Bayer

Investor News

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Fall Financial News Conference of Bayer AG:

Upward trend at Bayer continues in the third quarter

- Currency- and portfolio-adjusted sales rise by 7 percent
- EBIT before special items triples
- Increased full-year forecasts for sales and underlying EBIT

Leverkusen / November 25, 2004 – Bayer posted further growth in both sales and earnings in the third quarter of 2004. This is particularly encouraging as the company more than offset the effects of the drop in sales of the anti-infective Cipro®, the sharp rise in raw material costs and continuing adverse currency parities. Sales of the Bayer Group for the period July through September rose by 3.4 percent to EUR 7,065 million, or by 7.3 percent when adjusted for currency translations and portfolio changes. This growth was mainly attributable to price and volume increases in Bayer's industrial businesses. The operating result (EBIT) improved considerably in the third quarter, advancing by EUR 202 million to EUR 244 million. EBIT before special items tripled to EUR 383 million, from EUR 125 million in the same period last year.

"In light of the continuing uptrend in our business in the third quarter, we are increasing our full-year forecasts for sales and underlying EBIT," said Bayer Management Board Chairman Werner Wenning at the company's Fall Financial News Conference in Leverkusen. "We now expect sales for 2004 as a whole to grow by about the same percentage as in the first three quarters," predicted Wenning, adding that Bayer had already comfortably achieved its target of improving underlying EBIT by more than 10 percent compared with last year. "EBIT before special items for the first nine months of 2004, at EUR 1.87 billion, exceeded the full-year 2003 figure by 27.6 percent," the Bayer CEO explained, and expressed optimism for the fourth quarter: "Despite the continuing high level of raw material costs, we expect to report underlying EBIT well above the restated figure of EUR 42 million for the last quarter of 2003." He also reaffirmed the company's goal for the full year 2004 of improving earnings before interest, taxes, depreciation and amortization (EBITDA) by more than 10 percent compared with last year.

All four subgroups achieved significant increases in EBIT in the third quarter. EBIT of Bayer HealthCare rose by 18.8 percent to EUR 266 million, despite an 8.4 percent drop in sales to EUR 2,070 million. The decline in sales was due primarily to the expiration of Bayer's U.S. patent on Cipro®. In terms of earnings, however, this effect was more than offset by the favorable trends for Bayer's other pharmaceutical products, major cost savings and a good performance in the Biological Products Division.

Sales of the Bayer CropScience subgroup in the third quarter remained steady year on year at EUR 1,124 million. As expected, EBIT of CropScience was negative for seasonal reasons, but improved from minus EUR 130 million to minus EUR 96 million. The subgroup's top products continued to develop well in all areas.

The largest increase in sales was posted by Bayer MaterialScience, which saw business expand by 18.1 percent to EUR 2,228 million. EBIT also gained strongly, posting a 164.4 percent year-on-year increase to EUR 119 million. Wenning explained that this pleasing performance was largely due to good earnings from polycarbonates and polyurethanes.

Lanxess, too, made significant advances in the third quarter. Sales increased by 4.6 percent year on year to EUR 1,471 million, while EBIT improved by EUR 31 million to minus EUR 4 million. Before special items, EBIT grew by EUR 64 million to plus EUR 46 million. This turnaround was made possible not only by the economic upswing, but also in particular by cost-containment measures.

In regional terms, the Bayer Group's sales growth in the third quarter was founded mainly on gratifying improvements in Europe, Asia and Latin America. Although growth in Germany was restrained, at 2 percent, business expanded by 8 percent in Europe as a whole.

Earnings impacted by numerous special items

Third-quarter earnings were affected by numerous special items totaling minus EUR 139 million on aggregate (2003: minus EUR 83 million). Litigation-related expenses came to EUR 76 million, while a EUR 40 million charge was taken for establishing an environmental provision for Lanxess. Other items included a EUR 36 million charge for restructuring in the United States in connection with the strategic alliance with Schering-Plough, and EUR 18 million for the planned stock-market listing of Lanxess. One-time income of EUR 39 million arose from the sale of a license in HealthCare.

The litigation-related expenses include a further EUR 31 million charge taken in connection with Lipobay/Baycol. Wenning stressed that Bayer is currently aware of fewer than 100 pending cases in the United States that in the company's opinion hold a potential for settlement: "Considering that we have already reached settlements in 2,895 cases, this number shows just how far along we are in the settlement negotiations." However, Wenning said the company could not rule out the possibility that additional cases involving serious side effects might come to its attention.

EBITDA was also boosted by the strong operating performance in the third quarter, increasing by 4.5 percent year on year to EUR 809 million, and by 12.1 percent to EUR 928 million before special items. Group net income improved by EUR 157 million from minus EUR 123 million to EUR 34 million.

