

## Q2 2008 Analyst and Investor Briefing

### July 30, 2008

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- **Sales** rose by 3.6% to €8,511m (Q2'07: €8,217m); Volume +8.1%, price +1.4%, currency -6.4%, portfolio +0.5%. Portfolio and currency adjusted sales increased by 9.5%.
- **BRIC countries** contributed sales of €1.1bn (Fx adj. +32.4%)
- **Reported EBITDA** at €1,774m, up by 12.8% (Q2'07: €1,572m).
- **Underlying EBITDA** advanced by 5.0% to €1,896m (Q2'07: €1,806m).
- **Reported EBIT** up by 20.5% to €1,105m (Q2'07: €917m).
- **Net Special Items** (-€143m) include: *Health Care*: Total -€126m: Schering integration €18m, thereof €69m gain from sale of office buildings in France & Spain, Schering PPA -€55m, Trasylol suspension -€54m, Litigation Consumer Health -€35m. *Crop Science*: -€8m (restructuring). *Material Science*: -€9m (restructuring).
- **Underlying EBIT** rose by 5.3% to €1,248m (Q2'07: €1,185m).
- **Non-operating result** at -€262m (Q2'07: -€257m). Net interest expenses at €187m (Q2'07: €205m).
- **Income taxes** amounted to -€262m (Q2'07: -€247m) with tax expense ratio at 31.1%. Income taxes paid: -€352m (Q2'07: -€342m), tax payment ratio at 41.8%.
- **Net income** at €574m down by €86m (Q2'07: €660m). Q2'07 with after tax income of €244m from discontinuing operations. **EPS** (cont. + discont.) amounted to €0.73 (Q2'07: €0.83).
- **Core EPS** at €1.18 up 14.6% (Q2'07: €1.03).
- **Gross cash flow** improved by 11.4% to €1,322m (Q2'07: €1,187m). **Delta Working Capital** down by €62m to -€433m. **Net**

**cash flow (cont.)** up €73m to €889m (Q2'07: 816m). **Investments** at €347m (Q2'07: €440m). **Operating free cash flow (total)** at €542m (Q2'07: €340m).

- **Net financial debt** (total) up by €1,202m to €13,304m compared to March 31, 2008. The increase is due to typical Q2 cash outs: payments for dividend, yearly employee bonuses and large interest coupons.
- **Net pension liabilities** down by €152m to €3,936m compared to March 31, 2008, mainly due to higher discount rates.

#### Bayer Group sales and earnings forecast

We are now targeting over 5% currency- and portfolio-adjusted growth in Bayer Group sales (previously: approximately 5%) and plan to further improve EBITDA before special items and the underlying EBITDA margin. We continue to predict special charges in the region of €650 million for the full year, of which €400 - 450 million will be cash items.

#### HealthCare:

We expect all divisions to grow with or above the market in 2008, after adjusting for currency changes. We aim to improve our EBITDA margin before special items toward 27%.

#### CropScience:

We now believe that we can increase sales by well over 10% on a currency- and portfolio adjusted basis (previously: more than 5%) and improve the EBITDA margin before special items to about 25% (previously: about 24%). This would mean that our goal of an approximately 25% EBITDA margin before special items, originally targeted for 2009, would be achieved a year earlier than planned.



### MaterialScience:

We expect further increases in raw material and energy costs and therefore anticipate lower EBITDA before special items in the third quarter of 2008 than in the second quarter. For the year as a whole, we continue to expect that we can achieve a good, value-creating earnings level, though without matching the 2007 figure.

### Q2'08 HealthCare

**Pharmaceuticals (please see attached table on page 4)** flat at €2,584m (Fx and portfolio adj. +5.8%). *Primary Care:* Adalat (€158m, -2.5%, Fx adj. +2.8%). Avelox flat at €90m (Q2'07: €90m; Fx adj. +7.8%). Cipro (€77m, -17.2%, Fx adj. -13.8%) due to generic competition. Levitra up 3.7% (Fx adj. +11.9%) to €84m. *Women's HealthCare:* Yasmin sales (including Yaz and Yasminelle) rose by 22.0% (Fx adj. +32.1%) to €305m, driven by continued expansion of market share. Mirena advanced by 34.1% to €118m (Fx adj. +47.2%), driven by strong sales in US. *Diagnostic Imaging:* Magnevist fell 20.3% to €59m (Fx adj. -13.1%), partly caused by switch to Gadovist (€22m; +69.2%, Fx adj. +76.4%). Ultravist up 1.6% (€65m, Fx adj. +8.9%). *Specialized Therapeutics:* Betaferon up by 7.0% (Fx adj. +13.6%) to €274m on volume and prices. *Hematology/ Cardiology:* Shipment fluctuations to CSL (Helixate) burdened sales of Kogenate (€182m, -13.3%, Fx adj. -6.7%). Kogenate brand up 10% Fx adj. *Oncology:* Nexavar rose by 80.0% to €108m (Fx adj. +90.4%).

