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PRESENTATION

Alexander Rosar - ***Bayer AG - Head of IR***

Good morning everybody. I hope that those of you who arrived yesterday enjoyed the evening with us. Everybody else, I would like to welcome also on behalf of the entire management team of Bayer to our meanwhile 10th Meet Management Conference and the first one here in Berlin at the headquarters of our pharmaceutical business.

My name is Alexander Rosar. I am responsible for Bayer's investor relations program.

I believe many of you are familiar with the format of our conference, so I can make my remarks relatively brief.

So, what have we prepared for you? Marijn Dekkers, our CEO will start off the conference with a brief summary of recent developments, our 2015 guidance and our midterm aspirations. After his presentation, we will have the opportunity to discuss all aspects of Bayer in four breakout sessions. One, focusing on group aspects, one on healthcare, one on pharma R&D and one on CropScience.

In order to facilitate the discussion, we have split the entire audience into four groups, A, B, C and D as indicated on your nametag and, for example, the format is as follows, group A starts with corporate continues with CropScience then healthcare and lastly, Pharma R&D. Our hostesses will walk you through the respective breakout rooms which are located on the second floor. So, this floor and on the eight floor.

One last point, please be aware that during the entire conference, we will make forward-looking statements so we kindly request that you read carefully through the Safe Harbor statements which governs our conference. *(See "Disclaimer" chart at the end of this transcript).*

And with that, I would ask Marijn to take the floor for his presentation.

Thank you.

Marijn Dekkers - ***Bayer AG - CEO***

Okay. Thank you, Alexander. Also, from me, welcome to Berlin, to one of our largest facilities inside of Bayer. We run our pharmaceutical business out of Berlin, as you know, and it is really good to have all of you here.

What I am going to do, as Alexander said, is I am going to show you about 30 slides or so very quickly in 30 minutes. So, I won't make a lot of comments on the slides, but it is really just a warm-up to stimulate your thinking to be able to fire off some questions to us for the next four hours.

So, let me get -- this is the disclaimer. So, let me just quickly summarize, how we think about the new Bayer. We are transforming Bayer into the Life Science company by exiting MaterialScience and, as you know, the major driver of our success over the last few years has been our terrific sales momentum coming from new product innovations.

We are expecting important progress updates for the pharma pipeline over the next 12 to 18 months and, as you know, now as the Life Science company, we are focused on the health of human, animal and plants. We are executing a strategy where organic growth is the key driver for our success, our key focus and then complemented by bolt-on acquisitions. And for 2015, we are targeting low single-digit organic growth, I will come back to that in a moment, and low teens percent improvement in core EPS.

Just quickly on the portfolio, you can see here that we have about 42 billion of sales in 2014, almost 12 of that was MaterialScience, so that will be leaving the portfolio and you saw with Merck and also the smaller Dihon acquisition. We picked up about 1.6 billion in sales pro forma in the OTC business.

Just a little bit of our track record here. Since 2010, you can see we have been steadily growing both the top line with a 5% CAGR and EPS with a 9% CAGR and we feel very good about this consistency in spite of a number of things that obviously happened over the last year, but it shows that the portfolio is capable of being relatively predictable and consistent.

So, there are four key elements to our strategy, and I will talk relatively quickly through each and every one of them. The first one is just the growth that is very key to us, the top line organic growth and the earnings performance that comes with it.

So, just a quick reminder of the guidance. This is the guidance for 2015 for the total company, and then my next slide is subgroup by subgroup, and you can see here that on sales we are expecting low single digit increase to about 46 billion, and this is on FX that -- the FX rates of the end of 2014.

Then adjusted EBTIDA low to mid teens increase and core EPS low teens increase as you see. But, you know, the question is, of course, why only low single digit increase in sales if we have, you know, double digit increases here, and therefore, I would like to show you a little bit of more in detail, Healthcare and CropScience are relatively predictable here with mid-single digit increase in healthcare coming from mid to high single digit in pharma and mid-single digit in consumer, and these are all organic growth rates.

