

Stockholders' Newsletter

2002

Interim Report for the First Three Quarters

- Bayer Group Highlights

- Performance by Business Area

- Performance by Region

- Liquidity and capital resources

- Earnings performance

- Asset and capital structure

- Bayer Group Consolidated Statement of Income (Summary)

- Bayer Group Consolidated Balance Sheets (Summary)

- Bayer Group Consolidated Statements of Changes
in Stockholders' Equity (Summary)

- Key Data by Segment and Region



€656 million net income for the third quarter

Further substantial growth in operating cash flow in a difficult business climate

Market expectations that the economy would improve this year have not yet materialized. In the third quarter the pace of growth slowed, especially in North America and Europe, partly due also to the crises in Latin America.

Group sales in the third quarter rose by €528 million, or 8 percent, to €7,459 million, while in the first three quarters as a whole they declined by €707 million, or 3 percent, to €22,196 million. Sales from continuing operations in the third quarter increased by 8 percent, mainly due to the acquisition of Aventis CropScience (ACS). Portfolio changes accounted for 12 and volume growth for 5 percentage points of the increase, while exchange rates had an 8 percent negative effect. Disregarding the ACS acquisition

and the currency effects, sales expanded by 4 percent.

The operating result for the third quarter before exceptional items amounted to €54 million, due to cyclical factors and after €243 million in pro-rata depreciation and amortization expense due to the ACS acquisition. The operating result for the first three quarters before exceptional items fell by €627 million, or 42 percent, to €862 million. The decrease includes €329 million in charges resulting from the ACS acquisition.

Exceptional items in the third quarter amounted to €128 million, mainly for restructuring and site consolidations. After exceptional items there was thus a €74 million operating loss. In the first three quarters as a whole, exceptional charges of

Bayer Group Highlights

	3rd Quarter			First Three Quarters		
	2002	2001	Change	2002	2001	Change
Sales (€ million)	7,459	6,931	+ 7.6 %	22,196	22,903	- 3.1 %
Sales from continuing operations	7,249	6,714	+ 8.0 %	21,530	22,007	- 2.2 %
Domestic companies	1,902	1,868	+ 1.8 %	5,961	6,352	- 6.2 %
Foreign companies	5,347	4,846	+ 10.3 %	15,569	15,655	- 0.5 %
Change in sales from continuing operations						
Volumes	+ 5 %			0 %		
Prices	- 1 %			- 3 %		
Exchange rates	- 8 %			- 4 %		
Portfolio changes	+ 12 %			+ 5 %		
Operating result (€ million)	848	(316)	•	1,936	1,355	+ 42.9 %
Operating result from continuing operations	(74)	(335)	+ 77.9 %	971	964	+ 0.7 %
Operating result from continuing operations before exceptional items	54	39	+ 38.5 %	862	1,489	- 42.1 %
Return on sales before exceptional items	0.7 %	0.6 %		4.0 %	6.8 %	
Net income (€ million)	656	(183)	•	1,472	823	+ 78.9 %
Earnings per share (€)	0.90	(0.25)		2.02	1.13	
Gross cash flow (€ million)	601	440	+ 36.6 %	2,192	2,276	- 3.7 %
Gross cash flow per share (€)	0.82	0.60		3.00	3.12	
Net cash flow (€ million)	1,397	1,206	+ 15.8 %	2,730	2,037	+ 34.0 %
Capital expenditures (€ million)*	634	601	+ 5.5 %	1,627	1,724	- 5.6 %
Domestic companies	319	342	- 6.7 %	762	878	- 13.2 %
Foreign companies	315	259	+ 21.6 %	865	846	+ 2.2 %
Number of employees (as of September 30)*				123,500	114,300	+ 8.0 %
Personnel expenses (€ million)	2,147	1,916	+ 12.1 %	5,992	5,716	+ 4.8 %

* continuing operations

€427 million were offset by €536 million in income, mainly from the sale of the housing company Bayer Wohnungen GmbH. The operating result after exceptional items rose to €971 million.

The operating result from discontinuing operations for the first three quarters includes €56 million from the operations of the Haarmann & Reimer Business Group, which was divested at the end of the third quarter, and the provisional amount

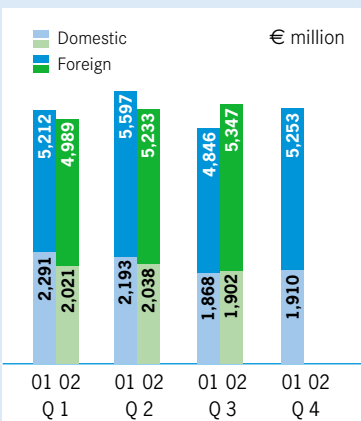
of €909 million gained on the sale. The previous year's figure contained €17 million in operating income of EC Erdölchemie and the €316 million gain from the sale of Bayer's interest.

The reported operating result for the first nine months rose by €581 million, or 43 percent, to €1,936 million. The figure for the third quarter was €848 million, representing a €1,164 million improvement over the same period of 2001.

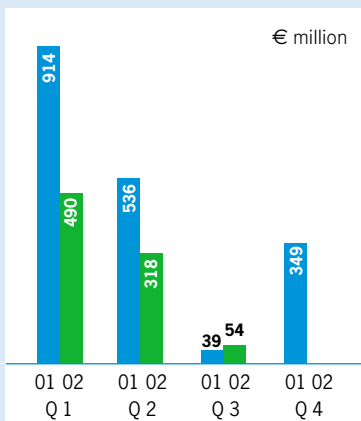
Interim Report for the First Three Quarters 2002

→ Table of contents

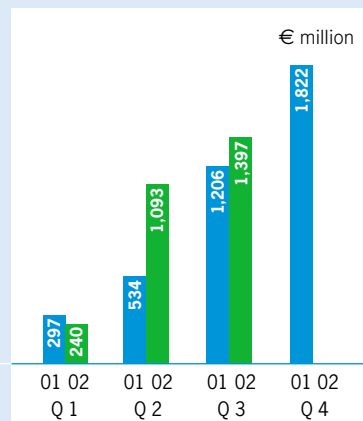
SALES FROM CONTINUING OPERATIONS



OPERATING RESULT FROM CONTINUING OPERATIONS BEFORE EXCEPTIONAL ITEMS



NET CASH FLOW



Net income for the first three quarters increased by €649 million, or 79 percent, to €1,472 million, including €656 million for the third quarter.

