Bayer

Q2 2005 Analyst and Investor Briefing

August 10, 2005

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- **Sales** increased +19.7% to €7,053m; Volume 0%, price +11%, currency -1%, portfolio +10%.
- **Reported EBIT** grew by a substantial 46.3% to €746m (Q2'04: €510m).
- **Net Special Items** of -€106m include: *HealthCare*: Total: -€81m: -€20m for Baycol litigation, -€17m for Roche OTC integration, -€44m provision for PPA litigation (see also Shareholder Letter pages 20ff);
  CropScience: -€25m restructuring
  MaterialScience: -€10m litigation
  Reconciliation: +€10m disposal gains
- **Underlying EBIT** significantly increased by 38.5% to €852m (Q2'04: €615m), which was mainly attributable to higher prices, cost cuttings and the cessation of goodwill amortization (€44m). Cost and efficiency projects contributed €81m.
- **Reported EBITDA** at €1,179m up 16.0% (Q2'04: €1,016m)
- **Underlying EBITDA** at €1,285m up 15.0% (Q2'04: €1,117m).
- **Non-operating result** up by 39.7% to -€129m. Q2'04 (-€214m) was burdened by non-cash write-down of minority Lyondell joint venture.
- **Net income** (including discontinued operations) improved by 178.1% to €406m (Q2'04: 146m); EPS accordingly at €0.56 (Q2'04: €0.20).
- **Gross cash flow (cont.)** up 27.5% to €908m (Q2'04: €712m). Cash-in from change in **Working Capital** in the amount of €107m. **Net cash flow** at €1,015m (Q2'04: €1,075m). **CapEx** (including discontinued operations) up by 14.3% to €271m.
- **Net debt** (cont.) up by €1,856m to €6,875m compared to June 30, 2004 (down by €240m when compared to March 31, 2005).

	Q2 / 2004					Q2 / 2005					
€ million	Sales	EBIT rep.	Special Items	EBIT Clean	EBITDA rep.	Sales	EBIT rep.	Special Items	EBIT clean	EBITDA rep.	EBITDA margin
HealthCare	2,007	217	0	217	335	2,370	258	(81)	339	366	15.4
PH/BP	939	65	0	65	114	988	109	(20)	129	145	14.7
CC	333	47	0	47	65	592	34	(61)	95	59	10.0
DC/DS	510	60	0	60	104	561	72	0	72	114	20.3
AH	225	45	0	45	52	229	43	0	43	48	21.0
CropScience	1,642	159	(41)	200	341	1,604	162	(25)	187	306	19.1
CP	1,352	119	(41)	160	266	1,313	110	(21)	131	235	17.8
ES/BS	290	40	0	40	75	286	52	(4)	56	71	24.8
MaterialScience	2,091	215	0	215	366	2,734	327	(10)	337	464	17.0
Materials	800	78	0	78	140	1,045	162	0	162	215	20.6
Systems	1,291	137	0	137	226	1,689	165	(10)	175	249	14.7
Reconciliation	150	(81)	(64)	(17)	(26)	345	(1)	10	(11)	43	12.5
Group	5,890	510	(105)	615	1,016	7,053	746	(106)	852	1,179	16.7

Outlook

Bayer remains on course for growth. We are confident that the Group will again improve its operating performance in the second half of the year and are therefore raising our sales and earnings targets for the full year.

We now expect Group sales to exceed €26 billion against previous guidance of over €25 billion. EBIT before special items is forecast to rise by about 40 percent, compared with our previous guidance of 20 percent. The 2004 figure was €2,117 million.

MaterialScience is still expected to make the largest contribution to earnings growth, depending of course on the development of the economy and the trend in raw material prices.

We continue to predict that CropScience, too, will report a clear rise in underlying EBIT, helped by anticipated cost reductions in the second half of the year.

We are increasingly optimistic about the outlook for HealthCare, and are therefore raising our full-year guidance for this subgroup once again: We now expect underlying EBIT from this business to be at least 10 percent higher than in 2004.

