

# Financial Statements 2002

of Bayer AG



# Financial Statements

of Bayer AG for 2002

## Bayer AG Management Report

### Bayer Group Reorganization

The Annual Stockholders' Meeting of April 26, 2002 resolved that the Bayer Group be reorganized by separating strategic management from business operations. The plans called for Bayer AG's four business areas and three service areas to be transferred to legally independent companies, with Bayer AG in the future acting as a management holding company that would not have business operations of its own. The first step to implement this plan involved the hive-down of the CropScience business area to Bayer CropScience AG, a wholly owned subsidiary of Bayer AG, with effect from January 1, 2002. Bayer AG concluded a control and profit transfer agreement with Bayer CropScience AG on March 8, 2002. The hive-downs of the remaining business areas and the service areas to separate legal entities are planned to take place in 2003.

### Sales and Earnings Performance

Bayer AG's business performance in 2002 was characterized by the continuing difficult economic situation, as well as by the realignment of the Bayer Group's corporate structure and by efficiency-improvement measures. The business environment impaired the performance of the Polymers and Chemicals business areas in particular, while HealthCare had to contend with the effects of the Lipobay®/Baycol® withdrawal. The former CropScience business of Bayer AG was transferred to Bayer CropScience AG at the beginning of the year, and is thus no longer included in Bayer AG's sales and earnings figures for 2002.

Sales of Bayer AG declined by €1.3 billion overall, or by €0.1 billion if the CropScience business area is excluded from the 2001 figure. All business areas recorded sales decreases. In Polymers there was a particularly sharp drop of 5.0 percent to €4.6 billion (before elimination of inter-business-area sales). Revenues of the Chemicals business area moved back 2.6 percent to €2.2 billion, while HealthCare sales receded by 1.8 percent to €2.5 billion. By contrast, sales of the service areas and sideline operations advanced by 18.8 percent to €1.1 billion, which was attributable mainly to a higher invoicing volume for business conducted with former Bayer AG operations that have been placed into separate legal entities in recent years.

On a regional basis, more than 72 percent of sales was achieved in Europe (compared to 68 percent in 2001), of which customers in Germany accounted for 33 percentage points (2001: 29 percent) and those in the rest of Europe for 39 points (2001: 39 percent). North American customers accounted for 10 percent of sales (2001: 12 percent), while Asia/Pacific and the remaining regions accounted for 12 percent (2001: 13 percent) and 6 percent (2001: 7 percent), respectively.

The operating result fell from €22 million in 2001 to minus €88 million in 2002.

The decline in operating profit applied particularly to Polymers, and especially its Plastics Business Group, as well as to the Pharmaceuticals Division of the HealthCare business area. The lower earnings were due chiefly to the CropScience carve-out and to a combination of lower sales and increased production costs in the remaining business areas of Bayer AG. Even the significant reductions in marketing and R&D expenses plus an increase in exceptional income were not sufficient to offset this effect.

Exceptional income came particularly from the sale of the household insecticides business of the Consumer Care Division, which resulted in a gain for Bayer AG of €123 million. Exceptional charges amounted to €27 million. Last year, net exceptional charges of €252 million were incurred, of which €179 million was attributable to the Lipobay®/ Baycol® withdrawal.

The non-operating result improved considerably to €1,293 million (2001: €784 million), due primarily to higher gains from the sale of investments in affiliated companies. The divestiture of Haarmann & Reimer GmbH, Holzminden, to EQT Northern Europe Private Equity Funds and the sale of 94.9 percent of our interest in Bayer Wohnungen GmbH, Leverkusen, to TreuHandStelle, Essen, resulted in gains of €931 million and €358 million, respectively. A major divestiture in 2001 was the sale of Bayer's 50 percent interest in EC Erdölchemie GmbH, Cologne, to BP, on which a €393 million gain was recorded. Income from investments in affiliated companies declined by €187 million to €368 million. Net interest expense rose by €44 million to €178 million, mainly as a result of higher financial liabilities. The balance of other non-operating income and expense also worsened by €133 million, primarily because there was a €1 million net exchange loss following a €115 million net exchange gain in the previous year. Also affecting the non-operating result

is the interest portion – amounting to €227 million (2001: €227 million) – of the allocation to personnel provisions.

Net income of Bayer AG advanced by €505 million to €1,162 million.

### Proposal for Distribution of the Profit

The Board of Management and the Supervisory Board will propose to the Annual Stockholders' Meeting on April 25, 2003 that the balance sheet profit of €657 million be used to pay a dividend of €0.90 per share (730,341,920 shares) on the capital stock of €1,870 million entitled to the dividend for 2002. On the basis of this proposal, €505 million will be allocated to retained earnings out of the net income of €1,162 million.

### Asset and Capital Structure

Total assets of Bayer AG increased in 2002 by €4.5 billion to €25.2 billion. Through the hive-down of the CropScience business area effective January 1, 2002, €1.5 billion in assets and €1.0 billion in debt were transferred to Bayer CropScience AG. The hive-down also involved a €0.5 billion increase in the carrying value of this company in the Bayer AG balance sheet.

The carve-out of the CropScience business area thus reduced total assets by €1.0 billion; net assets remained unchanged.

Without CropScience, total assets increased by €5.5 billion, of which noncurrent assets account for €4.7 billion and current assets for €0.8 billion.

The increase in noncurrent assets, which at €18.3 billion now account for 73 percent of total assets, is chiefly related to the Aventis CropScience acquisition. The Aventis group's crop protection division was purchased by Bayer CropScience AG, which received €1.5 billion as a capital increase and an additional €2.1 billion in loans for this purpose. We also increased the capital of Bayer Gesellschaft für Beteiligungen and of Bayer Diagnostics Europe, Ireland, by €1.8 billion and €0.3 billion, respectively. Noncurrent assets were diminished by €1.2 billion through the repayment of a loan by Bayer Corporation and by €0.3 billion through the divestiture of Haarmann & Reimer GmbH. To finance the acquisition price, the acquirer, EQT Northern Europe Private Equity Funds, received a vendor note of €250 million which is reflected in investments. Other changes to noncurrent assets led to a net increase of €0.2 billion. There was little change in property, plant and equipment or intangible assets apart from retirements related to the CropScience carve-out. Depreciation and amortization, at €631 million (2001: €786 million), were €50 million below the capital expenditures of €681 million (2001: €808 million).

Without the carve-out effects, current assets grew by €0.8 billion, or 12 percent, to €6.9 billion, and now account for 27 percent of total assets. Inventories and receivables increased by only a moderate 1 and 4 percent, respectively. The rise in current assets was mainly attributable to other receivables, which grew by 21 percent to €4.1 billion due to a higher volume of loans granted to Group companies. Reflected here in particular is €2.4 billion in loans granted to Bayer CropScience AG for the Aventis CropScience acquisition. This effect was partly offset by the transfer of a €1.8 billion former loan receivable from Bayer Gesellschaft für Beteiligungen (BGB) in the balance sheet of Bayer AG to investments in subsidiaries following a capital increase in this amount at BGB. Cash and cash equivalents increased by 10 percent to €0.4 billion.

Liabilities grew by €4.0 billion to €15.8 billion, or by €4.9 billion when the CropScience carve-out is disregarded, due almost exclusively to an increase in liabilities other than provisions.

Provisions edged up by just 1 percent to €4.6 billion, mainly due to higher commitments resulting from part-time working arrangements for older employees and pension entitlements.