The cash-flow-based indicators of operating performance that are important for steering the business showed a very positive trend despite the drop in operating profit. Gross cash flow improved in the third quarter by 37 percent to €601 million, and net cash flow (net cash provided by operating activities) by 16 percent to €1,397 million. While gross cash flow in the first three quarters was 4 percent below the previous year, net cash flow rose by 34 percent to €2,730 million due to a €538 million cash inflow from changes in working capital. This is the highest net operating cash flow ever generated by Bayer in the first nine months of a year.

Performance by Business Area

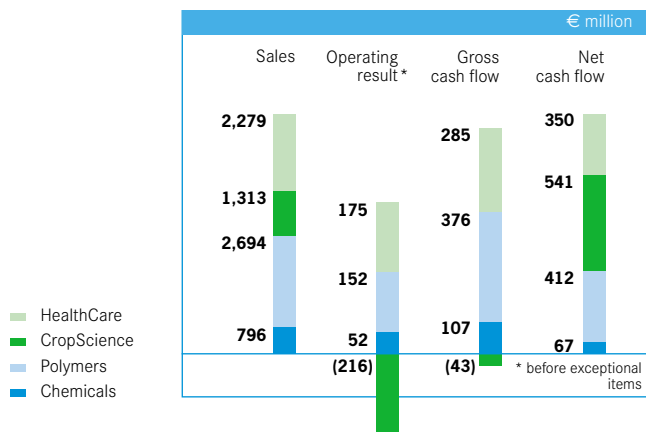
HealthCare

Sales of the HealthCare business area declined by €118 million, or 5 percent, in the third quarter of 2002, to €2,279 million. This was due mainly to negative currency effects. The operating result, gross cash flow and net cash flow improved to €175 million, €285 million and €350 million, respectively.

Sales in the first nine months dropped by 9 percent, or €699 million. Disregarding the short-fall caused by the withdrawal of the cholesterol-lowering drug Lipobay®/Baycol®, sales were down 4 percent, or €315 million. Nevertheless, our efficiency-improvement measures enabled us to

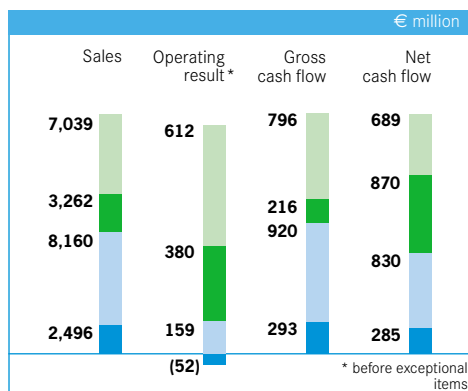
PERFORMANCE BY BUSINESS AREA – 3RD QUARTER 2002

(before reconciliation)



PERFORMANCE BY BUSINESS AREA – FIRST THREE QUARTERS 2002

(before reconciliation)



HEALTHCARE

€ million	3rd Quarter			First Three Quarters		
	2002	2001	Change	2002	2001	Change
Sales	2,279	2,397	- 4.9 %	7,039	7,738	- 9.0 %
Proportion of Group sales	31.4 %	35.7 %		32.7 %	35.2 %	
Operating result before exceptional items	175	77	+ 127.3 %	612	600	+ 2.0 %
Return on sales before exceptional items	7.7 %	3.2 %		8.7 %	7.8 %	
Gross cash flow	285	29	•	796	573	+ 38.9 %
Net cash flow	350	161	+ 117.4 %	689	404	+ 70.5 %

boost the operating result. Net cash flow grew by a gratifying €285 million.

Sales of the Pharmaceuticals Business Group fell in the third quarter by €56 million, or 6 percent, to €846 million. This was due in part to lower sales of Ciprobay®/Cipro® and Adalat®.

By contrast, a considerable increase in volumes for the Factor VIII product Kogenate® led to a 12 percent, or €29 million boost in third-quarter sales of the Biological Products Business Group, to €270 million. The United States Food and Drug Administration (FDA) has approved a further

expansion of Kogenate® production, which lays the foundations for further growth.

Sales of Consumer Care moved back by 13 percent, or €71 million, to €457 million. Business was impeded primarily by adverse shifts in exchange rates and continuing weak demand in North and Latin America.

Sales of the Diagnostics Business Group dipped by 3 percent, or €13 million, to €483 million, due mainly to declines in the self-testing and near-patient testing product segments. On the other hand, the ADVIA® Centaur laboratory diagnostic system achieved further good growth in the third quarter.

Sales of the Animal Health Business Group also declined by 3 percent, or €7 million, to €223 million.

Bayer AG and Boehringer Ingelheim have signed a letter of intent to jointly market the active ingredient telmisartan in Germany, Scandinavia and Switzerland. The planned cooperation agreement will supplement the Pharmaceuticals Business Group's cardiovascular portfolio.

The Consumer Care Business Group plans to streamline its portfolio by selling its line of household insecticides to SC Johnson. The transaction is intended to be closed prior to year end for the majority of countries, subject to regulatory approvals.

To further strengthen its diagnostics business, Bayer acquired Canadian-based Visible Genetics Inc. effective October 11, 2002, for US\$ 61.4 million.

