

Investor Handout

Report of 1H99



Agenda

- ➔ Group Figures**
- ➔ Figures by Segments -
Comments on Figures and Objectives
- ➔ Summary/Outlook

1H99 Financial Highlights

	Euro million	% Change/1H98
Sales	14,224	- 2.0
Operating Result	2,556	+ 49.6
Non-Operating Result	(242)	+ 9.0
Pre-Tax Income	2,314	+ 55.6
After-Tax Income	1,741	+ 98.7
Gross Cash Flow	1,708	- 13.0
Net Cash Flow	1,234	+ 32.8
Capital Expenditures	954	-15.0
Research & Development	1,133	+ 18.4
Net Debt	1,287	- 40.6
	%	Change
Tax Rate	25	- 16 %point
Stockholders' Equity/Total Assets	49.0	+ 5.6 %point

Sales by Half Year/Quarters and Underlying Business

Euro million

	'99	'98	Δ %
1st Half Year	14,224	14,514	- 2.0
Agfa	(1,756)	(2,214)	
Other acquisitions and divestitures*	<u>(23)</u>		
	12,445	12,300	+ 1.2
1st Quarter	6,994	7,332	- 4.6
Agfa	(1,026)	<u>(1,042)</u>	
Other acquisitions and divestitures	<u>23</u>		
	5,991	6,290	- 4.8
2nd Quarter	7,230	7,182	+ 0.7
Agfa	(730)	<u>(1,172)</u>	
Other acquisitions and divestitures	<u>(46)</u>		
	6,454	6,010	+ 7.4

* Chiron 271; TiO₂/Silicones -216; Copying Systems -98; Citric Acid -78; Graphic Arts 50; Gustafson 36; Others 12

Operating Result by Half Year/Quarters and Underlying Business

Euro million

	'99	'98	Δ %
1st Half Year	2,556	1,709	+ 49,6
Agfa OPR 1-5 '99	(104)	<u>(151)</u>	
Agfa IPO	<u>(952)</u>		
	1,500	1,558	- 3,7
Exceptional Items*	<u>48</u>	<u>86</u>	
OPR before Exceptional Items	1,548	1,644	- 5.8
1st Quarter	790	842	- 6.2
Agfa OPR 1-3 '99	(70)	(65)	
Exceptional Items	<u>(12)</u>	<u>114</u>	
OPR before Exceptional Items	708	891	- 20.5
2nd Quarter	1,766	867	+ 103.7
Agfa OPR 4-5 '99	(34)	(86)	
Agfa IPO	(952)		
Exceptional Items	<u>60</u>	<u>(28)</u>	
OPR before Exceptional Items	840	753	+ 11.6

* see next chart

Exceptional Items Half Year

Euro million	1H98			1H99			Δ Net
	Charge	Gain	Net	Charge	Gain	Net	
Health Care	(6)	•	(6)	(57)	•	(57)	- 51
Agriculture	•	•	•	•	37	37	+ 37
Polymers	(97)	•	(97)	(23)	•	(23)	+ 74
Chemicals	(73)	5	(68)	(5)	•	(5)	+ 63
Reconciliation	(12)	97	85	•	•	•	- 85
Total	(188)	102	(86)	(85)	37	(48)	+ 38