The remaining liabilities grew by €4.9 billion, or 70 percent, to €11.2 billion, chiefly as a result of the financing activities for the Aventis CropScience acquisition.

The rise in borrowings was mainly due to the launch of two bond issues in the total amount of €5.0 billion. A further increase resulted from the €1.6 billion growth in intra-group debt, among other factors. By contrast, €1.6 billion in commercial paper/EMTN loans and €0.2 billion in bank loans were redeemed.

Stockholders' equity rose by €0.5 billion. While the dividend payment for 2001 amounted to €657 million, net income for 2002 was €1,162 million.

## Employees

The average number of employees of Bayer AG decreased by 5,209, or 12.5 percent, in 2002, to 36,545. This was due mainly to the placement of activities into separate legal entities. Personnel expenses were down by €217 million, or 8.4 percent, to €2,352 million. The ratio of personnel expenses to net sales increased by 1 percentage point to 25 percent.

As in the previous year, the variable income component for employees covered by the collective bargaining agreement was determined for 2002 on the basis of the gross cash flow before exceptionals. The figure of €202 million listed for Bayer AG in the cash flow statement on page 12 does not include the CropScience business area, which was carved out with effect from January 1, 2002. The €132 million gross cash flow of Bayer CropScience AG before exceptionals must therefore be considered in addition. This yields a total gross cash flow before exceptionals for Bayer AG and Bayer CropScience AG of €334 million, compared with €732 million for Bayer AG in the previous year.

## Research and Development

Innovation is the key factor for ensuring success in the global marketplace. Bayer will remain a research-based company in its new organizational structure. In 2002 we invested a total of €1.3 billion in research and development, including €0.9 billion in HealthCare alone. We transferred our central research activities to the business areas, while engineering issues have become the responsibility of the service area Bayer Technology Services.

Our research activities focus on optimizing our product portfolio, developing future-oriented products that strengthen our core businesses, and improving our production processes. We are supported in these efforts by a number of collaborations with leading universities, public research institutions and partner companies, including start-up enterprises. The goal is to develop a broadly based network to open up new fields of innovation.

## Risk Management

As the parent of a global Group of companies, Bayer AG is exposed to a wide variety of risks in the course of its worldwide activities. In line with our corporate responsibility to deal adequately with risks, our goal is to identify as early and as fully as possible the potential risks associated with our activities, assess the possible consequences of their materialization and take suitable measures to mitigate them. The identification and assessment of these risks are crucial to the company's commercial success.

The various processes and instruments used, depending on the respective risk profile, are constantly being improved, supplemented and optimized in line with statutory requirements and the expectations of Bayer's management. Effective risk management ensures the efficient use of these processes and instruments.

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

Reporting plays a central role in monitoring the economic risks of our everyday business. It must ensure that the business performance is described and explained according to uniform guidelines. In addition to the data on which external reports are based, internal reports are produced each month to ensure that the Board of Management and the various management levels are fully alerted to possible risks in a timely fashion. Accounting and controlling functions support these activities and work to increase the responsiveness and efficiency of the reporting system. To ensure that the risk management system is functional at all times, we employ monitoring and control mechanisms based on established standard software. These mechanisms are the subject of continuous improvement and are adjusted immediately to changes in circumstances.

Possible risks are identified and documented with respect to their quantitative and qualitative effects and the likelihood of their occurrence so that precautionary measures can be taken.

The internal audit department regularly examines the risk management system's efficiency and functionality. The Law on Corporate Supervision and Transparency requires our external auditors to periodically evaluate our risk management system. The Board of Management and the Supervisory Board are regularly briefed on the results of this evaluation.

Increased risks currently result from litigation in the United States following the voluntary withdrawals of Lipobay®/Baycol® and products containing PPA. In the event plaintiffs substantially prevail despite existing defense arguments, it is possible that Bayer could incur charges in excess of its insurance coverage that might materially affect the Group's business development, results of operations, cash flows and financial position. Due to the considerable uncertainty associated with these proceedings, it is currently not possible to more accurately estimate potential liability. For this reason, provisions for any amount for which liability might exceed insurance coverage have not presently been made. Depending on the progress of the litigation, we will continue to regularly reconsider the need to establish provisions which may have a negative effect on financial results.

In addition to the risks described above, further risks could exist for our business that we currently are unaware of or regard as negligible.

## Outlook

Due to the uncertainties surrounding the global economy and to a lack of clear signals, growth forecasts are currently difficult to make. However, investment and private consumption continue to be dampened by the significant downturn on the stock markets, political uncertainties and the resulting sharp rise in oil prices.

The positive stimuli are expected to take effect only gradually over the course of the year as the economy picks up in the industrialized countries.

However, the recovery is expected to be only modest, since consolidation pressures in the private and public sectors will remain strong. In Europe, where we generate 70 percent of our sales, a tangible recovery is not expected until the middle of 2003. In the euro zone, slower growth is expected at first, due partly to the appreciation of the euro. According to the most recent forecasts, the German economy will grow by only a very modest 0.2 percent, with consumption additionally burdened by tax hikes and increases in other levies. Overall, a significant, sustained recovery of the economy is not expected until 2004.

Our cost-containment and efficiency-improvement measures have already led to considerable savings. In February 2003 we concluded an agreement with the works council to achieve the desired reduction in personnel costs with the aim of enhancing competitiveness.

In general, the health care industry should benefit from demographic developments over the medium and long term. However, rising research and development costs and considerably higher marketing costs will increase the pressure on pharmaceutical companies' margins. Against this background we are looking for a strategic partner for our pharmaceuticals business. In doing so we are examining all cooperation options that would create value for our company.

An important milestone is the planned European launch of our new treatment for erectile dysfunction in the first half of 2003.

In the Polymers business area, we are concentrating on considerably improving our cost structures and realigning our marketing organization.

In the Chemicals business, too, improving margins through active cost management remains a priority.

In line with our active portfolio management and our concentration on value-generating niche activities, we plan to divest our wholly owned subsidiary Rhein Chemie Rheinau GmbH, Mannheim.

## Subsequent Events

In early 2003, we reached an agreement to divest our 50 percent interest in PolymerLatex GmbH & Co. KG, Marl, Germany, as part of our portfolio optimization program for the Polymers business area. This transaction is subject to the approval of the relevant antitrust authorities.

# Independent Auditors' Report

We have audited the financial statements – including the accounting – of Bayer AG as well as the management report for the financial year from January 1 through December 31, 2002. The accounting, the financial statements and the management report prepared according to the German accounting regulations are the responsibility of the Board of Management of Bayer AG. Our responsibility is to express an opinion, based on our audit, to these financial statements – including the accounting – and to the management report.

We conducted our audit pursuant to Article 317 of the German Commercial Code, and also in compliance with the German principles for the auditing of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) (German Institute of Certified Public Accountants). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether there are misstatements or violations with material implications on the financial statements, having regard to generally accepted accounting principles, or on the true and fair view of the net worth, financial position and results of operations provided by the management report. In defining the scope of the audit, knowledge of the company's business and the economic and statutory environment of the company are considered, as well as any anticipations of possible errors. The effectiveness of internal monitoring procedures and evidence supporting the amounts in the accounting and the disclosures in the financial statements and the management report are examined, primarily on a test basis. The scope of the audit also includes assessing the accounting principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit gave rise to no objections.

