Bayer CEO Dr. Manfred Schneider at the Fall Financial News Conference:

"Earnings hampered by weak global economy and problems with Pharmaceuticals"

No upturn in sight this year / Positive operating result before exceptionals expected in the fourth quarter

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Leverkusen – Bayer, like many other companies, is feeling the increasing weakness of the global economy. "The cautious optimism we had at the beginning of the year regarding a gradual economic recovery in the United States has evaporated," said Dr. Manfred Schneider, Chairman of the Board of Management of Bayer AG, at the company's Fall Financial News Conference on Wednesday in Leverkusen. According to Schneider, the terrorist attacks in the United States, the full economic effects of which still cannot be gauged, have contributed to the drastic deterioration of the global business environment and exacerbated the downward trend in key markets. The company was also affected by problems in its Pharmaceuticals Business Group. Although Group sales from continuing operations rose by 3 percent in the first nine months to EUR 22.5 billion, the operating result before exceptional items fell by 41 percent to EUR 1.6 billion.

"Our broadly diversified portfolio would have allowed us to overcome the deficit resulting from our biological products shortfalls; and we would have been able to at least partially compensate for the setbacks in our industrial business through the second quarter that resulted largely from the economic slowdown," said Schneider. "But we are simply unable to absorb the withdrawal in August of our cholesterol-lowering drug Lipobay/Baycol and the severe downturn through the third quarter." The third quarter figures illustrate this clearly: Bayer recorded a positive operating result of EUR 66 million before exceptional items and a net loss for the Group of EUR 183 million. Dr.

Schneider identified one bright spot as net operating cash flow, which grew by 30 percent year on year in the third quarter to EUR 1.2 billion, due to a gratifying improvement in working capital performance.

Above-average growth in Asia

Portfolio changes led to sales growth of 3 percent in the first nine months. Currency and price effects were also favorable, while volume sales continued to decline over the course of the year. The business trend by region varied greatly: weak growth in North America, average growth in Europe and above-average growth in Asia, which was driven primarily by expansion in China.

The reported operating result from continuing operations fell by 60 percent in the first three quarters, to EUR 1 billion. This was after exceptional items totaling EUR 508 million, of which the Lipobay/Baycol withdrawal alone accounted for EUR 294 million. The company spent EUR 103 million on restructuring measures in the Polymers segment and EUR 75 million to streamline the portfolio of its Chemicals business. Including the earnings from discontinuing businesses, the operating result for the first three quarters fell by 50 percent from the same period last year to EUR 1.4 billion. Net income declined by 47 percent to EUR 823 million.

Sales in the Health Care segment dipped by 2 percent to EUR 7.1 billion due to a 7 percent decline in sales of the Pharmaceuticals Business Group. By contrast, the Consumer Care and Diagnostics business groups turned in gratifying performances, with sales growth of 6 and 4 percent, respectively. The segment’s operating result before exceptional items declined to EUR 469 million as a result of the problems in Pharmaceuticals. The positive trends in Bayer's pharmaceuticals business include above all the continuing success of the antibiotic Ciprobay/Cipro, which has taken on added significance as a result of events in the United States, according to Dr. Schneider. Cipro is currently the only drug approved in the United States for the treatment of anthrax that has proven to be effective against all known strains of this bacterium. However, additional business from orders by the U.S. government is not enough to compensate for the shortfalls in biological products and the Lipobay/Baycol withdrawal in particular. Schneider stated that support of the

United States and other countries in fighting and preventing bioterrorism involving the anthrax bacterium takes precedence over all business considerations. That is why the company went to great lengths to accommodate the U.S. government on the issue of pricing and donated an additional four million tablets.

On the other hand, the proven principles of patent protection should not be done away with once supplies are safeguarded. “The tremendous success of the research-based pharmaceutical industry is based upon these principles,” said Schneider. "We are pleased that this position was ultimately accepted."

Health Care to remain a core business

Schneider reaffirmed that health care will remain a core business of the Bayer Group. To more efficiently exploit the synergies that undoubtedly exist and to achieve greater flexibility for strategic health care partnerships – involving the segment as a whole or individual areas or special markets – the segment will be placed into a separate legal entity. "Our goal is to create a leading health care company," said the Bayer CEO.

The Agriculture segment showed a stable business trend overall in the first nine months of 2001. Sales grew by 2 percent to EUR 2.9 billion, due in part to the fungicide and herbicide products acquired by the Crop Protection Business Group. The operating result fell by 13 percent to EUR 500 million, due primarily to expenses for the acquired products Flint and Mikado. "Yet we remain one of the industry's most profitable companies, with a return on sales of 17 percent," said Schneider.

Schneider expects the acquisition of Aventis CropScience to be closed at the beginning of the second quarter of 2002 at the latest, subject to the approval of the antitrust authorities in the United States and Europe. "Our goal is to achieve a leading position in this promising market with our new company Bayer CropScience, to achieve faster-than-average growth and to create a broad basis for the development of new substances and technologies, including the field of biotechnology." Based on theoretical combined sales of EUR 6.5 billion for 2001, Bayer has set itself the goal of EUR 8.1 billion in sales and an operating margin of 20 percent by 2005. The Animal Health Business Group, which is currently part of the Agriculture segment, will be transferred to the Health Care segment on January 1, 2002 as part of the restructuring of the crop protection business.

