(4)	230
Provisions for trade-related commitments	254	1	8	564	(400)	(16)	411
Miscellaneous provisions	596	10	15	558	(461)	(31)	687
	2,536	**34**	**45**	**2,490**	**(2,107)**	**(89)**	**2,909**

[29] Financial obligations

Financial obligations are carried at nominal or redemption value, whichever is higher. They comprise the following:

€ million	Dec. 31, 2000		Dec. 31, 1999	
	Total	Maturing in 2001	Total	Maturing in 2000
Debentures	2,168	283	1,809	10
Liabilities to banks	1,458	932	1,959	1,658
Liabilities under lease agreements	199	34	181	23
Liabilities from the issuance of promissory notes	2	2	1	1
Commercial paper	1,812	1,812	314	314
Other financial obligations	1,026	799	202	101
	6,665	**3,862**	**4,466**	**2,107**

The financial obligations are predominantly in U.S. dollars, which account for €4.0 billion (1999: €2.5 billion). U.S. dollar borrowings represent 61 percent (1999: 55 percent) of total financial obligations.

Debentures include the following:

		Volume	€ million
Bayer Capital Corporation B.V.			
2.50 %	Bonds with Warrants Attached 1987/2002	CHF 250 million	164
Bayer Corporation			
6.50 %	Notes 1995/2002	USD 400 million	430
7.125 %	Notes 1995/2015	USD 200 million	215
6.75 %	Notes 1996/2001	USD 250 million	269
6.56 %	Bonds 1997/2002	CHF 200 million	131
3.50 %	Revenue Bonds 1997/2009	USD 20.6 million	22
4.00 %	Revenue Bonds 1997/2027	USD 25 million	27
6.65 %	Notes 1998/2028	USD 350 million	376
6.20 %	Bonds 1998/2028	USD 250 million	269
Bayer Ltd., Japan			
3.75 %	Bonds 2000/2005	CHF 400 million	239
Other debentures			26
			2,168

The other debentures are due between 2000 and 2011; their average interest rate is 10.9 percent.

Liabilities under finance leases are recognized as financial obligations if the leased assets are capitalized under property, plant and equipment. They are stated at present values. Lease payments totaling €285 million (1999: €277 million), including €86 million (1999: €96 million) in interest, are to be made to the respective lessors in future years. The liabilities mature as follows:

€ million	Lease payments	Of which interest	Liability
2001	44	10	34
2002 to 2005	100	38	62
after 2005	141	38	103
	285	**86**	**199**

The other financial obligations include €42 million (1999: €43 million) to non-consolidated subsidiaries.

[30] Trade accounts payable

Trade accounts are payable mainly to third parties; they are carried at nominal or redemption value, whichever is higher.

Trade accounts payable as of December 31, 2000 include €2,013 million (1999: €1,556 million) maturing within one year and €3 million (1999: €0 million) maturing after one year. Of the total, €8 million (1999: €6 million) is payable to subsidiaries, €16 million (1999: €12 million) to other affiliated companies and €1,992 million (1999: €1,538 million) to other suppliers.

[31] Miscellaneous liabilities

Miscellaneous liabilities are carried at nominal or redemption value, whichever is higher. The individual items are as follows:

€ million	Dec. 31, 2000 Total	Dec. 31, 2000 Maturing in 2001	Dec. 31, 1999 Total	Dec. 31, 1999 Maturing in 2000
Payroll liabilities	537	422	526	419
Tax liabilities	291	289	209	206
Liabilities for social expenses	114	114	126	125
Accrued interest on liabilities	73	46	79	54
Advance payments received	24	24	28	28
Liabilities from the acceptance of drafts	14	14	10	10
License liabilities	32	32	26	26
Other miscellaneous liabilities	1,385	1,333	1,029	933
	2,470	**2,274**	**2,033**	**1,801**

Tax liabilities include not only Group companies' own tax liabilities, but also taxes withheld for paying over to the authorities on behalf of third parties.

Liabilities for social expenses include, in particular, social insurance contributions that had not been paid over by the closing date.

The other miscellaneous liabilities comprise mainly guarantees, commissions to customers, and expense reimbursements.

The total of miscellaneous liabilities includes €76 million (1999: €67 million) to non-consolidated subsidiaries and €12 million (1999: €16 million) to other affiliated companies.

[32] Further information on other liabilities

Other liabilities (financial obligations, trade accounts payable and miscellaneous liabilities) include €1,636 million (1999: €1,071 million) maturing in more than five years.

The amount secured – mainly by mortgages – is €283 million (1999: €43 million).