TOP-SELLING HEALTHCARE PRODUCTS FIRST THREE QUARTERS 2002

	€ million	Change
Ciprobay®/Cipro® (Pharmaceuticals)	1,113	- 9 %
Adalat® (Pharmaceuticals)	625	- 17 %
Aspirin® (Consumer Care/Pharmaceuticals)	460	- 8 %
Ascensia® Elite (Diagnostics)	373	+ 6 %
Kogenate® (Biological Products)	272	+ 90 %
ADVIA® Centaur System (Diagnostics)	240	+ 28 %
Gamimune® N (Biological Products)	231	- 11 %
Glucobay® (Pharmaceuticals)	209	- 8 %
Avalox®/Avelox® (Pharmaceuticals)	162	+ 31 %
Advantage® (Animal Health)	160	- 5 %
Total	3,845	- 1 %
Proportion of HealthCare sales	55 %	+ 5

CROPSCIENCE

€ million	3rd Quarter			First Three Quarters		
	2002	2001	Change	2002	2001	Change
Sales	1,313	557	+ 135.7 %	3,262	2,237	+ 45.8 %
Proportion of Group sales	18.1 %	8.3 %		15.2 %	10.2 %	
Operating result before exceptional items	(216)	(6)	•	(52)	369	•
Return on sales before exceptional items	(16.5) %	(1.1) %		(1.6) %	16.5 %	
Gross cash flow	(43)	67	•	216	418	- 48.3 %
Net cash flow	541	411	+ 31.6 %	870	411	+ 111.7 %

CropScience

Sales of the CropScience business area expanded to €1,313 million in the third quarter through the acquisition of Aventis CropScience (ACS). Without the ACS business, CropScience sales were down by 9 percent, due mainly to the economic problems in Latin America that have affected our business all year long. The appreciation of the euro against the U.S. dollar and the Latin American currencies also had a negative effect. The strong 46 percent growth in sales over the first nine months was also due to the ACS acquisition.

The operating result fell by €210 million in the third quarter, having been diminished by €243 million of additional depreciation/amortization of remeasured assets and of goodwill following the ACS acquisition. By contrast, net cash flow grew by €130 million to €541 million. Although the operating result for the first nine months declined by €421 million to minus €52 million, also due mainly to charges resulting from the ACS acquisition, net cash flow rose by €459 million to €870 million.

The divestitures mandated by the antitrust authorities in connection with the ACS acquisition are proceeding as planned. Pending the approval of the European Commission and the U.S. Federal Trade Commission (FTC), we will divest certain

insecticides and fungicides to BASF AG. The proceeds of the sale, taking into account the back-licenses for non-agricultural applications, are expected to amount to €1,185 million. We have also signed an agreement with Israel-based Makhteshim-Agan Industries Ltd. concerning the sale of a number of crop protection products and distribution licenses. The individual agreements require the approval of the European Commission and various national antitrust authorities. We also plan to divest the wheat herbicide Everest® to U.S.-based Arvesta Corporation, subject to the approval of the U.S. and Canadian antitrust authorities.

POLYMERS

€ million	3rd Quarter			First Three Quarters		
	2002	2001	Change	2002	2001	Change
Sales	2,694	2,713	- 0.7 %	8,160	8,505	- 4.1 %
Proportion of Group sales	37.2 %	40.4 %		37.9 %	38.6 %	
Operating result before exceptional items	152	75	+ 102.7 %	380	503	- 24.5 %
Return on sales before exceptional items	5.6 %	2.8 %		4.7 %	5.9 %	
Gross cash flow	376	235	+ 60.0 %	920	1,014	- 9.3 %
Net cash flow	412	552	- 25.4 %	830	1,103	- 24.8 %

Polymers

Sales of the Polymers business area dipped by 1 percent, or €19 million, in the third quarter of 2002, to €2,694 million. This was due largely to continuing low prices and negative currency effects. The operating result improved to €152 million, which was the best quarterly performance so far in 2002, with successful restructuring measures playing a key role. Sales for the first nine months were down by 4 percent to €8,160 million, while the operating result declined by 24 percent to €380 million and the net cash flow by 25 percent to €830 million.

Sales of the Plastics Business Group rose by 3 percent in the third quarter to €836 million, due mainly to higher volumes.

Sales of the Rubber Business Group receded by 2 percent, or €11 million, to €523 million. While sales increased in the Asia/Pacific region, business development was subdued in Europe and North America.

Polyurethanes kept pace with the third quarter of the previous year, with sales of €806 million. Price increases were successfully implemented for all major products.

The Coatings and Colorants Business Group saw sales fall by 4 percent, or €18 million, to €480 million. The declines affected primarily Europe and North America, while pleasing growth was again recorded in the Greater China region.

Sales of the Fibers Business Group fell by 22 percent in the third quarter to €49 million.

CHEMICALS

€ million	3rd Quarter			First Three Quarters		
	2002	2001	Change	2002	2001	Change
Sales	796	866	- 8.1 %	2,496	2,916	- 14.4 %
Proportion of Group sales	11.0 %	12.9 %		11.6 %	13.3 %	
Operating result before exceptional items	52	7	•	159	262	- 39.3 %
Return on sales before exceptional items	6.5 %	0.8 %		6.4 %	9.0 %	
Gross cash flow	107	163	- 34.4 %	293	400	- 26.8 %
Net cash flow	67	197	- 66.0 %	285	243	+ 17.3 %

Chemicals

Sales of the Chemicals business area, too, were hampered in the third quarter by negative currency effects and unsatisfactory demand in key downstream industries. Third-quarter sales fell by 8 percent. By contrast, we registered an improvement in the operating result, which in the previous year had been depressed by write-downs of inventories at H.C. Starck. Sales in the first nine months declined by 14 percent year on year to €2,496 million. Operating profit fell by 39 percent to €159 million, due to the earnings situation at H.C. Starck. Net cash flow, however, grew by €42 million, or 17 percent.

