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# EDITED TRANSCRIPT

BAYN.DE - Full Year 2012 Bayer AG Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 28, 2013 / 01:30PM GMT

**OVERVIEW:**

BAYN.DE reported 2012 sales of almost EUR40b and 4Q12 Group sales of EUR9.9b. 4Q12 core EPS was EUR1. 2013 currency and portfolio adjusted sales guidance is approx. EUR41b.



## CORPORATE PARTICIPANTS

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**Werner Baumann** *Bayer AG - CFO*

**Joerg Reinhardt** *Bayer AG - CEO HealthCare*

**Liam Condon** *Bayer AG - CEO CropScience*

**Patrick Thomas** *Bayer AG - CEO MaterialScience*

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## PRESENTATION

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### Operator

Ladies and gentlemen, thank you for standing by. Welcome to Bayer's Investor and Analyst Conference Call on the full year and fourth quarter 2012 results. During today's recorded presentation all participants will be in a listen-only mode. The presentation will be followed by a question-and-answer session. (Operator Instructions).

I would now like to turn over the conference to Mr. Alexander Rosar, Head of Investor Relations at Bayer AG. Please go ahead, sir.

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### Alexander Rosar - Bayer AG - Head IR

Yes, thank you, Cleo.

Ladies and gentlemen, good afternoon and welcome, also on behalf of my colleagues, to our conference call during which we will review our 2012 results with you. We will also provide you with our 2013 outlook and our aspirations for the year 2015.

With me on the call are Marijn Dekkers, our CEO; Werner Baumann, our CFO; and from the subgroups this time we have from HealthCare Joerg Reinhardt; CropScience is represented by Liam Condon; and MaterialScience by Patrick Thomas.



Marijn will start off with a short overview of the highlights in 2012, a brief summary of the developments in the fourth quarter, and then elaborate on the 2013 outlook and our new midterm aspirations in more detail. As always, we assume that you have received and reviewed the briefing documents and the presentation slides, so we will just run you through the main points.

Before handing over to Marijn, I'd like to draw your attention to the Safe Harbor Statement (See "[Disclaimer](#)" chart at the end of this transcript).

Thank you. Marijn?

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**Marijn Dekkers - Bayer AG - CEO**

Thank you, Alexander, and good afternoon, ladies and gentlemen. Thank you for calling in today.

2012 was a very successful year for Bayer. We increased our sales organically by 5% to almost EUR40 billion and this is the highest level in our 150-year history. All of our subgroups, particularly our LifeSciences businesses, contributed to the business expansion. We are now generating some 70% of our sales and 85% of our underlying earnings in these LifeSciences businesses.

Reported EBITDA was level with the prior year, largely due to EUR1.7 billion in special charges mainly related to additional provisions concerning legal claims around Yasmin and YAZ in the US. Adjusted EBITDA growth of 9% to EUR8.3 billion was driven by strong execution and currency tailwind while, at the same time, funding investments for growth. Core earnings per share rose by nearly 11% and we thus achieved the targets we had set for ourselves. Against this background we are proposing a dividend of EUR1.90, representing a year-over-year increased of 15%.

We are optimistic for future developments. This optimism is above all driven by the tremendous progress achieved in our innovation pipeline, both in Pharma and CropScience. This optimism is also reflected in our 2013 outlook, which projects continuing record performance in Bayer's anniversary year, as well as in our new 2015 aspirational targets which I will discuss in more detail later.

But let me first elaborate on some key figures for the fourth quarter. When talking about sales, I'll concentrate on portfolio and currency-adjusted data.

Q4 was a strong quarter with good growth momentum. Group sales rose by 6% to EUR9.9 billion with all three subgroups contributing to the increase. Despite the mostly litigation related special charges of EUR424 million, reported EBIT climbed by 70% to EUR735 million.

Adjusted EBITDA increased by 18% in the fourth quarter, driven by higher earnings in all subgroups.

Due to higher income tax expenses compared to the prior year quarter, core EPS grew only moderately to EUR1, up 3%.

Now, how does this development break down by segment? First, on this chart you see HealthCare advance by 5% in both segments. Sales growth at Pharma was driven by a business expansion in North America and the emerging economies, especially China.

We are particularly pleased that our product innovations, Xarelto, Stivarga and Eylea, already contributed significantly. Collectively, they added almost EUR180 million to the top-line sales in the quarter. Q4 sales of Xarelto came in at EUR131 million, giving us EUR322 million for fiscal 2012 and we thus clearly exceeded our own 2012 sales target for Xarelto.

We are also receiving good initial feedback from the fourth quarter launches of Stivarga and Eylea. Stivarga achieved sales of EUR32 million in the quarter and Eylea EUR14 million in their first markets. Sales of Betaseron were up 15%, mainly driven by higher prices in the US. As expected, sales for YAZ were down, largely due to generic competition.

Mirena, down 17% in the quarter, was hampered by expected lower co-payments from the beginning of January 2013. We thus expect again a normalization of demand Mirena in the course of this year.

Business in the Consumer Health segment moved ahead by 5%. Driven by higher sales of our OTC products that business moved ahead 9%.

CropScience sales increased by 9% in the fourth quarter, driven by volume increases. CropScience sales expanded in all regions, particularly in Latin America, where sales moved ahead 20%. Crop protection sales advanced by 11%.



We generated particularly strong growth in insecticides, fungicides and seed growth. Revenue in our Seeds business were negatively affected by the timing of royalty income.

Sales of MaterialScience rose by 5% against the prior-year fourth quarter thanks to volume and price increases. Sales of polyurethanes moved ahead by 9%, mainly driven by higher prices in all regions and all product groups. Polycarbonates declined 3% due to lower prices. Volumes were up 4%, driven by a business uptake in North America.

Adjusted EBITDA growth in the quarter, as you can see on the chart, was mainly driven by HealthCare and MaterialScience. HealthCare contributed EUR160 million and MaterialScience EUR150 million to the increase. However, adjusted EBITDA growth of MaterialScience must be viewed against the weak prior-year quarter. In addition, scheduled maintenance work at our Baytown plant in the US was delayed through the first quarter of 2013. At CropScience, adjusted EBITDA growth of 6% was held back by royalty timing, as well as higher sales related expenses.

On a regional basis, we benefited from the fact that we generated 40% of our Q4 sales in the emerging economies, which grew by 9%. Latin America and Eastern Europe came in at double-digit growth rates, followed by emerging Asia with 7% where sales were driven by the strong performance of our LifeSciences businesses in China. This could more than offset the slight decline we experienced in Africa and the Middle East region.

While sales in Western Europe were only slightly up, the USA was again a strong contributor to our overall expansion with 5% higher sales driven by Pharma and MaterialScience.