Included is €123 million (1999: €85 million) in accrued interest, representing expenses attributable to the fiscal year but not due to be paid until after the closing date.

[33] Deferred income

In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), grants and subsidies that serve to promote investment are reflected in the balance sheet as deferred income. The amounts are gradually reversed during the useful lives of the respective assets and recognized in income.

The main component of deferred income as of December 31, 2000 comprises €113 million (1999: €125 million) in such grants and subsidies received from governments; the amount reversed and recognized in income in 2000 was €13 million.

[34] Discontinuing operations

Assets and liabilities include the following amounts pertaining to the discontinuing operations of Erdölchemie and DyStar:

€ million	Erdölchemie		DyStar		Total	
	Dec. 31, 2000	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 1999
Noncurrent assets	200	121	89	91	289	212
Current assets (excluding liquid assets)	199	141	320	278	519	419
Liquid assets	–	–	11	10	11	10
Assets	**399**	**262**	**420**	**379**	**819**	**641**
Pension provisions	59	60	16	17	75	77
Other provisions	39	41	28	23	67	64
Financial obligations	5	6	76	122	81	128
Remaining liabilities	59	57	122	36	181	93
Liabilities	**162**	**164**	**242**	**198**	**404**	**362**

[35] Contingent liabilities

Contingent liabilities as of December 31, 2000 – almost all of which exist toward third parties – amounted to €215 million. They result from:

€ million	Dec. 31, 2000	Dec. 31, 1999
Issuance and endorsement of bills	23	21
Guarantees	44	30
Warranties	148	161
	215	**212**

[36] Other financial commitments

In addition to provisions, other liabilities and contingent liabilities, there are other financial commitments resulting primarily from long-term lease and rental agreements.

Minimum non-discounted future lease payments total €883 million (1999: €851 million). These commitments also include agreements under which Group companies, as lessees, are to be regarded as the economic owners of the assets, which are therefore capitalized in the balance sheet (finance leases); such leases result in future commitments of €285 million (1999: €302 million). The commitments under lease and rental agreements mature as follows:

€ million	
2001	233
2002	152
2003	109
2004	81
2005	74
after 2005	234
	883

Financial commitments resulting from orders already placed under purchase agreements related to planned or ongoing capital expenditure projects total €446 million (1999: €391 million); the payments concerned are due almost entirely in 2001.

A total of €349 million will be payable in the coming years under the terms of several research collaboration agreements. Further financial commitments result from possible future acceptances of part-time work arrangements offered to older employees under collective agreements.

In 2000, stock incentives for management were introduced for the first time, with different programs for different employee groups. All participants have the opportunity to receive free Bayer AG shares over a ten-year period depending on their initial personal investment in the stock, which must be retained for a certain time. The allocation of free shares to top managers also depends on internal and external performance criteria that determine whether and to what extent stock options can be exercised. Each tranche runs for five years, with a three-year retention period and two-year exercise period.

Since it is currently uncertain whether the internal and external criteria will be met, the extent of the obligation cannot be estimated with sufficient accuracy. In compliance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), provisions for these commitments are therefore not established.

[37] Financial instruments

Financial instruments entail contractual claims on financial assets. Under IAS 32 (Financial Instruments: Disclosure and Presentation), financial instruments include both primary instruments, such as trade accounts receivable and payable, investments, and financial obligations; and derivative financial instruments, which are used to hedge risks arising from changes in currency exchange and interest rates.

Primary financial instruments

Primary financial instruments are reflected in the balance sheet. Those on the asset side are recognized at nominal value less any necessary write-downs; financial instruments constituting liabilities are carried at nominal or redemption value, whichever is higher.

Fair value

The fair value of a primary financial instrument is the price at which it could be exchanged in a current transaction between knowledgeable, willing parties in an active market. The fair values of other securities included in investments (€153 million) and marketable securities (€247 million) are derived from their market prices. Financial obligations are valued mainly on the basis of quoted prices, or in some cases by discounting future cash flows. Their total fair value is €156 million less than their carrying value. The remaining receivables and liabilities and the liquid assets have such short terms that there is no significant discrepancy between their fair and carrying values.

Credit risk

Credit risk arises from the possibility of asset impairment occurring because counterparties cannot meet their obligations in transactions involving financial instruments.

Since we do not conclude master netting arrangements with our customers, the total of the amounts recognized in assets represents the maximum exposure to credit risk.

Currency risk
Currency risk is the potential decline in the value of financial instruments due to exchange rate fluctuations. Exposure to currency risk arises mainly when receivables and payables are denominated in a currency other than the company's local currency or will be denominated in such a currency in the planned course of business.

