

Realignment of the Bayer Group 2004

Report of the Board of Management on Item 6 of the Agenda
of the Annual Stockholders' Meeting of Bayer Aktiengesellschaft on April 30, 2004

Please note that this is solely a convenience translation of the report of the Board of Management. For the relevant legal document, please refer to the original German version.

Forward-Looking Statements

This publication contains forward-looking statements that reflect the current assumptions and forecasts of the Management of the Bayer Group. 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 the Bayer Aktiengesellschaft and those either expressed or implied by these statements. These factors include those discussed in Bayer Aktiengesellschaft's reports filed with the Frankfurt Stock Exchange and with the U.S. Securities and Exchange Commission (including Form 20-F). Bayer Aktiengesellschaft assumes no obligation and liability whatsoever to update these forward-looking statements or to adjust them to future events or developments.

Publisher:

Bayer AG, 51368 Leverkusen, Germany

Contents

I.	Preliminary Remarks	5
II.	Point of Departure/Current Position	6
1.	Bayer AG as a Strategical Holding Company	7
2.	Four Operating Sub-Groups	7
	a) Bayer HealthCare	8
	b) Bayer CropScience	8
	c) Bayer MaterialScience	9
	d) Bayer Chemicals	9
	e) Foreign Countries	10
3.	Service Companies	10
III.	Concept of Strategical Realignment of the Bayer Group	11
1.	Focus on Core Businesses and Separation of Parts of the Chemical and Polymer Businesses	11
2.	Decisive Considerations	12
	a) Different Structures and Conditions of the Business Activities	12
	b) Enhancing of the Profitability and Growth of the Bayer Group by Focussing All Resources	13
	c) Increase in Bayer Share Value	14
	d) Increased Competitiveness for Lanxess	14
3.	Alternatives to the Realignment	15
4.	The Bayer Group After the Strategic Realignment	16
	a) Bayer HealthCare	17
	b) Bayer CropScience	18
	c) Bayer MaterialScience	18
	d) Service Companies/Chemical Park Concept	19
5.	The Future Lanxess Group	19
6.	Future Relations Between the Bayer Group and Lanxess	22
IV.	Legal Implementation of the Realignment	23
1.	Combining the Chemical and Polymer Activities in Lanxess	23
	a) Assets to Be Transferred to Lanxess	23
	b) Legal Mechanisms for Transfer	25
2.	Separation From Lanxess	26
	a) Sale of Lanxess Shares	26
	b) Spin-Off of Lanxess Shares Under § 123 of the German Transformation Act	26
	c) Decision Between Sale and Spin-Off	27

V.	Effects of Divesting Lanxess	27
1.	Effects on the Balance Sheet	27
	a) Balance Sheet	28
	b) Figures	30
2.	Tax Effects	32
3.	Effects on Employees	32
	a) Agreement Dated November 7, 2003	32
	b) Effects on Individual Employment Contracts.....	32
	c) Effects on Works Constitutions	33
	d) Effects on Collective Agreements	34
	e) Legal Effects on Co-determination.....	34
4.	Effects on Stockholders	35
5.	Miscellaneous Effects.....	36

I. Preliminary Remarks

The Bayer group ("Bayer Group") has committed itself to achieving a sustained increase in value for its stockholders. The board of management ("Board of Management") and supervisory board ("Supervisory Board") of Bayer AG (hereinafter also "Company") for this reason decided in November 2003 to strategically realign the Bayer Group. The plan as presented to the public on November 7, 2003, provides that the Bayer Group concentrates on the core growth sectors HealthCare, CropScience, and MaterialScience. The new business concept sees the major portion of chemical activities (excepting H.C. Starck and Wolff Walsrode) as well as some one-third of the polymer activities no longer belonging to the core business sectors. The Bayer Group therefore intends to separate itself from the relevant chemical and polymer activities.

The separation is planned (in simple terms) to take place in two steps by, at latest, the beginning of 2005. In the first preparation stage, the global business activities which are to be separated in the chemical and polymer areas, including foreign activities and service and corporate center functions are to be transferred to a new subsidiary of Bayer AG named "Lanxess". Thereafter, Lanxess' shares will either be sold or be spun off under the German Transformation Act (*Umwandlungsgesetz*).

Sale of Lanxess may either take place by way of an initial public offering ("IPO") of Lanxess shares or by way of a non-public sale of Lanxess ("M&A Transaction"). As an alternative to a separation by way of sale, Bayer AG may spin off its entire shareholding in Lanxess under the German Transformation Act (*Umwandlungsgesetz*), whereby the shares of the acquiring entity are then issued to the Bayer AG stockholders and are admitted to trade on the stock market. In the event of a spin-off, Bayer AG stockholders will continue to own financial interests in the former chemical and polymer activities of Bayer AG which are now to be separated; however, this shareholding will no longer be connected with Bayer AG, but will be in connection with a participation in another listed company independent of Bayer AG.

The Board of Management has not yet made a decision on the method of separation. The Board of Management plans to carry out a capital market transaction; i.e., an IPO or a spin-off. There are no plans to sell Lanxess by way of an M&A Transaction to a strategic investor. In the interests of the Company and its stockholders, the Board of Management must, however, keep these alternative options open.

The final decision on the method of separation depends on a number of factors and is expected to be made, at latest, in the second half of 2004. Of particular importance for this decision are the conditions on the capital market, the general stock market climate for an IPO, the possible IPO placement volume, the possibility of avoiding a full consolidation of Lanxess activities within the Bayer Group, expected sales proceeds, as well as the perspectives for Lanxess as a company. Should the Board of Management decide in favor of a spin-off, the Bayer AG stockholders would have to pass a resolution separately within

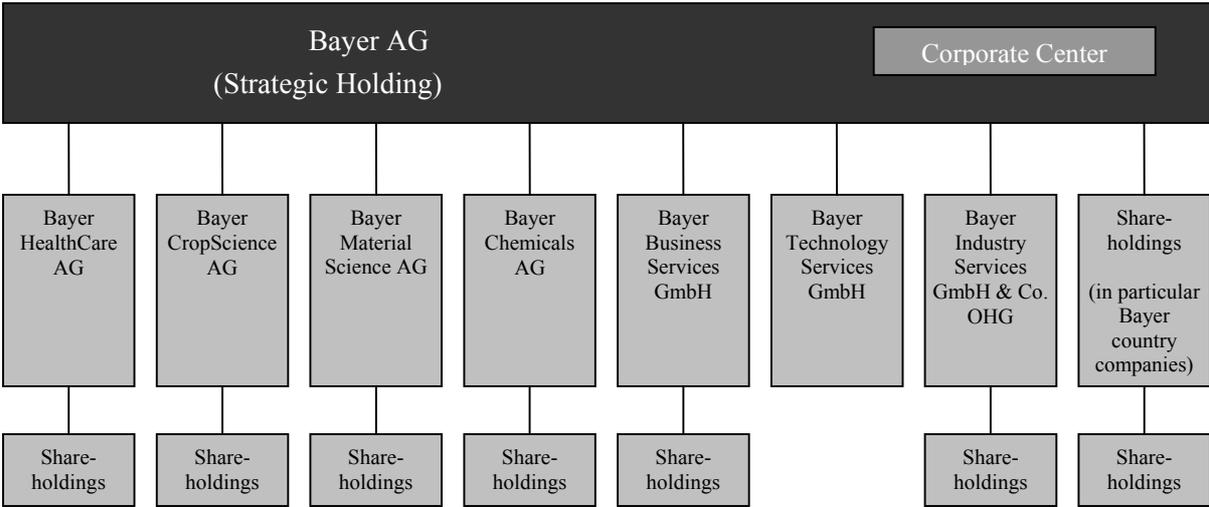
a special stockholders' meeting, probably in November 2004; the resolution giving consent of the stockholders' meeting, which is explained in this management board report, covers only the decision on the concept and the sale of the Lanxess shares by way of an IPO or in the course of an M&A Transaction.

With consent of the Supervisory Board, the Board of Management of Bayer AG submits for resolution and consent of the stockholders' meeting on April 30, 2004 under agenda item 6 the concept for the Bayer Group's strategic new realignment as explained in this report. This concept provides for the separation from the chemical and polymer activities, which are to be combined in Lanxess. Upon passing the resolution, the Board of Management will be authorized, upon consent given by the Supervisory Board, to take the measures necessary for executing the sale by way of an IPO or an M&A Transaction. The authorization is subject to a time limitation until the next annual stockholders' meeting of the Company.

The following report of the Management describes the current position (Section II) and explains the business concept of the new strategic realignment (Section III), implementation of the business concept (Section IV), as well as its impacts (Section V).

II. Point of Departure/Current Position

The Bayer Group is an international group active in the four business sectors (business areas) HealthCare, CropScience, MaterialScience, and Chemicals. The current legal structure of the Bayer Group can be illustrated as follows:



1. Bayer AG as a Strategic Holding Company

Since the reorganization of the Bayer Group which was completed at the end of 2003, Bayer AG is the strategic holding company in the Bayer Group and assumes the role of the group's leading company. The Bayer Group is led by a four-member Board of Management of Bayer AG. The Board of Management, among other things, determines the long-term goals and strategies for the Bayer Group and its sub-groups and lays down guidelines and/or principles for the enterprise policies derived therefrom. It also has the responsibility of determining the investment portfolio, management of executive officers, distributing (financial) resources, and the group-financial management. The Board of Management of Bayer AG discharges its duties with the support of a corporate center formed at the Bayer AG, which takes on the responsibility of governance, support, and service functions.

