



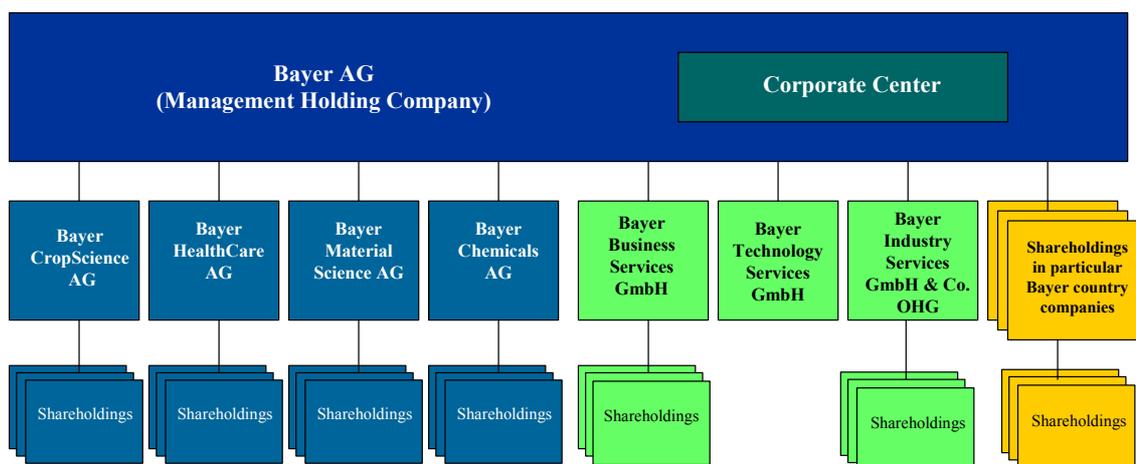
**Information for stockholders
on the successful conclusion
of the carve-out of the business and service areas**

The reorganization of the Bayer Group into a holding company structure was completed on December 30, 2003 when the carve-out of the last business and service areas was entered in the Commercial Register in line with the resolution taken at the Annual Stockholders' Meeting in April 2003. Bayer Chemicals AG, Bayer HealthCare AG and Bayer MaterialScience AG, formerly Bayer Polymers, have now taken their place alongside Bayer CropScience AG as separate legal entities within the Bayer Group. Similarly, the service companies Bayer Technology Services GmbH, Bayer Business Services GmbH and Bayer Industry Services GmbH & Co. OHG are now all wholly owned subsidiaries of Bayer AG.

What follows is a status report on the reorganization of the Bayer Group. It outlines what has been achieved – for you and for the company – and takes a look ahead to the future.

I. The new organizational structure of the Bayer Group

The new organizational structure is based on the plans outlined by the Board of Management and adopted at the Annual Stockholders' Meeting on April 26, 2002. The aim was to separate strategic and operational management of the Group. The carve-outs have now been entered in the Commercial Register of Bayer AG in compliance with the resolution adopted at the Annual Stockholders' Meeting on April 25, 2003. As a consequence, the Bayer Group now operates in a holding company structure.





The principal companies in the Bayer Group are Bayer HealthCare AG, Bayer Chemicals AG, Bayer MaterialScience AG, Bayer CropScience AG, Bayer Technology Services GmbH, Bayer Business Services GmbH and Bayer Industry Services GmbH & Co. OHG. The Group is steered by the four-member Board of Management of Bayer AG, which operates as a management holding company. Supported by the Corporate Center, the Board of Management of Bayer AG decides on the corporate strategy of the Group and its portfolio, appoints executive staff and allocates resources. Its responsibilities also include financial management.

The subgroups are run independently by their management boards, the service companies by their executive boards/managing directors within the scope set by the Group Management Board.