Such risks may be naturally hedged, as when a receivable in a given currency is matched, for example between Group companies, by one or more payables in the same amount, and having an equivalent term, in the same currency. They may also be hedged using derivative financial instruments.

All currency risks arising on financial transactions, including interest, are generally fully hedged. The instruments used are mainly currency swaps, interest and principal currency swaps and forward exchange contracts. Currency risks relating to operating activities are systematically monitored and analyzed. The level of hedging is regularly reviewed. At the end of 2000, the situation was as follows:

€ million	Dec. 31, 2000	Dec. 31, 1999
Primary asset instruments exposed to currency risk	2,813	2,774
Primary liability instruments exposed to currency risk	2,159	913
Amount naturally hedged	(1,102)	(784)
Amount hedged through derivative financial instruments	(2,205)	(2,220)
Residual unhedged currency exposure	**1,665**	**683**

As of 2000, some anticipated or pending transactions have also been hedged to reduce the otherwise substantial exposure. At December 31, 2000 the total notional amount of the contracts concerned – mainly forward exchange contracts for the sale of U.S. dollars or Japanese yen and all maturing before December 31, 2001 – was €1,299 million, which is not included in the hedged amount of €2.2 billion. The €95 million positive fair value of these contracts is not recognized in income.

On the asset side, 60 percent of currency risks relate to the U.S. dollar and 8 percent to the Japanese yen. On the liabilities side, 51 percent of foreign currency risks relate to the U.S. dollar, while only 3 percent now relate to DM/euro risks of subsidiaries domiciled outside the euro zone; the remaining exposure involves liabilities in British pounds (4 percent) and a number of other currencies outside the dollar and euro zones. The U.S. dollar accounts for 70 percent of the asset volume hedged through derivative financial instruments, while the yen accounts for 15 percent. Of the hedged liabilities, 73 percent are in U.S. dollars, 3 percent in yen and 24 percent in other currencies. The need for hedging within the euro zone ceased at the beginning of 1999 due to the permanent fixing of exchange rates.

The other securities included in investments are almost exclusively denominated in the currency used by the Group company making the investment, so no currency risk is involved. Similarly, the other loans are made only to borrowers in the same currency zone. Where intragroup loans exposed to currency risk have no natural hedge, they are hedged through derivative financial instruments.

Interest rate risk

An interest rate risk – the possibility that the value of a financial instrument will change due to movements in market rates of interest – applies mainly to receivables and payables with maturities of over one year.

Items with such long maturities are not of material significance on the operating side but are relevant in the case of investments and financial commitments. Here, derivative financial instruments are used as the main method of interest rate hedging, though in some cases interest rate risk is not hedged if attractive fixed interest rates can be obtained.

The other securities included in investments are mostly floating rate investments at market rates of interest. Interest rate swaps are not used to convert floating rate investments into fixed rate investments.

The other loans chiefly comprise loans to employees, generally at market-oriented, fixed interest rates. Such loans are exposed to an interest rate risk which, however, is not hedged since it was entered into for specific reasons. More than three-quarters of employee loans are for terms of more than five years.

Derivative financial instruments

The derivatives we use are mainly over-the-counter instruments, particularly forward exchange contracts, option contracts, interest rate swaps, and interest and principal currency swaps. We deal only with banks of high credit standing. The instruments are employed according to uniform guidelines and are subject to strict internal controls. Their use is confined to the hedging of the operating business and of the related investments and financing transactions.

Market risk

Market risk arises from the fact that the value of financial instruments may be positively or negatively affected by fluctuating prices on the financial markets. The fair values quoted are the current values of the derivative financial instruments, disregarding any opposite movements in the values of the respective hedged transactions. The fair value is the repurchase value of the derivatives on the closing date, based on quoted prices or determined by standard methods. The notional amount is the total value of the hedged purchase and sale transactions.

The notional amounts and fair values of the derivative financial instruments held at the closing date were as follows:

€ million	Notional amount		Fair value	
	Dec. 31, 2000	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 1999
Forward exchange contracts	3,219	2,172	145	(90)
Currency options	87	62	1	(1)
Currency swaps	196	165	(12)	5
Interest rate hedging contracts (including interest and principal currency swaps)	3,495	2,664	(133)	(49)
	6,997	**5,063**	**1**	**(135)**

Gains and losses from changes in fair values are offset – wherever possible – against corresponding losses and gains from operating activities. Provisions are established for excess losses from operating activities; excess gains are not recognized.