So, how does this performance compare against our objectives? you will remember that we raised our original Bayer Group targets for sales, adjusted EBITDA and core EPS, together with our Q2 disclosures following the good operating performance in the first half of 2012. The upgraded targets were achieved as follows. Group sales came in at the upper end of our EUR39 billion to EUR40 billion target range. With the 9% increase, adjusted EBITDA clearly grew high single digit. And with core EPS up 11%, we overachieved the target of a 10% improvement.

In 2012 both the execution of our strategy and the strong operating performance have laid a good foundation for the future. We see good prospects for our businesses in 2013. And in the medium term -- and in the medium term, sorry, and are therefore rolling over our 2014 targets, which we communicated last year at our Meet Management conference in March to 2015 aspirations. Please note that our planning assumptions, both for 2013 targets and 2015 aspirations, are based on an exchange rate of US1.29 to the Euro.

HealthCare exhibits strong growth momentum thanks to our product innovations and the excellent emerging markets position. The HealthCare plans for 2013 through 2015 reflect the confidence we have for future developments of HealthCare. We expect sales to advance by a mid-single digit percentage on a currency and portfolio-adjusted basis to approximately EUR19 billion in 2013 and then, with a CAGR of 6%, towards EUR22 billion by 2015.

Earnings growth in 2013 in the HealthCare business is likely to be restrained by negative currency effects and higher marketing expenses for the launch of our products. Nevertheless, we aim to slightly improve the adjusted EBITDA margin in 2013 and aspire to move the margin towards 29% by 2015.

In 2013 we expect sales in the Pharmaceutical segment to move ahead by a mid-single digit percentage on a currency and portfolio-adjusted basis to about EUR11 billion and, with a CAGR of around 7%, towards EUR13 billion by 2015. We aim to slightly improve the underlying EBITDA margin in 2013 and to move it to 31% or more in 2015.

In Consumer Health our goal is to become the world market leader in the OTC business. We expect sales of this segment to grow by a mid-single digit percentage on a currency and portfolio-adjusted basis to around EUR8 billion in 2013 and towards EUR9 billion by 2015. We expect to maintain the adjusted EBITDA margin in 2013 at prior-year level. In 2015 we aim to move the Consumer Health margin to about 25%, also contributing to the overall profitability improvement at HealthCare.

Let me now elaborate on new pharma products and the emerging markets in a little bit more detail.

First, the pharma pipeline. You see here on the chart Xarelto sales advanced strongly in all regions, particularly in Germany and the United States, following further product launches and indication expansions, particularly in SPAF. In addition, we received already encouraging early launch feedback on Stivarga and Eylea.

More product introductions lie ahead. We filed for marketing authorization for Radium Dichloride to treat bone metastasis and prostate cancer in December last year, and recently for Riociguat in two different forms of pulmonary hypertension. Collectively, new products are forecast to contribute around EUR1 billion in sales in 2013 and more than EUR2.5 billion by 2015, with a peak sales potential exceeding EUR5.5 billion.



Besides the promising launches, we continue to realize emerging market opportunities in pharma. Our highlights in 2012 were the double-digit sales growth in China of 23% followed by Russia with 11%, and also very good growth rates in countries like Venezuela and Argentina. We expanded the women's health business in emerging countries by 8%. These results show that the continuous investments in emerging countries are paying off.

In the emerging markets as a whole, pharmaceutical sales are expected to continue their promising growth path and to further increase by high single-digit percentages on a currency-adjusted basis in 2013, as well as through 2015.

Let me now come to a further asset in our HealthCare portfolio and that is Consumer Care. We can look back on a track record of yearly sales increases, as you can see here on the chart. The success of our Consumer Care business is driven by our highly-recognized brands and our ability to further develop them through their lifecycles. We believe that we can continue to develop that business, both organically, as well as through selected bolt-on acquisitions and are aspiring to become the market leader in the OTC segment.

Let's now move on to CropScience. At CropScience we executed strongly against our new strategy. In both crop protection and seed technology we have developed strong innovation pipelines. We therefore aim to grow our business above market growth rates, forecasting high single-digit growth towards EUR9 billion in 2013 and growth towards EUR10 billion by 2015.

CropScience is expected to maintain its industry-leading profitability level. In 2013 the underlying EBITDA margin is expected around the excellent peak cycle level of 24% or slightly above. We believe that an underlying margin of 24% is achievable by 2015 as normalized off-peak margin. We are confident that our innovative differentiated solutions for farmers and the entire food chain positions us well to achieve these targets.

Let's look at our new crop protection products and our seed business in a little bit more detail. First, this chart with our new crop protection products. In 2012 we generated EUR1.1 billion of sales from new crop protection products launched since 2006 and that's an increase of 60% year over year. We see good prospects at CropScience for our innovative product range and our positioning in the markets. We estimate that sales of new products launched since 2006 will come in at approximately EUR1.4 billion in 2013 and about EUR1.9 billion by 2015.

As you know, seeds are another focus of our investments, with 14% we posted strong growth in our seeds business in 2012. The seeds footprint is expected to continue showing double-digit growth rates on an annual basis until 2015. We are committed to further invest in our seeds business. Two recent examples were the acquisition of the melon seed business in the US and the acquisition of the soy germplasm asset of US-based ProStar Genetics.

Now, after more than two years of 10% annual volume growth, we are in CropSciences significantly increasing the CapEx budget by around EUR200 million in order to meet the growing demand for our products. Major projects in this context are the expansion of our seeds breeding and processing facilities, including the establishment of a global weed-breeding network and soybean breeding facilities in the Americas, as well as the investment in crop protection production capacity for Liberty/Basta herbicide and innovative fungicide.

I'm sure you will agree that we made good progress in 2012 to strengthen both our LifeSciences businesses and that we've laid a strong foundation for future growth in these businesses.

Let's now move to MaterialScience. MaterialScience is a clear leader in its markets. These markets are attractive from a growth point of view, but are also very cyclical. We invested significantly in the expansion and optimization of our production capabilities. However, during the last years global market growth has been lagging industry capacity expansions. Combined with high feedstock costs, we were faced with margin pressure in our business. Nevertheless, we grew sales and EBITDA in 2012, but could not yet cover our full cost of capital and reproduction. The CFROI in 2012 came in at 5.6%, 1.5 percentage points below cost of capital.

We are cautiously optimistic for our MaterialScience business in 2013 and are focusing on improving our capital returns in the mid-term. We based our 2013 budget on a modest global GDP growth driving by the ongoing recovery in the US and robust development in the emerging markets. The European economy is expected to remain weak.

For all our key customer groups we see a positive development year over year. In this macroeconomic context, we are planning a slight increase in sales on a currency and portfolio-adjusted basis to about EUR12 billion and intend to further improve adjusted EBITDA in 2013.

For the first quarter of 2013 we anticipate a currency and portfolio-adjusted sales increase compared to the preceding quarter, so compared to fourth quarter. EBITDA, pre-special items, will be burdened by higher feedstock costs and the already mentioned shift of scheduled maintenance activities and, thus, is expected to come in at about the same level as the fourth quarter 2012.