The subgroups operate in the following areas:

FIELDS OF ACTIVITY

Bayer HealthCare	Bayer CropScience	Bayer MaterialScience	Bayer Chemicals
Pharmaceuticals - Infectious Diseases - Cardiovascular Disease - Metabolic Disorders - Cancer Biological Products - Blood Coagulation - Immunology Consumer Care - Non-prescription Medicines Diagnostics - Laboratory Testing - Near-patient Testing - Self-testing - Nucleic Acid Diagnostics Animal Health - Livestock - Companion Animals	Crop Protection - Insecticides - Fungicides - Herbicides - Seed Treatment Environmental Science - Professionals - Consumers BioScience - Plant Improvement - Nunza	- Polycarbonates - Styrenics - Semi-Crystalline Products - MDI - TDI - Polyether - BR / Butyl - Technical Rubber Products - Rubber Chemicals - Base and Modified Isocyanates - Polyester, TPU, Films - Inorganic Basic Chemicals - Fibres	Performance Products Functional Chemicals: - Material Protection - Performance Chemicals - Colorants for Plastics & Specialties Process Chemicals: - Paper - Leather - Textile Processing Chemicals Additives: - Wolff Walsrode Electronics, Optics and Ceramics: - H.C. Starck Custom Development & Manufacturing - Fine Chemicals Basic Chemicals & Ion Exchange Resins - Basic Chemicals - Inorganic Pigments - Ion Exchange Resins



The functions covered by the three service companies comprise:

FIELDS OF ACTIVITY

Bayer Business Services	Bayer Technology Services	Bayer Industry Services
<ul style="list-style-type: none"> - Business Enabling & Consulting - Logistics Solutions - Science & Technology - Finance & Accounting - Procurement - Human Resources Services - Training & Development - Law & Patents - IT Operations - Pensions - Internal Services 	<ul style="list-style-type: none"> - Engineering - Process Technology - Process Management Technology - Energy Management & Procurement - Business Planning & Services - Business Management 	<p>Owner and operator of Bayer's chemical park network in Leverkusen, Dormagen, Krefeld-Uerdingen and Brunsbüttel</p> <ul style="list-style-type: none"> - Utilities - Infrastructure & Real Estate - Safety, Environment, Analytics - Technical Services - Environmental Services - Site Security - Public Relations - Brunsbüttel Site Services - Internal Services

II. Economic advantages of the carve-outs

So far, the new holding company structure has fulfilled all the expectations on which the resolution adopted by the Annual Stockholders' Meeting was based. A comparison of the old and new structures, together with a review of their advantages and potential drawbacks, indicates that – as expected – the reorganization has brought considerable benefits for the Bayer Group and its stockholders. The main benefits are outlined below.

1. *Enhanced market presence*

In contrast to the situation before they became separate legal entities, the subgroups and service companies are now perceived outside the Bayer Group as independent companies. This has enhanced their transparency. At the same time, their market presence has been strengthened by their ability to conduct their own promotional and communications activities. As well as increasing employees' identification with their company, the reorganization has made these subsidiaries more attractive to customers. As a result, the service companies have already secured a number of contracts from companies outside the Bayer Group. For instance, Bayer Industry Services has gained external customers for waste disposal and utility supply services at Bayer's chemical parks; Bayer Technology Services has signed plant engineering contracts; and Bayer Business Services has concluded agreements to provide accounting services for non-Bayer companies.

2. *Increased flexibility and competitiveness*

As smaller, legally independent operating units, the subgroups and service companies are able to adapt more flexibly to changing market conditions than they could as organizational



units operating as part of Bayer AG. The management boards and managing directors of these companies act independently by dint of their legal status and are obligated to serve the interests of “their” company. They thus have the freedom to respond as they see fit to the specific markets in which they operate. For example, this has significantly increased customer focus at the service companies as they have had to meet market demands for competitive pricing. This in turn has led to a substantial improvement in efficiency. It also prevents cross-unit subsidization within the Group. At the same time, the increased flexibility facilitates implementation of strategic options. A case in point is the continued strategic realignment of the Bayer Group, which would not have been possible in this form within the old structure.

3. *Focus on core competencies*

Dividing the Group into subgroups and service companies enables each entity to increase its focus on its core competencies so they can drive portfolio and market developments more selectively. Each subgroup can therefore utilize opportunities for growth more effectively and adopt clear strategies to enhance its performance. This frees up the Board of Management of Bayer AG to concentrate on the strategic management of the Group.