In addition to shareholdings in business area companies and service companies, Bayer AG holds other domestic and foreign participations.

2. Four Operating Sub-Groups

The activities in the four business areas, i.e. the operational business, are being led by the four business area companies Bayer HealthCare AG, Bayer CropScience AG, Bayer MaterialScience AG, and Bayer Chemicals AG since the reorganization in 2003. Each business area company, together with its respective domestic and foreign shareholdings, represents a Bayer sub-group. The four sub-groups, Bayer HealthCare, Bayer CropScience, Bayer MaterialScience, and Bayer Chemicals, subject to the strategies, goals, and guidelines set forth by the Board of Management of Bayer AG represent independent operating areas with worldwide business responsibility and their own management. Between Bayer AG as the dominating company and each business area company has been concluded a domination and profit and loss agreement.

The following chart provides an overview of the significant figures of the Bayer Group and its individual operating sub-groups (business area companies including their direct and indirect subsidiaries as well as other companies included in the reporting structure) for the year 2003.

	Bayer Group	Sub-Group Bayer HealthCare	Sub-Group Bayer CropScience	Sub-Group Bayer MaterialScience	Sub-Group Bayer Chemicals
(External) Sales*	28,567	8,871	5,764	9,897	3,400
Percentage of Bayer Group Sales**		31 %	20 %	35 %	12 %
Operating Results (EBIT)*	-1,203	334	324	-1,180	-499
Investments*	1,739	407	413	573	203
Employees** (as of 12/31/2003)	115,400	34,600	19,400	23,700	14,100

* approximate figures and in million euros

** approximate figures

The operating results (EBIT) of the Bayer Group amounting to -1.2 billion euros are affected by extraordinary items (in particular expenses due to impairments and restructuring) in the amount of approximately -2.6 billion euros. The operating performance (EBIT before extraordinary items) in 2003 is approximately 1.4 billion euros.

a) Bayer HealthCare

The sub-group Bayer HealthCare, under the management of Bayer HealthCare AG, comprises worldwide all activities in the divisions Pharmaceuticals, Biological Products, Consumer Care, Diagnostics, and Animal Health.

b) Bayer CropScience

The sub-group Bayer CropScience, under the management of Bayer CropScience AG, is active in the three business segments Crop Protection, Environmental Science, and BioScience worldwide.

c) Bayer MaterialScience

The sub-group Bayer MaterialScience, being managed by Bayer MaterialScience AG, comprises worldwide the polymer segment of the Bayer Group. Included are the following strategical business units:

- Polycarbonates (PCS)
- Polycarbonates Sheets (POS)
- Styrenics, i.e., ABS/SAN und PC Blends (STY)
- Semi-Crystalline Products (SCP)
- MDI (MDI)
- TDI (TDI)
- Polyether (PET)
- BR/Butyl (BRB)
- Technical Rubber Products (TRP)
- Rubber Chemicals (RUC)
- RheinChemie
- Base and Modified Isocyanates (BMI)
- Polyester, TPU, Films (PTF)
- Inorganic Basic Chemicals (IBC)
- Fibers (FIB).

d) Bayer Chemicals

The sub-group Bayer Chemicals, under the leadership of Bayer Chemicals AG, comprises the chemical activities of the Bayer Group. Included are the following strategic business units:

- Basis Chemicals (BAC)
- Fine Chemicals (FCH)
- Inorganic Pigments (IPG)
- Ion Exchange Resins (ION)
- Leather (LEA)
- Material Protection Products (MPP)
- Paper (PAP)
- Textile Processing Chemicals (TPC)
- Functional Chemicals (FCC).

Bayer Chemicals AG also has shareholdings in the subsidiary Wolff Walsrode AG, which is active in the chemicals segment. The activities of H.C. Starck GmbH, which is directly held by Bayer AG, is included in the reporting structure of the sub-group Bayer Chemicals.

e) Foreign Countries

The business strategies and operations management of the individual business areas of Bayer Group in foreign countries is carried out by the respective Bayer sub-group responsible for the business area. The business areas are to this extent fully independent in an organizational sense. The Bayer country or country groups organizations support the business of business areas in the countries. Country groups may comprise more than one country. The legal structure in the respective countries may differ from the organizational structure for reasons relating to market, legal, and tax or other practicability considerations.

3. Service Companies

Central service functions of former group areas, of former group staff and of former central service areas of Bayer AG, particularly those regarding more than one business area, are being managed by three subsidiaries of Bayer AG (service companies) since the reorganisation: Bayer Business Services GmbH, Bayer Technology Services GmbH, and Bayer Industry Services GmbH & Co. OHG. The service companies provide their services across the business areas to the companies of the Bayer Group and also to external customers at market competitive prices. The Bayer Group companies are required to use at least partially the services to be performed by the service companies in their respective service areas (so-called mandatory services). For other services offered by them, the Bayer Group companies are free to choose whether they use these services (so-called elective services). A domination and profit transfer agreement has been concluded between Bayer AG as the dominating company and Bayer Business Services GmbH and Bayer Technology Services GmbH, each.

Bayer Business Services GmbH ("BBS") provides business and administrative services for the Bayer Group and has the responsibility of managing some subsidiary companies and the service organizations of the Bayer country companies. In total, the service area business services (BBS along with its subsidiaries and the other legally dependent and independent service organizations managed by BBS) had some 13,800 employees as of December 31, 2003. Of that number, 2,500 are trainees of the Bayer Group. Bayer Technology Services GmbH ("BTS"), with its approximately 2,300 employees (as of December 31, 2003) provides worldwide technical engineering and technological services for the Bayer Group and external customers, primarily users of the chemical park.

Bayer Industry Services GmbH & Co. OHG ("BIS") operates the Bayer chemical park in the four German Bayer locations Leverkusen, Dormagen, Krefeld-Uerdingen, and Brunsbüttel. They provide site services for the group-owned companies located in these locations and business segments as well as for external third persons. In addition to providing infrastructure services, another focus of BIS' area of responsibility is supplying energy as well as sewage and waste collection. Further, security and environmental services

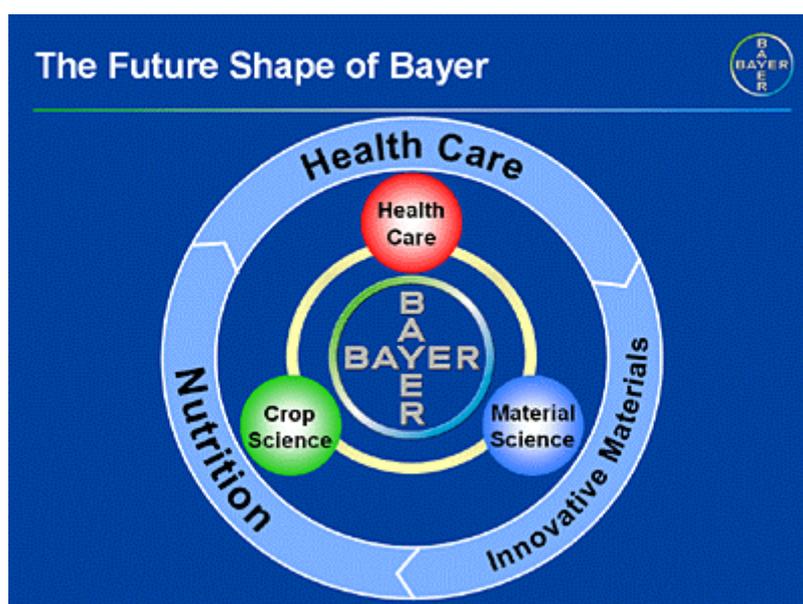
as well as technical services are included in their primary areas of activities. BIS has approximately 6,900 employees (as of December 31, 2003).

BIS is also the real estate administration company (*Immobilienverwaltungsgesellschaft*) of the Bayer Group. It is responsible for managing and marketing all the premises in all locations. Further BIS is the contractual party for all users of space in the chemical parks locations. For this purpose, BIS, except for company apartments, leased all property used by the Bayer Group and owned by Bayer AG and has subleased it to the individual users.

