Bayer

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Q4 2004 Analyst and Investor Briefing

- **Sales** of €7,748m increased +8.8%, portfolio and Fx adjusted +12.4%.
  Volume +9.3%, prices +3.1%, currency -3.8%, portfolio +0.2%.
- **Underlying EBIT** significantly increased yoy from €42m to €374m. Continuing underlying EBIT for Q4 at €369m (FY 2004: €2.032m). Cost and efficiency projects contributed €195m.
- **Reported EBIT** at €220m up from -€2,732m. Net **Special Items** of -€154m include:
  HealthCare: Total: -€126m: -€83m for Plasma divestiture, -€16m for Baycol, -€4m for PPA litigation, €15m gain relating to the Schering-Plough alliance (including pension curtailment), -€14m charge for Roche OTC integration and -€24m for restructuring Pharma R&D.
  CropScience: -€1m Restructuring measures
  MaterialScience: no special items in Q4
  Lanxess: -€18m mainly for one-off depreciation of Q4 Capex
  Reconciliation: -€9m: thereof -€30m for Lanxess spin-off; 24m gain derived from Lanxess pension curtailment
- **Reported EBITDA** at €807m (Q4'03: -€82m) with **D&A** at €587m (Q4'03: 2,650m),
  Clean EBITDA at €926m up 42.2% (Q4'03: €651m).
- **Non-operating result** up by €55m to -€198m.
- **Net income** improved by €1,993m to €41m; EPS €0.06 (Q4'03: -€2.67).
- **Gross cash flow** up €733m to €695m. Cash flow impact from delta **Working Capital** +€254m, **net cash flow** €949m (-3.6%). **CapEx** up by 1.6% to €564m.
- **Net debt** compared to September 30, 2004 reduced by €247m to €5,422m.

<u>**HealthCare***</u>

Pharma/Biologicals local currency sales down 2.1% (Pharma -8.9%, BP +18.5%) mainly due to lost US Cipro sales and impact of Schering-Plough alliance. Cipro sales of €205m (-31%) include €74m contribution from deal with French Government. The handover to Schering-Plough and the weak U.S. flu season influenced Avelox sales of €95m in Q4 (-5.7%). Levitra sales y-o-y gained €9m to €42m (+33.3%). Adalat (€167m; +1.2%) and Glucobay (€65m; +3.0%) flat. Rx Aspirin Cardio sales up 41.5% yoy to €45m. Positive performance of Kogenate (€165m, +18.3%) owing also to a growing market share in Europe. Underlying EBIT up from -€20m to +€95m as lower Cipro sales being compensated by Kogenate and cost savings.

Consumer Care/Diagnostics local currency sales down by 0.7%. Continued strong performance of Advia (€118m, +12.8%) and Ascensia (€160m, +6.4%). Aspirin OTC franchise improves by 20.8%. Underlying EBIT up by 42.1% to €108m.

Animal Health sales up by 2.6% in local currencies. Underlying EBIT increased by 2.7% to €22m.

** all product related comments and percentages are based on currency adjusted figures*

CropScience

Local currency adjusted sales growth of 6.2%. Crop Protection up 5.0% with Fungicides and Seed Treatment as main driver. Continuous strong demand for Asian Rust control in LA: Folicur/Raxil (€111m, +39.2%) and Flint/Stratego/Sphere (€92m, +23.0%) pushed sales of Fungicides (+13.6%). Environmental Science improved by 16.8% driven by the consumer segment. BioScience +6.5%. Underlying EBIT improved by 75.9% to €51m. Negative foreign currency effects largely offset by increased volumes and contributions from performance programs.

MaterialScience

Strong local currency adjusted sales growth of 35.0%. Rising demand in all regions, especially strong in Asia. Underlying EBIT of €172m (Q4'03 €48m) benefited from price increases, high utilization rate, cost savings and lower D&A.

Strong performance in **Materials** (+38.7% in local currencies) with Polycarbonates up 45.9% and H.C. Starck +33.6%. Global supply-demand-balance remained tight for PC. Underlying EBIT (no special items in Q4'04) improved by €109m to €107m mainly due to the ability to increase prices globally.

Systems local currency sales were up 32.8%. Adjusted for the additional raw material sales of €180m (mainly styrene from PO11), the increase amounted to +19.8%. MDI (+25.9%) was sold out globally. Further price increases could be implemented and led Polyurethanes to a +40.3% sales increase. TDI business (-3.8%) still hampered by oversupply. Underlying EBIT up by €15m to €65m.