We expect that by 2015 we will again be in a position to earn a premium over cost of capital. This progress will be driven by two important dynamics. Firstly, we anticipate that the global demand supply balance in our industry will improve as we see only limited capacity additions during the next three years. And then secondly, we've launched a new efficiency initiative with a target to improve margins by 150 basis points through 2015. In addition, we're optimizing our asset structure, especially in Germany. These measures should allow MaterialScience to deliver against these aspirations.

Now, this leads me to the outlook 2013 for the whole Bayer Group. On this chart you see our investments in R&D and CapEx and they will both grow further. We have planned capital expenditures of around EUR1.9 billion for property, plants and equipment and EUR0.4 billion for intangible assets.

We will increase the relative CapEx share of CropScience to 25%. And as I mentioned before, this is largely driven by capacity expansions to address the increasing demands for our products. Then, we expect our research and development expenses to rise to approximately EUR3.2 billion, of which more than 90% will be spent for R&D in our LifeSciences businesses.

For the Group we are targeting a currency and portfolio-adjusted sales increase of 4% to 5% to a level of approximately EUR41 billion in 2013. We're planning a mid-single-digit increase in adjusted EBITDA and a high-single-digit increase in core EPS versus 2012.

So, ladies and gentlemen, I'm sure you agree that Bayer is on a successful growth path. Since 2009 we have consistently increased sales and underlying earnings, with 2012 reaching again new record highs. We expect that to also continue through 2013.

This now concludes my remarks and we are happy to take your questions. Thank you.

## QUESTION AND ANSWER

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**Alexander Rosar - Bayer AG - Head IR**

Cleo? Hello?

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**Operator**

Hello. Thank you. (Operator Instructions.) The first question is from Mr. Tim Race. Please state your name, company name, followed by your question.

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**Tim Race - Deutsche Bank - Analyst**

Thank you. Hi, there. It's Tim Race here from Deutsche Bank. First of all, thank you for the very clear guidance that we got this year for both '13 and '15.

Next, a question for Marijn. Clearly, it's a case of execution now and rolling out the HealthCare business. Looking forward, what are you going to do with your time? What are your strategic priorities and are you now just going to be focused on execution, driving cost savings, or are you going to be looking sort of to expand the business perhaps with M&A?

Then maybe a question for Werner. What are -- what is the optimal debt level for Bayer and what is your sort of intended use of cash as priorities, between paying down the pension deficit, acquisitions and potentially increasing the payout ratio?

And then maybe just a third question, if I may. Just commenting on these relative market dynamics that we've seen. And when you've been up against the Apixaban in certain markets, what are you seeing so far?

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**Marijn Dekkers - Bayer AG - CEO**

Okay, Tim. Thanks. I'll take the first question. We'll take the first question and you'll take the other question.



But, what am I going to do with my time? No, we are I think in a very good position to have a bright outlook for organic revenue growth. And I think our guidance for 2013 and '15 reflect that HealthCare and CropScience CAGRs of 6% through 2015 for organic growth and then MaterialScience with a better utilization of capacity in our industries. We should also be able there to grow profitably above GDP. So, that's a wonderful position to be in because, in the end, the Company is -- a company's success often is reflect in how it does grow organically.

But, as we've also said, we are interested in strengthening our portfolio with selected bolt-on acquisitions. And we've done a number of them also in 2013. I think Agraquest and Teva Animal Health are two good sorts of examples of that, where we either tried to acquire new technology capabilities or new products or new strength in a geography. So, a combination of really driving organic growth and a lot of that is execution, obviously, with some selected bolt-on acquisitions is the strategy.

Thirdly, emerging countries are super important for us and there the challenge is not so much having the products to sell, because we have the products to sell there. The challenge is do we have the very best talent in our industry and that requires a lot of dedication to build up the talent capability in emerging countries as well.

So, you want to talk about debt level, Werner.

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**Werner Baumann - Bayer AG - CFO**

Yes, I can do that. Thanks for the question. First of all, our financial policy defines that we want to maintain in terms of ratings our current A-minus rating, so that conditions also the leverage we will take under these circumstances.

Secondly, if you look at the EUR7 billion net debt level we have, you might easily jump to the conclusion that we are under-levered already. Yet, the picture is only complete if you take our pension obligations on top of that into the equation. And looking at a more than EUR9 billion unfunded pension obligation, our overall net -- our overall debt position is actually a little bit more than EUR16 billion.

And if you now take it back to the FFO to net debt ratio, we have to hit under the rating conditions for Standard & Poor's of somewhere in the area of 35%. We are at a point where we just barely made that, as a matter of fact, looking at the significant run up of our pension obligations. It was not as good as expected in terms of meeting these rating KPIs for 2012.

In terms of where does our cash generation capability take us going forward, we will certainly commonsensically look at all the potential fund application opportunities for our funds. You have seen that we have raised our dividend by 15% to EUR1.90, so we are certainly very, very aware of the fact that we do want to hit an okay dividend yield and we will continue to do that.

To the extent that it makes sense, we will also continue to fund our pension obligations because, rather than having a negative cost of carry for the liquidity at hand, it makes much more sense to invest it into some of our unfunded pension obligations where we have a broader universe of asset classes we can invest into. And this will of course also still be available for some of the select M&A Marijn mentioned which, first and foremost, also looking at the potential size of these acquisitions, we will do out of existing liquidity or, as the case may be, also debt financed.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Joerg, the Xarelto question.

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**Joerg Reinhardt - Bayer AG - CEO HealthCare**

Yes. So, Tim, I think I can say that we continue to be pleased with the rollout of Xarelto. And I can give you some color regarding some of the major countries here. So obviously, the main contributor is still Germany, where we do continue to gain market share. At the moment we are at market share level of above 25%. We see in the German market, Apixaban is a few weeks in the market; however, their share is still very, very low, so maybe it's too early to really come to any conclusions there.

We look also at markets like Brazil, Mexico or Switzerland, where we do have market shares of above 30%. And even there the share is still growing. So, we are quite pleased with the rollout in those countries.



Then there is a range of countries where actually we are a little bit behind. So for example, in Canada we still grow share, but we are at the level of 10%, around. Even there -- also there we have Apixaban in the market with a market share of below 1%, so it may be also too early to really come to any conclusion there.

In Spain and in France we are at shares between 10 -- 7%, 8% to 10%. Shares are growing there. We are getting closer to the biggest one so we are quite happy with the rollout in those countries as well.

And then we have the UK, where the market doesn't seem to move at all; neither for us, nor for anybody else. We are still at shares of 4% or so and that doesn't seem to grow significantly. Whereas, in Japan, we are obviously waiting for the listing of the restriction of the two-week prescription limitation, which will happen in April. We see gaining in share already now, but we hope, obviously, that starting in April we will see significant share gains based on the fact that doctors can prescribe Xarelto for a longer period of time.