In our opinion, based on our audit, the financial statements, prepared in accordance with generally accepted accounting principles, give a true and fair view of the net worth, financial position, results of operations and cash flows of Bayer AG. The management report provides, on the whole, a fair understanding of Bayer AG's position and adequately presents the risks related to its future development.

Without qualifying our opinion we refer to the lawsuits associated with the withdrawal of the Lipobay/Baycol drug described in the Annual Report. Those lawsuits may result in material liability risks. Due to the unique trial situation in the United States of America it is currently not possible to quantify the liability risks and to assess whether these risks exceed the existing insurance coverage. Hence, a provision did not have to be set up.

Essen, February 26, 2003

PwC Deutsche Revision  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

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# Financial Statements

Bayer AG Statements of Income	Note	2002	2001
<i>€ million</i>			
<b>Net sales</b>	[1]	<b>9,513</b>	<b>10,824</b>
Cost of goods sold		(6,771)	(6,963)
<b>Gross profit</b>		<b>2,742</b>	<b>3,861</b>
Selling expenses		(1,245)	(1,656)
Research and development expenses		(1,288)	(1,746)
General administration expenses		(464)	(446)
Other operating income	[2]	465	238
Other operating expenses	[3]	(298)	(229)
<b>Operating result</b>		<b>(88)</b>	<b>22</b>
Income from investments in affiliated companies – net	[4]	1,698	1,012
Interest expense – net	[5]	(178)	(134)
Other non-operating expense – net	[6]	(227)	(94)
<b>Non-operating result</b>		<b>1,293</b>	<b>784</b>
<b>Income before income taxes</b>		<b>1,205</b>	<b>806</b>
Income taxes	[7]	(43)	(149)
<b>Net income</b>		<b>1,162</b>	<b>657</b>
Allocation from net income to retained earnings		(505)	0
<b>Balance sheet profit</b>		<b>657</b>	<b>657</b>

Bayer AG Balance Sheets		Note	Dec. 31, 2002	Dec. 31, 2001
<i>€ million</i>				
<b>Assets</b>				
<b>Noncurrent assets</b>				
Intangible assets	[14]	271	1,120	
Property, plant and equipment	[15]	2,269	2,362	
Investments	[16]	15,760	10,589	
		<b>18,300</b>	<b>14,071</b>	
<b>Current assets</b>				
Inventories	[17]	1,138	1,418	
Receivables and other assets				
Trade accounts receivable	[18]	1,295	1,346	
Receivables from subsidiaries	[19]	3,368	2,754	
Other receivables and other assets	[20]	713	712	
	[21]	<b>5,376</b>	<b>4,812</b>	
Marketable securities	[22]	12	24	
Cash and cash equivalents		412	375	
		<b>6,938</b>	<b>6,629</b>	
		<b>25,238</b>	<b>20,700</b>	
<b>Stockholders' equity and liabilities</b>				
<b>Stockholders' equity</b>				
Capital stock	[23]	1,870	1,870	
Capital reserves		2,942	2,942	
Retained earnings	[24]	3,840	3,335	
Balance sheet profit		657	657	
		<b>9,309</b>	<b>8,804</b>	
<b>Special item with an equity component</b>	<b>[25]</b>	<b>85</b>	<b>88</b>	
<b>Provisions</b>				
Provisions for pensions and other post-employment benefits	[26]	3,627	3,686	
Other provisions	[27]	983	1,051	
		<b>4,610</b>	<b>4,737</b>	
<b>Other liabilities</b>				
Debentures	[28]	5,000	–	
Liabilities to banks		40	275	
Trade accounts payable	[29]	743	750	
Payables to subsidiaries	[30]	4,747	3,802	
Miscellaneous liabilities	[31]	704	2,244	
	[32]	<b>11,234</b>	<b>7,071</b>	
		<b>25,238</b>	<b>20,700</b>	

# Financial Statements

Bayer AG Statements of Cash Flows	Note	2002	2001
<i>€ million</i>			
Operating result		(88)	22
Income taxes (operating activities)		(35)	(88)
Depreciation and amortization		638	781
Change in long-term provisions		(67)	(170)
Gains on retirements of noncurrent assets		(146)	(56)
Exceptional items included in gross cash flow		(100)	243
<b>Gross cash flow before exceptional items</b>		<b>202</b>	<b>732</b>
<b>Gross cash flow</b>		<b>302</b>	<b>489</b>
Decrease (increase) in inventories		(14)	50
Decrease (increase) in trade accounts receivable		(106)	289
Increase in trade accounts payable		37	196
Decrease (increase) in other working capital		(113)	198
<b>Net cash provided by operating activities</b>	[35]	<b>106</b>	<b>1,222</b>
Cash outflows for additions to intangible assets, property, plant and equipment		(654)	(797)
Cash inflows from sales of intangible assets, property, plant and equipment		195	128
Cash outflows for additions to investments		(6,824)	(1,510)
Cash inflows from sales of investments		2,261	275
Acquisitions and divestitures		1,678	238
Cash inflows from marketable securities		4	196
Interest and dividends received		779	765
Income taxes (non-operating activities)		(8)	(26)
<b>Net cash used in investing activities</b>	[36]	<b>(2,569)</b>	<b>(731)</b>
Bayer AG dividend		(657)	(1,022)
Issuances of debt		5,656	1,398
Retirements of debt		(2,112)	(325)
Interest paid		(387)	(308)
<b>Net cash provided by (used in) financing activities</b>	[37]	<b>2,500</b>	<b>(257)</b>
<b>Change in cash and cash equivalents</b>		<b>37</b>	<b>234</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>375</b>	<b>141</b>
<b>Cash and cash equivalents at end of year</b>		<b>412</b>	<b>375</b>

# Notes to the Financial Statements of Bayer AG

The financial statements of Bayer AG are prepared in accordance with the German Commercial Code (Handelsgesetzbuch) and Corporations Act (Aktiengesetz).

Certain income statement and balance sheet items are combined for the sake of clarity, as explained in the Notes.

The income statement is drawn up by the cost-of-sales method. Research and development expenses are shown separately in view of their special importance in the chemical industry.

Under Article 161 of the Corporations Act (Aktiengesetz), companies must declare the extent to which they comply with the German Corporate Governance Code. This declaration has been issued and made available to stockholders.

## Recognition and valuation principles

Intangible assets that have been acquired are recognized at cost and amortized on a straight-line basis over their estimated useful lives.

Property, plant and equipment is carried at the cost of acquisition or construction. Assets subject to depletion are depreciated. Write-downs are made for any declines in value that go beyond the depletion reflected in depreciation. Low-value assets are fully depreciated in the year of acquisition. Where permitted under the tax laws, depreciation is made by the declining-balance method at the highest rates possible, switching to the straight-line method as soon as this leads to higher depreciation.

### Useful Life of Property, Plant and Equipment

Factory, commercial and residential buildings	25 to 50 years
Outdoor infrastructure	10 to 20 years
Plant installations	7 to 20 years
Machinery and apparatus	generally 10 years
Laboratory and research facilities	5 years
Storage tanks and pipelines	12 to 20 years
Vehicles	5 years
Computer equipment	3 to 4 years
Furniture and fixtures	4 to 10 years

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 of assets used in construction.

Investments in subsidiaries and in other affiliated companies are carried at cost, less write-downs for any decline in value that is expected to be permanent.

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.

Inventories are valued as follows: raw materials, supplies and goods purchased for resale, at the average cost of acquisition; work in process and finished goods, at the cost of production. The latter comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads, and an appropriate share of the depreciation of assets used for production. Write-downs are made where necessary to the market or fair value.