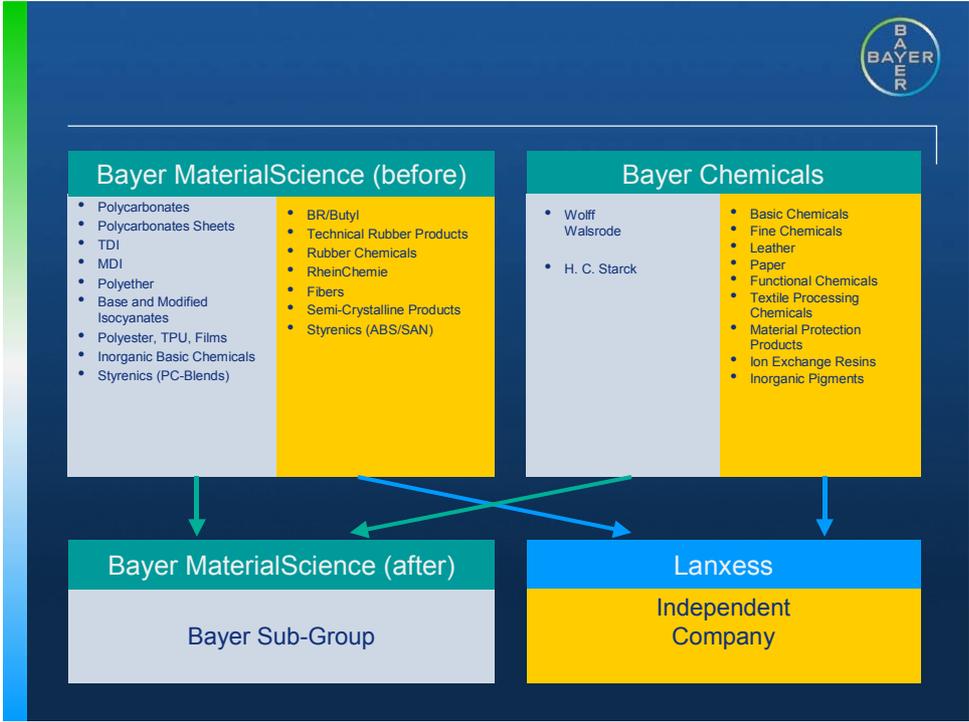
III. Concept of Strategical Realignment of the Bayer Group

1. Focus on Core Businesses and Separation of Parts of the Chemical and Polymer Businesses

The Board of Management and Supervisory Board of Bayer AG decided in November 2003 to strategically realign the Bayer Group. In the future, the Bayer Group will concentrate on its research-intensive activities as well as its activities having high growth and innovation potential. This includes the life science area business activities Bayer HealthCare (health) and Bayer CropScience (nutrition) as well as significant polymer activities from the sub-group Bayer MaterialScience (innovative materials). From the previous sub-group Bayer Chemicals, only the activities of Wolff Walsrode are to remain in the Bayer Group. The same applies to activities of H.C. Starck. Both will in the future be included in the reporting structure of the sub-group Bayer MaterialScience.



The Bayer Group will separate itself from activities not belonging to these core businesses. This includes the greater part of the classical chemical business, formerly belonging to the sub-group Bayer Chemicals as well as some one-third of the polymer activities belonging to the sub-group Bayer MaterialScience. The Board of Management of Bayer AG plans to combine these chemical and polymer businesses in an independent company with the corporate name "Lanxess" and to complete the separation from this company in the beginning of 2005, at latest.



The Board of Management reserves the right to make non-material changes to the composition of Lanxess' portfolio in specific areas, particularly in order to react to any market changes or for legal reasons, for example, in the event specific shareholdings in joint venture companies may not be transferred.

2. Decisive Considerations

a) Different Structures and Conditions of the Business Activities

The current businesses in the Bayer Group portfolio show major differences in terms of profitability, technology, market position, and market development. The businesses span from research-intensive

growth businesses with innovative products to cost-driven businesses with standardized products in ripe markets.

The future core businesses of the Bayer Group are innovative and technology-driven business areas which promise for the future a high and dynamic growth. The keys to success in these research-intensive areas are extensive applications and manufacturing know-how, high research competence, leading technology, as well as the development and maintenance of intellectual property.

The operations to be transferred to Lanxess deal—primarily—with products that have reached a higher degree of market maturity. These operations—compared with the new Bayer core activities—have lower market entrance barriers and lower growth rates. The margins, which tend to be lower due to the stiffer competition, require the establishment of leaner, less complex structures. Most of all, flat cost structures and the resolute optimization of assets and processes are of essential importance for the success of this business. When separating and allocating business segments, production technology aspects as well as the impacts on, and advantages for the group were taken into account. Thus, for example, the business segment of fine chemicals was allocated to Lanxess despite its high degree of innovation due to its many technical production links to Lanxess' other chemical business activities.

The various business activities of the current Bayer Group portfolio—research-intensive growth businesses with innovative products, on the one hand, and cost-driven businesses with standardized products in more mature markets, on the other hand—require, due to their different structures, characteristics and keys to success, different types of management and tailored business models. The Board of Management of Bayer AG is convinced that this cannot be optimally implemented for the future Bayer core areas and the future Lanxess business under the common roof of the Bayer Group. In the past, internal restructurings and adjustments of Lanxess' future operations portfolio within the Bayer Group for purposes of cost reduction, increase in capital productivity, creation of flat structures and organizations, as well as the increase of flexibility have proven to be insufficient. The Board of Management is convinced that combining the chemical and polymer activities in an independent company will set free the necessary entrepreneurial stimulus for the creation of an improved strategy for these activities and adjusted structures.

b) Enhancing of the Profitability and Growth of the Bayer Group by Focussing All Resources

In its future core businesses, the Bayer Group already has outstanding technology competence and strong market positions. In order to make full use of the growth potential of these research-intensive areas also in the future, however, substantial further investment will be necessary. To make this possible, a concentration of the resources available at the Bayer Group is unavoidable. Only by concentrating all financial resources and management forces on these core activities will it be possible to effectively use

the existing growth potential and to sustainably strengthen and expand the competitive position of the Bayer Group.

Focussing on the core businesses HealthCare, CropScience, and MaterialScience will strengthen Bayer Group's competitiveness in the long run. The Bayer Group will be more able to fully meet the demands which characterize these growth businesses. The entire management of the Bayer Group will be aligned towards this end as set out in the business model. In doing so, the optimal strategy for both businesses can be created. The Board of Management expects that the Bayer Group will experience sustainable improvements in results and growth by its concentration on growth and innovation.

c) Increase in Bayer Share Value

Separation from the chemical and polymer activities to be combined in Lanxess is an important measure for increasing shareholder value. Regardless of their operational performance, diversified companies are currently forced to accept a conglomerate discount on the capital markets. This is reflected in the valuation of the company in question and its shares. The Board of Management of Bayer AG is of the opinion that the Bayer shares too are currently suffering from a conglomerate discount. The Board of Management expects that future concentration in the areas HealthCare, CropScience and MaterialScience, and the associated increase in transparency and strategical clarity in the Bayer Group will reduce this discount and boost rating factors for Bayer shares. The Board of Management is moreover convinced that the capital markets will reward gained opportunities for sustained increase in profitability associated with the concentration of Bayer Group on growth areas. Connected to this is the expectation that the core businesses remaining in the Bayer Group, due to their focus on growth and earnings, in the future will be more highly rated than when combined with the structurally diverging Lanxess operations having less growth and margin potential. The announcement of the strategic realignment in November 2003 has already had a positive effect on the Bayer stock price. The Board of Management is confident that the capital markets will continue to positively evaluate the path taken by the Board of Management of Bayer AG for the strategical realignment. On the other side, continuation of business in the form of the present portfolio structure would endanger Bayer Group's competitiveness and, therefore jobs in the Bayer Group on the long term.

d) Increased Competitiveness for Lanxess

In the future, Lanxess will concentrate all available personnel and financial resources to maintaining and expanding its core chemical and polymer businesses. This focus will allow Lanxess to better meet the specific demands of competition in the areas of its polymer and chemical operations than previously in the former Bayer Group. As an independent company, Lanxess will in the future enjoy more freedom to make business and planning decisions in order to increase its competitiveness. In light of a fast-paced and fundamental change of the European chemical and polymer industries, Lanxess will be able in the future to react faster and with more flexibility to current market developments than it did when it was a

part of a large group with operations in numerous other business fields and therefore making its decisions always had to take into account numerous different aspects. For purposes of entering new markets, Lanxess will for example be able to activate attractive niche businesses and independently implement ideas or business models with sufficient potential and attractive market opportunities. As an independent company, Lanxess will be able to realign its business portfolio much more easily. Companies or operations may be acquired or sold much faster and targeted. Lanxess may also, according to its own discretion, seek partners for specific business areas. Therefore, the substance of the company may be strengthened, its competitiveness increased long-term, and Lanxess' positioning on the market may be further improved. As an independent company with its own reporting structures transparency is increased, resulting in optimization requirements being more clearly revealed. Necessary structural adjustments may be tackled with clearer vision and consequently implemented.

3. Alternatives to the Realignment

The Board of Management of Bayer AG has reviewed existing alternatives to the described realignment of the Bayer Group. In the Board of Management's view, apart from divestment of the polymer and chemical activities and focus on future core operations, there are no equally satisfying alternatives for accomplishing the aims with its associated advantages for Bayer AG and its stockholders. In the past, internal restructurings and adjustments of Lanxess' future operations portfolio within the Bayer Group for purposes of cost reduction, increase in capital productivity, creation of flat structures and organizations, as well as the increase of flexibility have proven to be insufficient. Neither is a separation of only parts of these future Lanxess activities an appropriate measure for reaching the goals and advantages. The same is true for the sale of the Lanxess activities in separate parts over the course of numerous transactions. A series of individual sales would only be possible in a long-lasting process with very little transactional certainty but still would tie up a significant amount of Bayer Group resources.

Following implementation of the realignment, Bayer Group will lose its ability to realize further synergies in certain areas of the future Lanxess and its remaining Bayer businesses. Here, primarily the service areas and parts of the foreign business will be affected. The Board of Management, however, will attempt to minimize the loss in synergies by the manner of concrete implementation of the realignment.