Group Figures - Summary

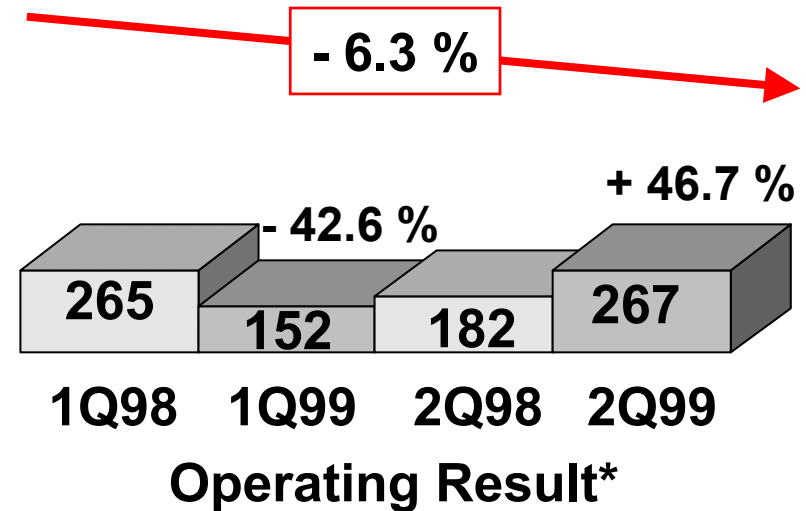
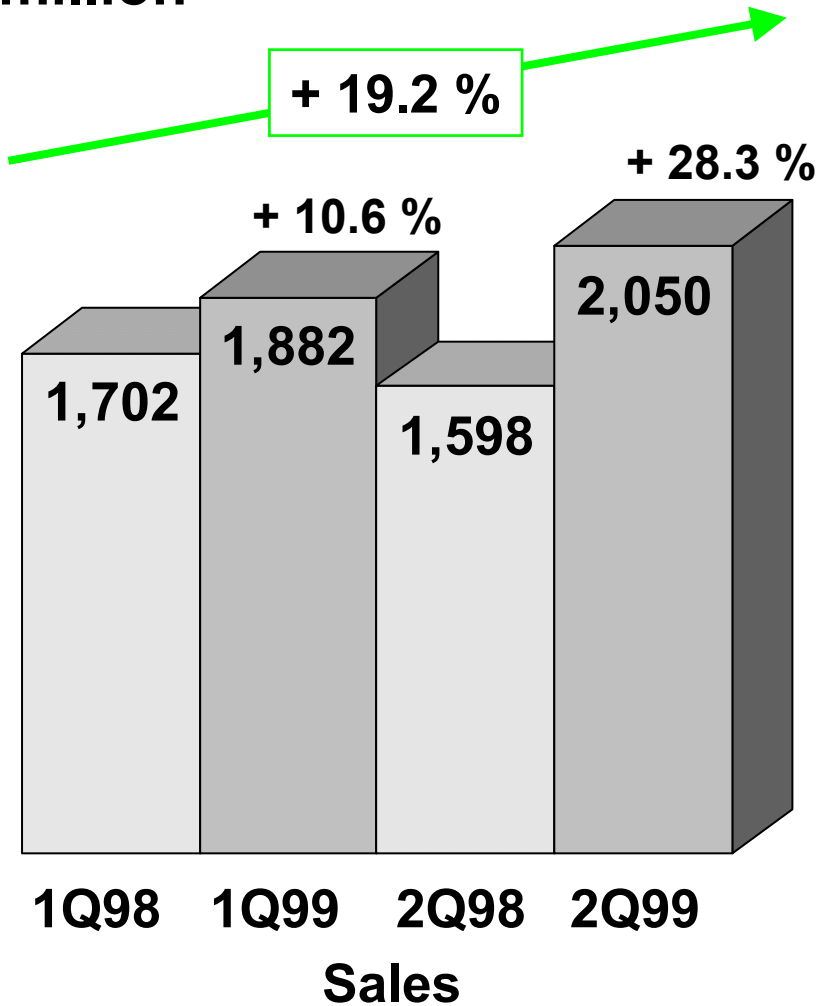
- ➔ **Sales growth of continuing business +1.2 %**
- ➔ **Operating result (without Agfa) -3.7 %**
- ➔ **Significant improvement in 2nd quarter
(OPR +11.6 %, sales +7.4 %)**
- ➔ **After-tax income further benefiting from tax
free Agfa IPO**