Third-quarter sales of the Basic and Fine Chemicals Business Group moved back by 8 percent to €221 million. The previous year's figure included sales of the U.S. affiliate ChemDesign Corporation, which has since been divested. In addition, continuing price declines for sodium hydroxide solution negatively affected sales of our electrolysis products.

Sales of Specialty Products dropped by

4 percent to €340 million, while sales of Wolff Walsrode were down by 10 percent to €94 million, due to the transfer of certain business activities to the Plastics Business Group.

Continuing weak demand from the electronics industry led to a 16 percent decline in sales of H.C. Starck to €141 million.

Performance by Region

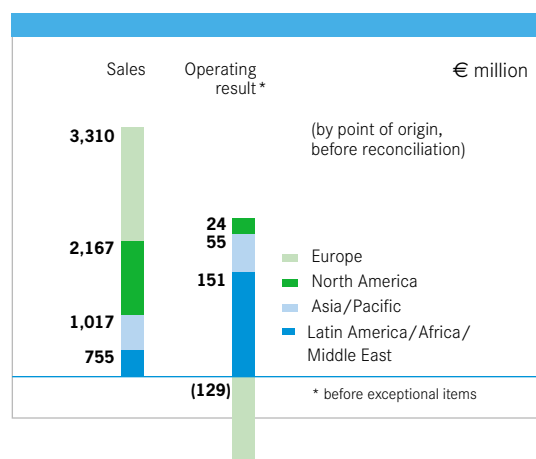
Our **European** companies grew sales by 13 percent, or €376 million, in the third quarter to €3,310 million, due mainly to the ACS acquisition. The operating result fell to minus €129 million, however, largely as a result of charges from that acquisition. Sales in the first nine months remained steady, while the operating result for that period dropped by 65 percent.

Third-quarter sales in **North America** were down by 5 percent to €2,167 million due to currency effects, while the operating result im-

Interim Report for the First Three Quarters 2002

→ Table of contents

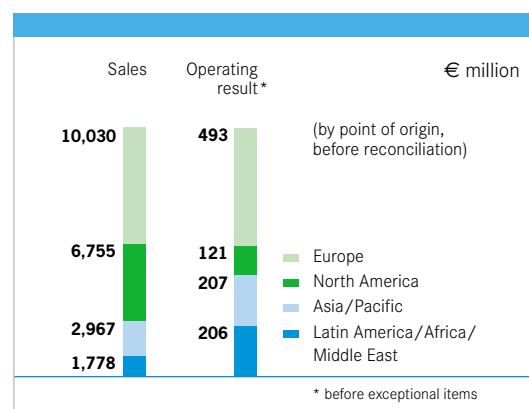
PERFORMANCE BY REGION – 3RD QUARTER 2002



proved to €24 million. Sales in the first nine months were down 8 percent to €6,755 million. The operating result was up by €161 million compared to the previous year's figure, which was affected by production problems in Biological Products and the withdrawal of Lipobay®/ Baycol®.

There was a positive third-quarter business trend in **Asia/Pacific**, where sales grew by 15 percent and the operating result improved considerably to €55 million. Between January and September, sales in that region grew by 3 percent

PERFORMANCE BY REGION – FIRST THREE QUARTERS 2002



to €2,967 million, while the operating result declined by 5 percent to €207 million.

Business in the **Latin America/Africa/Middle East** region also improved in the third quarter due to the ACS acquisition. While sales grew 26 percent to €755 million, the operating result climbed by 125 percent to €151 million. Over the first nine months of 2002, sales in this region increased by 3 percent to €1,778 million, while the operating result was up by 13 percent to €206 million.

CASH FLOW STATEMENTS (SUMMARY)

€ million	3rd Quarter		First Three Quarters	
	2002	2001	2002	2001
Gross cash flow	601	440	2,192	2,276
Changes in working capital	796	766	538	(239)
Net cash provided by operating activities (net cash flow)	1,397	1,206	2,730	2,037
<i>of which discontinuing operations</i>	62	34	100	79
Net cash used in investing activities	(2,729)	(558)	(7,135)	(1,224)
<i>of which discontinuing operations</i>	(35)	(20)	(69)	(29)
Net cash provided by (used in) financing activities	1,190	61	4,394	(10)
<i>of which discontinuing operations</i>	(21)	0	(1)	(6)
Change in cash and cash equivalents due to business activities	(142)	709	(11)	803
Cash and cash equivalents beginning of period	840	608	719	491
Exchange rate movements and changes in scope of consolidation	11	10	1	33
Cash and cash equivalents at end of third quarter	709	1,327	709	1,327
Marketable securities and other instruments	27	44	27	44
Liquid assets as per balance sheets	736	1,371	736	1,371

Liquidity and capital resources

The consolidated financial statements for the first three quarters of 2002 have been prepared as for the year 2001 according to the rules issued by the International Accounting Standards Board, London. Reference should be made as appropriate to the notes to the 2001 statements.

Gross cash flow for the period was down by 4 percent to €2,192 million. After a €538 million cash inflow from changes in working capital, net cash flow rose by 34 percent to €2,730 million.

Net cash of €7,135 million was used in investing activities. Expenditures for acquisitions amounted to €7,748 million. Cash outflow of €1,601 million for additions to property, plant and equipment was more than offset by inflow of €2,192 million from the sale of noncurrent assets. The proceeds of the sale of the Haarmann & Reimer group were not received in the accounting period since the payment date was October 1.

Financing activities provided net cash of €4,394 million, the major factor here being net borrowings of €5,509 million. Cash disbursements for dividend and interest payments amounted to €1,115 million.

Cash and cash equivalents declined only slightly during the first three quarters, to €709 million.

Earnings performance

In the first three quarters of 2002 the operating result from continuing operations before exceptional items declined by €627 million, or 42 percent, to €862 million. Of this decrease, €329 million is attributable to the pro-rata depreciation and amortization expense following the ACS acquisition.