Realignment of the Bayer Group is associated with one-time costs. The external costs primarily consist of costs for the development and adjustment of IT systems, advisor fees, and transaction costs, the exact amount of which cannot be determined. A preliminary estimate is approximately 70 million euros. The internal costs cannot at this time be estimated. Further, it is possible that in certain areas of polymer activities, Lanxess may compete with the Bayer Group.

The Board of Management is, however, after weighing all circumstances, of the opinion that the described advantages clearly outweigh the disadvantages, and therefore, taking all things into account, can be accepted by the Bayer Group.

4. The Bayer Group After the Strategic Realignment

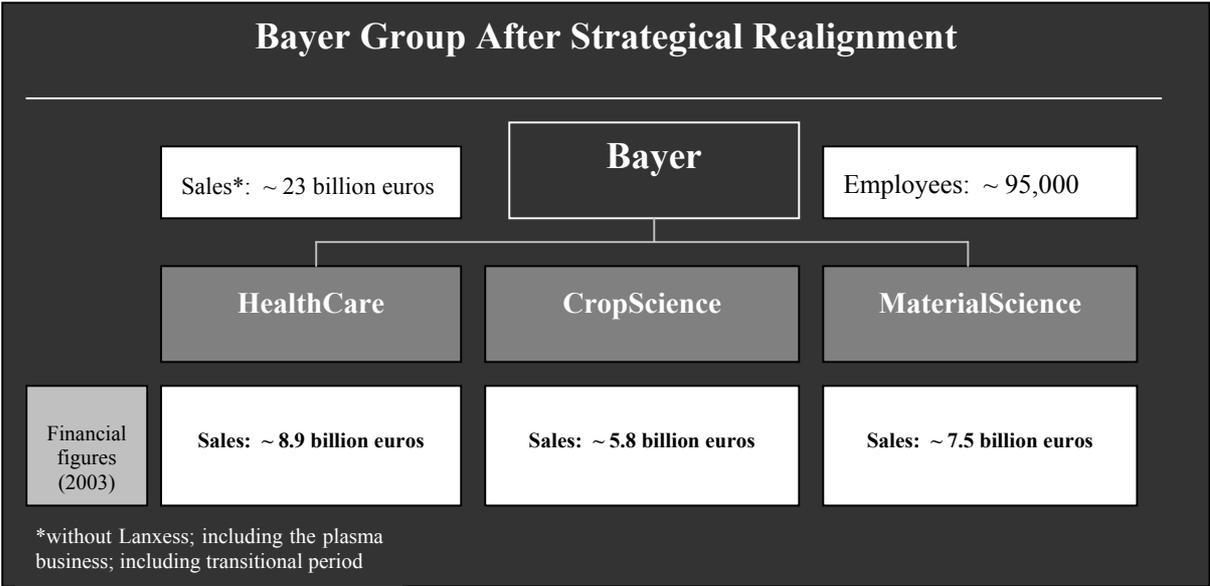
Following the implementation of the strategic realignment, the Bayer Group will only have three operating sub-groups: Bayer HealthCare, Bayer CropScience, and Bayer MaterialScience. In the future, Bayer MaterialScience, along with its polymer activities, will also include in its reporting structure the chemical activities remaining in the Bayer Group. The holding structure of the Bayer Group is to remain unchanged. The independent sub-groups resulting from the hive-downs have led to a considerable gain in transparency and flexibility within the Bayer Group. These are important prerequisites for a strong leadership and implementation of the Bayer Group strategy and the optimization of the portfolio management.

After the realignment, the Bayer Group, based on figures as of December 31, 2003, will have worldwide some 95,000 employees (of that amount, 38,700 in Germany). Therefore, approximately 20,000 employees (approximately 18 percent of the employees) will leave the Bayer Group. Of the employees leaving the Bayer Group, around 10,000 are located in Germany and 10,000 in foreign countries.

Of the Bayer Group's sales of approximately 29 billion euros and operating results (EBIT) of approximately -1.2 billion euros in the year 2003, sales of approximately 23 billion euros and operating results (EBIT) of approximately 96 million euros are allocated to the business activities remaining in the Bayer Group after the realignment. The results of the Bayer Group in 2003 reflect extraordinary items totaling to approximately -2.6 billion euros in 2003, of which approximately -1.4 billion euros are attributable to business activities remaining in the Bayer Group and approximately -1.2 billion euros to activities to be allocated to Lanxess. The operating performance (EBIT before extraordinary items) of the Bayer Group in 2003 totals to approximately 1.4 billion euros, of which approximately 1.5 billion euros is attributable to the business activities remaining with the Bayer Group following realignment.

In evaluating the financial data, it should be noted that the financial data stems from the Bayer Group 2003 Consolidated Financial Statements which report the Lanxess activities as discontinuing operations pursuant to IAS 35. This information is to be seen from the perspective of the Bayer Group and represents an excerpt from the figures concerning the entire group and does not purport to be an independent report of Lanxess activities and of operations remaining with Bayer. Moreover, adjustments may be made to the allocation of assets, liabilities, expenses, and revenues. Only limited use of the financial data can be made for purposes of assessing what the financial and earnings situation and the situation regarding the assets of the Bayer Group (without Lanxess) would actually have been if Lanxess had existed as an independent group during the reporting period. In 2003, the activities allocated to

Lanxess reported intra group sales with other business parts of the Bayer Group which are not reflected by the financial data (see details section V.1.). The financial data are also not indicative for the future profitability of the Bayer Group.



a) Bayer HealthCare

The sub-group Bayer HealthCare with the Bayer Group activities in the area of health will also continue operations in its five divisions Pharmaceuticals, Biological Products, Consumer Care, Diagnostics, and Animal Health.

In the area of Pharmaceuticals, the strategy and realignment as resolved and previously announced by the Board of Management of Bayer AG will be consequently implemented. Accordingly, the sub-group Bayer HealthCare in the area of Pharmaceuticals will position itself as a middle-sized entity and continue to run the pharmaceutical business with significantly adjusted structures. In particular, it is intended to concentrate research on those therapy areas in which Bayer HealthCare already today plays an important role and has developed successful products.

For purposes of portfolio optimization, the sub-group Bayer HealthCare is planning to sell its plasma business in the business segment Biological Products. The business with the gene-technologically manufactured blood coagulation-factor Kogenate is not affected by this decision.

b) Bayer CropScience

The sub-group Bayer CropScience will not be affected by the strategic realignment of the Bayer Group. The sub-group is well-positioned in the fields herbicide, insecticide, fungicide, and seed treatment. The area Environmental Science is a leader in the pest control in non-agricultural areas. In the area of Bioscience, the Bayer Group is engaged in the seed area as well as biotechnology, which serves as a growth platform.

c) Bayer MaterialScience

The currently existing sub-group Bayer MaterialScience which, under management of Bayer MaterialScience AG, formerly operated the polymer businesses of the Bayer Group, will in the future represent the third operations pillar in the Bayer Group. In the sub-group Bayer MaterialScience, the polymer and chemical activities will be combined to become the future core businesses. Due to the strategic realignment, the sub-group will fundamentally reposition itself. Bayer MaterialScience will concentrate on the strong growth, innovation, and technology-driven business areas of the polymer areas and plans to expand these further, particularly in the growing market Asia. Approximately two-thirds of the former polymer portfolio are involved. Of special importance is the area of high quality plastic and lacquers in which the sub-group will concentrate on the key technologies polycarbonate and polyurethane. Here, the focus is on the following products and activities:

- Polycarbonates (including polycarbonates sheets, PC films and PC blends);
- Polyurethanes (MDI, TDI and polyether);
- lacquers, sealants and adhesives;
- Thermoplastic polyurethanes, including film activities;
- Inorganic base chemicals.

In the future, Bayer MaterialScience will, in addition to the polymer activities, also include in its reporting structure the chemical activities remaining within the Bayer Group. Specifically, these are the activities of Wolff Walsrode and H.C. Starck, both of which were formerly included in the reporting structure of the sub-group Bayer Chemicals as independent business units. Legally, the share interests are to continue to be held by Bayer AG (H.C. Starck GmbH) and Bayer Chemicals AG (Wolff Walsrode AG), which will continue to exist.

With the future portfolio of the sub-group Bayer MaterialScience (including polymer activities as well as H.C. Starck and Wolff Walsrode), the Bayer Group, based on 2003 figures with worldwide approximately 17,400 employees (as of December 31, 2003), had sales of approximately 7.5 billion euros as well as operating results (EBIT) of -380 million euros. These results reflect extraordinary items in the amount of approximately -715 million euros. The operating performance of the future MaterialScience portfolio

(EBIT before extraordinary items) in 2003 is approximately 335 million euros (on the limited significance of this financial data, see section V.1.).

d) Service Companies/Chemical Park Concept

The three Bayer service companies will continue to exist after the realignment. Also the chemical park concept will continue to be operated following the strategical realignment. The Bayer Group and Lanxess will jointly use the commercial real property and therefore have common interests in making the commercial sites attractive for themselves and other chemical park users. Also the synergies from the central supply of local services by the Bayer Industry Services GmbH & Co. OHG ("BIS") will remain. BIS is to remain the local operator and service provider with an emphasis on the factories in Leverkusen, Dormagen, and Krefeld-Uerdingen. Lanxess will use the commercial sites as a chemical park partner and as in the past purchase a significant amount of local services from BIS. In order to secure the interests of both sides in the sustained attractiveness and future development of the commercial sites, Lanxess is to be granted a minority holding in BIS. It is not planned that Lanxess will hold an interest in Bayer Business Services GmbH and Bayer Technology Services GmbH. In the course of realigning the service structures, some functions not yet specified of Bayer Business Services GmbH and Bayer Technology Services GmbH will be transferred to BIS in order to gain synergy effects.