Receivables and other assets are stated at nominal value, less any necessary write-downs for amounts unlikely to be recovered.

Where the redemption value of liabilities exceeds their issue price, the difference is capitalized and amortized over the term of the liabilities.

Marketable securities are shown at the lower of cost and market as of the closing date.

Allocations to the special item with an equity component are made at the amounts permitted for tax purposes where tax recognition is subject to their inclusion in the accounting balance sheet.

Provisions for pensions and other post-employment benefits are computed by the actuarial method that takes tax regulations into consideration, based on a statutory discount factor of 6 percent.

Other provisions are established to cover all foreseeable risks and uncertain liabilities, based on reasonable estimates of such commitments as of the closing date. Provisions for maintenance are set up for maintenance work that has been deferred until the first three months of the following year. Provisions for expenses pursuant to Article 249, Paragraph 2 of the German Commercial Code are not established.

Other liabilities are carried at nominal or redemption value, whichever is higher.

Foreign currency receivables and payables are translated at the rates at which they were initially recorded or at the current year's closing rates, whichever yield the lower amounts for receivables or the higher amounts for payables. Foreign currency receivables and payables that are hedged are translated at the hedged rates.

Contingent liabilities arising from sureties and debt guarantees, and amounts pledged as security for other parties' liabilities, are shown at the amounts equivalent to the loans or commitments actually outstanding as of the closing date.

## NOTES TO THE STATEMENTS OF INCOME

### [1] Net sales

Sales declined by €1.3 billion compared with 2001, to €9.5 billion. Adjusted for the sales of the CropScience business area, which was carved out of Bayer AG and transferred to Bayer CropScience AG effective January 1, 2002, and for the elimination of sales between CropScience and the other business areas, sales in 2001 would have been €9.6 billion, giving a decline of €0.1 billion in 2002 in the sales of the businesses remaining within Bayer AG. The breakdown by regions and business areas is as follows:

Sales by Region	2002	2001
<i>€ million</i>		
Germany	3,165	3,123
Other European countries	3,724	4,226
North America	992	1,315
Asia/Pacific	1,095	1,415
Latin America/Africa/Middle East	537	745
	<b>9,513</b>	<b>10,824</b>

  

Sales by Business Area	2002	2001
<i>€ million</i>		
HealthCare	2,497	2,543
CropScience	–	1,512
Polymers	4,606	4,848
Chemicals	2,198	2,257
Other	1,055	888
Elimination of sales between business areas	(843)	(1,224)
	<b>9,513</b>	<b>10,824</b>

The sales for each business area shown in the above table include intracompany sales to other business areas. A reconciliation to the total sales of Bayer AG is given in the last line.

## [2] Other operating income

	2002	2001
<i>€ million</i>		
Income from sideline operations	23	12
Compensation payments from insurers	3	24
Income from retirements of noncurrent assets	155	55
Reversals of unutilized provisions	77	39
Partial reversals of the special item with an equity component	–	2
Miscellaneous	207	106
	<b>465</b>	<b>238</b>

The cost of goods sold incurred for sideline operations is offset against the corresponding revenues to more clearly reflect the earnings position.

Of the income from retirements of noncurrent assets, €140 million results from the sale of company-owned housing units to Bayer Wohnungen GmbH.

The miscellaneous operating income includes €154 million in income from the sale of trademarks and know-how, of which the sale of the household insecticides business of the Consumer Care Business Group to SC Johnson accounts for €127 million. Included here in 2001 was €45 million in income resulting from an agreement concluded with Syngenta to settle a patent dispute over thiomethoxam.

## [3] Other operating expenses

Included in other operating expenses are expenses for allocations to provisions, write-downs of accounts receivable, losses on retirements of noncurrent assets, payments of damages, and donations. Allocations to the special item with an equity component pursuant to Article 6b of the German Income Tax Act (Einkommensteuergesetz) resulted in expenses of €85 million (2001: €36 million).

The largest single items of other operating expense in the previous year were the €57 million in charges related to the market withdrawal of the cholesterol-lowering drug Lipobay®/Baycol® and a €19 million contribution to the German Foundation Initiative “Remembrance, Responsibility and Future.”

#### [4] Income from investments in affiliated companies – net

	2002	2001
<i>€ million</i>		
Dividends and similar income <i>of which €246 million (2001: €511 million) from subsidiaries</i>	252	520
Income from profit and loss transfer agreements <i>of which €179 million (2001: €46 million) from subsidiaries</i>	179	46
Expenses from loss transfer <i>of which €63 million (2001: €11 million) from subsidiaries</i>	(63)	(11)
Write-downs of investments in affiliated companies	(70)	-
Write-backs of investments in affiliated companies	-	3
Gains from the sale of investments in affiliated companies	1,400	454
	<b>1,698</b>	<b>1,012</b>

Dividends and similar income comprise €117 million (2001: €324 million) from domestic affiliates and €135 million (2001: €196 million) from foreign affiliates.

Gains from the sale of investments in affiliated companies include €931 million from the sale of Haarmann & Reimer GmbH to EQT. A further €358 million results from the divestment of 94.9 percent of the shares of Bayer Wohnungen GmbH to TreuHandStelle, Essen. In addition, a €78 million gain was realized on the disposal of the interest in P.T. Bayindo Investama, Indonesia, in connection with the sale of Consumer Care's household insecticides business to SC Johnson. The main component of this item in 2001 was the €393 million gain from the sale of Bayer AG's interest in EC Erdölchemie GmbH, Cologne, to BP.

#### [5] Interest expense – net

	2002	2001
<i>€ million</i>		
Income from other securities and loans included in investments	4	6
Other interest and similar income <i>of which €224 million (2001: €97 million) from subsidiaries</i>	418	184
Interest and similar expenses <i>of which €208 million (2001: €235 million) to subsidiaries</i>	(600)	(324)
	<b>(178)</b>	<b>(134)</b>

## [6] Other non-operating expense – net

	2002	2001
<i>€ million</i>		
Interest portion of the allocation to personnel-related provisions	(227)	(227)
Miscellaneous non-operating expenses	(21)	(8)
Miscellaneous non-operating income	21	141
	(227)	(94)

Miscellaneous non-operating income for the previous year contained €24 million in gains from the sale of marketable securities and a net exchange gain of €115 million.

## [7] Income taxes

	2002	2001
<i>€ million</i>		
Income tax expense	43	96
Deferred taxes	–	34
Taxes recovered from affiliated companies	–	19
	43	149

The taxes reflected here are corporate income tax, trade income tax, solidarity surtax, and income taxes paid outside Germany.

## [8] Other taxes

Other taxes are included in the cost of goods sold, selling expenses, research and development expenses or general administration expenses wherever they can be allocated to these categories on the basis of accountability. In other cases they are assigned to other operating expenses. Other taxes for 2002 total €46 million (2001: €40 million).

### [9] Cost of materials

	2002	2001
<i>€ million</i>		
Expenses for raw materials, supplies and goods purchased for resale	3,177	3,523
Expenses for purchased services	370	596
	<b>3,547</b>	<b>4,119</b>

### [10] Personnel expenses

	2002	2001
<i>€ million</i>		
Wages and salaries	1,884	2,053
Social expenses	332	371
Pension expenses	136	145
	<b>2,352</b>	<b>2,569</b>

The personnel expenses shown here do not contain the interest portion of the allocation to personnel-related provisions, which is included in the non-operating result as other non-operating expense. These personnel-related provisions are mainly for employee pensions.