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Health Care

Euro million



* before exceptional items = underlying business

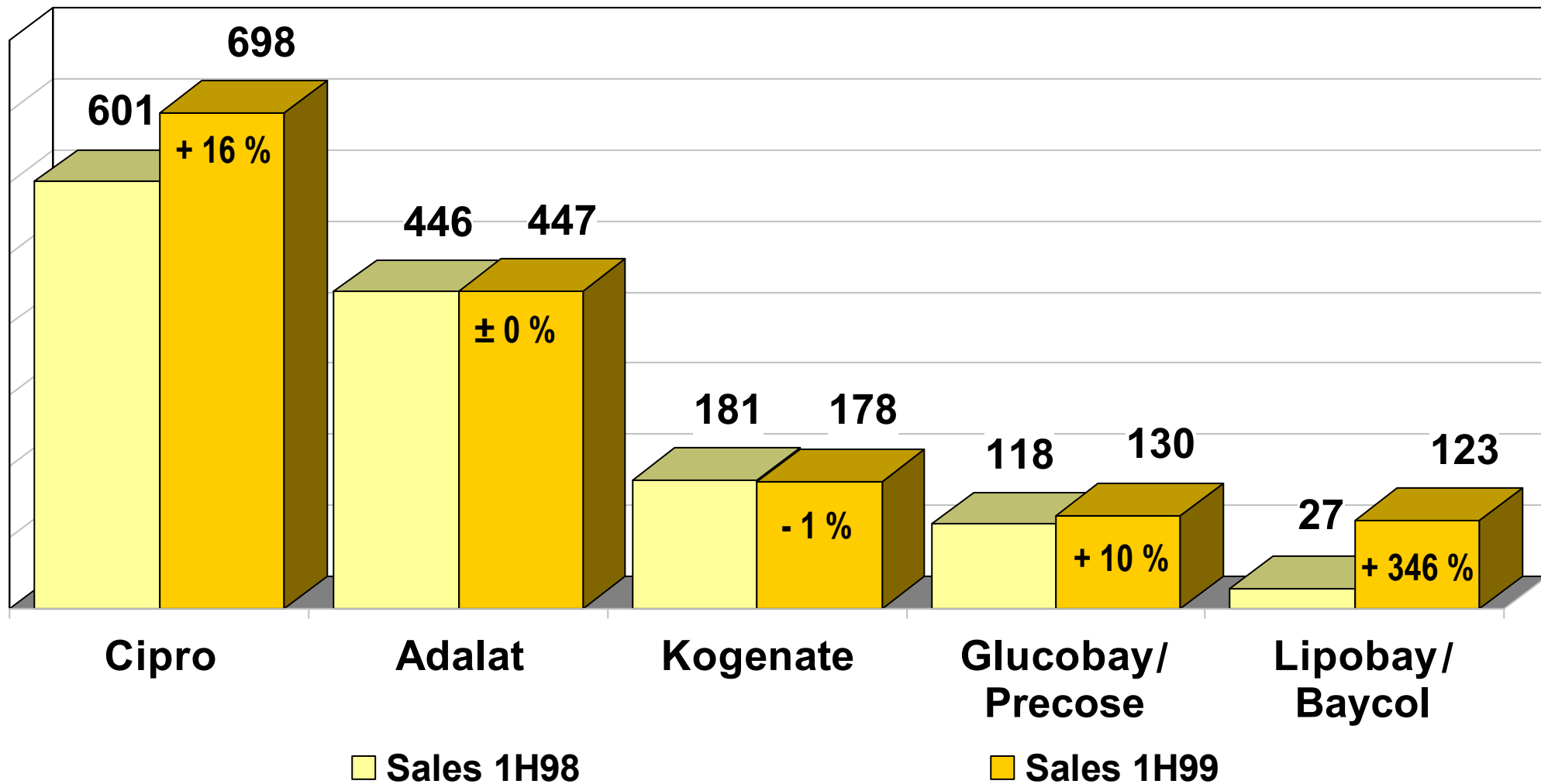
Health Care

- Objective: Improving Profitability and Gaining Market Share -

- Report:**
- ⊕ Business growth above market**
 - ⊕ Top 5 products performing strongly**
 - ⊕ Continuing long-term R&D focus: “Lion”**
 - ⊕ Cost-cutting program under way**
 - ⊕ Chiron integration on schedule**

