

## Q2 2007 Analyst and Investor Briefing

August 7, 2007

- **Sales** grew by 22.0% to €8,217m (Q2'06: €6,736m), Schering €1,489m; Volume +5%, price +1%, currency -3%, portfolio +19%. Portfolio and currency adjusted sales increased by 5.4%.
- **Reported EBITDA** at €1,572m, up by 23.9% (Q2'06: €1,269m).
- **Underlying EBITDA** advanced by 38.6% to €1.806m (Q2'06: €1,303m).
- **Reported EBIT** up by 4.6% to €917m (Q2'06: €877m).
- **Net Special Items** of -€268m include:  
*HealthCare*: Total -€209m, due to Schering integration costs (-€176m), Schering PPA (-€33m).  
*CropScience*: Total -€51m, related to restructuring (-€18m) and LLRice defence costs (-€33m).  
*MaterialScience*: Total -€24m, due to restructuring.  
*Reconciliation*: Total +€16m from reversal of provisions from contingent losses at BIS.
- **Underlying EBIT** rose by 30.1% to €1,185m (Q2'06: €911m).
- **Non-operating result** down by 12.7% to -€257m (Q2'06: -€228m) including net interest expenses of €205m (Q2'06: -€129m).
- **Net income** at €660m (Q2'06: €452m). Discontinued Operations (€244m) includes net gain from divestment of Wolff Walsrode. **EPS** came to €0.83 (Q2'06: €0.60).
- **Core EPS** at €1.03 (Q2'06: €0.74). See page 33 of Stockholders' Newsletter for Calculation of Core Earnings per Share.
- **Gross cash flow** improved by 27.9% to €1,187m (Q2'06: €928m). **Delta Working Capital** at -€371m. **Net cash flow (cont.)** fell by €66m to €816m, mainly because of higher tax payments, bonus payments and disbursements for restructuring. **Investments** up by 29.4% to €440m (Q2'06 €340m). **Operating free cash flow (total)** at €340m (Q2'06: €662m).
- **Net debt** (total) qoq increased by €774 to €13,551m (yoy -€6,394m), largely due to the dividend payment, interest coupons and incentive payments.

€million	Q2 2006						Q2 2007					
	Sales	EBITDA rep.	EBITDA under-lying	EBIT rep.	Special Items	EBIT under-lying	Sales	EBITDA rep.	EBITDA under-lying	EBIT Rep.	Special Items	EBIT under-lying
<b>HealthCare</b>	<b>2,257</b>	<b>454</b>	<b>470</b>	<b>355</b>	<b>(16)</b>	<b>371</b>	<b>3,717</b>	<b>788</b>	<b>969</b>	<b>431</b>	<b>(209)</b>	<b>640</b>
Pharma	1,188	223	237	159	(14)	173	2,583	530	711	207	(209)	416
Cons. Health	1,069	231	233	196	(2)	198	1,134	258	258	224	0	224
<b>CropScience</b>	<b>1,578</b>	<b>368</b>	<b>368</b>	<b>230</b>	<b>0</b>	<b>230</b>	<b>1,562</b>	<b>348</b>	<b>396</b>	<b>211</b>	<b>(51)</b>	<b>262</b>
CP	1,269	277	277	159	0	159	1,262	297	310	180	(16)	196
ES/BS	309	91	91	71	0	71	300	51	86	31	(35)	66
<b>MaterialSc.</b>	<b>2,547</b>	<b>432</b>	<b>450</b>	<b>318</b>	<b>(18)</b>	<b>336</b>	<b>2,623</b>	<b>389</b>	<b>409</b>	<b>266</b>	<b>(24)</b>	<b>290</b>
Materials	723	139	139	101	0	101	757	71	71	29	0	29
Systems	1,824	293	311	217	(18)	235	1,866	318	338	237	(24)	261
<b>Reconc.</b>	<b>354</b>	<b>15</b>	<b>15</b>	<b>(26)</b>	<b>0</b>	<b>(26)</b>	<b>315</b>	<b>47</b>	<b>32</b>	<b>9</b>	<b>16</b>	<b>(7)</b>
<b>Group</b>	<b>6,736</b>	<b>1,269</b>	<b>1,303</b>	<b>877</b>	<b>(34)</b>	<b>911</b>	<b>8,217</b>	<b>1,572</b>	<b>1,806</b>	<b>917</b>	<b>(268)</b>	<b>1,185</b>



## Bayer Group sales and earnings forecast

### Group:

Plan to increase **sales** by >10% and **underlying EBITDA-margin** to >20% for **2007**.

