Bayer

# Q2 2006 Analyst and Investor Briefing

## August 29, 2006

- **Sales** increased by 5.8% to €7,072m (Q2'05: €6,686m); Volume +4%, price +0%, currency +0%, portfolio +2%. Schering, consolidated as of June 23, 2006, contributed €144m.
- **Underlying EBIT** up 14.1% to €928m (Q2'05: €813m), driven by favourable performance of all subgroups. Contribution from Schering: €4m.
- **Net Special Items** of -€50m include: *HealthCare*:Total -€16m, mainly Schering. *MaterialScience*: Total -€34m for antitrust proceedings polymers and a write-down at H.C. Starck.
- **Reported EBIT** advanced by 24.2% to €878m (Q2'05: €707m). Impact from Schering: -€6m.
- **Underlying EBITDA** at €1,342m up 11.2% (Q2'05: €1,207m). Contribution from Schering: €30m.
- **Reported EBITDA** at €1,308m up by 18.8% (Q2'05: €1,101m) including €20m from Schering.
- **Non-operating result** down by 79.8% to -€232m (Q2'05: -€129m) due to increased interest expenses of -€129m (Q2'05: -€80m) and Schering financing costs.
- **Net income** (incl. discontinued operations) up by 11.3% to €452m (Q2'05: €406m); EPS accordingly at €0.60 (Q2'05: €0.56) taking into account the mandatory convertible bond for Q2'06-EPS calculation (IAS 33.23, see stockholders' newsletter, page 40).
- **Gross cash flow** up by 11.2% to €964m (Q2'05: €867m), including €25m from Schering. Delta **Working Capital** -€69m. **Net cash flow (cont.)** at €895m (Q2'05: €980m), including €145m from Schering. Net cash flow (disc.) at €107m (Q2'05: €45m). **Investments** up by 25.5% to €340m. **Operating free cash flow** at €662m (Q2'05: €754m).
- **Net debt** up by €14,228m to €19,945m when compared to March 31, 2006 mainly due to the acquisition of Schering. Acquisition price for 89.7% of Schering shares (as of June 30, 2006) amounted to €15.1bn. Acquired liquid assets at Schering were €1bn and acquired financial liabilities €0.2bn.

| € million | Q2 2005 | | | | | | Q2 2006 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sales | EBIT rep. | Special Items | EBIT under-lying | EBITDA rep. | EBITDA under-lying | Sales | EBIT Rep. | Special Items | EBIT under-lying | EBITDA rep. | EBITDA under-lying |
| **HealthCare** | **2,003** | **219** | **(81)** | **300** | **288** | **369** | **2,257** | **355** | **(16)** | **371** | **454** | **470** |
| Pharma | 988 | 109 | (20) | 129 | 145 | 165 | 1,188 | 159 | (14) | 173 | 223 | 237 |
| Cons. Health | 1,015 | 110 | (61) | 171 | 143 | 204 | 1,069 | 196 | (2) | 198 | 231 | 233 |
| **CropScience** | **1,604** | **162** | **(25)** | **187** | **306** | **331** | **1,578** | **230** | **0** | **230** | **368** | **368** |
| CP | 1,318 | 110 | (21) | 131 | 235 | 256 | 1,269 | 159 | 0 | 159 | 277 | 277 |
| ES/BS | 286 | 52 | (4) | 56 | 71 | 75 | 309 | 71 | 0 | 71 | 91 | 91 |
| **MaterialSc.** | **2,734** | **327** | **(10)** | **337** | **464** | **474** | **2,883** | **319** | **(34)** | **353** | **471** | **489** |
| Materials | 1,045 | 162 | 0 | 162 | 215 | 215 | 1,059 | 102 | (16) | 118 | 178 | 178 |
| Systems | 1,689 | 165 | (10) | 175 | 249 | 259 | 1,824 | 217 | (18) | 235 | 293 | 311 |
| **Reconc.** | **345** | **(1)** | **10** | **(11)** | **43** | **33** | **354** | **(26)** | **0** | **(26)** | **15** | **15** |
| **Group** | **6,686** | **707** | **(106)** | **813** | **1,101** | **1,207** | **7,072** | **878** | **(50)** | **928** | **1,308** | **1,342** |

## Outlook

The targets, stated in our interim report as of March 31, 2006, of a slight increase in underlying EBIT and EBITDA and an underlying EBITDA margin of 19 percent for the full year 2006, applied to the corporate structure existing at that time, which included the Diagnostics business now earmarked for divestiture, but not the Schering acquisition. For this structure we can fully confirm the previous guidance.

If the Diagnostics business earmarked for divestiture is eliminated, we achieved underlying EBIT of €3,158 million and underlying EBITDA of €4,787 million in 2005. We anticipate improving on these figures in 2006 even without the inclusion of Schering. We expect earnings from the acquired Schering business to increase Group EBITDA before special items for the second half of 2006 by about €600 million, before non-cash charges arising from the step-up of Schering inventories for the first-time consolidation. This adjustment ensures comparability with future periods.