Low to mid single digit in Crop where the market is more difficult in 2015 than in 2014, but the big driver her for this guidance is that in the MaterialScience, we actually expect lower sales in 2015 than in 2014, and this is important although we would not talk a lot about MaterialScience today. There is no separate session for it.

In MaterialScience, as a result of the dropping oil price, the raw material costs have been gotten significantly lower. We are going to have to pass on that lower cost, at least partially to our customers. We are going to get volume growth in MaterialScience, but we are going to see price erosion, and the price erosion will be in our expectation, now larger than the organic volume growth rate.

All of that adds up then to lower revenue, but it does not add up to lower EBITDA because we still believe that we will be able to increase significantly our EBITDA, so the price erosion will be more than offset, we believe, by the lower material costs and then the volume growth will help us drive EBITDA.

The other parts here, low teens increase in pharma with a slight margin improvement, mid to high 20s increase in consumer health. Obviously, also, the acquisitions contribute to this increased profitability. This is consistent where we are aiming to maintain close to our margins. It is basically the breakout of how the whole guidance for 2015 comes together.

Now, the aspirations for 2017, you know, we, at this meeting in March we always give our aspirations for the next three years. So, we expect for healthcare a CAGR in top line of around 6% which would get us to 25 billion, broken down to 7% in Pharma and 4% in Consumer Health, and then for CropScience you see a 5% top line CAGR to above 11 billion of revenue. And then from an EBITDA margin, Healthcare between 29 and 31, pharma 32 to 34 -- so this is the margin range that we would have in 2017 -- Consumer Health 24 to 26, CropScience 23 to 25.

I know that the key area of focus is the Pharma margin range and just a little bit comment on that, we are ambitious in R&D. As you know, we have had some significant success in our R&D efforts in Pharma over the last years and we see tremendous opportunities in three areas, basically first life cycle management of the products that we have recently introduced like Xarelto, Eylea and others where we are doing additional phase three trials that cost money, then, the whole pipeline development -- I will come back to it in a moment -- requires investment and, of course, with the pipeline development, the more successful we are, the more expensive it is going to be.

And then thirdly, we are also spending somewhat more money on more fundamental early R&D type of projects to enhance our scientific capability in Pharma. So, all of that adds up to this range of 32% to 34%, and actually to give you one number, in 2015 already we will spend 300 million Euro more in R&D in Pharma than in 2014. So, we are stepping up the Pharma R&D and the success of that particularly in the pipeline project also affects the range between 32% and 34% margin.

Now, let me go to just a little quick history slide on our Pharma sales, which actually become, in 2014, one of the largest global -- fastest growing large Pharma companies with 11%, as you can see, organic growth here, and you see that acceleration here where it is essentially flat a few years ago and then it started picking up. And, obviously, the new products that we have introduced are responsible for that, but I would say it is not just about good R&D, it has also been about very good execution of the introductions of these new projects globally. We spent a lot of time, effort and money on making sure that these introductions were done very well.

Here, you see a little bit more detail where the sales growth has been coming from. These are the five products that you well know and you see here in the breakout. The sales for 2014, we went from 1.5 to 2.9 billion Euro for these five products. We are inspecting to go towards 4 billion for 2014, and you know, the overall peak sales potential of these five products as you know lies by 7.5 billion Euro.

The specific slide on Xarelto, Xarelto had a very good year in 2014. You can see 82% top line growth which is really significant, and you can see that in December of 2014, we had 32% global market share in anticoagulants. You see, Pradaxa here with 13 number two, Eliquis 11% number three. And the peak sales potential of that one Xarelto has around 3.5 billion, still looks very, very doable. Eylea, another very good success story. There, we actually grew with more than double the sales year over year and you can see our shares in these markets here going up, Europe, Germany, Japan, we really have done a nice job there, gaining significant share and, again, also here we can confirm that we have a peak sales potential for Eylea of equal or more than 1.5 billion Euro.

Now, OTC, we are excited about our OTC business. We, always, were excited about it, but we are even more excited about it now after the acquisition, in particular, of Merck OTC last year. I was with the team last week in New York, and Erica and our team are working very hard on making the integration, very successful. We are now, if you just add the sales of Merck to the sales of Bayer pro forma in 2014, the 5.6 billion Euro OTC business which has a number two position after the combination of Novartis and Glaxo-Smith-Kline in the market and we have talked a lot about I will believe that critical mass is very important in the OTC business.