And then, last but not least, the US, where our colleagues from J&J do an excellent job of growing share. We are now overall at the level of 17%, growing. As you know, in the US Apixaban is in the markets and it's only a few weeks so, again, every early days and too early to make a comment.

We do see growing new-to-planned shares still with cardiologists and with PCPs. Our new-to-brand we are with cardiologists at a level of 37% and growing. And with PCPs, where we had a relatively low or slow start, we are now at market shares new-to-brand with 22%. So, also there we are gaining significantly. And that seems to be a very stable trend. So overall, great uptake and still going strong.

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**Marijn Dekkers - Bayer AG - CEO**

Good.

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**Tim Race - Deutsche Bank - Analyst**

Perfect. Thank you.

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**Operator**

The next question is from Mr. Richard Vossler. Please state your name, company name, followed by your question.

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**Richard Vossler - JPMorgan - Analyst**

Hi. It's Richard Vossler from JPMorgan. A couple of pharma questions, please. Just your perspective on the longer-acting Factor VIII, both in terms of an update of where yours is, how the recruitment into the phase III trial is going and when we can expect data there. But really, also how you see the market developing with other longer-acting treatments. Now we've seen Biogen's product working, how do you see the market developing in the next few years with that coming to the market potentially?

Second question just on Alfaradin. I wondered if you could give us some insight into the number of patients that are being treated in your expanded ACCESS program and when we can expect the new trials that you've alluded to starting in 2013.

And finally, another pharma question. Just to ask, since Eliquis on Xarelto, two things. One, the proportion, if you can. If your growth in the US is -- or in other markets is being driven by the pulmonary embolism treatment indication or the SPAF indication? And also, how your conversations with both cardiologists and PCPs have changed. What's their feedback to you been like since Eliquis has been in the market? Just a bit more detail there would be useful as well. Thank you very much.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Joerg, won't you answer those three questions?

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**Joerg Reinhardt - Bayer AG - CEO HealthCare**



Yes, sure. So, regarding the Factor VIII, yes, we have seen the first long-acting product being -- data being shared. And I mean it -- I would say it's pretty much according to expectations. However, with an expected treatment period of 3.5 days is not a significant change as compared to what's the current practice anyway in the market. As you know, people are very conservative; doctors are conservative, patients are conservative. They stick to their medication when they are happy with it.

So, I would expect that there's not a significant changing over of patients from existing medication to any long-acting, especially if the long-acting doesn't provide a significantly prolonged interval of treatment. So, from that perspective, I would think that the short-term impact is really modest.

From our own perspective, obviously we have started our own phase III program recruitment goes fine. We would expect data around the end of the year, early next year; just depends a little bit on how the final equipment goes. But, we are there and we will come with a product that I think will be very competitive.

Regarding Alfaradin, yes, I can give you an update on the early access program. We do have in Europe and in the US more than 100 patients each under treatment at the moment. And the tenancy is growing. As you know, the NFC has given a recommendation for the US so we are now picking up there a little bit faster than this was the case early on. But at the moment, it's more than 100 in each of the two geographies.

Regarding the new trials, we will come with a more complete description as to what exactly we will do in the not too distant future. As you know, we will go into patients in earlier stages of disease. We will do combination trials and we will look into additional tumors like breast and osteosarcoma. I think that we will be able to give you more details later this year. And we will intend to start studies around year end and we'll see how fast this will go.

Regarding Xarelto, yes, we have seen, especially in the US, significant pick up on the pulmonary embolism treatment claim. I mean, in the rest of the world, as you know, that indication is available since a longer period of time. Overall, it's still fair to say that the main contribution comes from the spot indication, which is not a surprise. But I believe that, especially in the US, people do have increased confidence in the product given the broad range of indications that we have with Xarelto that nobody else has, as you know. And I believe that that also will stick as a very, very positive feature on the product, even now after the launch of Apixaban.

We also believe that the once-a-day application is a significant advantage for Xarelto as compared to both competitors. So, as I said before, at the moment we don't see much of an impact from any of the competitors and we'll simply have to look at the situation in six months from now. Okay?

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**Richard Vosser - JPMorgan - Analyst**

Thanks very much.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Thank you.

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**Operator**

The next question is from Mr. Sachin Jain. Please state your name, company name, followed by your question.

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**Sachin Jain - BofA Merrill Lynch - Analyst**

Hi. It's Sachin Jain from Bank of America. A couple of questions, please. Firstly, back on the net debt, the guidance for '13 is below EUR7 billion, which is fairly open ended. Consensus, I think, is around EUR4.5 billion. So, I just wondered if you can comment as to how appropriate you think that consensus net debt figure for full-year '13 is.

Secondly, on crop. The guidance assumes no margin leverage out to 2015. You've commented to some extent on the CapEx so I wondered if you could just provide some more color on SG&A and R&D trends over time and what's capping potential leverage despite good top-line growth.

Thirdly, on Xarelto, I think the full-year '13 pipeline EUR1 billion target assumes roughly EUR600 million of Xarelto. Just wondered if that included any material sales from ACS and your level of confidence in approvals in US and Europe, which are due shortly.



And then my final question is YAZ. Given the litigation challenges keep coming, just wondering if you could update us on the run rate of new claims coming in. Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Thanks, Sachin. We start with the debt levels.

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**Werner Baumann - Bayer AG - CFO**

Yes.

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**Marijn Dekkers - Bayer AG - CEO**

EUR4.5 billion is less than EUR7 billion, so --.

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**Werner Baumann - Bayer AG - CFO**

Yes. Thanks, Sachin, for the question. First of all, our guidance going forward includes with EUR7 billion, the level of EUR4.5 billion, even though I don't think we will get there in 2013. Based on where we are with our planning, the below EUR7 billion is also acknowledged, quite open. We will update you on where we think we can get this -- our net debt position as we move into the year. And as the case may be, we will update you then during our quarterly updates.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Then CropSciences, no margin leverage in spite of the growth by 2015. Liam?

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**Liam Condon - Bayer AG - CEO CropScience**

Yes. Thanks for the question, Sachin. Basically, what we are saying for 2015 is that we're looking at the normal year in the cycle. And what we're seeing in 2012 is, basically, we believe we're at the peak of the cycle and we achieved 24% margin. So, if you assume a 2015 that we also have around about 24% in a normal cycle, that implies really that we would be improving somehow on our margin in a normal year.

And for us, it's really all about getting the balance right between investments and competitive growth. So, we have a very clear strategy that we want to grow above the market, but we also need to invest significantly to do this. And we believe we're getting the balance right now with a relatively high or a very high margin compared with our competitors and, at the same time, very, very competitive growth. So for us, it's about keeping that balance right as we move forward.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. And then Xarelto, is ACS included in our projections?

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**Joerg Reinhardt - Bayer AG - CEO HealthCare**

So, first of all, let me say that I think we are very confident with the -- or feel comfortable with the EUR600 million forecast for Xarelto. There is very, very little sales of ACS included. It's actually not relevant.