We are raising the earnings target for our continuing HealthCare activities (excluding Schering) as a result of the upward business trend. We now expect to grow underlying EBIT by about 20 percent (previously more than 10 percent) and increase the underlying EBITDA margin to approximately 20 percent.

For the second half of the year, the Bayer CropScience subgroup is anticipating a negative market environment for the global crop protection industry. Against a background of dry weather in Europe, North America and Australia and the continuing difficulties in the Brazilian farming industry, Bayer CropScience now predicts a decline in sales for 2006 as a whole. Due to the difficult market conditions, we now assume that we will be unable to match the previous year's underlying EBITDA margin. We have initiated further restructuring measures in this subgroup to enhance its earning power for the long term.

The program is due to be largely completed by 2009 and designed to achieve annual savings of roughly €300 million. In this connection Bayer CropScience anticipates special cash charges of some €330 million along with write-downs of about €120 million. These amounts will be reflected mainly in the 2007 and 2008 financial statements. We expect the measures to be accretive to EBIT after special items starting in 2008.

We currently view the market environment for our MaterialScience business as positive despite a significant rise in raw material costs. Business so far in 2006 and the outlook for the second half of the year are ahead of expectations. Against this background, we now plan to achieve underlying EBIT and EBITDA for the full year on a par with the outstanding 2005 level.

Particularly in light of the long-term optimization of our portfolio, we remain optimistic about the Bayer Group's future development.

## Q2'06 HealthCare

**Pharmaceuticals** sales up 20.2% to €1,188m due to strong performance of key products. *Primary Care:* Adalat up to €171m (+2.4%). Cipro sales €127m (+11.4%). Avelox sales €88m (+12.8%). Levitra up 15.9% to €73m. *Hematology/Cardiology:* Trasylol down 37.5% to €35m due to side effect discussions. Kogenate (€179m, +2.9%) to be viewed against an artificially high Q2'05. Rx Aspirin Cardio up 17.8% (€53m). Negative sales impact of €28m from cessation of distribution of plasma products in Canada. *Oncology*: Nexavar contributed €24m.
Underlying EBIT up 34.1% to €173m driven by strong performance of key brands. Underlying EBITDA at €237m, up 43.6%.

**Consumer Health** sales advanced by 5.3% to €1,069m. Ascensia up 8.9% (€208m), Aspirin

OTC sales increased by 2.7% to €115m. Aleve plus 24.4% to €56m. Strong performance of the Advantage product family (€91m, +18.2%).
Underlying EBIT up by €27m to €198m (+15.8%). Underlying EBITDA at €233m (+14.2%)

## Q2'06 CropScience

**Crop Protection** sales down by 3.7% to €1,269m. Sales of **Insecticides** decreased by 7.8% to €317m due to unfavourable market conditions and divested products. **Fungicides** sales down by 4.6% to €352m caused by early U.S. fungicide season and lower rates of fungal infestation in parts of Europe. Sales in the **Herbicides** division slightly below previous year (€519m, -1.0%). **Seed Treatment** on previous years level (€81m, ±0%).
Underlying EBIT in Crop Protection up to €159m, an increase of 21.4% compared to a weaker Q2'05. Cost containment and efficiency enhancement programs contributed to the increase. Underlying EBITDA improved to €277m (+8.2%)

**Environmental Science/BioScience** sales up by 8.0% to €309m. Environmental Science up 4.2% to €225m. Professional products as a main driver. BioScience increased sales by 20% to €84m due to favourable business with vegetable seeds and hybrid rice.
Underlying EBIT improved by 26.8% to €71m due to growth in business. Underlying EBITDA at €91m (+21.3%)

## Q2'06 MaterialScience

**Materials** segment sales improved by 1.3% to €1,059m. Polycarbonates with solid volume growth, however, sales down 1.3% to €670m due to weaker selling prices. Higher volumes drove sales growth at H.C. Starck (€247m, +7.9%).
Underlying EBIT down 27.2% to €118m, mainly due to lower selling prices for Polycarbonates. Underlying EBITDA at €178m (-17.2%).

**Systems** segment sales were up 8.0% to €1,824m, with Polyurethanes up 7.1% to €1,301m. MDI with higher volumes but lower prices. TDI and Polyols (PET) up on price increases. Coatings raw materials improved 11.1% to €380m.
Underlying EBIT significantly up by 34.3% to €235m, resulting chiefly from price increases for TDI- and PET-products. Underlying EBITDA at €311m (+20.1%)

**Bayer Investor Relations contacts:**

Dr. Alexander Rosar (+49-214-30-81013)
Dr. Juergen Beunink (+49-214-30-65742)
Peter Dahlhoff (+49-214-30-33022)
Ilia Kürten (+49-214-30-35426)
Ute Menke (+49-214-30-33021)
Judith Nestmann (+49-214-30-66836)
Dr. Olaf Weber (+49-214-30-33567)