**Underlying EBITDA** at €744m (Q2'07: €711m), up 4.6%, mainly due to the business expansion and the Schering synergies overcompensating negative Fx effects and higher marketing costs in connection with product launches and our investments in emerging countries. **Underlying EBIT** up 2.2% to €425m.

**Consumer Health** sales at €1,150m (+1.4%, Fx and portfolio adj. +8.3%). *Consumer Care:* Aspirin OTC flat at €105m (-1.9%, Fx adj. +4.6%). Aleve rose by 3.6% to €57m (Fx adj. +19.4%). Canesten (€54m, +14.9%, Fx adj. +23.4%). Bepanthen family grew by 12.5% to €45m (Fx adj. +13.9%). One-A-Day vitamin product down by 3.4% (Fx adj. +8.2%) to €28m. Rennie at €26m (+4.0%, Fx adj. +8.8%). *Diabetes Care:* Contour expanded sales by 12.4% (Fx adj. +22.3%) to €145m, driven by marketing initiative and anticipated price increase in the US. Elite actively phased out and therefore dropped 29.5% to €31m (Fx adj. -25.4%). Breeze down by 10.5% to €34m (Fx adj. -0.7%). FYI: Ascensia family: €243m, +0.8%, Fx adj. +8.7%. *Animal Health:* Advantage family dropped by 4.8% (Fx adj. +6.2%) to €100m.

**Underlying EBITDA** down by 3.1% to €250m, due to negative Fx effects and Sagemel integration costs. **Underlying EBIT** decreased by 4.5% to €214m.

### Q2'08 CropScience

**Crop Protection** sales sharply rose by 20.9% to €1,526m (Fx adj. +29.1%) on higher prices (+3%) and higher volumes (+26%) with all segments and regions contributing. New products increased sales by 50% to €532m (total CropScience). Sales in **Europe** advanced by 22.8% to €695m (Fx adj. +25.0%). Reduced set-aside acreages and favorable weather conditions boosted sales of cereal herbicides and fungicides. Sales in **North America** increased by 13.8% to €363m (Fx adj. +26.0%), supported by an increased demand for cereal fungicides and insecticidal seed treatment. Sales in **Asia/Pacific** up by 9.8% to €202m (Fx adj. +20.6%), due to favorable insecticides and fungicides business in India and Southeast Asia. Sales in **Latin America/Africa/Middle East** advanced strongly by 37.8% to €266m (Fx adj. +53.8%). Favorable market conditions in Latin America drove especially fungicides. Sales in Brazil more than doubled.



**Underlying EBITDA** climbed by 40.3% to €435m, due to higher volumes and price increases. **Underlying EBIT** up by 67.9% to €329m.

**Environmental Science/BioScience** sales down by 7.3% (Fx and portfolio adj. -2.6%) to €278m. **Environmental Science** down by 17.5% (Fx adj. -10.9%) to €165m, mainly due to generic pressure for Professional Products in NA and lower sales of Consumer Products in EU. Sales of **BioScience** unit advanced by 13.0% to €113m (Fx and portfolio adj. +13.9%), mainly driven by good performance of our US cotton business and expansion of hybrid rice business (Arize) in Asia.

**Underlying EBITDA** fell by 23.3% to €66m, due to the decline in sales, negative Fx effects and higher R&D spending for BioScience.

**Underlying EBIT** down by 30.3% to €46m.

#### Q2'08 MaterialScience

**Systems** segment sales rose by 3.7% to €1,935m (Fx and portfolio adj. +8.1%) with Polyurethanes contributing €1,351m (+2.9%). Lower raw material sales, mainly styrene, impacted sales by approx. €35m. MDI global demand remained solid. TDI continued strong volume and price growth. Coatings, Adhesives, Specialties continued to grow nicely, driven by Asia (€432m, +5.4%).