We anticipate that changes to our pension plans in the United States and Germany will result in non-cash one-time income of around €200 million in the third quarter. Including this effect, we expect to take net special charges (excluding any additional litigation-related expenses) of between €100 million and €150 million for the full year.

HealthCare

Pharma/Biologicals sales up by 5.2% (Pharma +0.3%; BP +24.1%) driven by continous strong performance in Europe and the US. Favourable Trasylol (€56m; +86.7%), Avelox (€78m; +41.8%) and Levitra sales were able to compensate for loss of Cipro sales (-€88m). Trasylol was boosted by high demand of US wholesalers whereas Avelox profited from a strong flu season in Europe. Levitra up by 57.5% (€63m) compared to a weak Q2'04 (destocking). Adalat down 2.9% (€167m), Aspirin Cardio up 25% (€44m). Kogenate (€174m; +28.9%) was able to increase market share in Europe.
Underlying EBIT up by €64m to €129m due to strong sales performance, the positive impact of the SGP alliance and cost savings.

Consumer Care sales up by 77.8% to €592m (Q2'04 €333m) due to inclusion of Roche OTC business (€277m). Former Roche OTC brands showed favorable growth compared to Q2'04. Aleve did not fully recover from safety discussions regarding NSAIDs. OTC Aspirin sales increased by 7.7% to €112m.
Underlying EBIT doubled to €95m (Q2'04; €47m). EBIT included inventory step-up charge (no special item) of -€14m.

Diabetes Care/Diagnostics sales up 10.0% to €561m. Diabetes Care grew by 15.5% mainly due to strong growth in US and Europe. Diagnostics (+7.3%) was able to increase sales in all business areas.
Underlying EBIT up by 20% to €72m due to higher sales.

Animal Health sales slightly up by 1.8% to €229m. Good performance of Advantage and the product launch of Advocate were able to overcompensate sales decrease of Advantix (stocking in Q2'04).
Underlying EBIT came in at last year's level (€43m).

CropScience

Crop Protection sales were down by 2.5% to €1,318m. Sales of the **Insecticides** business were affected by the drought in Brazil and in Southern Europe (€344m, -10.2%). **Fungicides** sales (€369m; +5.7%) were also hit by the drought, but were overcompensated by the favourable development of our new Proline (Prothioconazole) family of cereal fungicides and the strobilurin fungicide Fandango. Sales of the **Herbicides** business receded by 4.2% to €524m, which was mainly due to the drought in Southern Europe. **Seed Treatment** (€81m; +11.0%) profited from sales increases of our new product Poncho.
Underlying EBIT in Crop Protection dropped by 18.1% to €131m. Decrease is mainly due to a significant weaker business in Latin America. In the first half 2005 however EBIT underlying improved by 4.3%.

Environmental Science/ BioScience down by 1.4%. Environmental Science (€216m; flat) profited from good consumer business. BioScience decreased by 5.4% to €70m.
Underlying EBIT significantly increased by 40% to €56m.

MaterialScience

Materials improved by 30.6% to €1,045m, driven by Polycarbonates (€679m; +38.9%) and H.C. Starck (€229m; +25.1%). The positive price situation in all regions mainly accounted for this increase.
Underlying EBIT more than doubled to €162m (Q2'04: €78m) mainly resulting from price increases, which were able to overcompensate for higher raw material prices.

Systems segment sales were up 30.8% to €1,689m, mainly due to Polyurethanes (€1,215m; 33.2%). Raw material sales (mainly styrene from PO11) amounted to €74m.

MDI (+43.4%) was able to further increase sales especially in Europe with prices remaining high. TDI (+1.6%) slightly above last year's level, where as Polyether (+35.0%) improved nicely. Inorganic Basic Chemicals (€102m; +100%) benefited from high caustic soda prices. Furthermore sales with LANXESS are accounted for as external sales.
Underlying EBIT significantly up by 27.7% to €175m. Price increases were able to compensate for higher raw material prices

Pension Provisions on Balance Sheet (Application of IAS 19 amendment)

A quantitative analysis of the actuarial parameters led to an approximately €1 billion increase in pension obligations as of June 30, 2005 that was directly recognized in equity. The increase was due especially to a considerable drop in long-term interest rates in the principal countries.