Expect to expand the **underlying EBITDA-margin** to >22% by **2009**.

### HealthCare:

Continue to expect that all HealthCare divisions will grow at or above market. Increased target **underlying EBITDA-margin** to **25%** for **2007** in June. Confident to realize **synergies** from Schering integration of >€800 million by 2009. Aim to achieve an **underlying EBITDA-margin** of approx. **28%** by **2009**.

### CropScience:

Expect yoy growth in sales in the 2<sup>nd</sup> half and are now targeting an increase in the **full-year underlying EBITDA-margin** to **>22%**.

### MaterialScience:

Underlying EBITDA in the 3<sup>rd</sup> quarter is likely to remain on a par with the 2<sup>nd</sup> quarter.

### German Tax Reform:

In connection with the passage of corporate tax reform legislation in Germany, we expect to receive **one-time non-cash tax income of approx. €0.9 billion in the 3rd quarter of 2007**. This results particularly from the remeasurement of the deferred tax liabilities accrued in connection with the Schering acquisition based on the lower nominal rates of corporate income tax applicable in Germany beginning in 2008. Because the assessment base has been significantly widened in order to finance the reduction in nominal tax rates, only limited relief in terms of the total tax payable is expected in the coming years.

## Q2'07 HealthCare

**Pharmaceuticals** sales rose 117.4% (Fx and portfolio adj. +9.0%) to €2,583m with Schering accounting for €1,489m. *Primary Care*: Adalat €162m (-5.3%, Fx adj. +0.5%). Cipro €93m (-26.8%, Fx adj. -24.3%). Avelox €90m (+2.3%, Fx adj. +4.0%). Levitra up 11.0% (Fx adj. +15.0%) to €81m. *Hematology/Cardiology*: Kogenate advanced by 17.3% (Fx adj. +20.1%) to €210m, because part of the sales volume expected for Q1 was delayed until Q2. Plasma portfolio effect at €19m due to termination of distribution in some regions in 2006. *Oncology*: Nexavar contributed €60m. *Women's HealthCare*: Yasmin sales (including Yaz and Yasminelle) rose pro-forma by 38.1% (Fx adj. +43.1%) to €250m, driven by launch of Yasminelle in Europe and Yaz in the U.S. and LA. *Specialized Therapeutics*: Betaferon advanced by 2.8% (pro-forma, Fx adj. +5.6%) to €256m.

**Underlying EBITDA** at €711m, up €474m, mainly due to acquired Schering business and realized synergies (Q2'07: approx. €100m). **Underlying EBIT** up 140.5% to €416m.

**Consumer Health** sales up 6.1% to €1,134m (Fx adj. +9.6%). Aleve slightly down by 1.8% to €55m (Fx adj. +3.6%). Aspirin OTC down by 7.0% (Fx adj. -3.8%) to €107m, because of soft sales in parts of Latin America. Bepanthen family grew by 17.6% to €40m (Fx adj. +17.6%). Favorable performance of Canesten (€47m, +17.5%, Fx adj. +18.6%). Ascensia product line expanded sales by 15.9% (Fx adj. +20.2%) to €241m, due to replacement of older Elite systems. Advantage up 15.4% (Fx adj. +20.1%) to €105m, driven by seasonal effects and K9 Advantix launch.

**Underlying EBITDA** grew by 10.7% to €258m, mainly due to top-line growth offsetting increase in marketing spent for new product launches. **Underlying EBIT** up 13.1% to €224m.



## Q2'07 CropScience

Crop Protection sales decreased by 0.6% to €1,262m (Fx and portfolio adj. +2.5%). Sales in the Herbicides business dropped 7.7% to €479m (Fx and portfolio adj. -5.1%), due to early season in Europe having caused some cereal herbicide orders to be brought forward to Q1. Pleasing sales of Basta and Liberty offset the negative impact of a reduction in cereal acreages in Canada. Fungicides sales up by 9.4% to €385m (Fx and portfolio adj. +10.8%), thanks to business in the US and good performance of new fungicides Proline and Infinito. The young CNI insecticide Biscaya supported insecticides sales development in Europe (€313m, -1.3%, Fx and portfolio adj. +2.7%). Seed Treatment advanced by 4.9% to €85m (Fx and portfolio adj. +10.8%), due to good performance of Poncho and CropStar.