Lanxess

Local currency adjusted sales were up 10.1%, mainly driven by price and volume increases, which compensated for higher raw material costs. Underlying EBIT improved by €64m to €1m due to high demand and lower D&A.

Objectives for 2005

Planning Assumptions

Our operating budget is based on an exchange rate of US$ 1.35 to the euro, petrochemical raw material prices roughly in line with the high level of the fourth quarter 2004, and a positive overall business environment, with growth rates down slightly compared to the previous year.
For fiscal 2005 we anticipate depreciation and amortization of about €1.7 billion and capital expenditures of approximately €1.4 billion.

Group sales and earnings performance

We expect to further improve the Bayer Group's operating performance in 2005, targeting an increase of more than 5 percent growth in currency- and portfolio-adjusted sales from continuing operations, to over €25 billion.
Our earnings forecast is made in terms of EBIT from continuing operations before special items. We aim to improve EBIT by roughly 20 percent year on year, which would be another major step toward achieving our medium-term profitability target.
We are budgeting for special charges of approximately €300 million in 2005, mainly from the integration of the Roche OTC business, the termination of the co-promotion agreement with GlaxoSmithKline for Levitra, and restructuring measures. This amount does not include litigation-related expenses.

Subgroups' sales and earnings performance

For the health care sector and thus for our **HealthCare** subgroup, we expect a favorable business environment again in 2005. Against this background, we aim to grow faster than the market in local currencies in the Consumer Care, Diabetes Care and Animal Health divisions, and with Kogenate. We expect sales of the Pharmaceuticals Division to decline, as additional business with new products will not completely offset the decline in business with Ciprobay/Cipro. The underlying earnings performance of HealthCare this year will be impaired by lower sales of Cipro and lower margins resulting from the fair-value recognition of the inventories received with the Roche consumer health acquisition. Without this one-time effect, we expect EBIT of our HealthCare business before special items to remain more or less steady year on year. For the Pharmaceuticals, Biological Products segment we are aiming for an underlying EBIT margin of about 10 percent.

We predict a considerable improvement in the earnings of our **CropScience** subgroup. We believe that the business environment will remain positive, and our goal is to outperform the market in local currencies. We anticipate that sales will decline slightly because of currency effects.

MaterialScience expects a significant expansion in business, and thus also a considerable improvement in EBIT before special items. We anticipate that selling prices will improve, while raw material costs will remain high, and that our cost-containment measures will help to boost earnings.

€ million	Q4 / 2003					Q4 / 2004							
	Sales	EBIT rep.	Special Items	EBIT Clean	EBITDA rep.	Sales	% yoy	EBIT rep.	Special Items	EBIT clean	EBITDA rep.	% yoy
HealthCare	**2,300**	**(733)**	**(812)**	**79**	**(239)**	**2,183**	**(5.1)**	**99**	**(126)**	**225**	**228**	**-**
PH/BP	1,214	(805)	(785)	(20)	(429)	1,147	(5.5)	(13)	(108)	95	51	-
thereof discont.	*161*	*(310)*	*(317)*	*7*	*(104)*	*179*	*11.2*	*(79)*	*(83)*	4	(65)	37.5
CC/DS	893	29	(47)	76	137	848	(5.0)	90	(18)	108	149	8.8
AH	193	43	20	23	53	188	(2.6)	22	0	22	28	(47.2)
CropScience	**1,411**	**(12)**	**(41)**	**29**	**159**	**1,448**	**2.6**	**50**	**(1)**	**51**	**241**	**51.6**
MaterialScience	**1,845**	**(633)**	**(681)**	**48**	**181**	**2,401**	**30.1**	**172**	**0**	**172**	**307**	**69.6**
Materials	684	(16)	(14)	(2)	61	909	32.9	107	0	107	179	193.4
Systems	1,161	(617)	(667)	50	120	1,492	28.5	65	0	65	128	6.7
Lanxess	**1,410**	**(1,225)**	**(1,162)**	**(63)**	**(96)**	**1,512**	**7.2**	**(17)**	**(18)**	**1**	**60**	**-**
Reconciliation	**155**	**(129)**	**(78)**	**(51)**	**(87)**	**204**	**31.6**	**(84)**	**(9)**	**(75)**	**(29)**	**66.7**
Group	**7,121**	**(2,732)**	**(2,774)**	**42**	**(82)**	**7,748**	**8.8**	**220**	**(154)**	**374**	**807**	-
thereof discont.	*1,571*	*(1,535)*	*(1,479)*	**(56)**	*(200)*	*1,691*	*7.6*	*(96)*	*(101)*	5	*(5)*	-

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Forward-looking statements