Price increases not feasible in Polymers

The Polymers segment is currently suffering particularly from the weakness of its markets. According to Dr. Schneider, this applies less to sales – which were up by 4 percent year on year to EUR 8.3 billion as a result of the Lyondell acquisition – than to margins, which are under considerable pressure. Although raw material costs are now declining considerably, this still is not nearly sufficient to compensate for the drop in selling prices. In the current competitive environment, the company is unable to implement price increases, although these remain necessary. This led to a 40 percent decline in the operating result to EUR 513 million before exceptional items.

According to Dr. Schneider, extensive cost-containment programs already introduced by the company are helping to stabilize the situation and achieve a sustained improvement in competitiveness. Altogether, Bayer plans to achieve savings of at least EUR 700 million with these measures in the Polymers segment through 2005, of which about EUR 300 million should show up in earnings as early as next year. Despite cyclical problems in its polymers business, Bayer nevertheless remains committed to long-term expansion plans for its core products: "We are convinced that these products and their markets will continue to grow, and we are committed to further expanding our strong position," stressed Schneider. In this context, he pointed out that the company confirmed plans for a EUR 3.4 billion investment program in China just a few days ago.

The Chemicals segment recorded sales growth of 13 percent for the nine-month period, to EUR 3.6 billion, although sales slowed tangibly over the course of the year. The segment's decline in operating profit to EUR 320 million was also relatively moderate at 9 percent, and the return on sales amounted to 9 percent: "This is an indication of our relatively good position in specialty chemicals," Schneider commented.

However, negative economic effects became increasingly noticeable in this segment as well, particularly in the Basic and Fine Chemicals and the Specialty Products business groups. The company is counteracting these effects in part through additional cost-containment programs that it currently estimates to have improvement potential of approximately EUR 200 million by 2004/2005.

With regard to the rest of the year, Bayer does not foresee a global economic upturn in the fourth quarter, according to Schneider. The pressure in the industrial business will remain high. In the Health Care segment, Bayer expects continued positive development for Consumer Care and Diagnostics. In Pharmaceuticals, additional sales of Ciprobay/Cipro will not be enough to compensate for diminished earnings resulting from the Lipobay/Baycol withdrawal and the technical difficulties with Kogenate. Sales and operating profit in the Agriculture segment should remain relatively stable. "We do not anticipate a turning point in our business in the fourth quarter, but we do expect to achieve a positive operating result before exceptional items," summed up the Bayer CEO.

Dr. Schneider put the total volume of the company's cost-containment programs at EUR 1.8 billion a year by 2004/2005. Bayer currently expects savings of EUR 1 billion in 2002, which would be EUR 480 million more than in the current year. These projects call for a reduction in the global workforce of 2,100 positions which will have been accomplished by the end of this year, and the company currently expects to reduce headcount by a further 2,400 by 2005. Bayer is also planning a headcount reduction of 1,300 in the Pharmaceuticals Business Group, which is a necessary response to the product withdrawal and sales shortfalls.

The company is reacting to the current economic problems and to weak medium-term demand in its markets by limiting capital expenditures to the level of depreciation and consistently reducing inventories and receivables. "After a gratifying improvement in working capital performance in the third quarter, we will do everything to continue and accelerate this trend in the coming months," said Schneider. "We are working hard to get the company back on track. We intend to capitalize on the tremendous potential that exists within Bayer."

Leverkusen, November 14, 2001

Forward-Looking Statements

This news release contains forward-looking statements based on current assumptions and forecasts made by Bayer Group management. 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 the company and the estimates given here. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

Q3 2001 Exceptional Items

€ million	2001 Charge	2001 Gain	2001 Net	2000 Charge	2000 Gain	2000 Net	∆ Net
Health Care	– 308	0	– 308	– 10	0	– 10	– 298
Agriculture	0	0	0	0	+ 31	+ 31	– 31
Polymers	– 63	0	– 63	– 41	0	– 41	– 22
Chemicals	– 2	0	– 2	– 5	0	– 5	+ 3
Reconciliation	0	0	0	0	0	0	0
Cont.	– 373	0	– 373	– 56	+ 31	– 25	– 348
Discont.	– 2	0	– 2	– 1	0	– 1	– 1
Total	– 375	0	– 375	– 57	+ 31	– 26	– 349

3/4 Year 2001 Exceptional Items

	2001			2000			
€ million	Charge	Gain	Net	Charge	Gain	Net	Δ Net
Health Care	– 333	+ 22	– 311	– 56	+ 20	– 36	– 275
Agriculture	0	0	0	0	+ 25	+ 25	– 25
Polymers	– 103	0	– 103	– 64	0	– 64	– 39
Chemicals	– 89	+ 14	– 75	– 6	0	– 6	– 69
Reconciliation	– 19	0	– 19	0	+ 34	+ 34	– 53
Cont.	– 544	+ 36	– 508	– 126	+ 79	– 47	– 461
Discont.	– 17	+ 316	+ 299	– 6	0	– 6	+ 305
Total	– 561	+ 352	– 209	– 132	+ 79	– 53	– 156

Bayer

Pharmaceuticals – Top 10 Products

€ million

		Q3 ´01	Δ %	3/4 Year ´01	Δ %
(1)	Ciprobay	484	+ 12	1,224	– 1
(2)	Adalat	239	– 16	752	– 15
(3)	Lipobay	– 141	•	381	– 15
(4)	Gamimune	105	+ 14	260	+ 15
(5)	Glucobay	74	+ 1	228	– 1
(6)	Kogenate	43	– 70	143	– 61
(7)	Avelox	19	– 39	124	+ 75
(8)	Trasylol	24	+ 26	91	+ 20
(9)	Nimotop	29	0	90	– 4
(10)	Prolastin	33	– 3	89	– 13

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