Exceptional items recognized for continuing operations included €427 million in charges for restructuring and the consolidation of facilities and sites. These charges were offset by €536 million in income, mainly from the sale of the housing company Bayer Wohnungen GmbH, resulting in net exceptional income of €109 million. The operating result from continuing operations after exceptionals increased by €7 million, or 1 percent, to €971 million.

Of the €965 million operating result from discontinuing operations, €56 million is attributable to business operations in the accounting period and €909 million to the provisional amount of the gain on the sale of the Haarmann & Reimer group. The previous year's figure contained €17 million in operating income of EC Erdölchemie along with the €316 million gain from the divestment of the interest in that company.

The total reported operating result of €1,936 million was €581 million, or 43 percent, above the same period of 2001.

The non-operating result improved by €77 million to minus €340 million, due to a €186 million



Interim Report for the First Three Quarters 2002

→ Table of contents

EARNINGS

€ million	3rd Quarter			First Three Quarters		
	2002	2001	Change	2002	2001	Change
Operating result	848	(316)	•	1,936	1,355	+ 42.9 %
<i>of which discontinuing operations</i>	922	19		965	391	
Non-operating result	(231)	(187)	- 23.5 %	(340)	(417)	+ 18.5 %
Income before income taxes	617	(503)	•	1,596	938	+ 70.1 %
Net income	656	(183)	•	1,472	823	+ 78.9 %

improvement in income from affiliated companies, which totaled €214 million. This increase was in turn attributable to the €269 million gain from the sale of the remaining shares we held in Agfa-Gevaert N.V. Net interest expense rose by €28 million to €310 million, while the net of other non-operating income and expenses declined by €86 million to minus €40 million. The interest portion of the allocation to pension provisions was similar to last year, at €204 million.

Income before income taxes rose by €658 million, or 70 percent, to €1,596 million.

Income tax expense amounted to €115 million, which was €1 million less than in the same period last year. Tax-free income from the divestments of company housing, the Agfa-Gevaert shares and the Haarmann & Reimer group brought the effective tax rate down to 7 percent. Disregarding tax-free income, the tax rate was 37 percent.

Net income improved by €649 million, or 79 percent, to €1,472 million.

Asset and capital structure

Total assets expanded during the first nine months of 2002 by €7,444 million to €44,483 million, mainly due to the acquisition of ACS. This purchase led to an increase in intangible assets, in particular, which grew by €5,498 million to €10,512 million. Property, plant and equipment decreased by €839 million, mainly due to currency fluctuations. Here, capital expenditures and acquisitions

totaled €2,080 million, while depreciation and write-downs amounted to €1,536 million and retirements to €581 million.

Current assets grew by €3,799 million, or 25 percent, particularly due to the inclusion of ACS. The total of inventories and receivables rose by €3,468 million, or 25 percent, with inventories higher by 15 percent and receivables showing a 33 percent increase. This marked growth in receivables is partly due to an account receivable from EQT at the closing date in connection with the sale of Haarmann & Reimer, since the purchase price was not due until October 1.

Stockholders' equity declined by €791 million. While €1,472 million was allocated out of net income, the dividend payment for 2001 diminished equity by €657 million. Reductions in stockholders' equity not recognized in income amounted to €1,606 million, comprising €1,065 million in currency translation adjustments and €541 million from the measurement of financial instruments.

Equity covered 36 percent of total assets, 9 percentage points less than at the end of 2001.

Liabilities grew by €8,181 million to €28,200 million. Provisions increased by €773 million, mainly as a result of acquisitions, and financial obligations grew by €4,871 million to €12,179 million, of which bond issues account for €7,195 million and short-term borrowings under CP and EMTN programs for €2,491 million.

Interim Report for the First Three Quarters 2002

→ Table of contents

BALANCE SHEET STRUCTURE

€ million

	Sept. 30, 2002	Sept. 30, 2001	Dec. 31, 2001
Noncurrent assets	25,337	20,794	21,702
Current assets	19,146	16,542	15,337
Stockholders' equity	16,131	16,305	16,922
Minority stockholders' interest	152	102	98
Liabilities	28,200	20,929	20,019
Total assets	44,483	37,336	37,039

Net debt increased during the first nine months by €4,906 million to €11,443 million. This figure does not take into account the proceeds of the sale of the Haarmann & Reimer group, received in October 2002.

Capital expenditures

In the first three quarters of 2002 we spent €1,627 million for intangible assets, property, plant and equipment. In line with our strategic objective, this amount was fully financed out of the €2,024 million amortization and depreciation charge.

Europe accounted for €988 million and North America for €489 million of our capital expenditures.

We continue to expect our capital spending in 2002 as a whole to be below the level of amortization and depreciation and well short of the €2.4 billion budget.

Employees

On September 30, 2002 the Bayer Group had 123,500 employees, compared with 113,000 at the start of the year. The first-time inclusion of the ACS group increased headcount by 12,700. Personnel expenses rose by €276 million compared with the same period of 2001. Without ACS, they would have declined by €114 million.

Outlook

The HealthCare business area is currently affected by the weak business trend in Pharmaceuticals, although the Biological Products and Diagnostics

divisions have substantially improved their performance. While Animal Health is expected to match last year's earnings, Consumer Care profits will be lower than in 2001 due to declines in demand in Latin America and North America.

We assume that CropScience will report a loss for the full year, partly because market conditions remain difficult and partly because of the one-time amortization and depreciation charges following the ACS acquisition and the expenses for integrating the business.

Market conditions for Polymers and Chemicals are unlikely to improve in the short term. Our cost structure programs, however, are starting to bear fruit, and we will continue to implement these measures systematically. We are also focusing on structural improvements and portfolio optimization.

Both the reorganization of the Bayer Group and the integration of ACS are going to schedule. Moreover, our actions to reduce working capital and selectively streamline capital spending should continue to enhance our financial structure. We expect net debt to drop to below €10 billion by the end of the year.

