

## Q3 2005 Analyst and Investor Briefing

November 9, 2005

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- **Sales** increased by 19.1% to €6,531m; Volume +1%, price +7%, currency +2%, portfolio +9%.
- **Reported EBIT** grew by €604m to €870m (Q3'04: €266m).
- **Net Special Items** of €179m include:  
*HealthCare*: Total: €72m: -€13m Roche OTC integration, -€6m Baycol litigation, -€5m PPA litigation; -€27m write-downs on buildings, €122m pension adjustment  
*CropScience*: Total €53m: €54m pension adjustment  
*MaterialScience*: Total €40m: -€33m Polyurethanes reorganization; €73m pension adjustment  
*Reconciliation*: Total €14m: -€14m litigation; €31m pension adjustment  
See also **page 3** of this document for more information regarding pension adjustment.
- **Underlying EBIT** more than doubled to €691m (Q3'04: €343m), which was mainly attributable to higher prices and efficiency improvements.
- **Reported EBITDA** at €1,370m up 83.4% (Q3'04: €747m)
- **Underlying EBITDA** at €1,164m up 41.3% (Q3'04: €824m); Margin at 18%
- **Non-operating result** down by 13.0% to -€182m (Q3'04: -€161m).
- **Net income** (including discontinued operations) improved by €441m to €493m (Q3'04: 52m); EPS accordingly at €0.68 (Q3'04: €0.07).
- **Gross cash flow (cont.)** up 46.7% to €920m (Q3'04: €627m). Cash-in from reduction of **Working Capital (cont.)** €518m. **Net cash flow (cont.)** at €1,438m (Q3'04: €525m). **CapEx** up by 19.7% to €346m. **Operating free cash flow (cont.)** at €1,092 million (Q3'04: €236m).
- **Net debt** down by €897m to €5,978m when compared to June 30, 2005. **Pension liabilities** reduced by €261m to €7,063m, when compared to June 30, 2005 due to adjustment of pension schemes.

€ million	Q3 2004						Q3 2005					
	Sales	EBIT rep.	Special Items	EBIT Clean	EBITDA rep.	EBITDA clean	Sales	EBIT rep.	Special Items	EBIT clean	EBITDA rep.	EBITDA clean
<b>HealthCare</b>	<b>1,961</b>	<b>276</b>	<b>(40)</b>	<b>316</b>	<b>382</b>	<b>422</b>	<b>2,373</b>	<b>427</b>	<b>72</b>	<b>355</b>	<b>589</b>	<b>490</b>
PH/BP	916	96	(28)	124	136	164	1,029	188	30	158	256	214
CC	347	56	(12)	68	74	86	590	74	(2)	76	106	108
DC/DS	503	66	0	66	109	109	542	104	37	67	161	109
AH	195	58	0	58	63	63	212	61	7	54	66	59
<b>CropScience</b>	<b>1,124</b>	<b>(96)</b>	<b>12</b>	<b>(108)</b>	<b>81</b>	<b>69</b>	<b>1,171</b>	<b>70</b>	<b>53</b>	<b>17</b>	<b>227</b>	<b>174</b>
CP	956	(85)	0	(85)	54	54	979	53	44	9	175	131
ES/BS	168	(11)	12	(23)	27	15	192	17	9	8	52	43
<b>MaterialSc.</b>	<b>2,228</b>	<b>119</b>	<b>(27)</b>	<b>146</b>	<b>262</b>	<b>289</b>	<b>2,639</b>	<b>406</b>	<b>40</b>	<b>366</b>	<b>542</b>	<b>502</b>
Materials	839	76	0	76	131	131	1,030	192	27	165	247	220
Systems	1,389	43	(27)	70	131	158	1,609	214	13	201	295	282
<b>Reconc.</b>	<b>172</b>	<b>(33)</b>	<b>(22)</b>	<b>(11)</b>	<b>22</b>	<b>44</b>	<b>348</b>	<b>(33)</b>	<b>14</b>	<b>(47)</b>	<b>12</b>	<b>(2)</b>
<b>Group</b>	<b>5,485</b>	<b>266</b>	<b>(77)</b>	<b>343</b>	<b>747</b>	<b>824</b>	<b>6,531</b>	<b>870</b>	<b>179</b>	<b>691</b>	<b>1,370</b>	<b>1,164</b>



## Outlook

The strategic realignment has sustainably enhanced the Bayer Group's operational efficacy and earning power. The extensive action we have taken to contain costs and enhance efficiency has paid off.

We believe the world economy will go on expanding despite high oil prices. The United States should continue to see robust growth. In Asia, too, the economy appears to be back on a path of rapid growth following a slight dip. In Europe, however, we continue to anticipate a more subdued economic environment. In Latin America, the present upward trend should be maintained.

Against the background of the strong third quarter, we are again raising our forecast for the full year. We now expect to improve underlying EBIT by about 50 percent – compared to our previous guidance of 40 percent – from the €2,117 million recorded for last year, and we confirm our target of generating more than €26 billion in sales. Accordingly, we anticipate a significant year-on-year improvement in underlying EBIT in the fourth quarter.