### [11] Number of employees

The average number of employees was as follows:

	2002	2001
Manufacturing	23,696	26,838
Marketing	3,532	3,731
Research and development	5,201	6,717
General administration	4,116	4,468
	<b>36,545</b>	<b>41,754</b>

## [12] Amortization, depreciation and write-downs

In addition to scheduled amortization and depreciation, write-downs of property, plant and equipment totaling €3 million were made in 2002 (2001: €7 million) to reflect declines in value that went beyond the depletion reflected in depreciation. Also included are €112 million (2001: €27 million) in depreciation made for tax purposes under Article 6b of the German Income Tax Act, and €7 million (2001: 0) in tax depreciation under Article 35 of the Income Tax Regulations.

## [13] Effects of valuation adjustments made for tax purposes

Net income for 2002 is diminished by €11 million as a result of accelerated depreciation for tax purposes and the net effect of allocations to, and partial reversals of, the special item with an equity component in 2002 and prior years. The higher income taxes that will be incurred as a result of these valuation adjustments will be spread over approximately 25 years and therefore will not materially affect net income for these individual years.

## NOTES TO THE BALANCE SHEETS

The CropScience business area was hived down from Bayer AG to Bayer CropScience AG effective January 1, 2002. The retirements of the previous year's carrying amounts relating to the CropScience business area are shown separately in the respective balance sheet items.

## [14] Intangible assets

	Acquired concessions, industrial property rights, similar rights and assets, and licenses thereunder	Advance payments	Total
<i>€ million</i>			
Gross carrying amounts, Dec. 31, 2001	1,479	11	1,490
Capital expenditures	17	6	23
CropScience hive-down	(921)	–	(921)
Other retirements	(109)	(2)	(111)
<b>Gross carrying amounts, Dec. 31, 2002</b>	<b>466</b>	<b>15</b>	<b>481</b>
Accumulated amortization and write-downs, Dec. 31, 2001	370	–	370
Amortization and write-downs in 2002	77	–	77
CropScience hive-down	(170)	–	(170)
Other retirements	(67)	–	(67)
<b>Accumulated amortization and write-downs, Dec. 31, 2002</b>	<b>210</b>	<b>–</b>	<b>210</b>
<b>Net carrying amounts, Dec. 31, 2002</b>	<b>256</b>	<b>15</b>	<b>271</b>
Net carrying amounts, Dec. 31, 2001	1,109	11	1,120

## [15] Property, plant and equipment

	Land and buildings	Machinery and technical equipment	Furniture, fixtures and other equipment	Construction in progress and advance payments to vendors and contractors	Total
<i>€ million</i>					
Gross carrying amounts, Dec. 31, 2001	3,092	7,716	621	619	12,048
Capital expenditures	58	186	25	389	658
CropScience hive-down	(18)	(455)	(34)	(62)	(569)
Other retirements	(63)	(241)	(28)	–	(332)
Transfers	105	271	11	(387)	–
<b>Gross carrying amounts, Dec. 31, 2002</b>	<b>3,174</b>	<b>7,477</b>	<b>595</b>	<b>559</b>	<b>11,805</b>
Accumulated depreciation and write-downs, Dec. 31, 2001	2,483	6,683	520	–	9,686
Depreciation and write-downs in 2002	169	340	45	–	554
Write-backs	(1)	–	–	–	(1)
CropScience hive-down	(13)	(363)	(28)	–	(404)
Other retirements	(43)	(230)	(26)	–	(299)
<b>Accumulated depreciation and write-downs, Dec. 31, 2002</b>	<b>2,595</b>	<b>6,430</b>	<b>511</b>	<b>–</b>	<b>9,536</b>
<b>Net carrying amounts, Dec. 31, 2002</b>	<b>579</b>	<b>1,047</b>	<b>84</b>	<b>559</b>	<b>2,269</b>
Net carrying amounts, Dec. 31, 2001	609	1,033	101	619	2,362

## [16] Investments

	Investments in subsidiaries	Loans to subsidiaries	Investments in other affiliated companies	Other loans	Total
<i>€ million</i>					
Gross carrying amounts, Dec. 31, 2001	8,788	1,160	611	87	10,646
Additions	7,324	2,100	15	251	9,690
CropScience hive-down	(39)	–	–	(6)	(45)
Other retirements	(3,261)	(1,157)	–	(13)	(4,431)
Transfers	(1)	–	1	–	–
<b>Gross carrying amounts, Dec. 31, 2002</b>	<b>12,811</b>	<b>2,103</b>	<b>627</b>	<b>319</b>	<b>15,860</b>
Accumulated write-downs, Dec. 31, 2001	9	2	40	6	57
Write-downs in 2002	23	–	48	–	71
CropScience hive-down	–	–	–	–	–
Other retirements	(28)	–	–	–	(28)
<b>Accumulated write-downs, Dec. 31, 2002</b>	<b>4</b>	<b>2</b>	<b>88</b>	<b>6</b>	<b>100</b>
<b>Net carrying amounts, Dec. 31, 2002</b>	<b>12,807</b>	<b>2,101</b>	<b>539</b>	<b>313</b>	<b>15,760</b>
Net carrying amounts, Dec. 31, 2001	8,779	1,158	571	81	10,589

Additions to investments in subsidiaries include €2.0 billion for increases in the capital stock of Bayer CropScience AG. This figure comprises €0.5 billion through the hive-down of the former CropScience business area of Bayer AG to Bayer CropScience AG effective January 1, 2002 and €1.5 billion to finance the acquisition of Aventis CropScience Holding S.A., France. Additions of €1.8 billion and €0.3 billion arose from capital increases at Bayer Gesellschaft für Beteiligungen mbH and Bayer Diagnostics Europe Ltd., Ireland, respectively. Investments in subsidiaries grew by a further €2.8 billion as a result of capital increases at Bayer Chemicals AG, Bayer HealthCare AG, Bayer Polymers AG and Bayer Business Services GmbH in connection with the transfer to these companies of former Bayer AG subsidiaries. These additions are matched by retirements of the investments in the respective former subsidiaries. Retirements totaling €0.3 billion arose from the sale of the interests in Haarmann & Reimer GmbH and Bayer Wohnungen GmbH.

Changes in loans to subsidiaries comprised the granting of a €2.1 billion loan to Bayer CropScience AG to finance the acquisition of Aventis CropScience, and a €1.1 billion retirement due to the redemption of a loan by Bayer Corporation, U.S.A.

Additions to other loans include a €250 million vendor note to finance the acquiring third party's purchase of the Haarmann & Reimer group.

Lists of Bayer AG's direct and indirect holdings have been included in the Commercial Register in Cologne.

## [17] Inventories

	Dec. 31, 2002	Dec. 31, 2001
<i>€ million</i>		
Raw materials and supplies	269	277
Work in process, finished goods and goods purchased for resale	869	1,141
	<b>1,138</b>	<b>1,418</b>
<i>CropScience hive-down</i>		[294]

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

### [18] Trade accounts receivable

	Dec. 31, 2002	Dec. 31, 2001
<i>€ million</i>		
Accounts receivable from subsidiaries	377	402
Accounts receivable from other affiliated companies	45	36
Accounts receivable from other customers	873	908
	<b>1,295</b>	<b>1,346</b>
<i>CropScience hive-down</i>		[157]

### [19] Receivables from subsidiaries

The total €2,754 million receivables from subsidiaries stated in the balance sheet as of December 31, 2001 included a €5 million receivable pertaining to the CropScience business area. This was included in the assets hived down to Bayer CropScience AG effective January 1, 2002.