5. The Future Lanxess Group

The resulting Lanxess Group will comprise businesses of the former chemical and polymer portfolios of the Bayer Group. Included are all business fields of the former chemical segment—with the exception of H.C. Starck and Wolff Walsrode operations; Borchers GmbH, a wholly-owned subsidiary of Wolff Walsrode AG will also be transferred to Lanxess. Further, the polymer activities to be separated from the sub-group Bayer MaterialScience will be transferred to Lanxess. Included in these are the areas solid rubber and rubber chemicals (strategic business units: BR/Butyl, Technical Rubber Products, Rubber Chemicals) and RheinChemie as well as the fiber activities. With regard to the plastic operations, the strategic business unit Semi-Crystalline Products and the business fields ABS/SAN from the strategic business unit Styrenics will be transferred to Lanxess.

If it is reasonable in terms of organizing separate business processes independent from the Bayer Group, Lanxess will also assume worldwide activities of the service areas of the Bayer Group and the respective associated employees. This applies particularly to employees in the service areas who in the past already have discharged work-related duties in the Lanxess area. Lanxess will become a minority shareholder of Bayer Industry Services GmbH & Co. OHG. There are no plans for Lanxess to become a shareholder of Bayer Business Services GmbH and Bayer Technology Services GmbH. Functions and employees from the Bayer AG Corporate Center will also be transferred to Lanxess in order to promote independent management and leadership in Lanxess. An independent corporate center for Lanxess activities will be formed before the legal implementation of the separation of Lanxess. In total, approximately 20,000

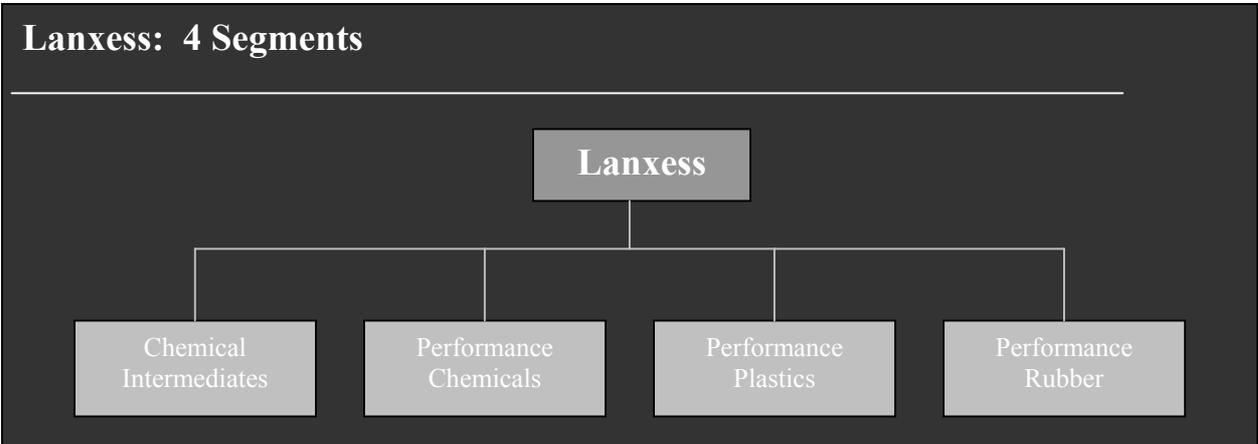
employees worldwide are to be transferred to Lanxess, approximately 1,000 of which from the service areas (service companies including subsidiaries and other legally dependent and independent service organizations in foreign countries).

The aim is to have Lanxess be organizationally independent and operationally functioning by July 1, 2004. Specifically, it is planned that Lanxess will have fully functioning information technology systems for accounting by July 1, 2004.

Lanxess will have an extensive portfolio in basis, specialty, and fine chemicals, as well as polymers, including:

- Active ingredients (custom manufacturing) and intermediates for pharmaceuticals and crop protection products;
- Material protection products;
- Finishing agents for the leather, textile and paper industries;
- Ion exchange resins for water treatment;
- Inorganic pigments for coloring concrete and surface coatings;
- Plastics additives such as flame retardants and plasticizers;
- Solid rubber and rubber chemicals for the rubber and tire industry;
- Plastics for devices cases;
- High quality plastics in particular for automotive appliance.

Lanxess intends to divide its portfolio into four segments: "Chemical Intermediates", "Performance Chemicals", "Performance Plastics", and "Performance Rubber".

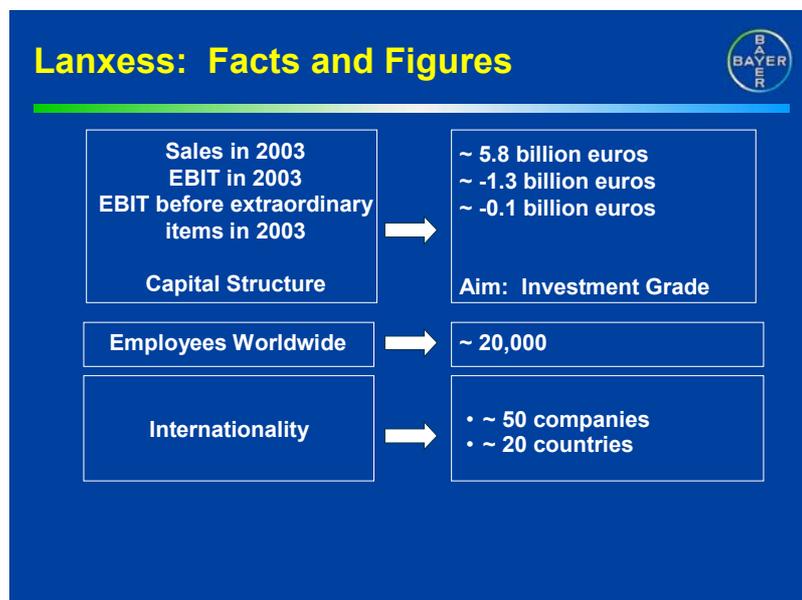


With the Lanxess portfolio, the Bayer Group, based on 2003 figures with approximately 20,000 employees (approximately 10,000 of which in Germany), had sales of approximately 5.8 billion euros and operating results (EBIT) of approximately -1.3 billion euros. However, these results reflect extraordinary items in the amount of approximately -1.2 billion euros. The operating performance (EBIT before extraordinary items) of the Lanxess portfolio in 2003 is approximately -0.1 billion euros.

The chemical businesses to be transferred to Lanxess had worldwide approximately 10,000 employees at the end of 2003, and reported in 2003 sales of approximately 2.5 billion euros (approximately 74 percent of the sales for the sub-group Bayer Chemicals) and operating results (EBIT) of approximately -516 million euros. The polymer businesses which are to be transferred had worldwide approximately 10,000 employees at the end of 2003 as well; in 2003 they reported sales of approximately 3.3 billion euros (approximately 33 percent of the sales for the sub-group Bayer MaterialScience) and operating results (EBIT) of approximately -783 million euros.

In evaluating the financial data, it should be noted that the financial data stems from the Bayer Group 2003 Consolidated Financial Statements which report the Lanxess activities as discontinuing operations pursuant to IAS 35. This information is to be seen from the perspective of the Bayer Group and represents an excerpt from the figures concerning the entire group and does not purport to be an independent report of Lanxess activities and of operations remaining with Bayer. Moreover, adjustments may be made to the allocation of assets, liabilities, expenses, and revenues. Only limited use of the financial data can be made for purposes of assessing what the financial and earnings situation and the situation regarding the assets of Lanxess Group actually would have been if Lanxess had existed as an independent group during the reporting period. In 2003, the activities allocated to Lanxess reported intra group sales with other business parts of the Bayer Group which are not reflected by the financial data (see details section V.1.). The financial data are also not indicative for the future profitability of the Bayer Group.

Lanxess will receive an equity ratio which will give it a competitive starting position in its markets. The exact capital structure has yet not been decided and will depend on whether separation from Lanxess is effected by way of IPO, M&A Transaction, or a spin-off. In case of the aimed capital market transaction, i.e., an IPO or spin-off, attempts will be made to obtain a rating investment grade by rating agencies which will correspond to a BBB rating at Standard & Poors and a Baa rating at Moody's.



Lanxess will be one of the leading suppliers of chemical and polymer products in Europe and have a leading internationally competitive position in various market segments. This is also true for the production technology. With 50 operating companies in approximately 20 countries, Lanxess will be a global company.