We expect to take net special charges for the full year of between €100 million and €150 million. This figure does not include any additional litigation-related expense, particularly in connection with antitrust proceedings, which currently is not quantifiable (see Stockholders' Letter, Legal Risks, page 20).

We plan total capital expenditures of approximately €1.2 billion in 2005 to safeguard the long term growth of the enterprise. This is equivalent to about 70 percent of projected depreciation and amortization.

We estimate our total research and development expenditures for 2005 at about €1.9 billion, more than 80 percent of which will be spent on the search for new active substances and applications in HealthCare and CropScience.

The aim of our efforts in the coming years will be to match the margins of the best competitors in all of our businesses and to grow at least as fast as our markets. Our performance so far in 2005 shows we are on the right track.

## HealthCare

**Pharma/Biologicals** sales up by 12.3% (Pharma +6.2%; BP +33.8%) to €1,029m driven by continuous strong performance in Europe and the US. Trasyolol (€63m; +31.3%) and Levitra (€67m; +48.9%) sales profited from successful promotion efforts in the US. Avelox (€64m; 0%) seasonally weak. Adalat flat (€165m; +1.2%). Aspirin Cardio up 17.9% (€46m). Kogenate (€187m; +31.7%) showed continuing good performance.

Underlying EBIT up 27.4% to €158m due primarily to the growth in business and the earnings contributions from the Schering-Plough alliance.

**Consumer Care** sales up by 70.0% to €590m (Q3'04 €347m) due to inclusion of Roche OTC business (€258m). Aleve (€51m; -12.1%) still could not fully recover from safety discussions regarding NSAIDs. OTC Aspirin sales dropped by 3.4% to €113m.

Underlying EBIT up by 11.8% to €76m (Q3'04; €68m). Margin burdened by higher D&A, increased marketing spend and one-offs related to the Roche OTC integration.

**Diabetes Care/Diagnostics** sales up 7.8% to €542m. Diabetes Care grew by 3.9% mainly due to performance in Europe. Diagnostics (€354m; +9.9%) showed favourable growth in US and Europe.

Underlying EBIT flat at €67m (+1.5%).

**Animal Health** sales increased by 8.7% to €212m, which was mainly due to the good performance of the Advantage product family.

Underlying EBIT came in below last year's level (€54m, -6.9%), which contained €8m in income from a real-estate sale.



### CropScience

**Crop Protection** sales were up 2.4% to €979m. Sales of the **Insecticides** dropped by 3.7% to €289m, which was mainly attributable to a lower pest affection of cotton in Asia. **Fungicides** sales recovered, (€222m; -0.4%), due to the compensation of late effects from the drought in Latin America by higher sales in North America. Favourable sales of Atlantis contributed to a 9.5% sales increase to €335m in the **Herbicides** division. **Seed Treatment** (€133m; +4.7%) profited from the good level of Imidacloprid based applications.

Underlying EBIT in Crop Protection improved by €94m and came in at €9m (Q3'04: -€85m), mainly due to new products and cost savings.

**Environmental Science/ BioScience** up by 14.3% to €192m. Environmental Science (€145m; +16.0%) profited from the professional segment in North America and Middle East. Increasing sales of FiberMax (cotton) and vegetable seeds originated the sales increase of BioScience by 9.3% to €47m.

Underlying EBIT significantly improved by €31m to €8m (Q3'04: -€23m), which was attributable to the professional segment.

### MaterialScience

**Materials** improved by 22.8% to €1,030m, driven by Polycarbonates (€668m; +29.5%). Price increases in Europe and Asia were mainly attributable.

Underlying EBIT more than doubled to €165m (Q3'04: €76m) mainly due to margin improvement resulting from price increases.

**Systems** segment sales were up 15.8% to €1,609m, mainly due to Polyurethanes (€1,153m; +12.9%) and Inorganic Basic Chemicals (€96m; +84.6%), both profiting from price increases.

MDI (+29.0%) still on good track, but with slightly decreasing demand in Q3. TDI down yoy by 1.4%. Polyether sales (+5.8%) improved by price increases.

Underlying EBIT significantly up by 187.1% to €201m, resulting mainly from price increases.

Gains from commodity hedges amounted to €13m. Raw material costs remained steady at the previous year's high level.

### Summary of one-time pre-tax income due to reduction of pension liabilities in the US (including minor adjustments in Germany):

See also Stockholders' Letter, page 32f

	€ million
HealthCare	122
Pharmaceuticals, Biological Products	47
Consumer Care	15
Diabetes Care, Diagnostics	52
Animal Health	8
CropScience	54
Crop Protection	46
Environmental Science, BioScience	8
MaterialScience	73
Materials	27
Systems	46
Reconciliation	31
Group	280

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### Forward-looking statements

This news release contains forward-looking statements based on current assumptions and forecasts made by Bayer Group/down 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 20F). The company assumes no liability whatsoever to up/downdate these forward-looking statements or to conform them to future events or developments.