Credit risk

Credit risk exposure is €227 million (1999: €30 million), this amount being the total of the positive fair values of derivatives that give rise to claims against the other parties to the instruments. It represents the losses that could result from non-performance of contractual obligations by these parties. We minimize this risk by imposing a limit on the volume of business in derivative financial instruments transacted with individual parties.

Currency risk

Exchange hedging instruments in the notional amount of €3.3 billion (1999: €2.2 billion) mature within one year, while instruments in the amount of €0.2 billion (1999: €0.2 billion) have longer remaining terms.

Interest rate risk

Short-term interest rate hedging contracts (including interest and principal currency swaps) total €0.3 billion (1999: €1.3 billion); those maturing after more than one year total €3.2 billion (1999: €1.4 billion).

Notes to the Statements of Cash Flows

[38] Net cash provided by operating activities

The cash flow statement starts from the operating result. The gross cash flow of €4.2 billion (1999: €3.2 billion) is the cash surplus from operating activities before any changes in working capital. Breakdowns of the gross cash flow by business segment and by region are given in the table on pages 52-53. The net cash flow of €3.1 billion (1999: €3.2 billion) takes account of changes in working capital.

[39] Net cash provided by (used in) investing activities

Additions to property, plant and equipment and intangible assets resulted in a cash outflow of €2.6 billion in 2000. Cash outflows for acquisitions amounted to €4.2 billion. Sales of property, plant and equipment led to a cash inflow of €0.3 billion, while that from interest and dividend receipts and marketable securities also amounted to €0.3 billion.

[40] Net cash provided by (used in) financing activities

The increase in the Group's net borrowings in 2000 resulted in a net cash inflow of €2.1 billion. Our stockholders received a total dividend payment of €1.0 billion for the 1999 fiscal year. Interest paid in 2000 amounted to €0.3 billion.

[41] Discontinuing operations

Discontinuing operations affected the Group cash flow statements as follows:

€ million	Erdölchemie		DyStar		Agfa	Total	
	2000	1999	2000	1999	1999	2000	1999
Net cash provided by operating activities	38	39	66	35	167	104	241
Net cash provided by (used in) investing activities	(87)	(62)	(65)	(16)	2,756	(152)	2,678
Net cash provided by (used in) financing activities	–	(1)	18	(28)	–	18	(29)
Change in cash and cash equivalents	**(49)**	**(24)**	**19**	**(9)**	**2,923**	**(30)**	**2,890**

[42] Cash and cash equivalents

Cash and cash equivalents as of December 31, 2000 amounted to €0.5 billion (1999: €2.8 billion). The liquid assets of €0.7 billion (1999: €3.1 billion) shown in the balance sheet also include marketable securities and other instruments.

Total remuneration of the Board of Management and the Supervisory Board, advances and loans

The remuneration of the Board of Management for 2000 amounted to €10,387,801. Emoluments to retired members of the Board of Management and their surviving dependents amounted to €8,923,934.

Pension provisions for these individuals, amounting to €58,849,572 are reflected in the balance sheet of Bayer AG.

The remuneration of the Supervisory Board amounted to €2,078,680.

There were no loans to members of the Board of Management or the Supervisory Board outstanding as of December 31, 2000, nor any repayments of such loans during the year.

Leverkusen, February 27, 2001
Bayer Aktiengesellschaft
The Board of Management

Report of the Supervisory Board

Dear Stockholders!

During 2000 the Supervisory Board monitored the conduct of the company's business and acted in an advisory capacity. We performed these functions on the basis of detailed reports from the Board of Management received at our meetings. In addition, the Chairman of the Supervisory Board and the Chairman of the Board of Management maintained a constant exchange of information and ideas. In this way the Supervisory Board was kept continuously informed about:

- the company's business strategy;
- corporate planning, including financial, investment and human resources planning;
- the company's earnings performance; and
- the general state of the business.

The documents relating to Board of Management decisions or actions requiring the approval of the Supervisory Board were inspected by the Supervisory Board at its plenary meetings, sometimes after preparatory work by its committees. In certain cases the Supervisory Board gave its approval on the basis of documents circulated to its members.

We discussed at length the business trends described in the reports from the Board of Management and the prospects for the development of the Bayer Group, the individual business groups and the principal affiliated companies in Germany and abroad. Figuring prominently in these discussions were the company's investment and research strategies and the resulting actions of the business groups, and we paid special attention to the expansion of the research platform for the Pharmaceuticals and Crop Protection business groups through strategic alliances. The Board of Management reported to us on the current status of e-commerce activities and the company's plans in this area. The Supervisory Board also considered the results of the Board of Management's deliberations concerning the organizational structure and supported the view that the current structure meets the requirements for efficient corporate management.