From an overall perspective, as you know, the PDUFA date for ACS is in March. I can also tell you that we are in discussions with the European regulators in March as well. And that's the only update I can give you. We will have to see what the decision is and then we'll deal with it.



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**Marijn Dekkers - Bayer AG - CEO**

Okay. And then the YAZ case. Werner?

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**Werner Baumann - Bayer AG - CFO**

Yes. Sachin, while I cannot give you an exact number on where our new cases trend, a good context to what we've done and what we've provided for, to give you some color of where we are in terms of provisioning as of the end of the year, as of the end of the year and with the provision we have taken in quarter four we have covered all known cases for venous thromboembolism, as well as all future expected cases for that condition. So, that includes by definition cases we have expected with the calculations and the model we have for the provisioning, which would occur in 2015.

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**Sachin Jain - BofA Merrill Lynch - Analyst**

Okay. Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Thanks, Sachin.

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**Alexander Rosar - Bayer AG - Head IR**

The next question.

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**Operator**

Thank you. The next question is from Mr. Lutz Gruten. Please state your name, company name, followed by your question.

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**Lutz Gruten - Commerzbank - Analyst**

Yes, thanks for taking my question. Lutz Gruten, Commerzbank. Two questions and one follow up on CropScience. Restructuring: are you expecting further restructuring benefits coming through after the quite successful program which was launched more than two years ago? Is there more to come in 2013?

And the second question regarding MaterialScience. You have indicated that you have started a so-called efficiency initiative, adding 150 basis points. What will be your focus? So, you're focusing on fixed costs, variable costs? How should we take that one? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. We'll start with restructuring benefits in CropSciences. Liam.

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**Liam Condon - Bayer AG - CEO CropScience**

Okay. In the past two years we've been basically averaging around about EUR140 million in savings due to restructuring programs. And for 2013 now, as we move ahead, we're basically moving away from one-time restructurings going into a continuous improvement mindset. And our pure goal here is to try and balance or compensate for inflation as far as possible. So, we do clearly expect to continue to see a very significant level of saving moving ahead which -- where we are trying to basically compensate for inflation.



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**Marijn Dekkers - Bayer AG - CEO**

Okay. And the MaterialScience, adding 150 basis points as a goal for 2015. What kind of activities does that entail?

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

Thank you. There's probably more than 100 different measures we have in our plan which cover most parts of the value chain, everything from looking at consolidation of some of our smaller manufacturing sites, where we've now achieved market development, so therefore fixed cost reduction, through to improving our geographical footprint and improving our efficiencies of human resource around the world by clustering certain countries into regional platforms.

In the production area, improving reliability of assets, particularly with reliability engineering and maintenance schedules. And then particularly an improvement around logistics. There's a lot of room there with our new geographical footprint to improve our logistic capabilities, in that case turning up elsewhere. But generally, also an improvement in our SAARE costs by using what we now have, which is a single global ERP system. So, one global system, one set of global processes now leveraging that system.

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**Lutz Gruten - Commerzbank - Analyst**

And does that number already include also the additional TDI capacity and the scale effects coming from that?

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

No, that doesn't include that.

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**Lutz Gruten - Commerzbank - Analyst**

Okay. Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Good. Thank you.

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**Operator**

The next question is from Mr. Thomas Gilbert. Please state your name, company name, followed by your question.

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**Thomas Gilbert - UBS - Analyst**

It's UBS in Zurich. Good afternoon. A couple of questions. I'll try to be quick. Coming back to Sachin's question on the net debt, I was wondering whether you could qualitatively at least talk around what items other than cash tax interest that you see in 2013 that weigh on the cash flow? So, can you give the guidance on cash outflow, litigation settlements, restructuring, environmental charges? And can you also say whether you have to invest more in CropScience and working capital as you expand in emerging markets? That's the first question.

And then a couple of questions on CropScience. Looking through the Annual Report, it seems like in Crop Protection the mix, so herbicides versus fungicides, it was pretty evenly spread. Just wondering whether that is the picture you're seeing going into 2013. So, evenly expect growth between what are products with very a different margin profile.

A second question there. You say in the Annual Report again that you grew nicely in Japan in and in Australia. That's exactly the countries that everyone else has pointed weakness out there. Can you explain the difference to your competitors in Asia and whether the channel inventories in Asia are such that you're comfortable?

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And then finally, could you just talk around the royalty payment? Is that FiberMax royalty? Is that Liberty royalty? Is that lump sum payments? Is that ongoing royalties and when are they coming?

And maybe, Patrick, just a word on Chinese trading in MaterialScience around the Lunar Year would be helpful. Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. So, Werner's going to start with the net debt question.

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**Werner Baumann - Bayer AG - CFO**

Yes. Tanks for the follow-up question. First of all, the interest position is not a differentiating factor next year. But we do, of course have, as we settle and as we see the flow out of our litigation provisions, that is only going to be burning our cash out. On top of that -- and there is also a little bit of replay of 2012.

The fastest growing business we currently have happens to be CropScience. That is also the business which has the highest capital tie up in terms of working capital. The figure is roughly 50% of sales incrementally which is being tied up in working capital. And that drives, of course, also our ability, or inability if you want so, to significantly delever and do that very quickly. Because it's part of the business that's a highly profitable growth, but it does come with a higher tie up in working capital. That's essentially it.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Then CropScience since we had a number of questions, Liam.

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**Liam Condon - Bayer AG - CEO CropScience**

Yes. And I mean, moving -- let's say we've had very, very strong growth both in herbicides and fungicides in 2012. In 2013 moving forward we do see let's say similarly high levels of growth. Particularly on the herbicide side, what we're seeing is increasing wheat resistance and this is an area where, of course, we offer very clear solutions. And on the fungicide side, what we're seeing is particularly in Latin America our business is being driven very, very strongly there. So, I would say it's hard to break it down in detail, but we do expect continued strong growth from both, relatively balanced.

Related to Asia, we have by far our highest -- let's say our growth expectations moving forward. If you look where we're coming from, Australia in 2012 had a fantastic year. And we've also had a very strong start into 2013. And this is at the moment primarily related to pre-emergent wheat where we have a -- let's say a very, very strong start in the year.

India last year we grew by 10%. Again, we expect double-digit growth this year. This is heavily related to our insecticides portfolio where we are growing strongly. And Japan is -- let's say is growing but at a much slower rate as the other two. So, of the three countries that you mentioned, it's basically Australia and India that are really driving the growth.

On the third question related to the royalties, right? I assume that's the question related to 2012, the royalties that the change in recognition and timing of these royalties. These were trace royalties for corn and for soybean, which were originally booked in 2012 in the second half of the year. And this year they were -- and in 2012 they were booked in the first half of the year.

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**Marijn Dekkers - Bayer AG - CEO**

Good. Okay.

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**Thomas Gilbert - UBS - Analyst**



But is it -- thank you. Thank you very much.