**Underlying EBITDA** flat at €337m (-0.3%). Higher volumes and selling prices compensated for higher raw material and energy costs and negative currency effects. **Underlying EBIT** down by 1.1% to €258m.

**Materials** segment sales fell by 9.2% (Fx and portfolio adj. -1.8%) to €687m, mainly due to lower prices. In total volumes remained stable, despite a decline in US.

**Underlying EBITDA** dropped 50.7% to €35m. Earnings burdened by effects of lower sales and higher raw material and energy costs. **Underlying EBIT** down by €34m to -€5m.

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#### Forward-looking statements

This announcement may contain forward-looking statements based on current assumptions and forecasts made by Bayer Group or subgroup management. 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 company and the estimates given here. These factors include those discussed in Bayer's public reports which are available on the Bayer website at [www.bayer.com](http://www.bayer.com). The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

Best-Selling Pharmaceutical Products	2nd Quarter 2007	2nd Quarter 2008	Change	Currency- adjusted change
	€ million	€ million	%	%
Yasmin®/YAZ®/Yasminelle® (Women's Healthcare)	250	305	22.0	32.1
of which in USA	119	146	22.7	40.9
Betaferon®/Betaseron® (Specialized Therapeutics)	256	274	7.0	13.6
of which in USA	86	89	3.5	20.0
Kogenate® (Hematology/Cardiology)	210	182	-13.3	-6.7
of which in USA	50	53	6.0	24.8
Adalat® (Primary Care)	162	158	-2.5	2.8
of which in USA	6	3	-50.0	-43.5
Avalox®/Avelox® (Primary Care)	90	90	0.0	7.8
of which in USA	19	17	-10.5	2.8
Mirena® (Women's Healthcare)	88	118	34.1	47.2
of which in USA	41	64	56.1	79.3
Nexavar® (Oncology)	60	108	80.0	90.4
of which in USA	24	30	25.0	43.8
Levitra® (Primary Care)	81	84	3.7	11.9
of which in USA	33	33	0.0	14.6
Cipro®/Ciprobay® (Primary Care)	93	77	-17.2	-13.8
of which in USA	5	9	80.0	127.3
Glucobay® (Primary Care)	79	74	-6.3	-2.1
of which in USA	6	1	-83.3	-79.1
Ultravist® (Diagnostic Imaging)	64	65	1.6	8.9
of which in USA	3	4	33.3	41.8
Aspirin Cardio® (Primary Care)	57	67	17.5	22.2
of which in USA	0	0	•	•
Magnevist® (Diagnostic Imaging)	74	59	-20.3	-13.1
of which in USA	31	27	-12.9	1.0
Iopamiron® (Diagnostic Imaging)	57	48	-15.8	-15.5
of which in USA	0	0	•	•
Diane® (Women's Healthcare)	43	41	-4.7	-2.0
of which in USA	0	0	•	•
<b>Total</b>	<b>1.664</b>	<b>1.750</b>	<b>5.2</b>	<b>12.2</b>
Proportion of Pharmaceuticals sales	64%	68%		