Further matters dealt with by the Supervisory Board included:

- the acquisition of the new fungicide FLINT® from Novartis;
- the acquisition of Sybron Chemicals Inc. and major parts of the paper chemicals business of Cytec Industries Inc.;
- the sale of the Dralon® business to the Fraver group of Italy.

Other major topics reported to us and discussed during the year included:

- the integration of the polyols business acquired from Lyondell and the plan to set up a joint venture to manufacture propylene oxide and styrene in the Netherlands;
- the company's establishment of short-term and medium to long-term debt programs to broaden the range of capital market instruments at its disposal.

Four plenary meetings of the Supervisory Board took place during the year. There was one meeting of the Affiliates Committee convened in the form of the Extended Affiliates Committee, one of the Presidial Committee, one of the Human Resources Committee and one of the Social Policy Committee.

The consolidated financial statements of the Bayer Group were drawn up according to the International Accounting Standards (IAS). These statements, as well as the financial statements of Bayer AG and the combined management report of the Bayer Group and Bayer AG, have been examined by the auditors, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Essen. The conduct of the audit is explained in the Independent Auditors' Report. The auditors find that Bayer has fully complied with the International Accounting Standards and issue an unqualified opinion to the consolidated financial statements of the Bayer Group. The financial statements and management report of Bayer AG, the consolidated financial statements and management report of the Bayer Group, and the audit reports were submitted to all members of the Supervisory Board. They were discussed in detail by the Presidial Committee and at a plenary meeting of the Supervisory Board. The auditors submitted a report on both occasions and were present during the discussion.

We examined the financial statements and management report of Bayer AG, the proposal for distribution of the profit, and the consolidated financial statements and management report of the Bayer Group. We found no objections, thus we concur with the result of the audit.

We have approved the financial statements of Bayer AG prepared by the Board of Management. These financial statements are thus confirmed. We are in agreement with the management report of Bayer AG and, in particular, with the assessment of the company's future development.

We also concur with the dividend policy and the allocations to retained earnings. We assent to the proposal for distribution of the profit, which provides for payment of a dividend of €1.40 per share.

Three members of the Supervisory Board relinquished their seats during 2000: Hans-Dieter Peppmeier on March 31, Dieter Meinhardt on June 30, and Dr. Klaus Alberti on October 31. Our sincere thanks go to them for their dedicated service. Their places were taken by Karl-Josef Ellrich, Petra Kronen and Dr. Eugen Velker. Erhard Gipperich became Vice Chairman effective April 28, 2000 in place of Rolf Nietzard, who remains a member of the Supervisory Board.

Board of Management members Hans-Jürgen Mohr and Dr. Walter Wenninger retired at the end of the Annual Stockholders' Meeting on April 28, 2000. We would like to take this further opportunity to thank them for their valuable service to the company.

Leverkusen, March 2001
For the Supervisory Board

Hermann J. Strenger
Chairman

Corporate Officers

Supervisory Board

Prof. Dr. Herbert Grünewald
Honorary Chairman, Leverkusen

Prof. Dr. Kurt Hansen
Honorary Chairman, Leverkusen

Members of the Supervisory Board – in addition to performing individual supervising functions at companies affiliated to those in which they hold legal offices – hold offices as members of the supervisory board or a comparable supervising body of the corporations listed (as of December 31, 2000):

Hermann Josef Strenger
Former Chairman of the Company's Board of Management, Leverkusen
Chairman
Agfa-Gevaert N.V.
Commerzbank AG
Degussa Hüls AG (until May 2000)
Linde AG
VEBA AG (until May 2000)

Erhard Gipperich
Lathe operator, Leverkusen
Vice Chairman

Dr. Klaus Alberti (until October 31, 2000)
Chemist, Leverkusen

Petra Brayer
Chemical Laboratory Assistant, Dormagen

Karl-Josef Ellrich (effective April 1, 2000)
Health insurance fund economist, Dormagen

Detlef Fahlbusch
North Rhine District Secretary of the German Mine, Chemical and Power Workers' Union, Düsseldorf
mg technologies AG
RAG Immobilien AG
Rheinbraun AG

Dr. h. c. Martin Kohlhaussen
Chairman of the Board of Managing Directors of Commerzbank AG, Frankfurt (Main)
Assicurazioni Generali S.p.A.
Heraeus Holding GmbH
Hochtief AG vorm. Gebr. Helfmann
Infineon Technologies AG
KARSTADT QUELLE AG
Linde AG
RHEINHYP Rheinische Hypothekenbank AG
Schering AG