6. Future Relations Between the Bayer Group and Lanxess

Also after separation, there will be significant trade and supply relationships between the Bayer Group and Lanxess, particularly in the area of supply of pre-products and intermediate products as well as toll manufacturing. Here, some of the existing supply relationships will be continued, and some of the supply relationships will be rearranged due to the separation, for example, ABS for polycarbonate blends. Lanxess will also continue to purchase services from the Bayer Group service companies. This particularly applies to BIS, from which Lanxess as a shareholder will use extensively the local services on the commercial sites used by Lanxess. On a limited basis, Lanxess will also contract services from Bayer Business Services GmbH. Lanxess will contract processing and technical engineering services on the basis of long-term contracts from Bayer Technology Services GmbH. Where both use the same commercial site, the Bayer Group companies and Lanxess will mutually supply services to each other. This applies particularly to commercial sites in Antwerp (Belgium), Tarragona (Spain), Map Ta Put (Thailand), and Thane (India). Due to a lack of its own distribution network, in various countries, Lanxess will use the former distribution network of the Bayer Group based on agency agreements still to be concluded.

All supplies and services between Lanxess and the Bayer Group will be done at standard market terms and conditions.

IV. Legal Implementation of the Realignment

Legally, the realignment of the Bayer Group, in simple terms, will be implemented in two steps by the beginning of 2005. First, the relevant business activities from the chemical and polymer segments allocated to Lanxess, including the foreign activities and service and corporate center functions, will be combined in Lanxess, which is to be held by Bayer AG. Thereafter, the shares in Lanxess shall be sold. The sale of Lanxess can be effected either by way of a stock market listing effected through an initial public offering of Lanxess shares ("IPO") or by way of a non-public company sale of Lanxess ("M&A Transaction"). An alternative to a separation by way of sale would be that Bayer AG spins off its entire holding in Lanxess under the German Transformation Act (*Umwandlungsgesetz*) and the shares of the acquiring entity would be issued to Bayer AG stockholders and listed for trading on the stock exchanges.

1. Combining the Chemical and Polymer Activities in Lanxess

a) Assets to Be Transferred to Lanxess

Worldwide, the Bayer Group's chemical and polymer activities allocated to Lanxess will be combined in Lanxess. Thus, transferred to Lanxess will be all assets and liabilities with all rights and duties to be functionally allocated or already allocated to its operations. All assets which are not required to be reported or not reportable or de facto unreported and other rights and duties will also be transferred. To the extent possible and necessary, the extent to which assets are used for Lanxess activities will be used as a criteria for determining the functional allocation. With regard to essential assets, the following is planned:

All rights in trademarks to be allocated or already allocated to Lanxess will be transferred to Lanxess to the extent this is permissible under law in the individual case. This does not apply to existing trademarks which contain the letters BAY. Lanxess will be granted an unlimited license to these trademarks free of charge. Ownership in the group's signs Bayer and the Bayer cross symbol will remain entirely with the Bayer Group. In order not to hinder Lanxess operations with already existing products using the group's sign, Lanxess will be granted a time-limited joint rights of use in these signs.

All rights in patents and know-how to be allocated or are already allocated to Lanxess will be transferred to Lanxess. The necessary licenses will be granted to Lanxess for know-how and patents which remain with Bayer Group, but are also necessary for Lanxess to continue the polymer and chemical activities

transferred to it. This also applies conversely for know-how and patents which are to be transferred to Lanxess, but are used by the activities remaining in the Bayer Group.

All rights in software either self-developed or used under joint license, license, or sub-license, as well as the continued development of such software, will be transferred to Lanxess to the extent these are to be allocated or already allocated to the transferred polymer and chemical activities. To the extent that transfer of software and rights in software is not legally possible, Lanxess will be granted any appropriate rights to use (license, sub-license, joint license). This also will apply to software relating to the Lanxess business area, but not transferred to Lanxess. To the extent that software (including rights to use) transferred to Lanxess are needed by activities remaining with the Bayer Group for continuing their business operations, Lanxess will grant the necessary licenses.

All assets belonging to the plant, property, and equipment and current assets which are to be or already are allocated to Lanxess activities will also be transferred to Lanxess. If non current assets and current assets are needed for future Lanxess activities, but are not transferred to Lanxess, Lanxess will be granted the necessary rights to use, or the appropriate trade contracts will be concluded. The same applies with respect to non current and current assets which are transferred to Lanxess, but also are needed for activities remaining with the Bayer Group.

Real property belonging to the Bayer Group in foreign countries and being used for Lanxess activities will be transferred fully or almost fully to Lanxess. Initially, most domestic real property belonging to the Bayer Group and used by Lanxess, for the most part, to the extent this is permissible under law in the individual case, will not be transferred by Bayer AG to Lanxess. Lanxess will continue to lease this property from BIS, whereby the lease agreements will provide for long-term lease of the property so as to secure Lanxess' commercial sites. Bayer AG will be granted an option to sell and Lanxess will be granted an option to purchase real property used by Lanxess. Additionally, Lanxess will be granted a minority shareholding in BIS.

The employment agreements of those employed in the operations to be allocated to Lanxess will be transferred to Lanxess. With the transfer of employment agreements, the pension liabilities towards the active employees of Lanxess will also be transferred. The same will apply in foreign countries, whereby the legal parameters and terms of the pension liabilities in the respective countries are to be taken into account. Not yet decided is to what extent the remaining pension obligations towards already retired or other former employees of the Bayer Group which are allocated to Lanxess will be transferred to Lanxess.

The amount of the debt including pension liabilities to be transferred to Lanxess has not yet been decided. Lanxess will receive a capital margin which will give it a competitive starting position in its markets. The exact capital structure of Lanxess has not yet been decided and will depend on whether the separation from Lanxess will be done by way of an IPO, M&A Transaction, or spin-off. In the event of an aimed

capital market transaction, i.e., an IPO or a spin-off, the amount of liabilities including pension liabilities to be assumed by Lanxess will be determined according to the sought-after rating which should be in the investment grade area (BBB rating at Standard & Poors or Baa rating at Moody's).

The goal is to consummate the major part of the transfer with economic effect as of July 1, 2004. Transfers of Lanxess activities will be effected under customary market conditions. Purchase prices will primarily be determined on the basis of expert valuations. Contractual terms will ensure that all items to be functionally allocated to Lanxess will be transferred to Lanxess or at least be made available to Lanxess on a permanent basis. Any liability of Bayer Group for the properties of the assets used by the polymer and chemical activities allocated to Lanxess will be excluded to the extent this is legally permissible. For existing environmental contamination, Lanxess will only be liable to the extent consistent with application of the principle of causation. If it cannot be proven that Lanxess, other Bayer Group operations, or the respective predecessor activities have caused such contaminations, liability will be divided according to objective criteria still to be defined.

b) Legal Mechanisms for Transfer

The polymer and chemical activities of Bayer MaterialScience AG and Bayer Chemicals AG to be transferred to Lanxess will each be transferred under the provisions of the German Transformation Act (*Umwandlungsgesetz*) by way of spin-off for acquisition (*Abspaltung zur Aufnahme*) and therefore by way of partial universal succession. Transfer of polymer and chemical activities by way of universal succession is less complicated than the contribution of the same as property by way of single succession. This particularly applies to the contracts which are allocated to Lanxess.

Transfer of the foreign polymer and chemical businesses to Lanxess will, especially taking into consideration the different tax regimes, be consummated in using different legal methods in compliance with the local laws. For foreign companies with exclusive or primarily Lanxess operations, shares in these companies will regularly be transferred to Lanxess; as the case may be, after prior transfer of assets allocated or to be allocated to Lanxess. Moreover, there are plans to form Lanxess country companies in the different countries, which will purchase the respective polymer and/or chemical operation under local laws. For economic reasons, no foreign assets will be transferred in cases where a threshold amount of assets do not exist; instead, a contractual agreement will be made between the Bayer Group and Lanxess (e.g., agency agreements). This would often be the case with local distribution businesses.

No decision has been made concerning the manner of legal transfer of activities of Bayer Technology Services GmbH, its subsidiaries and Bayer Business Services GmbH or the functions, employees, and assets of Bayer AG's corporate center allocated to Lanxess.

2. Separation From Lanxess

The Board of Management of Bayer AG has decided to separate itself from Lanxess. The separation from Lanxess may take the form of a sale or a spin-off under the German Transformation Act (*Umwandlungsgesetz*).

a) Sale of Lanxess Shares

Sale of Lanxess may either be effected by an IPO or an M&A Transaction. If a decision is made in favor of an IPO, Lanxess shares will be offered to public investors for purchase. Lanxess shares will only be admitted for trade on the Frankfurt stock exchange. At the same time, a private placement for institutional investors will be made in the USA. In the event of an IPO, the majority of Lanxess shares will be placed on the stock exchange in any case. In an IPO scenario, Bayer AG will attempt to the extent possible to separate itself from its complete participation in Lanxess. Bayer Group will seek to avoid, in any case, any further full consolidation of Lanxess activities within the Bayer Group. The possibility cannot be excluded, however, that after consummation of an IPO, Bayer AG will still have up to a 49 percent holding in Lanxess. In such case, Bayer AG intends to separate itself from the remaining interest over the following years. Still to be decided on is a subsequent placement of shares on the stock exchange stemming from a planned future capital increase in Lanxess. A preferred allotment of Lanxess shares to Bayer AG stockholders is not planned. Bayer AG stockholders, however, may subscribe to the shares.