### [20] Other receivables and other assets

	Dec. 31, 2002	Dec. 31, 2001
<i>€ million</i>		
Receivables from other affiliated companies	55	109
Other assets	658	603
	<b>713</b>	<b>712</b>
<i>CropScience hive-down</i>		[51]

The other assets as of December 31, 2002 include €213 million (2001: €48 million) that represents income earned in the fiscal year but not due to be received until after the closing date. This income consists mainly of accrued interest.

Also reflected here is the discount on the bond issues launched in April 2002.

The carrying amount of this discount as of December 31, 2002 was €40 million.

Further items reflected in other assets include claims for tax refunds, royalties and compensation, amounts for services rendered but not yet chargeable, payroll receivables, and advance payments.

### [21] Receivables and other assets maturing in more than one year

The total receivables and other assets as of December 31, 2002, amounting to €5,376 million (2001: €4,812 million), include other assets in the amount of €89 million (2001: €33 million) that mature after 2003.

### [22] Marketable securities

The marketable securities include €10 million (2001: €10 million) in shares of short-term money market funds and €2 million (2001: €11 million) in shares of SolarWorld AG, Bonn.

## **[23] Capital stock**

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

Authorized capital totaling €250 million was approved by the Annual Stockholders' Meeting on April 26, 2002. It expires on April 26, 2007. The authorized capital can be used to increase the capital stock by issuing new shares against cash contributions. The Board of Management is authorized to exclude subscription rights with respect to €100 million of this authorized capital; however, in this case the issue price of the new shares must not be significantly below the market price. Exclusion of subscription rights for a further €150 million is only possible in specific cases.

Further authorized capital in the amount of €374 million was approved by the Annual Stockholders' Meeting on April 27, 2001. This authorized capital, which expires on April 27, 2006, can be used to increase the capital stock by issuing new shares against non-cash contributions. Subscription rights for existing stockholders are excluded.

Conditional capital of €83.2 million existed at December 31, 2002. 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.

## **[24] Retained earnings**

Retained earnings consist solely of "other retained earnings" as referred to in the German Commercial Code.

## **[25] Special item with an equity component**

The special item with an equity component for 2002 consists entirely of gains from the sale of land and buildings allocated to this item under Article 6b of the Income Tax Act. In the previous year, €37 million was allocated under Article 6b of the Income Tax Act and €51 million under Section 35 of the Income Tax Regulations.

Of the €88 million total special item recognized in 2001, the amount of €45 million pertaining to the CropScience business area was included in the hive-down to Bayer CropScience AG effective January 1, 2002. The remaining amount of €43 million was transferred during the fiscal year to newly acquired noncurrent assets. An amount of €85 million was newly allocated to the special item out of divestment gains.

## **[26] Provisions for pensions and other post-employment benefits**

This item includes provisions for current and future pension entitlements and for commitments entered into under early retirement agreements.

Out of the provisions for pensions and other post-employment benefits recognized as of December 31, 2001, an amount of €102 million pertaining to employees of the CropScience business area was assigned to Bayer CropScience AG effective January 1, 2002.

## [27] Other provisions

	Dec. 31, 2002	Dec. 31, 2001
<i>€ million</i>		
Provisions for taxes	132	100
Miscellaneous provisions	851	951
	<b>983</b>	<b>1,051</b>
<i>CropScience hive-down</i>		[55]

Miscellaneous provisions include amounts for environmental protection measures, vacations, part-time working by older employees, annual bonuses, long-service awards to employees, discounts and other uncertain liabilities.

## [28] Debentures

In April 2002 Bayer AG launched two Eurobond issues under its €8 billion European Medium Term Notes (EMTN) program. One of these issues, in the nominal volume of €3,000 million, carries a 5.375 percent coupon and has a term of 5 years, maturing in 2007. Interest is paid annually for the preceding year. The issue price was 99.402 percent. The other Eurobond issue has a nominal volume of €2,000 million and a term of 10 years, so it matures in 2012. The bonds carry a 6 percent coupon. Again, all interest is paid annually for the preceding year. The issue price was 99.45 percent.

## [29] Trade accounts payable

	Dec. 31, 2002	Dec. 31, 2001
<i>€ million</i>		
Accounts payable to subsidiaries	180	209
Accounts payable to other affiliated companies	17	9
Accounts payable to other suppliers	546	532
	<b>743</b>	<b>750</b>
<i>CropScience hive-down</i>		[44]

## [30] Payables to subsidiaries

The payables to subsidiaries stated in the balance sheet as of December 31, 2001 included an amount of €688 million pertaining to the CropScience business area. This was included in the liabilities hived down to Bayer CropScience AG effective January 1, 2002.

## [31] Miscellaneous liabilities

	Dec. 31, 2002	Dec. 31, 2001
<i>€ million</i>		
Payables to other affiliated companies	1	8
Other miscellaneous liabilities	703	2,236
	<b>704</b>	<b>2,244</b>
<i>CropScience hive-down</i>		[34]

The other miscellaneous liabilities as of December 31, 2002 include €71 million (2001: €92 million) in employees' income and church taxes and €1 million (2001: €2 million) in social insurance contributions.

The main items of other miscellaneous liabilities are €243 million (2001: €32 million) in accrued interest and €66 million (2001: €840 million) arising from the utilization of a commercial paper program. The previous year's figure contained a €860 million liability from the issuance of European Medium Term Notes (EMTN). Also included here are €30 million (2001: €2 million) in advance payments received, along with short-term deposits and various amounts attributable to the fiscal year but not due to be paid until after the closing date.

## [32] Further information on other liabilities

The other liabilities are due as follows:

	Dec. 31, 2002			Dec. 31, 2001		
	Maturing in 2003	Maturing in 2004–2007	Maturing after 2007	Maturing in 2002	Maturing in 2003–2006	Maturing after 2006
<i>€ million</i>						
Debentures	–	3,000	2,000	–	–	–
Liabilities to banks	3	21	16	254	13	8
Trade accounts payable	743	–	–	750	–	–
Payables to subsidiaries	4,747	–	–	3,802	–	–
Payables to other affiliated companies	1	–	–	8	–	–
Other miscellaneous liabilities	694	2	7	2,223	–	13
	<b>6,188</b>	<b>3,023</b>	<b>2,023</b>	<b>7,037</b>	<b>13</b>	<b>21</b>

The total of other liabilities includes €331 million (2001: €128 million) representing amounts – mainly interest and payroll liabilities – attributable to the fiscal year but not due to be paid until after the closing date.

### **[33] Contingent liabilities**

Contingent liabilities from the issuance and endorsement of bills amount to less than €1 million (2001: €1 million); those from sureties amount to €2 million (2001: €3 million). Contingent liabilities from sureties include €2 million (2001: €2 million) for subsidiaries. Amounts pledged as security for subsidiaries' liabilities to third parties amount to €6 million (2001: 0).

Bayer AG guaranteed the CHF 400 million (€275 million) bond issue launched in April 2000 by its wholly owned subsidiary Bayer Ltd., Japan. The bonds, which carry a 3.75 percent coupon, mature in 2005. Similar guarantees were given to the creditors of JPY 15 billion (€121 million) in loans granted to Bayer Ltd., Japan, USD 70 million (€67 million) in loans granted to Bayer (China) Ltd. and €65 million in loans granted to Bayer Capital Corporation, Netherlands.