For Bayer, 2002 is a transition year marked by portfolio adjustments, organizational realignment and measures to increase efficiency. Accordingly, fourth-quarter results will be affected by further non-recurring charges. In light of divestment proceeds, however, net income for the full year should exceed last year's level. Despite the difficult economic environment, we anticipate an improvement in operating performance next year.

Interim Report for the First Three Quarters 2002

→ [Table of contents](#)

Bayer Group Consolidated Statements of Income (Summary)

€ million	3rd Quarter		First Three Quarters	
	2002	2001	2002	2001
Net sales	7,459	6,931	22,196	22,903
<i>Net sales from discontinuing operations</i>	(210)	(217)	(666)	(896)
Net sales from continuing operations	7,249	6,714	21,530	22,007
Cost of goods sold	(4,426)	(4,181)	(12,900)	(12,501)
Gross profit	2,823	2,533	8,630	9,506
Selling expenses	(1,710)	(1,767)	(4,902)	(5,265)
Research and development expenses	(626)	(622)	(1,797)	(1,805)
General administration expenses	(352)	(291)	(863)	(830)
Other operating expenses – net	(209)	(188)	(97)	(642)
Operating result from continuing operations	(74)	(335)	971	964
<i>Operating result from discontinuing operations</i>	922	19	965	391
Operating result	848	(316)	1,936	1,355
Non-operating result	(231)	(187)	(340)	(417)
Income before income taxes	617	(503)	1,596	938
Income taxes	44	321	(115)	(116)
Income after taxes	661	(182)	1,481	822
Minority stockholders' interest	(5)	(1)	(9)	1
Net income	656	(183)	1,472	823
Earnings per share (€)	0.90	(0.25)	2.02	1.13

Interim Report for the First Three Quarters 2002

→ [Table of contents](#)

Bayer Group Consolidated Balance Sheets (Summary)

	Sept. 30, 2002 € million	Sept. 30, 2001 € million	Dec. 31, 2001 € million
ASSETS			
Noncurrent assets	25,337	20,794	21,702
Inventories	6,706	6,098	5,818
Receivables	10,789	8,573	8,140
Liquid assets	736	1,371	771
Current assets	18,231	16,042	14,729
Deferred taxes	915	500	608
	44,483	37,336	37,039
<i>of which discontinuing operations</i>	<i>0</i>	<i>831</i>	<i>820</i>
STOCKHOLDERS' EQUITY AND LIABILITIES			
Capital stock and reserves	4,812	4,812	4,812
Retained earnings	10,127	9,910	9,841
Net income	1,472	823	965
Other comprehensive income			
Currency translation adjustment	(284)	532	759
Miscellaneous items	4	228	545
Stockholders' equity	16,131	16,305	16,922
Minority stockholders' interest	152	102	98
Long-term liabilities	13,620	8,602	8,906
Short-term liabilities	11,777	11,060	9,875
Liabilities	25,397	19,662	18,781
<i>of which discontinuing operations</i>	<i>0</i>	<i>236</i>	<i>233</i>
Deferred taxes	2,803	1,267	1,238
	44,483	37,336	37,039

The statements for the first three quarters are unaudited.

Interim Report for the First Three Quarters 2002

→ [Table of contents](#)

Bayer Group Consolidated Statements of Changes in Stockholders' Equity (Summary)

	Capital stock and reserves	Retained earnings	Net income	Currency translation adjustment	Miscel- laneous items	Total
	€ million	€ million	€ million	€ million	€ million	€ million
December 31, 2000	4,812	9,047	1,816	465	0	16,140
Dividend payment			(1,022)			(1,022)
Allocation to retained earnings		863	(794)			69
Exchange differences				67		67
Other changes in stockholders' equity					228	228
Income after taxes			823			823
September 30, 2001	4,812	9,910	823	532	228	16,305
December 31, 2001	4,812	9,841	965	759	545	16,922
Dividend payment			(657)			(657)
Allocation to retained earnings		286	(308)			(22)
Exchange differences				(1,043)		(1,043)
Other changes in stockholders' equity					(541)	(541)
Income after taxes			1,472			1,472
September 30, 2002	4,812	10,127	1,472	(284)	4	16,131

Interim Report for the First Three Quarters 2002

→ Table of contents

Key Data by Segment (1)

3rd Quarter	Health Care						CropScience		Polymers	
	Pharmaceuticals & Biological Products		Consumer Care & Diagnostics		Animal Health		CropScience		Plastics & Rubber	
	3rd Quarter		3rd Quarter		3rd Quarter		3rd Quarter		3rd Quarter	
€ million	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Net sales (external)	1,116	1,143	940	1,024	223	230	1,313	557	1,359	1,343
• Change in €	-2.4 %	-25.1 %	-8.2 %	+3.3 %	-3.0 %	0.0 %	+135.7 %	+13.2 %	+1.2 %	-9.0 %
• Change in local currencies	+5.5 %	-23.3 %	+2.8 %	+3.5 %	+6.2 %	+0.6 %	+146.5 %	+14.6 %	+5.5 %	-9.2 %
Intersegment sales	8	15	0	0	0	0	12	20	30	29
Operating result before exceptional items	(3)	(100)	126	124	52	53	(216)	(6)	99	44
Return on sales before exceptional items	(0.3) %	(8.7) %	13.4 %	12.1 %	23.3 %	23.0 %	(16.5) %	(1.1) %	7.3 %	3.3 %
Exceptional items	(31)	(301)	(16)	(6)	(1)	0	(6)	0	0	(22)
Operating result	(34)	(401)	110	118	51	53	(222)	(6)	99	22
Return on sales	(3.0) %	(35.1) %	11.7 %	11.5 %	22.9 %	23.0 %	(16.9) %	(1.1) %	7.3 %	1.6 %
Gross cash flow	41	(194)	196	174	48	49	(43)	67	212	144
Net cash flow	88	(85)	204	170	58	76	541	411	173	292