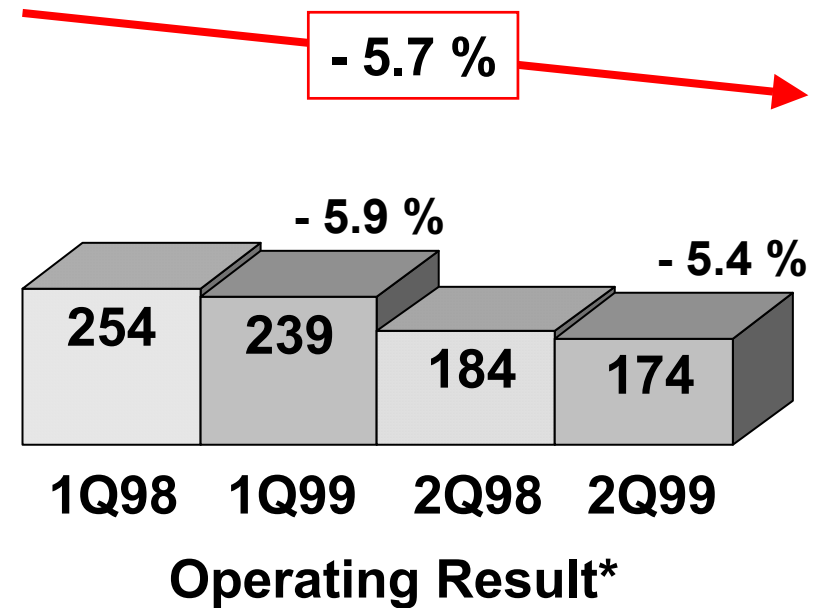
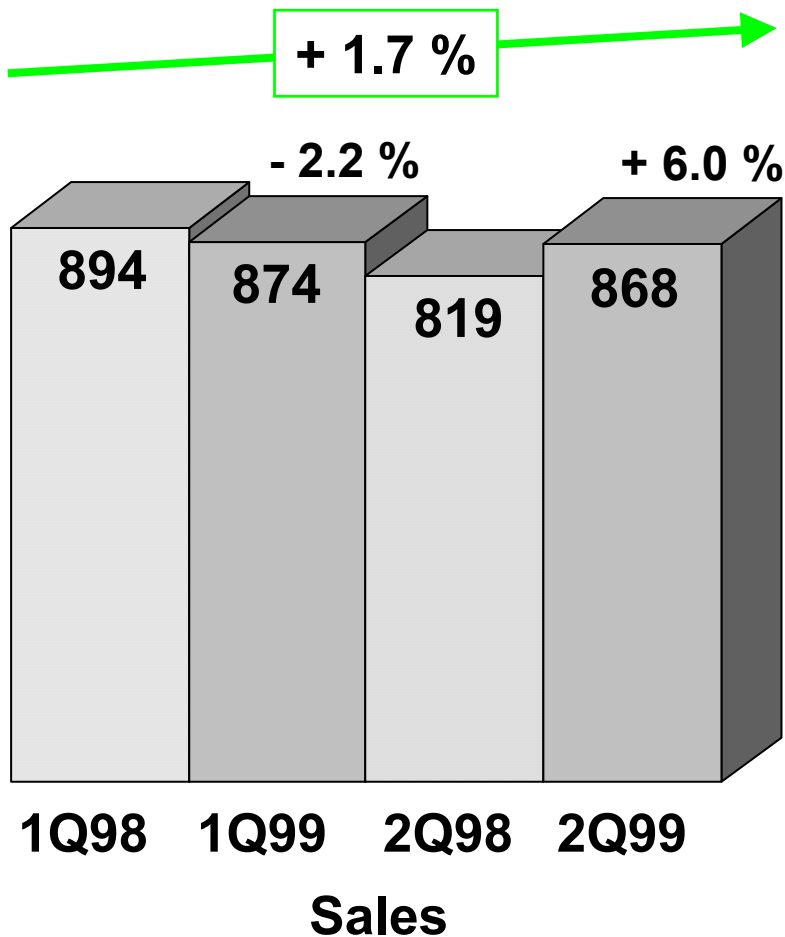
 - ⊖ Bottlenecks at Plasma- and Kogenate-production**