Bayer AG has also guaranteed the following capital market instruments issued by Bayer Corporation, U.S.A.: USD 350 million (€334 million) of 6.65 % Notes due in 2028; USD 200 million (€191 million) of 7.125 % Notes due in 2015; and USD 250 million (€238 million) of Puttable Reset Securities PURS<sup>SM</sup> due in 2028 at the latest. In addition, a USD 381 million (€363 million) guarantee exists with respect to a lease agreement concluded by Bayer Corporation.

Further guarantees totaling €34 million were given to other Group companies. Bayer AG's contingent liabilities from debt guarantees thus total €1,688 million (2001: €1,051 million).

### **[34] Other financial commitments**

Other financial commitments include minimum future lease and rental payments of €278 million (2001: €395 million), of which €150 million (2001: €171 million) relates to lease and rental agreements with subsidiaries. The entire latter amount pertains to the two real-estate companies KG III Augusta and Gigas, through which the Agricultural Center in Monheim is financed. The commitments under lease and rental agreements mature as follows:

	<i>€ million</i>
2003	48
2004	29
2005	22
2006	21
2007	20
after 2007	138
	<b>278</b>

Financial commitments resulting from orders already placed under purchase agreements related to planned or ongoing capital expenditure projects total €145 million (2001: €191 million); the payments concerned are due entirely in 2003.

Total future commitments under existing licensing agreements and research alliances are currently estimated at €179 million (2001: €423 million). Of this amount, however, €155 million (2001: €267 million) will only become due if certain “milestones” or other conditions specified in the respective agreements are fulfilled. The remaining payments to be made to the parties concerned if the milestones or other conditions are met are as follows:

	<i>€ million</i>
2003	97
2004	42
2005	29
2006	10
2007	1
	<b>179</b>

In 2000, 2001 and 2002, all employees were offered opportunities to participate in stock compensation programs, 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 senior executives also depends on internal and external performance criteria which, if achieved, would trigger the corresponding financial commitments.

## NOTES TO THE STATEMENTS OF CASH FLOWS

### **[35] Net cash provided by operating activities**

The gross operating cash flow amounted to €302 million. This figure is computed, starting from the operating result of minus €88 million, by adding back expenses that do not result in cash disbursements and subtracting the income taxes attributable to the operating result. Disregarding €100 million in one-time cash inflows, the gross cash flow before exceptional items was €202 million. The net cash flow – after changes in working capital – amounted to €106 million.

### **[36] Net cash used in investing activities**

Additions to intangible assets, property, plant and equipment in 2002 resulted in a cash outflow of €654 million, while outflows related to investments and the granting of loans amounted to €6,824 million. Included here is the €5,700 million provided to Bayer CropScience AG to finance the acquisition of Aventis CropScience Holding S.A., France. Of this amount, €1,500 million was provided as a capital increase and €4,200 million as debt. A capital increase at Bayer Diagnostics Europe Ltd., Ireland, accounted for a further

€300 million. In addition, EQT, which acquired the Haarmann & Reimer group, received a vendor note in the amount of €250 million to finance part of the purchase price. Divestitures of companies resulted in inflows totaling €1,678 million, comprising mainly the proceeds of the sale of Haarmann & Reimer GmbH to EQT and of the sale of 94.9 percent of the shares of Bayer Wohnungen GmbH to TreuHandStelle, Essen. Further cash inflows of €195 million arose from the sale of property, plant and equipment, while €2,261 million came from repayments of loans and the sale of investments. Including cash inflows of €505 million in dividends and €274 million in interest, and after €4 million in miscellaneous disbursements, the net cash used in investing activities amounted to €2,569 million.

### **[37] Net cash provided by financing activities**

Net borrowings in 2002 amounted to €3,544 million, while dividend and interest payments came to €657 million and €387 million, respectively. Financing activities provided net cash of €2,500 million.

## TOTAL REMUNERATION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD, ADVANCES AND LOANS

The remuneration of the Board of Management for 2002 amounted to €5,700,737 (2001: €8,153,562). Emoluments to retired members of the Board of Management and their surviving dependents amounted to €14,383,353 (2001: €8,355,270).

Pension provisions for these individuals, amounting to €97,452,418 (2001: €65,082,405) are reflected in the balance sheet.

The remuneration of the Supervisory Board amounted to €1,293,750 (2001: €1,293,750).

There were no loans to members of the Board of Management or the Supervisory Board outstanding as of December 31, 2002, nor any repayments of such loans during the year.

## PROPOSAL FOR DISTRIBUTION OF THE PROFIT

The financial statements of Bayer AG show a balance sheet profit of €657 million. We propose that this amount be used to pay a dividend of €0.90 per no-par share on the capital stock of €1,870 million entitled to the dividend for 2002.

Leverkusen, February 26, 2003

Bayer Aktiengesellschaft  
The Board of Management

# Corporate Officers

## Supervisory Board

### **Prof. Dr. Herbert Grünewald †**

*Honorary Chairman, Leverkusen*

### **Hermann Josef Strenger**

*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 or held offices as members of the supervisory board or a comparable supervising body of the corporations listed (as at December 31, 2002 or the date on which they ceased to be members of the Supervisory Board of Bayer AG):

### **Dr. Manfred Schneider**

*Chairman of the Supervisory Board effective April 26, 2002, Leverkusen*

\* Dec. 21, 1938

Allianz AG

DaimlerChrysler AG

Linde AG

Metro AG

RWE AG

TUI AG (effective April 11, 2002)

### **Erhard Gipperich**

*Vice Chairman of the Supervisory Board; Chairman of the Group and Central Works Councils of Bayer AG, Leverkusen*

\* April 30, 1942

THS GmbH (effective May 1, 2002)

### **Dr. Paul Achleitner** (effective April 26, 2002)

*Member of the Board of Management of Allianz AG, München*

\* Sept. 28, 1956

Allianz Immobilien GmbH (*Chairman*)

MAN AG

RWE AG

ÖIAG

### **Dr. Josef Ackermann** (effective April 26, 2002)

*Spokesman of the Board of Managing Directors and Chairman of the Group Executive Committee of Deutsche Bank AG, Frankfurt am Main*

\* Feb. 7, 1948

Linde AG

Eurex Frankfurt AG (until May 27, 2002)

Eurex Clearing AG (until May 27, 2002)

Stora Enso Oyi

Vodafone Group Plc. (until Feb. 19, 2002)

Eurex Zürich AG (until May 27, 2002)

The Nasdaq Stock Market, Inc. (until July 24, 2002)

### **Petra Brayer** (until April 26, 2002)

*Chemical Laboratory Assistant, Dormagen*

\* Jan. 20, 1967

### **Karl-Josef Ellrich**

*Chairman of the Works Council,*

*Dormagen site*

\* Oct. 5, 1949

### **Thomas Hellmuth** (effective October 2, 2002)

*Agricultural Engineer, Langenfeld*

\* May 29, 1956

### **Prof. Dr. Ing. e. h. Hans-Olaf Henkel**

(effective April 26, 2002)

*President of the Leibniz Association,*

*Vice President of the Federation of German*

*Industry, Berlin*

\* March 14, 1940

Continental AG

Deutsche Industriebank AG (IKB)

Econia AG (until Sept. 2002)

European Aeronautics and Defense

Systems AG

IBM Deutschland GmbH (until Sept. 2002)

SMS AG

Ringier AG

ETF

Orange SA

### **Karl-Heinz Huchthausen**

(from April 26, 2002 until October 1, 2002)

*Chairman of the Works Council of*

*Haarmann & Reimer GmbH, Holzminden*

\* Jan. 26, 1947

### **Dr. h.c. Martin Kohlhaussen**

*Retired bank director and Chairman of the Supervisory Board of Commerzbank AG,*

*Frankfurt am Main*

\* Nov. 6, 1935

Heraeus Holding GmbH

Hochtief AG

Infineon Technologies AG

Karstadt Quelle AG

Linde AG

Schering AG

ThyssenKrupp AG

Verlagsgruppe Georg von Holtzbrinck GmbH

### **Hilmar Kopper** (until April 26, 2002)

*Chairman of the Supervisory Board of Deutsche Bank AG, Frankfurt am Main*

\* March 13, 1935

Akzo-Nobel N.V.