3rd Quarter	Polymers		Chemicals		Reconciliation		Continuing Operations		Discontinuing Operations		Bayer Group	
	Polyurethanes & Coatings and Colorants & Fibers		Chemicals		Reconciliation		Continuing Operations		Discontinuing Operations		Bayer Group	
	3rd Quarter		3rd Quarter		3rd Quarter		3rd Quarter		3rd Quarter		3rd Quarter	
€ million	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Net sales (external)	1,335	1,370	796	866	167	181	7,249	6,714	210	217	7,459	6,931
• Change in €	-2.6 %	-6.4 %	-8.1 %	+3.5 %			+8.0 %	-6.9 %			+7.6 %	-9.8 %
• Change in local currencies	+3.9 %	-6.1 %	+0.9 %	+4.6 %			+16.1 %	-6.2 %			+15.6 %	-9.2 %
Intersegment sales	13	32	103	103	(166)	(199)						
Operating result before exceptional items	53	31	52	7	(109)	(114)	54	39	13	20	67	59
Return on sales before exceptional items	4.0 %	2.3 %	6.5 %	0.8 %			0.7 %	0.6 %			0.9 %	0.9 %
Exceptional items	(69)	(43)	(2)	(2)	(3)	0	(128)	(374)	909	(1)	781	(375)
Operating result	(16)	(12)	50	5	(112)	(114)	(74)	(335)	922	19	848	(316)
Return on sales	(1.2) %	(0.9) %	6.3 %	0.6 %			(1.0) %	(5.0) %			11.4 %	(4.6) %
Gross cash flow	164	91	107	163	(152)	(85)	573	409	28	31	601	440
Net cash flow	239	260	67	197	(35)	(149)	1,335	1,172	62	34	1,397	1,206

2001 figures restated



Interim Report for the First Three Quarters 2002

→ [Table of contents](#)

Key Data by Segment (2)

First Three Quarters	HealthCare						CropScience		Polymers	
	Pharmaceuticals & Biological Products		Consumer Care & Diagnostics		Animal Health		CropScience		Plastics & Rubber	
	First Three Quarters		First Three Quarters		First Three Quarters		First Three Quarters		First Three Quarters	
€ million	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Net sales (external)	3,540	4,075	2,861	3,021	638	642	3,262	2,237	4,082	4,332
• Change in €	-13.1 %	-7.1 %	-5.3 %	+5.0 %	-0.6 %	-4.3 %	+45.8 %	+4.3 %	-5.8 %	+1.0 %
• Change in local currencies	-9.3 %	-7.8 %	+0.4 %	+3.6 %	+4.3 %	-5.2 %	+51.4 %	+4.0 %	-4.0 %	-0.5 %
Intersegment sales	25	32	2	15	1	4	38	97	94	90
Operating result before exceptional items	166	215	301	254	145	131	(52)	369	221	360
Return on sales before exceptional items	4.7 %	5.3 %	10.5 %	8.4 %	22.7 %	20.4 %	(1.6) %	16.5 %	5.4 %	8.3 %
Exceptional items	25	(293)	(31)	(18)	(1)	0	(6)	0	(76)	(44)
Operating result	191	(78)	270	236	144	131	(58)	369	145	316
Return on sales	5.4 %	(1.9) %	9.4 %	7.8 %	22.6 %	20.4 %	(1.8) %	16.5 %	3.6 %	7.3 %
Gross cash flow	226	58	430	399	140	116	216	418	425	573
Net cash flow	246	57	368	260	75	87	870	411	352	578

First Three Quarters	Polymers		Chemicals		Reconciliation		Continuing Operations		Discontinuing Operations		Bayer Group	
	Polyurethanes & Coatings and Colorants & Fibers		Chemicals		Reconciliation		Continuing Operations		Discontinuing Operations		Bayer Group	
	First Three Quarters		First Three Quarters		Dreivierteljahr		First Three Quarters		First Three Quarters		First Three Quarters	
€ million	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Net sales (external)	4,078	4,173	2,496	2,916	573	611	21,530	22,007	666	896	22,196	22,903
• Change in €	-2.3 %	+1.3 %	-14.4 %	+16.3 %			-2.2 %	+2.2 %			-3.1 %	-0.1 %
• Change in local currencies	+0.8 %	+0.1 %	-8.9 %	+15.8 %			+1.9 %	+1.2 %			+0.9 %	-1.1 %
Intersegment sales	55	111	291	348	(506)	(697)						
Operating result before exceptional items	159	143	159	262	(237)	(245)	862	1,489	56	75	918	1,564
Return on sales before exceptional items	3.9 %	3.4 %	6.4 %	9.0 %			4.0 %	6.8 %			4.1 %	6.8 %
Exceptional items	(223)	(76)	(25)	(75)	446	(19)	109	(525)	909	316	1,018	(209)
Operating result	(64)	67	134	187	209	(264)	971	964	965	391	1,936	1,355
Return on sales	(1.6) %	1.6 %	5.4 %	6.4 %			4.5 %	4.4 %			8.7 %	5.9 %
Gross cash flow	495	441	293	400	(117)	(221)	2,108	2,184	84	92	2,192	2,276
Net cash flow	478	525	285	243	(44)	(203)	2,630	1,958	100	79	2,730	2,037

2001 figures restated



Interim Report for the First Three Quarters 2002

→ Table of contents

Key Data by Region (1)