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Bayer interim report:

Dynamic sales and earnings growth continues in the second quarter

- Sales rise 20 percent to over EUR 7 billion
- EBIT before special items up 39 percent
- Group net income almost tripled to EUR 406 million
- Significant increase in guidance for 2005 sales and underlying EBIT
- About 40 percent growth in underlying EBIT predicted for 2005

Leverkusen / August 10, 2005 – The Bayer Group continued on its successful course in the second quarter of 2005, once again posting dynamic growth in sales and earnings. Group sales rose 19.7 percent year on year, to EUR 7,053 million (2004: EUR 5,890 million), while the operating result (EBIT) before special items increased 38.5 percent to EUR 852 million (2004: EUR 615 million). There were especially pleasing trends at Bayer MaterialScience and Bayer HealthCare.

"The Bayer Group achieved its highest-ever underlying EBIT in the first half of 2005," commented Management Board Chairman Werner Wenning, "bringing us another step closer to meeting our profitability targets." Wenning expressed his confidence that the Group will again improve its year-on-year operating performance in the second half of the year. "We are therefore significantly raising our sales and earnings forecasts for the full year," he said. Bayer now expects Group sales to exceed EUR 26 billion against previous guidance of over EUR 25 billion. Underlying EBIT is forecast to rise by about 40 percent, compared with the previous guidance of 20 percent, the 2004 figure being EUR 2,117 million.

Adjusted for currency and portfolio effects, Group sales increased by 11.2 percent in the second quarter. The marked increase in EBIT before special items was driven mainly by higher margins at MaterialScience and HealthCare, along with additional cost savings and efficiency improvements. Bayer Group EBITDA (earnings before interest, taxes, depreciation and amortization) before special items advanced 15.0 percent to EUR 1,285 million (2004: EUR 1,117 million).

Second-quarter earnings were impacted by net special charges of EUR 106 million (2004: EUR 105 million), including EUR 74 million in litigation-related charges, EUR 25 million in restructuring expenses at CropScience, and EUR 17 million in integration costs for the consumer health business acquired from Roche. After special items, second-quarter EBIT climbed by 46.3 percent to EUR 746 million (2004: EUR 510 million) and EBITDA by 16.0 percent to EUR 1,179 million (2004: EUR 1,016 million). Group net income almost tripled to EUR 406 million (2004: EUR 146 million). Gross cash flow advanced by 27.5 percent to EUR 908 million (2004: EUR 712 million), while net debt was reduced by EUR 240 million compared with the end of the first quarter, to EUR 6,875 million.

Strong second-quarter growth at MaterialScience and HealthCare

The pleasing overall performance was driven primarily by continuing high demand for the products of Bayer MaterialScience. Sales of this subgroup advanced by 30.8 percent to EUR 2,734 million (2004: EUR 2,091 million), while underlying EBIT rose by 56.7 percent to EUR 337 million (2004: EUR 215 million). The main contributors to this upward trend were the Polycarbonates and Polyurethanes business units. Favorable market conditions helped the subgroup to implement what were in some cases substantial price increases. In this way, Bayer MaterialScience offset the significant rise in raw material costs and achieved the necessary margin improvements in key areas of the business.

Second-quarter results from the HealthCare business were also greatly improved, with faster-than-average EBIT growth. Underlying EBIT climbed by 56.2 percent year on year to EUR 339 million (2004: EUR 217 million), while sales rose 18.1 percent to EUR 2,370 million (2004: EUR 2,007 million), thanks largely to the acquisition of the Roche consumer health business. Adjusted for currency and portfolio effects, sales were 5.4 percent above the same period last year. Above-market growth was recorded particularly in the Diabetes Care, Diagnostics and Biological Products divisions, while sales of the Pharmaceuticals Division remained steady. Good business with products such as Trasylol, Avelox and Levitra more than offset the lower sales figures in the

United States resulting from the expiration of market exclusivity for Cipro and Schering-Plough's marketing of Bayer's primary care products.
Bayer CropScience had a more difficult second quarter. Sales and earnings declined mainly because of the prolonged drought in Brazil and some southern European countries, with earnings additionally impaired by write-downs of receivables. Higher sales in the Seed Treatment and Fungicides business units only partially offset the declines in Insecticides and Herbicides. Second-quarter sales of the subgroup slipped 2.3 percent to EUR 1,604 million (2004: EUR 1,642 million), while underlying EBIT was down 6.5 percent to EUR 187 million (2004: EUR 200 million). However, underlying EBIT for the first six months as a whole rose 5.4 percent to EUR 610 million (2004: EUR 579 million).