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**Marijn Dekkers - Bayer AG - CEO**

And then Patrick.

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

Yes, Thomas. Yes, we saw the usual slowdown around the Lunar New Year, but we're pretty confident looking forward and I think there's probably three reasons for that. Now that there is some semblance of stability in the government, we're seeing the stimulus programs kicking back into the food chain and that supports our business on the cold chain in general from domestic appliances, through refers through to the lorry -- refrigerated lorries.

Secondly, there's been a boost in the infrastructure restarts on some several of the projects which were stopped during last year's uncertainty. And I guess the third is more of a hope that the Chinese automotive industry will start to pick up again and we'll start to see more growth in that area.

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**Thomas Gilbert - UBS - Analyst**

Thank you very much.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you, Patrick.

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**Alexander Rosar - Bayer AG - Head IR**

Thank you. The next question.

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**Operator**

The next question -- thank you. The next question is from Mr. Michael Leuchten. Please state your name, company name, followed by your question.

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**Michael Leuchten - Barclays Capital - Analyst**

Yes, thank you. It's Michael Leuchten from Barclays. A couple on HealthCare. On Betaseron, can you help me understand how big the provisional release was in Q4? And then a quick one on Stivarga. It's a very strong first quarter revenue stream in the US and how much of that is stocking? Do you have any feel for that?

Staying with HealthCare, if I look at your guidance in consumer health there appears to be an acceleration both in the top line and in the margin performance after 2013. Just wondering whether you could give any color where that's coming from.

And then lastly, an accounting question. Looking at your Annual, it appears you've changed the way you calculate CFROI and you're now looking at WACC as a hurdle. I just wondered what the thinking behind that is. Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. So, Joerg.

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**Joerg Reinhardt - Bayer AG - CEO HealthCare**



Yes. Let me start with Betaseron. Betaseron is really an interesting case. Since obviously the full-year results and also the fourth quarter were significantly better than what we would have expected beginning of the year. That's mainly driven by the US. When we look in the other parts of the world, Betaseron developed as projected with significant declines in volume and also in overall turnover. When we look at the US, we had released beginning of the year in the first quarter and also in the fourth quarter. That number in the fourth quarter was low single digit, so it's not really significant.

However, what did contribute significantly in the US were three price increases that we did have during the year. We had one price increase in January, another one in July and then another one in December, which were pretty much inline with what happened in the MS market overall. So, our pricing is still absolutely competitive and in line with the other competitors. But overall, that contributed obviously significantly to overall sales increases in the US, despite the fact that the volume in the US is still declining.

Regarding the overall good performance in the US, that was certainly a significant contributor. To the good performance we also had reasonable Kogenate sales and YAZ. Yasmin held up well. So overall, we don't have a significant stocking effect in the fourth quarter results of the US.

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**Marijn Dekkers - Bayer AG - CEO**

Stivarga was a particular --.

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**Joerg Reinhardt - Bayer AG - CEO HealthCare**

And -- correct. We had also -- as you could see, we had the early launch of Stivarga at the end of September, which gave us a full quarter of Stivarga which was not necessarily in the plans. So, that contributed to the overall good performance as well.

Regarding the years to come, and especially '13 regarding sales and margin improvement, obviously the new products will contribute significantly. Our existing portfolio keeps up well. And from a margin perspective, as we have pointed out in the past, certainly there is the need to invest in the launches. On the other hand, as you could see also in the '12 numbers, we have some leverage in R&D. We have somewhat lower cost overall in R&D, which had to do with the fact that some of the major studies have been completed. We also have some leverage in G&A and also in cost of goods there is still room for improvement.

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**Marijn Dekkers - Bayer AG - CEO**

Good. Werner, the CFROI.

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**Werner Baumann - Bayer AG - CFO**

Yes. On the CFROI, Michael, we did not change our calculations, we just changed the -- how you look at it. The CFROI after the deduction of the reproduction costs is then the rate of return you can directly compare to the weighted average cost of capital. That is the only difference. No underlying changes in any of the metrics which drive our overall return calculations in terms of do we run or do we not run our working capital.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Thank you.

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**Operator**

The next question is from Mr. Fabian Wenner. Please state your name, company name, followed by your question.

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**Fabian Wenner - Kepler Capital Markets - Analyst**



Yes, good afternoon. It's Fabian Wenner from Kepler. Two questions on MaterialScience, please, and one on Pharma. Firstly, I noticed that on page 3 of the Investor Briefing you set yourself a goal of earning a premium on the cost of capital in MaterialScience for 2014. For 2013 that box in the table is left blank. Is that a blank as in we can't make it or we will see how it goes?

And secondly, MaterialScience has now for the third year after '09 and '11 failed to cover the cost of capital, and it has done so despite investing only in line with depreciation. Still, you're now raising CapEx to expand Dormagen and Kawajun. So, what structural improvements are you seeing in PUR and PC markets that makes you spend more money on a currently value destructive asset?

And then, thirdly, there's a headline on Bloomberg saying you'd be interested in complementary products in MS. This seems to be out of context a little bit. Can you elaborate what you exactly meant? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

In MS you said?

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**Fabian Wenner - Kepler Capital Markets - Analyst**

Yes, in multiple sclerosis, apparently. I'm not sure if that's correctly quoted.

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**Marijn Dekkers - Bayer AG - CEO**

So, let me just -- no, that's not. We had a press conference this morning. The only question we got about complementary products was seeds. So, somebody must be mixing up seeds with MS.

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**Fabian Wenner - Kepler Capital Markets - Analyst**

Okay.

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**Marijn Dekkers - Bayer AG - CEO**

That's the only comment we made this morning at the press conference.

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

Yes. Yes.

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**Fabian Wenner - Kepler Capital Markets - Analyst**

Good. Thank you for the clarification.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. So, Patrick, on our estimations in terms of CFROI for 2013.

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**Patrick Thomas - Bayer AG - CEO MaterialScience**



Yes. And Fabian, thank you for the question. There is indeed a blank in the target box. I can see that. This is primarily because I think 2013 is a bit of a transition year. So, it's not we know we're not going to make it or we know we are going to make it, it's transitioning towards achieving this result in 2015. As you know, we've invested heavily over the last four or five years in China. That was just before we went into the recession. We continued through the recession, sensibly, to complete those projects and now we have to grow into the suit that we have cut the cloth for and that becomes our challenge.

How are we doing that and what is the state of the market? Well, the markets are growing at reasonably good rates again now. We saw a market growth raise in MDI of about 6% last year, of TDI above 6% and in polycarbonates around about 6%. So, these are recovery growth rates which will rapidly start to close in the supply/demand gap. So, the intrinsic utilization rates of these assets are now rising and, therefore, we're beginning to cover the costs of what we have invested.

One point is we are investing at the rate of depreciation over the next two to three years and no more than that, even though within that investment there are a number of capacity expansions and replacement assets.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Thank you, Patrick.