DaimlerChrysler AG

Solvay S.A.

Unilever N.V.

Xerox Company

### **John Christian Kornblum**

(effective April 26, 2002)

*Chairman of Bankhaus Lazard, Berlin*

\* Feb. 6, 1943

ThyssenKrupp Technologies AG

### **Petra Kronen**

*Chairman of the Works Council,*

*Uerdingen site*

\* Aug. 22, 1964

### **Dr.-Ing. Manfred Lennings**

(until April 26, 2002)

*Management Consultant, Essen-Kettwig*

\* Feb. 23, 1934

Deutsche Post AG

Gildemeister AG

Heitkamp-Deilmann-Haniel GmbH

IVG Holding AG

### **Dr. h.c. André Leysen** (until April 26, 2002)

*Chairman of the Board of Directors of Gevaert N.V., Mortsel, Belgium*

\* June 11, 1927

Agfa-Gevaert AG

Agfa-Gevaert N.V.

Deutsche Telekom AG

e.on AG

Schenker AG

### **Dr. h.c. Helmut Oswald Maucher**

(until April 26, 2002)

*Honorary Chairman of Nestlé S.A.,*

*Frankfurt am Main*

\* Dec. 9, 1927

Koc Holding A.S.

Qualiclick.com AG

Ravensburger AG

Union Bancaire Privée S.A.

### **Rolf Nietzard** (until April 26, 2002)

*Chemical Laboratory Technician,*

*Leverkusen*

\* Oct. 19, 1945

**Dr. Heinrich von Pierer**

*President and Chief Executive Officer of Siemens AG, Munich*

\* Jan. 26, 1941

Hochtief AG

Münchener Rückversicherungs-Gesellschaft AG

Volkswagen AG

**Dr. Wolfgang Reitzle** (effective April 26, 2002)

*Chairman of the Executive Board of Linde AG, Wiesbaden*

\* March 7, 1949

Allianz Lebensversicherungs-AG (effective Dec. 2002)

**Wolfgang Schenk** (effective April 26, 2002)

*Graduate Engineer, Leverkusen*

\* Sept. 24, 1953

**Waltraud Schlaefke** (until April 26, 2002)

*Chemical Laboratory Technician, Bomlitz*

\* Sept. 26, 1944

Wolff Walsrode AG

**Hubertus Schmoldt**

*Chairman of the German Mine, Chemical and Power Workers' Union, Hannover*

\* Jan. 14, 1945

Buna Sow Leuna Olefinverbund GmbH e.on AG

RAG Coal International AG

BP Aktiengesellschaft (effective Nov. 2002)

**Dieter Schulte**

*Former Chairman of the German Unions Federation, Duisburg*

\* Jan. 13, 1940

ThyssenKrupp AG

**Hermann Josef Strenger**

(until April 26, 2002)

*Chairman of the Supervisory Board,*

Leverkusen

\* Sept. 26, 1928

**Dr. Eugen Velker** (until April 26, 2002)

*Chemist, Dormagen*

\* May 1, 1942

**Lodewijk Christiaan van Wachem**

(until April 26, 2002)

*Chairman of the Supervisory Board of Royal*

*Dutch Petroleum Company, The Hague,*

Netherlands

\* July 31, 1931

Akzo Nobel N.V.

ATCO Ltd.

BMW AG

IBM Corporation

Philips Electronics N.V.

Zürich Financial Services

**Siegfried Wendlandt**

*North Rhine District Secretary of the German Mine, Chemical and Power*

*Workers' Union, Düsseldorf*

\* July 27, 1947

RWE Rheinbraun AG (until May 2002)

Rütgers AG

HT Troplast AG

**Reinhard Wendt** (effective April 26, 2002)

*Printer, Walsrode*

\* March 6, 1945

Wolff Walsrode AG

**Thomas de Win** (effective April 26, 2002)

*Commercial Clerk, Pulheim*

\* Nov. 21, 1958

**Prof. Dr. Ernst-Ludwig Winnacker**

*University Professor, Bonn*

\* July 26, 1941

MediGene AG

NascaCell AG

**Dr. Hermann Wunderlich**

*Former Vice Chairman of the Company's Board of Management, Odenthal*

\* April 29, 1932

Freudenberg & Co.

## Board of Management

Members of the Board of Management – in addition to performing individual supervising functions at companies affiliated to those in which they hold legal offices – hold or held offices as members of the supervisory board or a comparable supervising body of the corporations listed (as at December 31, 2002 or the date on which they ceased to be members of the Board of Management):

**Werner Wenning**

*Chairman of the Board of Management effective April 26, 2002*

\* Oct. 21, 1946

Dresdner Bank Lateinamerika AG

Gerling-Konzern Versicherungs-

Beteiligungs-AG

**Klaus Kühn** (effective May 1, 2002)

\* Feb. 11, 1952

Agfa-Gevaert N.V. (until June 11, 2002)

**Dr. Attila Molnar** (until June 30, 2002)

\* Aug. 17, 1948

**Dr. Frank Morich** (until June 30, 2002)

\* Oct. 4, 1953

**Dr. Udo Oels**

\* Jan. 2, 1944

Agfa-Gevaert AG (until June 11, 2002)

Haarmann & Reimer GmbH

(until Sept. 30, 2002)

Wolff Walsrode AG

**Dr. Richard Pott** (effective May 1, 2002)

\* May 11, 1953

**Dr. Manfred Schneider** (until April 26, 2002)

\* Dec. 21, 1938

**Werner Spinner** (until Feb. 28, 2003)

\* Oct. 30, 1948

**Dr. Gottfried Zaby** (until March 7, 2002)

\* Dec. 30, 1950

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**Forward-Looking Statements**

This publication 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 material 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 publication.

These factors include those discussed in our public reports filed with the Frankfurt Stock Exchange and with the U.S. Securities and Exchange Commission (including our Form 20-F). In view of these uncertainties, we caution readers not to place undue reliance on these forward-looking statements. We assume no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

The Annual Stockholders' Meeting of Bayer AG on April 26, 2002 consented to the hive-down of the CropScience business area to the subsidiary Bayer CropScience AG. The 2003 Stockholders' Meeting of Bayer AG will vote on transferring the remaining business areas and the service areas to separate legal entities.

The financial statements and management report of Bayer AG for 2002 are published in the Bundesanzeiger and have been included in the Commercial Register in Cologne.