Strong growth impetus in Europe

About two-thirds of Bayer's sales growth was generated in Europe, where sales increased by 31.1 percent to EUR 3,188 million. Business grew faster than average in Germany, with sales up 47.8 percent to EUR 1,082 million. After adjusting for portfolio effects, the improvement in Germany was around 15 percent, partly because of a strong performance by HealthCare. Sales in North America climbed 5.2 percent to EUR 1,904 million. While MaterialScience reported good growth in this region, CropScience sales declined. Pharmaceuticals sales, too, were lower due to the effect of the Schering-Plough alliance. Sales moved ahead by 17.2 percent in Asia/Pacific, and by 21.7 percent in the Latin America/Africa/Middle East region, with MaterialScience the main growth driver in both cases. In Greater China, second-quarter Group sales grew by more than 30 percent.

Positive first-half performance

Wenning was also well pleased with the first six months of 2005 as a whole. Sales for this period advanced by 17.8 percent to EUR 13,757 million (2004: EUR 11,682 million), while EBIT before special items rose by 44.9 percent to EUR 1,994 million (2004: EUR 1,376 million). Reported EBIT also showed a substantial 38.4 percent improvement to EUR 1,750 million (2004: EUR 1,264 million). First-half net income increased by 87.3 percent to EUR 1,058 million (2004: EUR 565 million).

Wenning optimistic for the second half

Wenning also expressed his optimism for the second half of 2005. "Bayer remains on course for expansion. We still expect MaterialScience to make the biggest contribution to earnings growth," said the Bayer CEO, adding that this of course depends on how the economy develops and on the trend in raw material prices. At CropScience, a clear improvement in underlying EBIT is predicted. Wenning said that Bayer is increasingly optimistic about the outlook for HealthCare, and is therefore raising its full-year guidance for this subgroup once again: the company now expects underlying EBIT from this business to be at least 10 percent higher than in 2004.

Bayer also anticipates that changes to its pension plans in the United States and Germany and will result in non-cash one-time income of around EUR 200 million in the third quarter. Including this effect, the company expects to take net special charges (excluding any additional litigation-related expenses) of between EUR 100 million and EUR 150 million for the full year.

Bayer HealthCare aims for higher EBITDA margin in 2006

In view of the improved prospects for Bayer HealthCare, Wenning expressed confidence that the subgroup would exceed its target EBITDA margin of 17 percent in 2006. Bayer CropScience continues to aim for an EBITDA margin of 25 percent in 2006. The same applies to Bayer MaterialScience, where the first-half performance showed that a margin of 18 percent is attainable in a favorable economic environment. The Group's overall target EBITDA margin for 2006 continues to be 19 percent, with 22 percent the long-term goal.

Wenning attributed Bayer's strong performance primarily to the company's strategic realignment towards innovation and growth. "This success is reflected not just in our quarterly figures, but also in the performance of our stock," the Bayer CEO pointed out. Bayer's share price is currently at its highest level in three years, having risen by 52 percent between early November 2003, when the realignment decision was announced, and August 5, 2005. The German stock index DAX improved by only 29 percent over the same period. This represents additional market capitalization of EUR 7.4 billion. "The whole enterprise can be proud of this performance," declared Wenning. "On behalf of the Board of Management, I would like to thank all the employees who have contributed to Bayer's successful performance. And I would also like to thank our stockholders for the trust they have placed in us."

Note: The complete interim report as of June 30, 2005 is available on the Internet at: www.investor.bayer.com

Leverkusen, August 10, 2005

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Forward-looking statements

This news release 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.