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**Fabian Wenner - Kepler Capital Markets - Analyst**

Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

The second question?

(Cross-talk.)

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**Marijn Dekkers - Bayer AG - CEO**

Okay. We answered it. Okay, good.

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**Alexander Rosar - Bayer AG - Head IR**

The next question?

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**Operator**

Thank you. The next question is from Jo Walton. Please state your name, company name, followed by your question.

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**Jo Walton - Credit Suisse - Analyst**

Jo Walton from Credit Suisse. A few Pharma questions, if I may, please. In the trade press they're talking about AMNOG considering reviewing some of the older products such as the Xarelto type products which managed to sneak through before the more aggressive pricing environment came in. I wonder if you could tell us what you think might happen to Xarelto, and presumably your competitors, and whether that has far-reaching implications for reference pricing from your home market elsewhere?

Diane is still one of your top 15 products and there does seem to be a lot of press speculation, in France in particular, about potential safety concerns. I just wonder if you could give us some perspective on that.



And also within Pharma, you've got some very early sales of Eylea. I wonder if you can tell us a little bit about how quickly you're expecting to be able to get that product priced and commercially available through Europe? So really, effectively what the sort of the ramp up rate is that we could look for that. Obviously, I'm not expecting the same as the fabulous ramp we saw in the US.

And finally, I wonder if you could update us on the Joerg replacement hunt. Is it likely to be internal, external and do you have a timeline for it?

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**Marijn Dekkers - Bayer AG - CEO**

Okay. So, Joerg.

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**Joerg Reinhardt - Bayer AG - CEO HealthCare**

Yes, Jo. I mean, there's -- as you fully noted, there's an ongoing debate in the German context as to whether (inaudible) so called (inaudible), meaning products that are in the market already since a number of years should be revisited and looked at or not. And I believe it is prudent to assume that at some shape, way or form that's going to happen.

Now, I believe that it's not necessarily bad news because probably there is a significant number of older products in the market currently being reimbursed by the system where a challenge would probably not necessarily do dramatic harm to patient population. So, from that perspective, I believe this is a mix bag. Xarelto is likely to be looked at in the foreseeable future. We don't have any significant concerns there. We believe that Xarelto in its currently pricing and with the current benefits that it delivers, also as compared to competitive products, that we have a good chance to end up with a very positive perspective there.

Regarding Diane, it's correct that it is among the top 15 products. However, when you look at France, where they currently have some major concerns, sales are at the level of EUR4 million. So, that is not really significant. Significant sales come from Asian markets where the current concerns regarding safety are not really a concern. As you also know, Diane is a product primarily prescribed for acne. In some countries also in combination with an oral contraceptive activity, but only in some.

So, overall, we are pretty confident that the overall long history, the long, good history that we have with the safety of Diane will prevail in the majority of the countries and that from a more mid-term perspective we don't see a significant impact here.

Regarding Eylea, I mean, it's very early days. We are now end of February. We have launched in more than 15 countries so we are really picking up speed here. I mean, I can only tell you that so far we are happy with the pick up in important countries like Japan and Australia. But that, I think, is all I can say at the moment.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Let me comment on Joerg's replacement. This is Joerg's last day today with Bayer and then he will start at Novartis the first of August. First of all, we're very grateful for all the contributions that Joerg has made over the last three years. We'll miss him. And we have as the interim leader of HealthCare Wolfgang Plischke. And you guys know Wolfgang. Wolfgang has been with the Company a long time. Before he became a member of the [Forschtant] 6-7 years ago, he was working for 25 years in the healthcare organization and at the -- his last assignment was there as the leader of pharma.

So, he knows the healthcare organization very well. And has also as part of the Board, of course, supported HealthCare and its strategy development. So, in that sense, we expect a very smooth transition between Joerg and Wolfgang.

But, that is an interim assignment for Wolfgang. Longer term we're looking for a permanent replacement for Joerg and are evaluating both internal and external candidates.

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**Jo Walton - Credit Suisse - Analyst**

Thank you.

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**Marijn Dekkers - Bayer AG - CEO**



Thank you.

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**Operator**

The next question is from Mr. Peter Spengler. Please state your name, company name, followed by your question.

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**Peter Spengler - DZ Bank - Analyst**

Yes, good afternoon. Peter Spengler with DZ Bank. Thank you for taking my questions. Two are left, actually. First, you mentioned that you expect sales of EUR1 billion from the new drugs in 2013. Can you elaborate on a potential EBITDA contribution and whether it's already visible in the first quarter or in the full year at all?

And my second question is on your IAS-19 and IFRS-11 consideration. On page 7 of the Analyst Briefing you provided a detailed overview of the 2012 effects. What can we expect for 2013 for EBIT, financial income and net income? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay, Joerg, all the money we are going to make on the new products in 2013.

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**Joerg Reinhardt - Bayer AG - CEO HealthCare**

Yes. I think it's a little bit early to really expect significant contributions from these products early on. As you know, in the pharmaceutical sector, normally you will have a time range from 4 to 6 years until you breakeven. And in some products that's a little bit early. But, to expect this to happen in the first or second quarter is not likely. So, we will not see a positive EBITDA impact.

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**Marijn Dekkers - Bayer AG - CEO**

Can I just give one anecdote on this? In Xarelto we saw EUR320 million and we had incremental marketing costs of EUR320 million. That's a coincidence of the same number. But, it costs a lot of money to introduce a broad-based product in multiple applications in over 120 countries. This is not for the faint of heart to do this.

Okay. (Inaudible.)

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**Werner Baumann - Bayer AG - CFO**

Okay, Peter. Thanks for the question. If you we look at both regulations that are called IAS-19 and the real important one in terms of financial impact is really IAS-19. We have bridged and restated so that you know what the baseline 2012 over the quarters will look like after application and making it comparable. For 2013 over 2012, it's a little bit less than EUR100 million coming out of that effect in IAS-19 that is an interest effect, so it does affect the financial result negatively. In terms of tax, if you file a tax rate it will then after taxes be somewhere in the area of EUR70 million, EUR75 million.

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**Peter Spengler - DZ Bank - Analyst**

Thank you very much. Very helpful.

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**Marijn Dekkers - Bayer AG - CEO**

Thank you, Peter.



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**Operator**

The next question is from Mr. Florent Cespedes. Please state your name, company name, followed by your question.

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**Florent Cespedes - Exane BNP Paribas - Analyst**

Good afternoon, gentlemen. Florent Cespedes from Exane BNP Paribas. Thank you very much for taking my questions. A few quick ones.

First of all on Eylea, could you add some color on the feedback from doctors on the launch of the product? And could you remind us what is your marketing message? And do you see measured difference by countries on the perception by doctors of the product?

A second question on OTC. What would you need to become the number one company in OTC? Would it be local -- more local brands or another big one? And is organic growth sufficient?