So, we believe certainly we have critical mass and we picked up some very strong brands like Claritin and Coppertone and Dr. Scholl's. Our plans for continued growth on the right is to make sure that we globalize some of these brands -- I will come back to that in a moment -- and also execute on our emerging market strategies and then, of course, fully realize the synergies from these acquisitions.

This is amazing, I think in the most -- maybe even most amazing slide. I just continued to be stunt by the effect that the growth potential for products that have been in the market for so long is still so good. Aspirin we grew 5%, Aleve 10% last year and Bepanthen 18%, and Bepanthen is a formulation that was created in 1943. So, it is a very big product, I think the fourth largest product in OTC at the moment, but growing very significantly. And then on the right you can see, when I was talking about emerging markets, we are penetrating very aggressively in China, Brazil and Russia with top growth rates well in the 20s.

CropScience, CropScience has had some very, very good years. Of course, the market was very good in the last number of years, but also I think our performance was very good. We have always had very good technology in CropScience but we have gotten significantly better in our commercial capability in market segmentation and execution. And the combination of the good technology with good marketing is leading to these growth rates that you can see hear 9, 12, 9, 11 organic growth over the last years, and we are actually seeing clear evidence now, particularly in 2014 that with this 11% we have gained significant market share.

The story is a little bit the same as in Pharma. It is the new products, in particular, that are marketed well that are driving the growth, and you can see these are products that have been introduced since 2006. You can see that they have contributed significantly to the growth in CropScience in the sense that they grew by 23% year over year, 13 to 14, and this is very important because this is what determines the competitiveness vis-a-vis our peers in this industry.

Now, that is our growth and our performance, a little bit of a loop back and a little bit of a loop forward. The second area is the development of new growth opportunities, and that is of course, in our case, in the LifeScience company very heavily related to R&D and the ability to create new products.

We are very confident in our R&D capability, we are increasing overall our R&D budget in '15 by 10% to more than €4 billion over last year. I just said, the €300 million of that increase are going to be in Pharma. The track record, amazing run in phase three clinical trials in pharma, 26 successful ones since 2010, also in Consumer Care although it is an R&D in a different way, we are continuously renewing our product capabilities and improving either formulations or the combination of our OTC products for new sales.

In CropScience we are very active with new active ingredients and then also we are investing a significant amount of money to look at the interface of human, animal and plant health type of projects.

I mentioned that we are going to get a lot of activity and news in our Pharma pipeline over the next few years, and here you see in the overview of the different phase two, phase three type of projects and where we are in the decisions. It is very important that the five projects that we have over the next 12 to 18 months we want to make the decision of going from phase two to phase three, you can see them here on the slide. And what we have done is, we have now -- that we do not do the MaterialScience breakout anymore. We have a Pharma R&D breakout where you have an opportunity to really dig deep into these projects in a very focused way with the team.

So, that was Pharma. The same is going on in CropScience where we are developing a pipeline of new capabilities. You can see it here on the slide to the products that are being launched between 2011 and 2016. We expect the right peak sales potential of over €4 billion and this really will determine our competitiveness in CropScience for the next 5 to 10 years to come.

Then the unique part of Bayer and that we are considered with the health of, I would say, all living species that are on the face of the earth. Where we see opportunities for synergies and very early research by understanding that a biochemical cellular processes and using the similarities or the differences in an intelligent way to design new products for the different species. Also, here, we are having some very good to very early indications of success and this is also, I suggest, a topic for the R&D breakout.

Then the portfolio. So, what has been going on in the portfolio. I talked about the organic growth performance, I talked about the new pipeline that is coming to R&D, the third driver is what we have been doing with the portfolio. And actually, I am going to first show you a chart that even blew us away when we put it together.

Alexander Rosar put the slides together half a year or so, and we compare our business mix in 2003 with the business mix in 2014, and assuming that MaterialScience is no longer part of the company as you can see. Even before MaterialScience, we did 47 billion of transactions and, obviously, with MaterialScience this is, you know, close to 60. And you see that, you know, from Healthcare and CropScience being less than half of our sales of €28 billion, it has now become €32 billion, and this is really a very remarkable transition.