4. *Improving and simplifying organizational structures has increased transparency*

The carve-outs have led to clearer structures with a clear allocation of tasks and responsibilities within the subgroups and service companies. These have their own governance bodies and employees and conduct business with third parties as separate legal entities. Both objectively and from an accounting viewpoint, their role within the Bayer Group is thus far more transparent. Compared with the old matrix structures (business group versus regional/local responsibility), giving the subgroups clear responsibility for earnings ensures simpler and more streamlined structures and decision-making processes. For instance, the carve-outs have helped reveal which areas have too many employees or comparatively inefficient and cost-intensive administration structures and where action needs to be taken. Moreover, the managements of the new companies have been able to take faster and more targeted remedial action than in the past, partly because of more streamlined consultation procedures.

5. *Strengthening entrepreneurial responsibility*

The management and executive boards of the Group companies bear full responsibility for their business operations. That has increased their entrepreneurial focus and encouraged them to take the initiative. As separate legal entities, the companies can be managed with more direct reference to market/competitive conditions, especially as they are exposed to competition from external companies. The new structure also facilitates the implementation of lower-cost regional solutions such as the Euroservices shared services centers (Europe-wide accounting services) and central IT solutions for Europe. Independent book-keeping and accounting makes the subsidiaries far more aware of their business performance. Similarly, the need to prepare annual financial statements increases their cost-awareness. Since they are separate legal entities, they can introduce differentiated remuneration structures aligned to their per-



formance and the specific market conditions in which they operate. For instance, incentive programs can be linked to the earnings position of each company. In other words, performance and market conditions can be reflected more clearly in compensation than was the case in the past.

6. *Expanding strategic options and alliances by facilitating the integration of acquisitions*

The reorganization of the Bayer Group has simplified the search for strategic partners and made it far easier to enter into alliances. Potential cooperation partners are more likely to be attracted to an independent legal entity within a holding company structure than to an organizational unit of a conglomerate. Moreover, clear legal boundaries facilitate active portfolio management, that is, selective acquisition and divestment of businesses and entering new areas of activity. This puts the subsidiaries in a far stronger position, leading to a sustained rise in their competitiveness, and thus creates value for Bayer stockholders. The new structure also makes it easier to identify areas where alliances make sense or investment is necessary, so that priorities can be set. Since each company has its own market image, the holding company structure also makes it easier to implement strategic options. It fosters internal competition for the allocation of resources, resulting in an improvement in quality and increased awareness of the economic factors underlying acquisitions and divestments.

7. *Positive effects for stockholders*

The carve-outs do not alter the tax or asset position of stockholders of Bayer AG. They retain their 100-percent interest in the assets of the subsidiaries through the holding company. The capital market has welcomed the new organizational structure and our stockholders have benefited from the resultant reduction in the discount applied to Bayer as a conglomerate. Before the carve-outs, the Annual Stockholders' Meeting of Bayer AG was responsible for all decisions falling within the remit of § 118 ff of the German Stock Corporation Act. Although the Board of Management of Bayer AG now exercises these rights as the sole stockholder of these subsidiaries, major structural changes will still be put to the stockholders of Bayer AG for a decision in line with the relevant legislation.

8. *No reduction in synergies*

Services and functions that are required Group-wide, for example all financing activities, continue to be provided centrally by Bayer AG. Bayer Business Services GmbH, Bayer Technology Services GmbH and Bayer Industry Services GmbH & Co. OHG continue to offer all Group companies cross-company service functions at market rates. For instance the chemical park concept is being retained. Facilities will thus continue to benefit from synergies generated by Bayer Industry Services GmbH & Co. OHG as a central provider of site services.



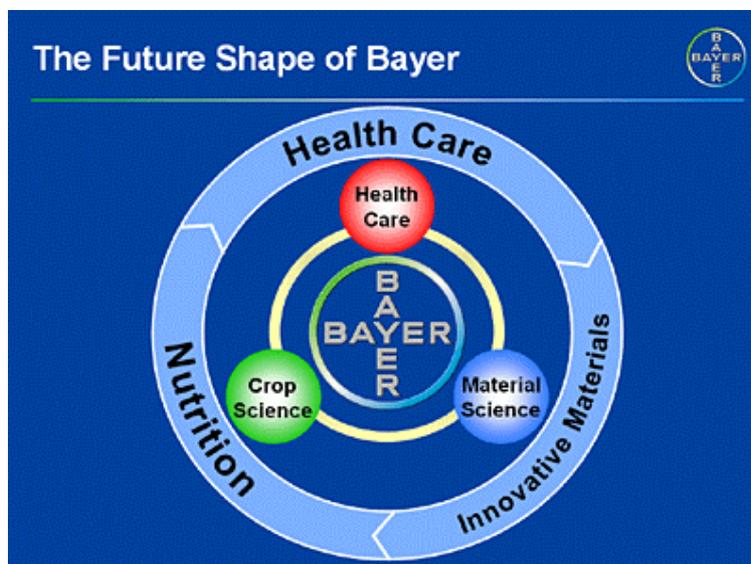
9. *No increase in administrative expense*

