

## 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).

€ million	Q2 / 2004					Q2 / 2005					
	Sales	EBIT rep.	Special Items	EBIT Clean	EBITDA rep.	Sales	EBIT rep.	Special Items	EBIT clean	EBITDA rep.	EBITDA margin
<b>HealthCare</b>	<b>2,007</b>	<b>217</b>	<b>0</b>	<b>217</b>	<b>335</b>	<b>2,370</b>	<b>258</b>	<b>(81)</b>	<b>339</b>	<b>366</b>	<b>15.4</b>
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
<b>CropScience</b>	<b>1,642</b>	<b>159</b>	<b>(41)</b>	<b>200</b>	<b>341</b>	<b>1,604</b>	<b>162</b>	<b>(25)</b>	<b>187</b>	<b>306</b>	<b>19.1</b>
CP	1,352	119	(41)	160	266	1,318	110	(21)	131	235	17.8
ES/BS	290	40	0	40	75	286	52	(4)	56	71	24.8
<b>MaterialScience</b>	<b>2,091</b>	<b>215</b>	<b>0</b>	<b>215</b>	<b>366</b>	<b>2,734</b>	<b>327</b>	<b>(10)</b>	<b>337</b>	<b>464</b>	<b>17.0</b>
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
<b>Reconciliation</b>	<b>150</b>	<b>(81)</b>	<b>(64)</b>	<b>(17)</b>	<b>(26)</b>	<b>345</b>	<b>(1)</b>	<b>10</b>	<b>(11)</b>	<b>43</b>	<b>12.5</b>
<b>Group</b>	<b>5,890</b>	<b>510</b>	<b>(105)</b>	<b>615</b>	<b>1,016</b>	<b>7,053</b>	<b>746</b>	<b>(106)</b>	<b>852</b>	<b>1,179</b>	<b>16.7</b>



## 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 continuous strong performance in Europe and the US. Favourable Trasyolol (€56m; +86.7%), Avelox (€78m; +41.8%) and Levitra sales were able to compensate for loss of Cipro sales (-€88m). Trasyolol 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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## 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.