Upon completion of an M&A Transaction, Bayer AG will not be expected to have any holdings in Lanxess.

b) Spin-Off of Lanxess Shares Under § 123 of the German Transformation Act

As an alternative to sale, consideration is being given to Bayer AG spinning off Lanxess shares under the German Transformation Act (*Umwandlungsgesetz*) to an acquiring stock corporation. The spin-off shall take place with retroactive tax and economic effect as of June 30, 2004, 2400 hours/July 1, 2004, 0000 hours. In consideration for the spin-off of Lanxess shares, the acquiring stock corporation will issue to the Bayer AG stockholders new shares arising from a capital increase. These shares would be admitted to the Frankfurt stock exchange. After completion of the spin-off, Bayer AG will no longer hold any shareholdings in the acquiring stock corporation. The sole stockholders in the acquiring stock corporation would be Bayer AG stockholders. They would therefore continue to have financial interest in the chemical and polymer activities to be separated from and formerly belonging to Bayer AG, however, no longer within the scope of Bayer AG, but in the context of holding interests in a legally separate stock exchange listed company, which is independent from Bayer AG.

The annual stockholders' meeting resolution of April 30, 2004, concerning the realignment concept of the Bayer Group, does not represent a decision concerning any possible spin-off. The Bayer AG stockholders will still have to resolve on any such spin-off of Lanxess shares separately in a special stockholders' meeting.

c) Decision Between Sale and Spin-Off

The Board of Management and Supervisory Board of Bayer AG have presently not made any decisions concerning whether separation from Lanxess should be made by way of sale or spin-off. The Board of Management plans to carry out a capital market transaction, i.e., an IPO or spin-off. A sale by way of an M&A Transaction to a strategic investor or a financial investor is not planned. However, in the interest of the Company and its stockholders, the Board of Management must keep such option open.

The final decision will depend on a series of factors and should be made in the second half of 2004. Of particular importance for this decision are the capital market conditions, the general stock market climate for an IPO, the possible IPO placement volume, the possibility of avoiding further full consolidation of Lanxess operations within the Bayer Group, the expected sale proceeds as well as Lanxess' perspectives as a company. These are factors which largely cannot be influenced by the Board of Management of Bayer AG. The Board of Management of Bayer AG will be advised by investment banks in making its decision. Bayer AG will inform its stockholders of its decision. In case of a sale the consent of the Supervisory Board will be required. In the event that a decision is made to sell by way of an IPO or an M&A Transaction, the Board of Management of Bayer AG will report to the stockholders at the next annual stockholders' meeting. In the event that a decision is made in favor of a spin-off, the Board of Management of Bayer AG will submit this measure to the stockholders at a special stockholders' meeting expected to be held in November 2004 and will provide to them a report giving detailed information in compliance with the requirements of the German Transformation Act (*Umwandlungsgesetz*).

V. Effects of Divesting Lanxess

1. Effects on the Balance Sheet

The balance sheet effects of the separation from of the chemical and polymer activities to be combined in Lanxess are illustrated in the following balance sheets and selected figures.

All financial data is taken from the audited and certified Consolidated Annual Financial Statements for the Bayer Group of December 31, 2003, which were prepared applying § 292a German Commercial Code (*Handelsgesetzbuch*) according to the guidelines of the International Accounting Standards Board

(IASB). In these Consolidated Annual Financial statements of the Bayer Group, the activities allocated to Lanxess are shown as discontinued operations (see IAS 35).

In the notes to the Consolidated Annual Financial Statements of the Bayer Group, the figures reported for the discontinuing operations include, in addition to the plasma operation, all assets, liabilities, expenses, and revenues allocated to the activities to be transferred to Lanxess at that time. This information is to be seen from the perspective of the Bayer Group and represents an excerpt from the figures concerning the entire Bayer Group and does not purport to be an independent report of Lanxess activities and of operations remaining with Bayer. Moreover, adjustments may be made to the allocation of assets, liabilities, expenses, and revenues. In addition, no final decision has been made whether the separation will be made by way of a sale or spin-off.

Only limited use of the financial data can be made for purposes of assessing what the financial and earnings situation and the situation regarding the assets of the Bayer Group (without Lanxess) and the Lanxess Group would actually have been if Lanxess had existed as an independent group during the reporting period. The financial data are also not indicative for the future profitability of the Bayer Group and the Lanxess Group.

a) Balance Sheet

The following table shows the assets and liabilities as derived from the audited and certified consolidated balance sheet of the Bayer Group (including Lanxess activities) as of December 31, 2003, which, on the one hand, are to be allocated to the operation to be continued and, on the other hand, are to be allocated to the discontinued operation of Lanxess activities.

Euros in Millions	Bayer Group (with Lanxess) Dec. 31, 2003	thereof:	
		Discontinuing Business (Lanxess) Dec. 31, 2003	To be continued Business of the Bayer Group (without Lanxess)* Dec. 31, 2003
ASSETS			
Noncurrent assets			
Intangible assets	6,514	118	6,396
Property, plant, and equipment	9,937	1,579	8,358
Investments	1,781	229	1,552
	18,232	1,926	16,306
Current assets			
Inventories	5,885	1,098	4,787
Trade accounts receivable	5,071	1,019	4,052
Other receivables	3,854	345	3,509
Liquid assets	2,863	150	2,713
	17,673	2,612	15,061
Deferred taxes	1,298	484	814
Deferred charges	242	14	228
BALANCE SHEET TOTAL	37,445	5,036	32,409
STOCKHOLDERS' EQUITY AND LIABILITIES			
Stockholders' equity			
Minority stockholders' interest	123	10	113
Provisions			
Provisions for pensions and similar Liabilities	5,072	418	4,654
Other provisions	3,791	451	3,340
	8,863	869	7,994
Liabilities			
Financial liabilities	9,426	1,131	8,295
Trade accounts payable	2,265	628	1,637
Other liabilities	2,459	216	2,243
	14,150	1,975	12,175
Deferred taxes	1,462	168	1,294
Deferred charges	634	52	582
BALANCE SHEET TOTAL	37,445	5,036	32,409

*including the plasma business

With respect to the discontinued operations of Lanxess activities, there are trade accounts receivable against affiliated companies in the amount of 109 million euros and other receivables against affiliated companies in the amount of 55 million euros. Liabilities of the discontinued operations of Lanxess activities towards affiliated companies consist of trade accounts payable in the amount of 181 million euros and other payables in the amount of 48 million euros.

Upon consummation of the realignment and complete separation from Lanxess activities, the assets and liabilities to be transferred to the Lanxess group will no longer be reported in the Bayer Group balance sheet. In the event of a spin-off or a complete sale of Lanxess and after consummation of the separation, the Bayer Group balance sheet will not show any assets or liabilities of the future Lanxess Group. If after sale of a majority of Lanxess shares, the Lanxess activities are no longer to be fully consolidated the Bayer Group balance sheet will only show a remaining shareholding interest of Bayer AG in Lanxess.

In the event of a sale, Bayer AG will receive income as sales proceeds. The amount of any sales proceeds cannot at this time be quantified and therefore was not taken into account. Sales proceeds would increase liquid assets by the same amount.

b) Figures

Shown below are selected figures from the Consolidated Financial Statements of the Bayer Group (including Lanxess activities) as of December 31, 2003, and figures derived from these financial statements for Lanxess activities and activities remaining in the Bayer Group, i.e., without Lanxess activities.

Selected Figures (Euro in millions)	Bayer Group (with Lanxess) Dec. 31, 2003	Lanxess Dec. 31, 2003	Bayer Group (without Lanxess) Dec. 31, 2003
Sales	28,567	5,776	22,791
Operating Results (EBIT)	-1,203*	-1,299**	96***
Operating Performance (EBIT before extraordinary items)	1,382	-95	1,477
Gross cashflow	3,244	349	2,895
Net cashflow	3,293	131	3,162

* including extraordinary items (in particular impairments) in the amount of -2,585 million euros

** including extraordinary items (in particular impairments) in the amount of -1,204 million euros

*** including extraordinary items (in particular impairments) in the amount of -1,381 million euros

Bayer Group's (with Lanxess) operating results (EBIT) in 2003 were affected by extraordinary items in the amount of approximately -2.6 billion euros of which approximately -1.4 billion euros are attributable to the business activities remaining with the Bayer Group following realignment and approximately -1.2 billion euros are allocated to Lanxess activities. The extraordinary items comprised in particular expenses due to impairments and restructuring.

The operating performance (EBIT before extraordinary items) of the Bayer Group (with Lanxess) in 2003 is approximately 1.4 billion euros. The operating performance (EBIT before extraordinary items) of Lanxess and the Bayer Group (without Lanxess) is approximately -0.1 billion euros or approximately 1.5 billion euros, respectively.

Only limited use of the financial data can be made for purposes of assessing what the financial and earnings situation of the Bayer Group (without Lanxess) and the Lanxess Group would actually have been if Lanxess had existed as an independent group during the reporting period. This information is to be seen from the perspective of the Bayer Group and represents an excerpt from the figures concerning the entire Group and does not purport to be an independent report of Lanxess activities and of operations remaining with Bayer. Moreover, adjustments may be made to the allocation of assets, liabilities, expenses, and revenues. In 2003, the activities allocated to Lanxess reported intra group sales with other

business parts of the Bayer Group which are not reflected by the financial data. Not included in these figures are any sales proceeds. The financial data is not indicative of future profitability of the Bayer Group or the Lanxess group.

2. Tax Effects

According to current knowledge, the realignment of the Bayer Group will not result in material tax burdens for the Bayer Group. The exact amount of any tax burden will depend on the market value of assets to be transferred to Lanxess as well as the results of the Bayer Group. Expert valuations will be made for purposes of determining the market value of assets to be transferred to Lanxess.