**Underlying EBITDA** climbed by 11.9% to €310m, mainly due to increased volumes and cost savings. **Underlying EBIT** up by 23.3% to €196m.

**Environmental Science/BioScience** sales edged back by 2.9% (Fx adj. -0.2%) to €300m. Environmental Science down by 11.1% (Fx adj. -8.1%) to €200m. Positive trend in Consumer segment did not compensate for significant drop in Professional segment that resulted primarily from increased generic competition in North America. Sales of BioScience unit advanced by 19.0% to €100m (Fx adj. +21.3%), driven by all seed varieties.

**Underlying EBITDA** fell by 5.5% to €86m, primarily due to negative currency effects and decrease of business in Professional segment of ES. **Underlying EBIT** at €66m (-7.0%).

## Q2'07 MaterialScience

**Materials** segment sales advanced by 4.7% (Fx adj. +8.5%) to €757m. Polycarbonates sales up 4.9% to €703m, driven by strong volumes in all regions. Selling prices down.

**Underlying EBITDA** dropped by 48.9% to €71m. Considerably higher raw material costs

and lower sales prices could not be compensated by the earnings contribution of additional volumes. **Underlying EBIT** down 71.3% to €29m.

**Systems** segment sales were up 2.3% to €1,866m (Fx adj. +5.4%) with Polyurethanes contributing €1,313m (+0.9%). Global demand for MDI remained solid. TDI supply continued to be tight in all regions. Coatings, Adhesives, Sealants grew nicely on higher prices and volumes (€410m, +7.9%).

**Underlying EBITDA** up by 8.7% to €338m. Higher selling prices and volumes offset increases in raw material costs and the charges attributable to continuing difficulties experienced by our supplier of crude MDI in Shanghai. **Underlying EBIT** up by 11.1% to €261m.

**Please see next page for indicative impact of the additional amortization charge and work-down of inventory step-up on EBIT and EBITDA in connection with Schering acquisition.**

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## Forward-looking statements

This announcement contains forward-looking statements based on current assumptions and forecasts made by Bayer Group 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 our public reports filed with the Frankfurt Stock Exchange and with the U.S. Securities and Exchange Commission (including our Form 20-F). The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.



## Indicative impact of the additional amortization charge and work-down of inventory step-up on EBIT and EBITDA in connection with Schering acquisition

### Acquisition of Schering - Indicative Impact of Additional Amortization\*



In €million, figures rounded	FY 2006a	FY 2007e	Q2 2007a	Q3 2007e	FY 2008e	FY 2009e
<b>Work-down of inventory step-up (1)</b>	<b>-429</b>	<b>-200</b>	<b>-49</b>	<b>-45</b>	<b>-220</b>	<b>0</b>
Amortization of intangibles & tangibles, excl. trademarks	-419	-730	-187	-180	-875	-900
> Of which capitalized as part of inventory (2)	345	450	103	110	550	550
Expensed amortization capitalized in previous period (3)		-345	-87	-85	-450	-550
Amortization of trademarks	-48	-90	-22	-22	-90	-90
<b>Amortization (4)</b>	<b>-122</b>	<b>-715</b>	<b>-193</b>	<b>-177</b>	<b>-865</b>	<b>-990</b>
<b>EBIT impact (1)+(4)</b>	<b>-551</b>	<b>-915</b>	<b>-242</b>	<b>-222</b>	<b>-1,085</b>	<b>-990</b>
EBIT special items (1)+(2)+(3)	-84	-95	-33	-20	-120	0
<b>Underlying EBIT impact</b>	<b>-467</b>	<b>-820</b>	<b>-209</b>	<b>-202</b>	<b>-965</b>	<b>-990</b>
<b>EBITDA impact</b>	<b>-429</b>	<b>-200</b>	<b>-49</b>	<b>-45</b>	<b>-220</b>	<b>0</b>
EBITDA special items (1)	-429	-200	-49	-45	-220	0
<b>Underlying EBITDA impact</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* Status: August 7, 2007

Estimated figures are indicative. Assumptions subject to change.