There is a theoretical risk that holding company structures can increase administration costs, for example by increasing the need for coordination as a result of the increase in the number of management and supervisory boards. Our new structure avoids the proliferation of coordination effort because Bayer AG takes central decisions on the strategic objectives, portfolio, allocation of resources and financial management of the Group and issues directives that are applicable to all subsidiaries. Within this basic framework, the subsidiaries have sufficient leeway to implement their own decisions. Within certain limits, the management and executive boards of the subgroups and service companies are free to take their own decisions on operational matters.

III. **Ongoing strategic realignment of the Bayer Group**

In November 2003 the Board of Management and Supervisory Board of Bayer AG decided on a further strategic realignment of the Bayer Group. The ability to implement this decision quickly, inexpensively and effectively is due in large measure to the fact that the Group reorganization described above was completed in 2003. The holding company structure created by the carve-outs has greatly increased transparency and entrepreneurial flexibility, facilitating this further strategic realignment.

In future, the Bayer Group will concentrate on research-intensive activities and operations with high growth and innovative potential, requiring high capital expenditures and more complex structures. These are the life science businesses, Bayer HealthCare and Bayer Crop-Science (nutrition), together with those activities of Bayer MaterialScience where innovation and technological leadership are essential for future competitiveness. The only operations of the current Bayer Chemicals subgroup that will remain with Bayer will be Wolff Walsrode AG and H.C. Starck GmbH. Both of these companies will be integrated into the reporting structures of Bayer MaterialScience.



In other words, the Bayer Group will be separating off most of the conventional chemical operations currently assigned to the Bayer Chemicals subgroup, about a third of the current polymers activities of the Bayer MaterialScience subgroup that are no longer defined as core operations, and the related service and corporate center functions. This will basically take place in two steps which are scheduled for completion by early 2005. In the first step, the chemicals and polymers activities (and related functions) will be transferred to a new company owned by Bayer AG. The Board of Management then intends to list this company, to be known as Lanxess, on the stock market, either through an initial public offering (IPO) of shares or by way of a spin-off (as defined by the German Companies Reorganization Act) to existing stockholders followed by a stock market listing.

The Bayer Group's future core businesses will be innovation- and technology-driven activities that promise high growth momentum. The key success factors for these research-intensive operations are extensive process and applications expertise, high research capabilities, technological leadership and the ability to establish and safeguard exclusive marketing rights. As well as dedicating the full financial and management resources of the Bayer Group to these core activities, we will be able to ensure we make effective use of their growth potential. The result should be a lasting improvement in Bayer's competitive position.

Unlike the Bayer Group's future core businesses, the Lanxess portfolio will center on products with high market maturity, lower barriers to market entry and lower growth rates. In view of the differences between their core activities, Bayer and Lanxess require different management and business models which can be implemented more effectively in completely separate enterprises than under the umbrella of the Bayer Group.



The strategic realignment is important to raise the earning power of the Bayer Group and create stockholder value. The Board of Management is convinced that the future focus on earnings and growth-driven businesses will earn Bayer a higher stock market valuation than the old structural mix, which included the lower-growth, lower-margin operations being transferred to Lanxess.

Lanxess will have an extensive portfolio of basic, specialty and fine chemicals and polymers. With about 50 operating companies in roughly 20 countries, it will rank among the leading European chemical and polymer producers.

As an independent enterprise, it will have all the human and financial resources needed to uphold and expand its core chemicals and polymers businesses. It will be able to focus more sharply on the specific competitive demands of these businesses than it could as part of the Bayer Group. Lanxess will also have greater entrepreneurial freedom and scope to adapt its structures, raise its competitiveness and realign its portfolio. It will be able to respond faster and more flexibly to market developments than it could as part of a larger organization.