The main driver, of course, has been the organic growth of Healthcare and Crop particularly in the last five years, but then also, you see significant acquisition activity and the divestitures of MaterialScience and Chemicals and LANXESS and some others has led to, in a way, a portfolio that is similar from a revenue point of view in size, but with a totally different now 100% LifeSciences mix. A big deal is, of course, the integration of Merck OTC as I already mentioned. Again, this is some topic for the breakout but we can confirm the synergy targets so we put together of $200 million cost synergies by 2017 and $400 million of top line synergies by 2017.

Talk about, beautiful word, the de-merger of MaterialScience, where are we at the moment, we are working very hard on the carve-out of MaterialScience from Bayer, that is sort of the legal and the economic administrative carve-out and we hoped to be done with that by, I would say, end of summer here, it says August 2015.

Only then can we go into the next phase which would be the capital market exit, and the timing and the structure depend on the future market environment, of course. We will make the decision in the second half of 2015. It is going to be -- of course, the options are an IPO or a spin, and the IPO is our preferred option on that, but stay tuned on that. We are well on schedule in terms of the carve-out and then, as I said, the decision on how we will play it out comes in the second half.

Now the project that we have started internally is, once, the MaterialScience is no longer part of the company and we are a pure LifeSciences company, what is the optimal organization for us? This is something that we are looking at internally in a project, and just to put it a little bit in perspective, historically, when we changed to a holding structure in 2003, I think it was, essentially Bayer had four main businesses, it is Healthcare, Crop, MaterialScience and the chemical part that is now LANXESS.

So, LANXESS was spun out in 2004, now MaterialScience will be leaving the company which means we have two subgroups left, two businesses left and we are looking at how can we optimize the structure of the company to make sure that we do not do double work, that we can make decisions relatively quickly, so we are looking at layers of management and more customer-focus even and also even further improvement of our innovative capability. That is a project that is going on. We will make decisions on that towards the end of the year and then implement the new organization, the first of 2016.

And last but not the least, we have, of course, the balance sheet. Like any other company, we want to over time, de-lever the balance sheet and use our cash efficiently and I have one chart on that as you can see here. Fueling organic growth, as I said, is our top priority in the company. When you grow that much, you need to build capacity to be able to fulfill the increased demand. We have a CapEx budget for 2015 of €2.3 billion and, as I have said, an R&D budget of over €4 billion. We are paying down our debt.

It is important to us that we maintain the single A credit rating. Of course, we will have -- if we do an IPO on MaterialScience, proceeds coming in from that. M&A, again, organic growth is a top priority, but if interesting bolt on acquisition opportunities show up then we will certainly take a look at them and then the dividend policy we have a payout target range of 30% to 40%. And for 2014 we have proposed to -- we will propose at the shareholders' meeting in May that the payout will be at 37%, in that range for 2014.

So, a quick summary, where are we. If you look at the businesses, as I said, something we are very proud of. We are one of the fastest growing global pharma companies. We have a very good OTC leadership position and also in Crop protection, CropScience, but particularly in Crop protection where we have been gaining share. We also aspire to get into a leadership position there as well.

Capabilities, the wonderful part I think about Bayer is that we have a very good R&D capability. Our marketing capability has significantly improved and this combination of having good products and being able to sell them and position them well is really, I think, a big contributor to our organic growth over the last years.

Brands are important. The Bayer brand is important, but of course, in OTC also, the product brands are extremely important. And then we have, you know, a tremendous emerging market presence, Russia, China, Brazil, we have been in these countries, in most cases for more than 100 years and have a very good basic setup in those countries that we can leverage also with acquisitions like we are doing with Merck OTC.

The innovation pipeline is important. We are the only company that has this capability to look at all living species which we think is also an advantage and, in the end, our sales growth momentum leads to more EBITDA, more EPS for our ultimate value creation for you as our shareholders.

So with that, I would like to thank you again for being here and I wish you a very productive and interesting day. Thank you very much.