Top Five Pharmaceutical Products Euro million



Agriculture

Euro million



* before exceptional items = underlying business

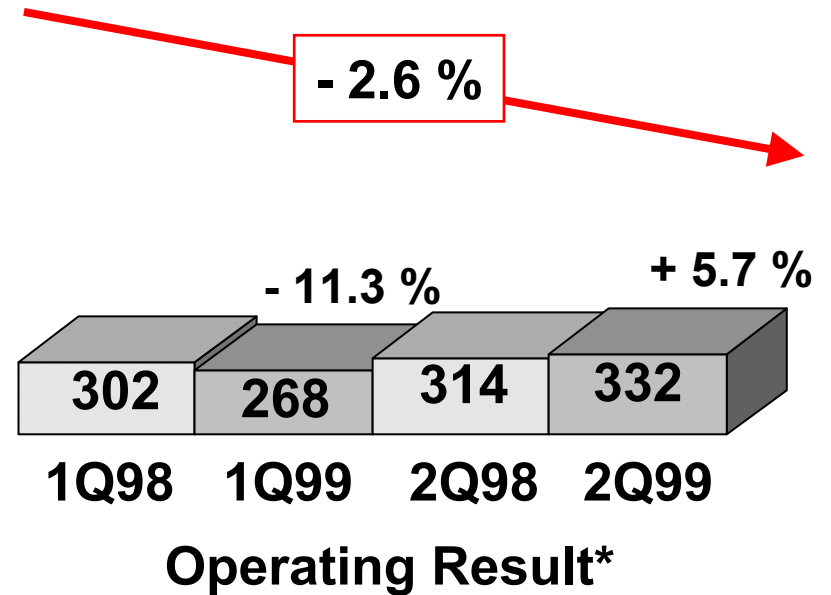
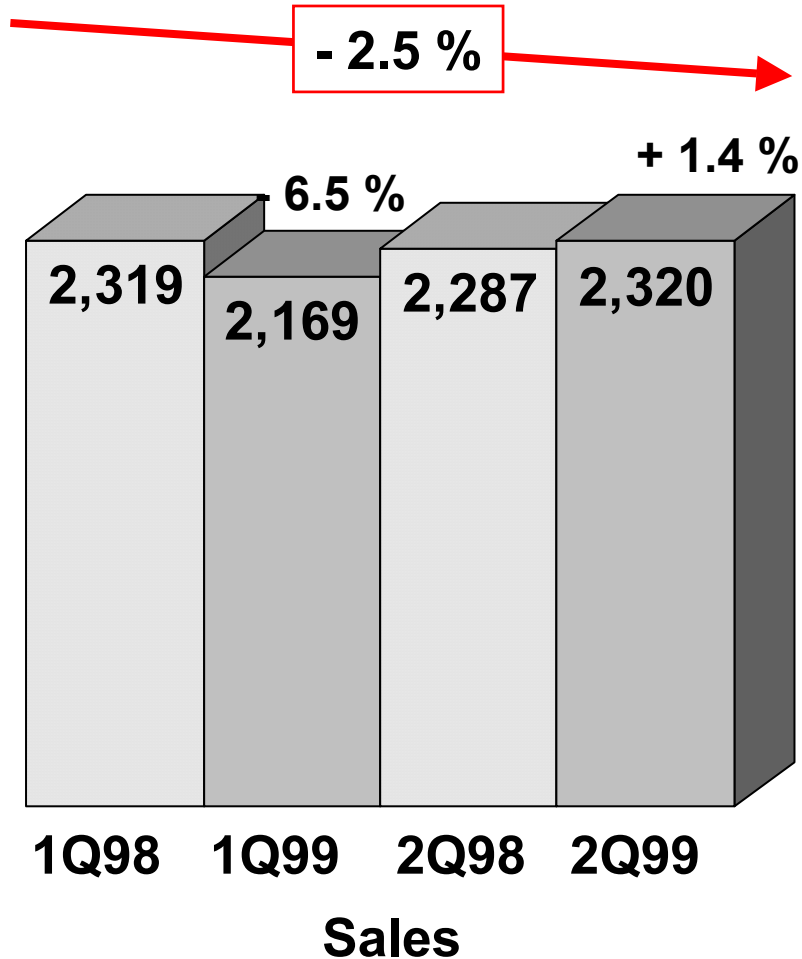
Agriculture

- Objective: Exploiting Growth Potential -

- Report:**
- ⊕ **Outperformance of market**
 - ⊕ **Business growth at 6 % in 2nd quarter**
 - ⊕ **Core competence in chemical crop protection**
 - ⊕ **Prepared to participate in industry consolidation**