3. Effects on Employees

a) Agreement Dated November 7, 2003

On November 7, 2003, the Board of Management of Bayer AG and the employee representatives belonging to the Bayer AG Supervisory Board concluded an agreement which provides the principles for works and spokesperson's agreements as well as principles for a still to be concluded site protection agreement III, which also applies to Lanxess. The agreement concluded on November 7, 2003, came into effect on January 1, 2004. It excludes, among other things, in principle termination based on changes to operations for four years until the end of 2007; this also applies to Lanxess. In addition to the waiver of termination based on operational changes, the agreement further provides for a reduction of some 1,000 employment positions in Leverkusen, Krefeld-Uerdingen, Dormagen, Elberfeld, and Brunsbüttel by 2005.

b) Effects on Individual Employment Contracts

Together with the operations and operating units of the polymer and chemical businesses to be transferred to Lanxess, also all employment agreements which are allocated to these operations and operating units will be transferred to Lanxess (§ 613a German Civil Code (*Bürgerliches Gesetzbuch*)). This applies to domestic employment agreements as well as to employment agreements in all foreign countries within the European Community. This means that Lanxess will become a party to the individual employment agreements assuming all rights and duties therein. The employment agreements will continue to be effective for Lanxess with their terms and conditions unamended. The work, compensation, and other employment conditions will not change due to the transfer of operations. Contractual provisions taking seniority into account will be fully credited to those former employees having recognized seniority. Employment agreements may not be terminated due to these transfer operations.

Not only the employment agreements which, in the course of the spin-off from Bayer Chemicals AG and Bayer MaterialScience AG transferred to Lanxess, but also employment agreements transferred to

Lanxess from the service companies and the corporate center of Bayer AG will continue with terms unamended under the corresponding application of § 613a German Civil Code (*Bürgerliches Gesetzbuch*).

For foreign countries outside of the European Community, similar results will be sought, taking into account the local laws.

The company pension plan for employees of the Bayer Group transferred to Lanxess in Germany will not be adversely affected due to the transfer. Upon transfer of the employment agreements, all rights and duties from the existing company pension plan policies and individual personal commitments of Bayer Chemicals AG and Bayer MaterialScience AG towards active employees will be transferred to Lanxess. The employees will remain full members of the pension fund. Pension obligations for active employees in the service companies and the corporate center being transferred to Lanxess, will also be transferred to Lanxess. The same will apply in foreign countries, whereby the respective legal parameters and terms of pension obligations will have to be taken into account.

With respect to the transfer of pension obligations towards employees of the Bayer Group to be allocated to Lanxess who are already retired or have left the respective company, no final decision has been made.

c) Effects on Works Constitutions

In view of the hive-downs of business and service areas of Bayer AG to the work and service companies in the course of the Bayer Group 2002/2003 realignment, Bayer AG and the Industriegewerkschaft IG Bergbau Chemie Energie concluded on January 10, 2002 a collective agreement pursuant to § 3 German Works Constitution Act (*Betriebsverfassungsgesetz*) effective until May 31, 2006, containing the provisions for the works constitution within the scope of restructuring the Bayer Group. It is stipulated therein that the former works council structures existing until then are to continue to exist without any major changes at the local commercial sites of Bayer AG also after restructuring and that the works councils to be elected in March 2002 in the specific operations as well as the general works council would remain in office regardless of the restructuring measures. Each of the elected works councils accordingly will assume the function of a "local works council" which will be responsible for the new business area and service companies at the commercial site. Further stipulated in the collective agreement is that the existing works agreements and general works agreements will be separated from the works councils at the site or the general works council according to the reorganization under agreements with the same content of the individual business areas and service companies.

In the agreement dated November 7, 2003, the Board of Management of Bayer AG and the employee representatives that are members of the Bayer Supervisory Board agreed that the collective agreement will remain in effect until May 31, 2006, and will not be terminated before this date. Further, it was

agreed that the works councils existing based on the collective agreement will temporarily discharge the responsibilities pursuant to § 21a German Works Constitution Act (*Betriebsverfassungsgesetz*) for future operations and sites of Lanxess within the effective area of the collective agreement pursuant to § 3 German Works Constitution Act (*Betriebsverfassungsgesetz*), the terms of which will be extended. Moreover, it was agreed that the participation rights of the works council on site and the general works councils under the collective agreement will continue to be in effect. The continued effectiveness will end upon election of the first independent employee representative body (works council) for Lanxess. The agreement of November 7, 2003, further provides that the current spokespersons' committees will temporarily have the responsibility which is effective until new general elections to take place in the beginning of 2006 for works council and spokespersons' committee.

Further, all existing works and spokesperson's agreements are to be replaced with agreements with Lanxess having the same terms and conditions. For stipulations effective for executive employees, it will be ensured that these also will be effective under Lanxess.

d) Effects on Collective Agreements

The former wage commitments of Bayer Chemicals AG and Bayer MaterialScience AG under the collective agreements of the chemical industry will also be applicable to Lanxess. Lanxess will become a member of the employer association of the chemical industry before the spin-off is consummated and therefore become bound to the wage commitment.

e) Legal Effects on Co-determination

The spin-off has no effect on the existence, make-up, and term of office of the Supervisory Board of Bayer AG. Bayer AG will continue to be a company with, pursuant to the provision of the German 1976 Co-determination Act (*Mitbestimmungsgesetz*), an equally balanced Supervisory Board (ten stockholder representatives, ten employee representatives). The employee representatives in the Supervisory Board of Bayer AG are elected by employees of all domestic Group companies, so that the employees allocated to the Lanxess activities will remain entitled to vote for members of the Supervisory Board as long as Lanxess remains a Group company.

After consummation of the spin-off, a co-determined supervisory board for Lanxess will be formed according to the provisions of the German 1976 Co-determination Act (*Mitbestimmungsgesetz*). For this purpose, the presently three-member supervisory board of Lanxess will subsequent to status proceedings pursuant to §§ 97 et seq. German Stock Corporation Act (*Aktiengesetz*) have a new composition. The new supervisory board will be composed of 16 members, of which eight will represent stockholders and eight will represent employees.

The current employee representatives in the supervisory boards of Bayer Chemicals AG and Bayer MaterialScience AG, whose employment agreements, pursuant to §§ 324 of the German Transformation Act (*Umwandlungsgesetz*), and 613a of the German Civil Code (*Bürgerliches Gesetzbuch*) will be transferred to Lanxess, will automatically lose their positions in the supervisory boards of Bayer Chemicals AG and Bayer MaterialScience AG upon the effective dates of the respective spin-offs pursuant to §§ 24(1), and 7(2) of the German 1976 Co-determination Act (*Mitbestimmungsgesetz*) due to a lack of an employment agreement with the respective companies.

In the future, Bayer Chemicals AG will no longer have employees and therefore its supervisory board will not be subject to co-determination principles. The supervisory board of Bayer MaterialScience AG will, on the contrary, also be subject to co-determination principles under the German 1976 Co-determination Act (*Mitbestimmungsgesetz*).

The planned transfer of employment agreements from the service companies to Lanxess will have no effects on the co-determination status in the individual service companies.

4. Effects on Stockholders

After completion of the restructuring, the Bayer Group will concentrate on the core businesses HealthCare, CropScience and MaterialScience. Bayer stockholders will have stockholder interests in a company which, more than previously, will focus on innovation and growth and, therefore, will experience sustainable improvements in results and performance.

The Board of Management of Bayer AG is confident that the strategical realignment will result in an increase in the rating factors for Bayer shares. The announcement of the strategical realignment in November 2003 already had a positive effect on the Bayer share price. The Board of Management is confident that the capital markets will continue to positively evaluate the path taken by the Board of Management of Bayer AG. The realignment of the Bayer Group will not affect the stock exchange listing of the Bayer shares in German and international stock exchanges. The dividend policy of Bayer AG, which is based on the Group's total results, the Group's operating results (EBIT), cash flow and continuity of dividend payments, will remain unchanged even after separation from Lanxess.

Separation by way of a sale will not have any direct tax implications for Bayer stockholders. Direct tax implications for Bayer stockholders can only arise in the event of a spin-off. Bayer AG has already obtained a binding statement from the tax authorities according to which on the Bayer stockholder level no tax burden will be sustained due to the spin-off under German tax laws. More information on this will be provided to Bayer stockholders in the event of a spin-off in a report to be submitted under the German Transformation Act (*Umwandlungsgesetz*).

In case of a complete separation by way of sale Bayer AG stockholders will no longer have a participating interest in the chemical and polymer activities to be combined in Lanxess. In the event of an IPO, the Bayer AG stockholders may subscribe to the stocks issued; a preferred allotment of Lanxess shares to Bayer AG stockholders is not planned. In the event of a spin-off, Lanxess shares will be issued to Bayer stockholders.

5. Miscellaneous Effects

Presently, the possibility that the realignment will have effects on the financial instruments of the Bayer Group cannot be fully excluded. The concrete implementation of the realignment will be done in such a manner as to avoid this to the extent possible.

Leverkusen, March 11, 2004

Bayer Aktiengesellschaft
The Board of Management

Wenning

Kühn

Dr. Oels

Dr. Pott