3rd Quarter	Europe		North America		Asia/Pacific		Latin America/ Africa/Middle East	
	3rd Quarter		3rd Quarter		3rd Quarter		3rd Quarter	
	2002	2001	2002	2001	2002	2001	2002	2001
€ million								
Net sales (external) – by market	2,910	2,611	2,159	2,227	1,207	1,076	973	800
Net sales (external) – by point of origin	3,310	2,934	2,167	2,293	1,017	887	755	600
• Change in €	+ 12.8 %	– 9.2 %	– 5.5 %	– 5.7 %	+ 14.7 %	– 6.4 %	+ 25.8 %	– 0.5 %
• Change in local currencies	+ 13.0 %	– 9.3 %	+ 4.5 %	– 6.7 %	+ 21.3 %	– 6.3 %	+ 56.1 %	+ 6.8 %
Interregional sales	735	724	458	459	48	50	33	25
Operating result before exceptional items	(129)	93	24	(7)	55	9	151	67
Return on sales before exceptional items	(3.9) %	3.2 %	1.1 %	(0.3) %	5.4 %	1.0 %	20.0 %	11.2 %
Exceptional items	(19)	(201)	(86)	(166)	(22)	(4)	(1)	(3)
Operating result	(148)	(108)	(62)	(173)	33	5	150	64
Return on sales	(4.5) %	(3.7) %	(2.9) %	(7.5) %	3.2 %	0.6 %	19.9 %	10.7 %
Gross cash flow	161	258	260	123	85	31	116	69

3rd Quarter	Reconciliation		Continuing Operations		Discontinuing Operations		Bayer Group	
	3rd Quarter		3rd Quarter		3rd Quarter		3rd Quarter	
	2002	2001	2002	2001	2002	2001	2002	2001
€ million								
Net sales (external) – by market			7,249	6,714	210	217	7,459	6,931
Net sales (external) – by point of origin			7,249	6,714	210	217	7,459	6,931
• Change in €			+ 8.0 %	– 6.9 %			+ 7.6 %	– 9.8 %
• Change in local currencies			+ 16.1 %	– 6.2 %			+ 15.6 %	– 9.2 %
Interregional sales	(1,274)	(1,258)						
Operating result before exceptional items	(47)	(123)	54	39	13	20	67	59
Return on sales before exceptional items			0.7 %	0.6 %			0.9 %	0.9 %
Exceptional items	0	0	(128)	(374)	909	(1)	781	(375)
Operating result	(47)	(123)	(74)	(335)	922	19	848	(316)
Return on sales			(1.0) %	(5.0) %			11.4 %	(4.6) %
Gross cash flow	(49)	(72)	573	409	28	31	601	440

2001 figures restated

Interim Report for the First Three Quarters 2002

→ Table of contents

Key Data by Region (2)

First Three Quarters	Europe		North America		Asia/Pacific		Latin Amerika/ Africa/Middle East	
	First Three Quarters		First Three Quarters		First Three Quarters		First Three Quarters	
	2002	2001	2002	2001	2002	2001	2002	2001
€ million								
Net sales (external) – by market	8,934	9,034	6,657	7,041	3,545	3,538	2,394	2,394
Net sales (external) – by point of origin	10,030	10,084	6,755	7,307	2,967	2,883	1,778	1,733
• Change in €	-0.5 %	+1.2 %	-7.6 %	+1.9 %	+2.9 %	+4.6 %	+2.6 %	+5.3 %
• Change in local currencies	-0.5 %	+1.1 %	-4.1 %	-2.6 %	+7.1 %	+1.9 %	+26.2 %	+10.5 %
Interregional sales	2,181	2,400	1,465	1,425	136	184	82	89
Operating result before exceptional items	493	1,413	121	(40)	207	216	206	182
Return on sales before exceptional items	4.9 %	14.0 %	1.8 %	(0.5) %	7.0 %	7.5 %	11.6 %	10.5 %
Exceptional items	458	(243)	(325)	(256)	(22)	(4)	(2)	(3)
Operating result	951	1,170	(204)	(296)	185	212	204	179
Return on sales	9.5 %	11.6 %	(3.0) %	(4.1) %	6.2 %	7.4 %	11.5 %	10.3 %
Gross cash flow	1,174	1,538	675	404	243	231	182	186

First Three Quarters	Reconciliation		Continuing Operations		Discontinuing Operations		Bayer Group	
	First Three Quarters		First Three Quarters		First Three Quarters		First Three Quarters	
	2002	2001	2002	2001	2002	2001	2002	2001
€ million								
Net sales (external) – by market			21,530	22,007	666	896	22,196	22,903
Net sales (external) – by point of origin			21,530	22,007	666	896	22,196	22,903
• Change in €			-2.2 %	+2.2 %			-3.1 %	-0.1 %
• Change in local currencies			+1.9 %	+1.2 %			+0.9 %	-1.1 %
Interregional sales	(3,864)	(4,098)						
Operating result before exceptional items	(165)	(282)	862	1,489	56	75	918	1,564
Return on sales before exceptional items			4.0 %	6.8 %			4.1 %	6.8 %
Exceptional items	0	(19)	109	(525)	909	316	1,018	(209)
Operating result	(165)	(301)	971	964	965	391	1,936	1,355
Return on sales			4.5 %	4.4 %			8.7 %	5.9 %
Gross cash flow	(166)	(175)	2,108	2,184	84	92	2,192	2,276

2001 figures restated

Interim Report for the First Three Quarters 2002

→ [Table of contents](#)

Published by:

Bayer AG
Communications
51368 Leverkusen, Germany
Phone +49 214 30 58992
Fax +49 214 30 71985
Distribution: phone +49 214 30 71816

English edition:
Bayer AG
BIS-SVC Central Language Service
Bayer on the Internet:
www.bayer.com



Forward-Looking Statements

This Stockholders' Newsletter contains forward-looking statements. These statements use words like "believes," "assumes," "expects" or similar formulations. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of our company and those either expressed or implied by these statements. These factors include, among other things:

- downturns in the business cycle of the industries in which we compete;
- new regulations, or changes to existing regulations, that increase our operating costs or otherwise reduce our profitability;
- increases in the prices of our raw materials, especially if we are unable to pass these costs along to customers;
- loss or reduction of patent protection for our products;
- liabilities, especially those incurred as a result of environmental laws or product liability litigation;
- fluctuation in international currency exchange rates as well as changes in the general economic climate; and
- other factors identified in this Stockholders' Newsletter.

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