Bayer AG: Key Figures for Q2 2008

in € million	HealthCare		Pharma		CH		CropSc.		CP		ES/BS		MaterialSc.		Systems		Materials		Reconc.		Group	
	Q2'07	Q2'08	Q2'07	Q2'08	Q2'07	Q2'08	Q2'07	Q2'08	Q2'07	Q2'08	Q2'07	Q2'08	Q2'07	Q2'08	Q2'07	Q2'08	Q2'07	Q2'08	Q2'07	Q2'08	Q2'07	Q2'08
Sales	3,717	3,734	2,583	2,584	1,134	1,150	1,562	1,804	1,262	1,526	300	278	2,623	2,622	1,866	1,935	757	687	315	351	8,217	8,511
Sales by region:																						
Europe	1,566	1,538	1,114	1,061	452	477	675	798	566	695	109	103	1,169	1,169	880	893	289	276	287	328	3,697	3,833
North America	1,093	1,085	696	705	397	380	431	453	199	363	112	90	613	548	464	428	149	120	3	1	2,140	2,087
Asia / Pacific	523	545	438	449	85	96	237	260	184	202	53	58	537	577	293	356	244	221	11	8	1,308	1,390
LatAm/Africa/Middle East	535	566	335	369	200	197	219	293	193	266	26	27	304	328	229	258	75	70	14	14	1,072	1,201
EBITDA	788	887	530	672	258	215	348	493	297	427	51	66	389	365	318	333	71	32	47	29	1,572	1,774
Special items	-181	-107	-181	-72	0	-35	-48	-8	-13	-8	-35	0	-20	-7	-20	-4	0	-3	15	0	-234	-122
EBITDA underlying	969	994	711	744	258	250	396	501	310	435	86	66	409	372	338	337	71	35	32	29	1,806	1,896
EBITDA margin underlying	26.1%	26.6%	27.5%	28.8%	22.8%	21.7%	25.4%	27.8%	24.6%	28.5%	28.7%	23.7%	15.6%	14.2%	18.1%	17.4%	9.4%	5.1%	10.2%	8.3%	22.0%	22.3%
EBIT	431	513	207	334	224	179	211	367	180	321	31	46	266	244	237	252	29	-8	9	-19	917	1,105
Special items	-209	-126	-209	-91	0	-35	-51	-8	-16	-8	-35	0	-24	-9	-24	-6	0	-3	16	0	-268	-143
EBIT underlying	640	639	416	425	224	214	262	375	196	329	66	46	290	253	261	258	29	-5	-7	-19	1,185	1,248
EBIT margin underlying	17.2%	17.1%	16.1%	16.4%	19.8%	18.6%	16.8%	20.8%	15.5%	21.6%	22.0%	16.5%	11.1%	9.6%	14.0%	13.3%	3.8%	-0.7%			14.4%	14.7%
Gross cash flow	545	606	381	447	164	159	259	377	219	325	40	52	293	278	238	247	55	31	90	61	1,187	1,322
Net cash flow	284	154	202	78	82	76	494	731	313	630	181	101	278	276	253	239	25	37	-240	-272	816	889
Non-operating result																						
Net income																						
Earnings per share, cont. (€)																						
Earnings per share, discount. (€)																						
Core earnings per share (€)																						
CapEX																						
R&D																						
D&A and Write-downs	357	374	323	338	34	36	137	126	117	106	20	20	123	121	81	81	42	40	38	48	655	669
Employees at end of period	50,300	52,500	39,200	39,400	11,100	13,100	17,800	18,000	14,800	14,700	3,000	3,300	15,200	15,100	10,200	10,300	5,000	4,800	21,300	21,500	104,600	107,100



## Key Elements of Bayer's FY 2008 Guidance (as of July 30, 2008)

### Sales

Group	Growth >+5% (Fx & portfolio adjusted) - <b>upgraded</b> -
HealthCare	Growth at or above markets in all segments
CropScience	Well over 10% (Fx & portfolio adjusted) - <b>upgraded</b> -
MaterialScience	Good volume growth in 2008
Reconciliation	Approx. on previous year's level

### Underlying EBITDA / underlying EBTDA-margin

Group	Further increase of underlying EBITDA and underlying EBITDA margin
HealthCare	Margin improvement toward 27%
CropScience	Margin at approx. 25% - <b>upgraded</b> -
MaterialScience	Good value generating earnings level (though without matching the 2007 figure) – underlying EBITDA in Q3 below Q2 level
Reconciliation	Underlying EBITDA approx. on previous year's level

### Special items (EBITDA / EBIT-level)

Group	Charges in the region of 650 million
HealthCare	Charges of approx. Euro 400 million, thereof approx. Euro 200 million Schering-PPA
CropScience	Charges of approx. Euro 200 million
MaterialScience	Charges of approx. Euro 50 million

### Group D&A (planned)

Depreciation	Euro 1.2 billion
Amortization	Euro 1.5 billion

### CapEx

Group	Euro 1.7 billion for PPE
HealthCare	23%
CropScience	13%
MaterialScience	48%

### R&D

Group	Euro 2.8 billion
HealthCare	66%
CropScience	24%
MaterialScience	8%

### Non-operating result

Approx. -1.0 billion

### Tax rate (P&L)

Approx. 32%