And a last one on the guidance. Usually you are quite cautious when you release your full-year guidance at the beginning of the year. Could you share with us in which area do you see the main swing factors? As CropScience environment is quite a variance right now, is it fair to assume that we may see some positive surprise more on HealthCare or on MaterialScience? Thank you very much.

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**Joerg Reinhardt - Bayer AG - CEO HealthCare**

So, thank you for the -- let me take the Eylea question to start with. As you know, the Eylea message has always been and still is, and that seems to resonate well with doctors, is that there may be a -- this may be a product which shows less frequent dosing necessity as compared to competitors. Obviously, it's too early to conclude whether that really will fly to a significant extent in all the countries, but so far all we can say is that the uptake has been very positive. But, it's really, really very early days.

Regarding OTC with regard to the number one, yes, we are missing a few hundred million in sales in order to get to the number one position. The expectation is that it will -- that we will have to go for internal and external, so organic and inorganic growth to achieve a number one position.

As you may know, we have significantly invested in 2012 in markets like Russia, China and Brazil; investments which we have not made in the years before. So, we have -- we really think that we have significant potential in these markets and we see growth rates of significant double digits here. So, we will have additional internal contribution but, in order to really get to a number one position, we might also have to add some inorganic growth.

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**Werner Baumann - Bayer AG - CFO**

Yes. I'll take your comment on the cautious guidance. I would describe our guidance as realistic given the data that we have today.

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**Florent Cespedes - Exane BNP Paribas - Analyst**

Okay. Thank you.

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**Operator**

The next question --.

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**Alexander Rosar - Bayer AG - Head IR**

The next question.



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**Operator**

Thank you. The next question is from Amy Walker. Please state your name, followed by your company name.

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**Amy Walker - Morgan Stanley - Analyst**

It's Amy Walker at Morgan Stanley. A couple of questions remaining, please. The first on CropScience. Some of your close geographic peers have talked about a CAGR to 2015 of 9% or above. As you mentioned to Mr. Jain's question earlier that you think that we're at peak already in 2012, I just wondered if you could get some more color as to why you think 2012 is the peak year in CropScience, please.

And the second question. If possible, could you run us through your major MaterialScience expansion projects, just what the capacities are individually, roughly the investment amounts and when they come on stream? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay, Liam.

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**Liam Condon - Bayer AG - CEO CropScience**

Yes. I mean, the reason we're stating that 2012 is at the peak of the cycle is simply we've never seen a double-digit growth for two years in a row. And so, we're coming off the back of really an exceptionally strong cycle. We don't really think it's prudent that we would hope that this will continue forever and we would hope there's a paradigm change and that this industry will no longer be cyclical, but will continue to grow. But, in all honestly, we think it's unlikely just given the history of the cycle in the industry. And so, that's why we're basically being prudent and saying at some stage there will be a slowdown and we're forecasting for 2015, as I say, going back to more normal patterns. So, that's basically -- that may be the difference between what we are forecasting and other companies.

For CapEx expenditures, we basically already announced that we will be making very significant CapEx investments up until 2016. And this is in the region of -- and in total this will be EUR1 billion basically up until 2016. And it's basically spread out fairly evenly throughout the various years. So, that was something that has already been announced as a ballpark number.

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**Marijn Dekkers - Bayer AG - CEO**

Amy, you're also interested in capacity expansions in MaterialScience?

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**Amy Walker - Morgan Stanley - Analyst**

Yes, please, if possible.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. Patrick?

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**Patrick Thomas - Bayer AG - CEO MaterialScience**

Okay, Amy, let's start with TDI in Dormagen in Germany. That's a 300,000 tonne expansion that will be offset by closure of 225,000 tonnes of existing capacity, older plants. And the aim is that that will be achieved late '14, early '15. So, that project is primarily related to cost efficiency rather than capacity. That's using our new technology from China in Europe and that gives us a significant cost benefit.



Another project that is in the immediate term is the debottleneck of the MDI plant in China by 150,000 tonnes up to 500,000 tonnes with a time completion of 2014, late; probably early in 2015. There is in the permit applications in China a further doubling up of that capacity, but we have unclear timing on that and have no specific time given that's most of the polyurethane plants.

On polycarbonates we are currently engaged in a 100,000 tonne expansion in China with a start up date around about 2014-'15.

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**Amy Walker - Morgan Stanley - Analyst**

Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay.

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**Operator**

The next question is from Mr. Daniel Wendorff. Please state your name, company name, followed by your question.

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**Daniel Wendorff - Commerzbank - Analyst**

Daniel Wendorff, Commerzbank. Thanks for taking my questions. Two remaining. One is related to the issue of provisions. You mentioned that all known cases of VTE as well as expected case of VTE are included in the provisions taken.

And my follow-on question would be from the current point of view and also looking back to where you have actually build provisions for last year. Are there any other important implications where you would need to consider building provisions going forward? And from your current point of view, obviously.

And a follow-up question on Betaseron. You mentioned the level of price increases or the number of price increases which happened during the course of 2012. Is there already a certain visibility on the US market where that might lead to in this fiscal year? And related to that, what are your expectations for the whole Betaseron franchise for 2013? Thank you.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. The provisions for VTE. Werner.

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**Werner Baumann - Bayer AG - CFO**

Yes. You stated the position on our provisions for all VTE cases correctly. All known today, all expected going forward with the assumptions we have taken on the total universe, of total cases we might see in the Yasmin/YAZ litigation in VTE, plus all legal and defense costs, which are also included in our provision. As far as other legal complexes are concerned, you have the legal report in the Annual Report. Each of the cases we have is, A, properly and fully described to the extent that we can disclose. Secondly, also very importantly, to the extent that an exposure in terms of financial exposure out of these cases, needs to be provisioned, it has been provisioned as of the end of the year, which one would expect.

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**Marijn Dekkers - Bayer AG - CEO**

Okay. And then Betaseron.

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**Joerg Reinhardt - Bayer AG - CEO HealthCare**



Yes. So, what I can say is that there are currently no plans to increase price in 2013 again. Based on that and given the decline in volumes that we see across the world, our expectation for Betaseron going forward is a high single-digit decline for 2013 and further decline after that.

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**Daniel Wendorff - Commerzbank - Analyst**

Okay. Thank you.

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**Alexander Rosar - Bayer AG - Head IR**

Cleo?

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**Operator**

Mr. Rosar, you may continue with any other points you wish to raise. Thank you.

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**Alexander Rosar - Bayer AG - Head IR**

Okay. Thank you, Cleo. Ladies and gentlemen, also on behalf of my colleagues, thank you for being with us on the call and your questions. We are now saying goodbye and we all hope to meet you during our management conference on March 18th and 19th here in Leverkusen. Auf wiedersehen.

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**Operator**

Ladies and gentlemen, this concludes the full-year and fourth quarter 2012 results investor analyst conference call of Bayer AG. Thank you for participating. You may now disconnect.



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