Polymers

Euro million



* before exceptional items = underlying business

Polymers

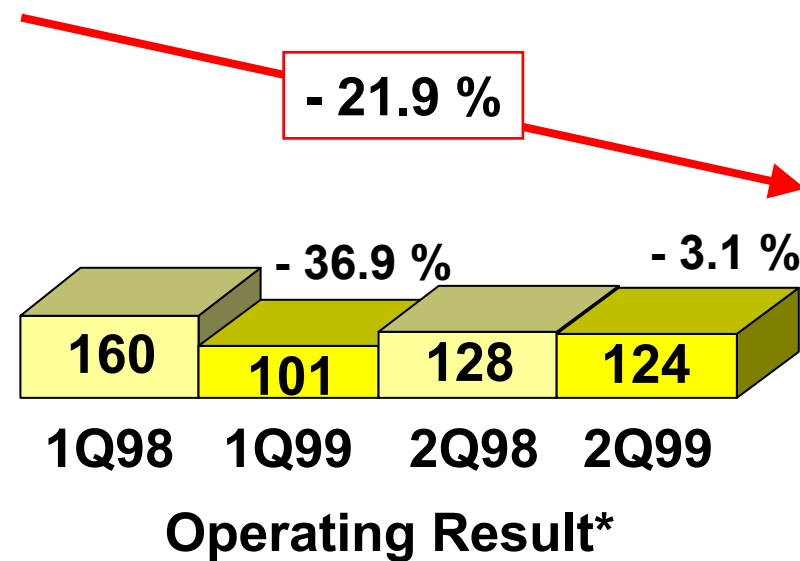
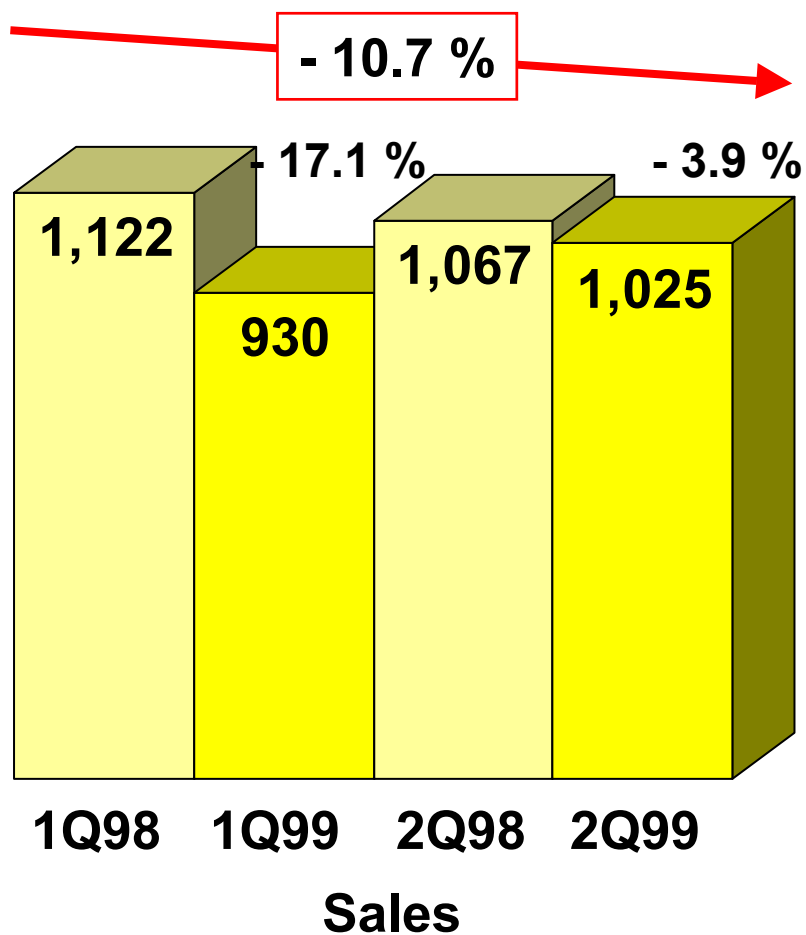
- Objective: Expanding Global Leadership -

- Report:**
- ⊕ Steady sales under difficult circumstances**
 - ⊕ Consistently high cash flow contribution**
 - ⊕ Strong market position**
 - ⊕ Expansion program in US completed, further global expansion to be continuously pursued**

 - ⊖ Price pressure**
 - ⊖ Existing portfolio still to be improved, but restructuring under way (Styrenics, Rubber, Fibers, Pigments)**