Hilmar Kopper
Chairman of the Supervisory Board of Deutsche Bank AG, Frankfurt (Main)
Akzo-Nobel N.V.
DaimlerChrysler AG
Solvay S.A.
Unilever N.V.
Xerox Company

Petra Kronen (effective July 11, 2000)
Chemical Laboratory Assistant, Krefeld

Dr.-Ing. Manfred Lennings
Management Consultant, Essen-Kettwig
B.U.S. Berzelius Umwelt-Service AG
Deutsche Post AG
Gildemeister AG
Heitkamp-Deilmann-Haniel GmbH
IVG Holding AG
Privatbrauerei Diebels GmbH

Dr. h. c. André Leysen
Chairman of the Board of Directors of Gevaert N.V., Mortsel, Belgium
Agfa-Gevaert AG
Agfa-Gevaert N.V.
Cobepa N.V. (until April 2000)
Deutsche Telekom AG
e.on AG
GIB Group N.V.
Philipp Holzmann AG (until May 2000)
Schenker AG
Tessenderlo Chemie N.V.

Dr. h. c. Helmut Oswald Maucher
Honorary Chairman of Nestlé S.A., Frankfurt (Main)
Deutsche Bahn AG (until July 2000)
Henkel KGaA (until May 2000)
Koc Holding A.S.
L'Oréal/Gesparal S.A. (until May 2000)
Montreux Palace S.A. (until June 2000)
Nestlé S.A. (bis 5/2000)
Qualiclick. com AG (effective September 2000)
Ravensburger AG
Union Bancaire Privée S.A.

Dieter Meinhardt (until June 30, 2000)
Machine Fitter, Dormagen

Rolf Nietzard
Chemical Laboratory Technician, Leverkusen

Hans-Dieter Peppmeier (until March 31, 2000)
Engineering Draftsman, Krefeld

Dr. Heinrich v. Pierer
Chairman of the Board of Management of Siemens AG, Munich
Hochtief AG
Münchener Rückversicherungs-Gesellschaft
Volkswagen AG

Waltraud Schlaefke
Chemical Laboratory Technician, Bomlitz
Wolff Walsrode AG

Hubertus Schmoldt
Chairman of the German Mine, Chemical and Power Workers Union, Hannover
Buna Sow Leuna Olefinverbund GmbH
e.on AG
RAG Coal International AG

Dieter Schulte
Chairman of the German Unions Federation (DGB), Berlin
Hermes Kreditversicherungs-AG
Kreditanstalt für Wiederaufbau
ThyssenKrupp AG

Dr. Eugen Velker (effective November 1, 2000)
Chemist, Dormagen

Lodewijk Christiaan van Wachem
Chairman of the Supervisory Board of Royal Dutch Petroleum Company, The Hague, Netherlands
Akzo Nobel N.V.
ATCO Ltd.
BMW AG
IBM Corporation
Philips Electronics N.V.
Zürich Financial Services

Prof. Dr. Ernst-Ludwig Winnacker
President of the German Research Association, Bonn
GPC Pharmaceuticals (until April 2000)
MediGene AG
Nascacell AG
Therascope AG

Dr. Hermann Wunderlich
Former Vice Chairman of the Company's Board of Management, Odenthal
Babcock-Borsig AG
Freudenberg & Co.

Board of Management

Members of the Board of Management – in addition to performing individual supervising functions at affiliated companies – hold offices as members of the supervisory board or a comparable supervising body of the corporations listed (as of December 31, 2000):

Dr. Manfred Schneider
Chairman
Allianz AG
DaimlerChrysler AG
Metro AG
RWE AG

Dr. Pol Bamelis
Agfa-Gevaert AG
Bekaert N.V.