We are convinced that Bayer and Lanxess will both benefit from the split and that a successful future awaits them. That will benefit the employees of both companies.

IV. Legal implications of the carve-outs

Following the transfer of the CropScience business area to a separate legal entity, Bayer CropScience AG, in 2002, the Annual Stockholders' Meeting of Bayer AG held on April 25, 2003 approved the carve-outs of the remaining business and service areas of Bayer AG. The stockholders approved the six carve-out and transfer agreements between Bayer AG and the business area companies Bayer HealthCare AG, Bayer Chemicals AG, Bayer Material-Science AG (formerly Bayer Polymers) and service companies (Bayer Business Services GmbH, Bayer Technology Services GmbH and Bayer Industry Services GmbH & Co. OHG), as proposed in items 7-10 of the agenda. In each case, 99 percent of the votes cast were in favor of the resolutions.

The resolutions took effect when the carve-outs were entered in the Commercial Register of Bayer AG. This constitutes the legal conclusion of the reorganization plans adopted in 2002.



Subgroup/service company	Date of entry of carve-out in the Commercial Register of Bayer AG	Date on which carve-out took economic effect
Bayer CropScience AG	October 1, 2002	January 1, 2002
Bayer HealthCare AG	September 30, 2003	January 1, 2003
Bayer Chemicals AG	September 30, 2003	July 1, 2003
Bayer MaterialScience AG (formerly Bayer Polymers AG)	December 30, 2003	October 1, 2003
Bayer Technology Services GmbH	September 30, 2003	January 1, 2003
Bayer Business Services GmbH	December 30, 2003	October 1, 2003
Bayer Industry Services GmbH & Co. OHG	December 30, 2003	October 1, 2003

Entering the carve-outs in the Commercial Register had the following legal implications:

- The respective assets and liabilities of Bayer AG have been transferred to Bayer HealthCare AG, Bayer Chemicals AG, Bayer MaterialScience AG, Bayer Business Services GmbH, Bayer Technology Services GmbH and Bayer Industry Services GmbH & Co. OHG by way of hive-down and transfer agreements pursuant to § 123 Paragraph 3 No. 1 and § 126 Paragraph 1 No. 9 of the German Companies Reorganization Act (UmwG). The transfers comprise full legal succession to those assets and liabilities assigned to each company, as defined by § 131 Paragraph 1 No. 1 of the Companies Reorganization Act. Without any further or additional act of transfer, these subsidiaries have become the owners or economic beneficiaries of the assets and liabilities transferred to them.
- In return, Bayer AG has acquired a 100-percent interest in these companies in the form of bearer shares, each of which represents an arithmetic share of EUR 1 of the capital stock of the relevant company. The general meetings of shareholders/partners in these companies adopted resolutions to raise their capital stock for the purpose of the carve-out. The companies remain wholly owned subsidiaries of Bayer AG.
- Upon conclusion of the carve-outs, under § 613a of the German Civil Code (BGB) in conjunction with § 324 of the Companies Reorganization Act, all employment contracts were also transferred to the relevant subsidiaries, insofar as they relate to employees who were employed in undertakings or part-undertakings allocated to the relevant subsidiary as part of the carve-out on the date on which the carve-out was entered in the Commercial Register of Bayer AG. All pension obligations relating to these employees have been transferred to the relevant Group companies. Further, each subsidiary has assumed the pension obligations relating to employees who left Bayer AG between July 1, 2002 and



the date of the carve-out from Bayer AG, and their surviving dependents, and established appropriate provisions for these obligations. By contrast, pension obligations relating to employees of the business and service areas that have been carved out of Bayer AG, and their surviving dependents, remain with Bayer AG where such employees left the company before July 1, 2002.

We are convinced that the formation of a holding company structure comprising legally independent subgroups and service companies has yielded considerable benefits for both our stockholders and the company. What has been achieved through the carve-outs is now being systematically extended through the further strategic realignment of the Bayer Group, which will sharpen Bayer's focus on its core competencies and create a sound basis for its future success.

The Board of Management
BAYER AG, Leverkusen, March 2004