Chemicals

Euro million



* before exceptional items = underlying business

Chemicals

- Objective: Improving Profitability -

- Report:**
- ⊕ Increase of operating margin from 0 % three years ago to 11.5 % currently**
 - ⊕ Market performance**
 - ⊕ Focus on specialties**

 - ⊖ ⊕ Further restructuring ongoing (primarily in Germany)**
 - ⊖ Difficulties in matching 1998 earnings/ still in down cycle**

Corporate Culture

- ⇒ Value based management instrument implemented (Δ CVA)**
- ⇒ Stock option plan (first level management) and bonus system, both linked to Δ CVA**
- ⇒ Organizational flexibility and transparency (e. g. transfer pricing, service pricing); no cross-subsidization**
- ⇒ Headcount reduction in Germany from 60,000 in 1990 to 40,000 in 1998**
- ⇒ Portfolio changes within last three years account for 30 % of sales**
- ⇒ M&A criteria flexible**

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1999 Summary/Outlook

- ➔ **Weak first quarter, continuously recovering throughout second/third/fourth quarter**

- ➔ **- Growth in Health Care,
- Steadiness in Agriculture,
- Recovery in Polymers
- Difficult environment in Chemicals**

- ➔ **Forecast full year:
Pre-Tax Income > 2.8 bn Euro (previous year's level)**

Bayer - Participate in the Up-trend

➔ Portfolio with high potential

➔ Each segment is prepared to meet its primary success factors:

Health Care/Agriculture ⇒ innovation/globalization/critical mass

Polymers ⇒ costs/market position/technology

Chemicals ⇒ costs/synergies

➔ Trust to pursue and realize the long-term potential

Exceptional Items

Euro million	1Q98			1Q99			Δ Net
	Charge	Gain	Net	Charge	Gain	Net	
Health Care	(5)	•	(5)	(20)	•	(20)	- 15
Agriculture	•	•	•	•	37	37	+ 37
Polymers	(81)	•	(81)	(3)	•	(3)	+ 78
Chemicals	(28)	•	(28)	(2)	•	(2)	+ 26
Total	(114)	•	(114)	(25)	37	12	+ 126

	2Q98			2Q99			Δ Net
	Charge	Gain	Net	Charge	Gain	Net	
Health Care	(1)	•	(1)	(37)	•	(37)	- 36
Agriculture	•	•	•	•	•	•	•
Polymers	(16)	•	(16)	(20)	•	(20)	- 4
Chemicals	(45)	5	(40)	(3)	•	(3)	+ 37
Reconciliation	(12)	97	85	•	•	•	- 85
Total	(74)	102	28	(60)	•	(60)	- 88

Health Care

	Sales			Operating Result			OPR before exceptionals		
	98	99	Δ %	98	99	Δ %	98	99	Δ %
Q1	1,702	1,882	+ 10.6	260	132	- 49.2	265	152	- 42.6
Q2	1,598	2,050	+ 28.3	181	230	+ 27.1	182	267	+ 46.7
1H	3,300	3,932	+ 19.2	441	362	- 17.9	447	419	- 6.3

Agriculture

	Sales			Operating Result			OPR before exceptionals		
	98	99	Δ %	98	99	Δ %	98	99	Δ %
Q1	894	874	- 2.2	254	276	+ 8.7	254	239	- 5.9
Q2	819	868	+ 6.0	184	174	- 5.4	184	174	- 5.4
1H	1,713	1,742	+ 1.7	438	450	+ 2.7	438	413	- 5.7

Polymers

	Sales			Operating Result			OPR before exceptionals		
	98	99	Δ %	98	99	Δ %	98	99	Δ %
Q1	2,319	2,169	- 6.5	221	265	+ 19.9	302	268	- 11.3
Q2	2,287	2,320	+ 1.4	298	312	+ 4.7	314	332	+ 5.7
1H	4,606	4,489	- 2.5	519	577	+ 11.2	616	600	- 2.6

Chemicals

	Sales			Operating Result			OPR before exceptionals		
	98	99	Δ %	98	99	Δ %	98	99	Δ %
Q1	1,122	930	- 17.2	132	98	- 25.8	160	101	- 36.9
Q2	1,067	1,025	- 3.9	88	122	+ 38.7	128	124	- 3.1
1H	2,189	1,955	- 10.7	220	220	± 0	288	225	- 21.9