Hans-Jürgen Mohr (until April 28, 2000)
Bayer Faser GmbH (until April 2000)

Dr. Attila Molnar

Dr. Frank Morich (effective May 1, 2000)

Dr. Udo Oels
Agfa-Gevaert AG
EC Erdölchemie GmbH
Haarmann & Reimer GmbH
Wolff Walsrode AG

Werner Spinner
Bayer Faser GmbH (effective May 2000)
Verwaltungsrat GfK

Werner Wenning
Agfa-Gevaert AG
Agfa-Gevaert N.V.
Dresdner Bank Lateinamerika AG
EC Erdölchemie GmbH
Gerling-Konzern Allgem. Versicherungs-AG
RHEINHYP Rheinische Hypothekenbank AG

Dr. Walter Wenninger (until April 28, 2000)
Billyart AG (effective December 2000)
Epidauros AG (effective October 2000)
Medical Education Ltd.
Pulsion AG (effective September 2000)
VEMAG AG

Dr. Gottfried Zaby (effective May 1, 2000)
Beteiligungs- und Kunststoffverwertungs GmbH
Deutsche Gesellschaft für Kunststoffrecycling mbH (effective May 2000)
Mannesmann Plastics Machinery AG
Haarmann & Reimer GmbH (effective November 2000)

Ten-Year Financial Summary

Bayer Group (€ million)	1991	1992	1993	1994	1995
Net sales	21,679	21,063	20,967	22,200	22,793
Sales outside Germany	78.3%	78.7%	81.0%	81.6%	80.5%
Sales of foreign consolidated companies	60.1%	61.2%	64.5%	65.3%	63.4%
Operating result	1,625	1,419	1,200	1,656	2,102
Income before income taxes	1,639	1,377	1,204	1,684	2,140
Income after taxes	947	799	701	1,029	1,238
Noncurrent assets	**7,865**	**7,987**	**8,256**	**8,563**	**9,437**
Intangible assets	165	161	164	386	488
Property, plant and equipment	7,215	7,262	7,506	7,548	7,966
Investments	485	564	586	629	983
Current assets	**11,522**	**11,610**	**12,283**	**13,097**	**13,211**
Inventories	4,267	4,355	4,176	4,261	4,762
Receivables	5,483	5,336	5,427	5,881	5,787
Liquid assets	1,772	1,919	2,680	2,955	2,662
Stockholders' equity	**8,561**	**8,971**	**9,309**	**8,720**	**9,357**
Capital stock of Bayer AG	1,649	1,681	1,715	1,772	1,803
Capital reserves and retained earnings	5,782	6,303	6,695	5,709	6,082
Net income	933	775	679	1,007	1,224
Minority stockholders' interest	197	212	220	232	248
Liabilities	**10,826**	**10,626**	**11,230**	**12,940**	**13,291**
Provisions	5,765	5,657	6,003	6,788	6,923
Other liabilities	5,061	4,969	5,227	6,152	6,368
Total assets	**19,387**	**19,597**	**20,539**	**21,660**	**22,648**
Proportion of total assets					
Noncurrent assets	40.6%	40.8%	40.2%	39.5%	41.7%
Current assets	59.4%	59.2%	59.8%	60.5%	58.3%
Stockholders' equity	44.2%	45.8%	45.3%	40.3%	41.3%
Liabilities	55.8%	54.2%	54.7%	59.7%	58.7%
Financial obligations	2,624	2,528	2,691	3,209	3,205
• Long-term	1,644	1,568	1,319	1,259	1,436
• Short-term	980	960	1,372	1,950	1,769
Interest income (expense) – net	(128)	(92)	(26)	45	6
Noncurrent assets financed by stockholders' equity	108.8%	112.3%	112.8%	101.8%	99.1%
Noncurrent assets and inventories financed by stockholders' equity and long-term liabilities	119.1%	122.1%	124.7%	116.7%	112.4%
Return on sales	7.5%	6.7%	5.7%	7.5%	9.2%
Return on stockholders' equity	11.3%	9.1%	7.7%	11.4%	13.7%
Operating cash flow (gross)	2,582	2,401	2,481	2,529	2,751
Capital expenditures	1,572	1,462	1,614	1,794	1,620
Depreciation and amortization	1,372	1,305	1,374	1,243	1,184
Depreciation and amortization in percent of capital expenditures	87.3%	89.3%	85.2%	69.3%	73.1%
Personnel expenses (including pension expenses)	7,467	7,380	7,315	7,392	7,477
Number of employees (year end)	164,200	156,400	150,400	146,700	142,900
Research and development expenses	1,537	1,583	1,614	1,624	1,666

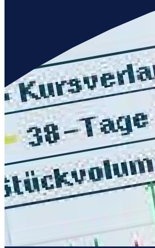
Bayer AG	1991	1992	1993	1994	1995
Income after taxes/Net income	531	446	418	476	592
Allocation to retained earnings	102	77	41	15	51
Total dividend payment	429	369	377	461	541
Dividend per share (€)	0.66	0.56	0.56	0.66	0.77

1996	1997	1998	1999	2000	Bayer Group (€ million)
24,853	28,124	28,062	27,320	30,971	Net sales
82.2%	83.9%	83.6%	84.3%	85.6%	Sales outside Germany
65.4%	67.0%	67.5%	68.3%	69.0%	Sales of foreign consolidated companies
2,306	3,077	3,155	3,357	3,287	Operating result
2,282	2,611	2,728	2,836	2,990	Income before income taxes
1,405	1,509	1,615	2,018	1,842	Income after taxes
10,689	**12,230**	**13,981**	**15,614**	**20,344**	**Noncurrent assets**
729	1,051	1,909	2,213	4,843	Intangible assets
8,974	10,307	10,970	11,986	13,345	Property, plant and equipment
986	872	1,102	1,415	2,156	Investments
14,593	**15,467**	**15,396**	**15,665**	**16,107**	**Current assets**
5,144	5,424	5,781	4,992	6,095	Inventories
7,028	7,588	7,894	7,533	9,308	Receivables
2,421	2,455	1,721	3,140	704	Liquid assets
10,765	**12,232**	**12,779**	**15,182**	**16,377**	**Stockholders' equity**
1,851	1,867	1,867	1,870	1,870	Capital stock of Bayer AG
7,287	8,638	9,087	11,134	12,454	Capital reserves and retained earnings
1,393	1,504	1,614	2,002	1,816	Net income
234	223	211	176	237	Minority stockholders' interest
14,517	**15,465**	**16,598**	**16,097**	**20,074**	**Liabilities**
7,057	7,275	7,271	6,714	7,163	Provisions
7,460	8,190	9,327	9,383	12,911	Other liabilities
25,282	**27,697**	**29,377**	**31,279**	**36,451**	**Total assets**
					Proportion of total assets
42.3%	44.2%	47.6%	49.9%	55.8%	Noncurrent assets
57.7%	55.8%	52.4%	50.1%	44.2%	Current assets
42.6%	44.2%	43.5%	48.5%	44.9%	Stockholders' equity
57.4%	55.8%	56.5%	51.5%	55.1%	Liabilities
3,520	3,896	4,730	4,466	6,665	Financial obligations
1,615	2,150	2,404	2,359	2,803	• Long-term
1,905	1,746	2,326	2,107	3,862	• Short-term
(44)	(157)	(179)	(196)	(311)	Interest income (expense) – net
100.7%	100.0%	91.4%	97.2%	80.5%	Noncurrent assets financed by stockholders' equity
114.9%	115.5%	106.1%	112.3%	93.9%	Noncurrent assets and inventories financed by stockholders' equity and long-term liabilities
9.3%	11.0%	12.6%	11.2%	11.1%	Return on sales
14.0%	13.1%	12.9%	14.4%	11.7%	Return on stockholders' equity
2,959	3,313	3,394	3,192	4,164	Operating cash flow (gross)
1,931	2,331	2,703	2,632	2,647	Capital expenditures
1,326	1,479	1,521	1,744	2,122	Depreciation and amortization
68.7%	63.4%	56.3%	66.3%	80.2%	Depreciation and amortization in percent of capital expenditures
7,718	7,895	8,106	7,549	7,735	Personnel expenses (including pension expenses)
142,200	144,600	145,100	120,400	122,100	Number of employees (year end)
1,845	1,983	2,045	2,252	2,393	Research and development expenses

1996	1997	1998	1999	2000	Bayer AG
695	746	1,095	1,076	1,702	Income after taxes/Net income
66	36	348	127	680	Allocation to retained earnings
629	710	747	949	1,022	Total dividend payment
0.87	0.97	1.02	1.30	1.40	Dividend per share (€)

Dates

Spring Financial News Conference	Thursday, March 15, 2001
Spring Investor Conference	Friday, March 16, 2001
Annual Stockholders' Meeting 2001 First Quarter Results 2001	Friday, April 27, 2001
Payment of Dividend	Wednesday, May 2, 2001
First Half Results 2001 London Investor Conference	Thursday, August 9, 2001
Fall Financial News Conference	Wednesday, November 14, 2001
Fall Investor Conference	Thursday, November 15, 2001
Spring Financial News Conference	Wednesday, March 13, 2002
Spring Investor Conference	Friday, March 15, 2002
Annual Stockholders' Meeting 2002 First Quarter Results 2002	Friday, April 26, 2002
Payment of Dividend	Thursday, May 2, 2002



Publisher
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Germany

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Bayer on the Internet
www.bayer.com

ISSN 0343-1975

Forward-Looking Statements

This Annual Report 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 Annual Report.

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.

Bayer Financial Report 2000