Wenning highlighted the decisive progress made on strategically realigning the Bayer Group. The decision to divest the conventional chemicals activities and parts of the polymers business was made only a year ago. Last week, the Extraordinary Stockholders' Meeting approved the spin-off of the new company Lanxess by an overwhelming majority. It is intended to place Lanxess on the stock market in early 2005. Wenning said this would allow Bayer to concentrate on the innovation and growth-driven health care, nutrition and high-tech materials businesses.

The Bayer CEO also said the company had made rapid advances with the realignment of Bayer HealthCare. In this connection he pointed to the acquisition of the Roche non-prescription medicines business, which was approved by the E.U. Commission just a few days ago. Wenning said the acquisition makes Bayer one of the world's top three suppliers of over-the-counter products. "We have set ourselves a clear goal: to become the global number one supplier of OTC medicines," he said. The Bayer Management Board Chairman also commented that the refocusing of the

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Q3 2004 Analyst and Investor Briefing

- **Sales** of €7,065m increased 3.4%, portfolio and Fx adjusted +7.3%. Volume +5.7%, prices +1.6%, currency -3.8%.
- **Underlying EBIT** of €383m **significantly increased** yoy by €258m (206.4%), driven by MaterialScience, **HealthCare** and Lanxess. Cost and efficiency projects **contributed** €359m.
- **Reported EBIT at €244m** up from €42m. Net **Special Items** of - €139m **include:**
  HealthCare: - €31m for **Baycol** and - €12m for PPA litigation (see also **chapter "Litigation Risks" in interim report**), - €36m charge relating to the strategic alliance with **Schering**-Plough and €39m **gain** for sale of a license to **Alcon.**
  CropScience: €12m gain from sale of intellectual property in BioScience
  Systems: - €27m from an antitrust suit involving polyester polyols
  Lanxess: - €40m for establishing an environmental provision,
  Reconciliation: - €18m for the planned stock-market listing of Lanxess
- **Reported EBITDA** at €809m up 4.5% with **D&A** at €565m,
  Clean EBITDA at €928m up 12.1%.
- **Non-operating result** up by €42m to - €190m.
- **Net income** improved by €157m to €34m (EPS €0.05).
- **Gross cashflow** up 22.2% to €700m. Increase in **Working Capital** due to higher selling and raw material prices and expansion of businesses, thus **Net cashflow** down by €534m to €654m. **CapEx** down by 24.7% to €289m.
- **Net debt** compared to June 30, 2004 reduced by €388m to €5,669m.

HealthCare

Pharma/Biologicals local currency sales down 12%, mainly due to patent expiration of Cipro in the US (Cipro down 53.9% to €149m). Positive performance of Avelox (€64m, +24.1%), Cardio Aspirin (€41m, +36.6%) and Trasylol (€48m, +44.4%). Kogenate (€142m, +3.6% compared to strong Q3'03). Levitra sales q-o-q gained €5m to €45m. Underlying EBIT up 43.2% as lower Cipro sales being compensated by other Pharma products, Kogenate and cost savings.
Consumer Care/Diagnostics local currency sales advanced 5.9%. Alka-Seltzer developing nicely, Aspirin franchise (incl. Pharma) up 7.2% to €158m. Self Testing driven by Ascensia (+7.5% to €174m), Professional Testing by Advia Centaur (+15.3% to €107m). Underlying EBIT improvement of 13.6% driven by continued strong momentum in Diagnostics.
Animal Health sales flat y-o-y in local currencies. Underlying EBIT at €58m, +31.8% supported by real estate sale of €8m.

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

CropScience

Local currency adjusted sales growth of 3.9%. Fungicides +26% (mainly driven by Asian Rust) and Seed Treatment performed well and compensated sales decrease in Insecticides and Herbicides. Imidacloprid (+6.2%) benefiting from increased use in seed treatment. Environmental Science down 3.2%. BioScience +6.3%, driven by Invigor GMO canola in Canada. Reported EBIT improved by 26.2% to - €96m, underlying EBIT nearly flat y-o-y.

MaterialScience

Strong portfolio and local currency adjusted sales growth of 23.2%. Rising demand in all regions, especially strong in Asia. EBIT benefiting from increased capacity utilization, cost savings and lower D&A. Strong performance in Materials (+24% in local currencies) with Polycarbonates +24.1% and H.C. Starck +41.6% driven by high demand. Underlying EBIT improved by €67m to €76m, increased raw material costs could be partly passed along to customers. Systems local currency sales up 21.5%. Demand in MDI and Polyether still high, driving Polyurethanes (+29.4%). TDI business hampered by oversupply. Underlying EBIT improved by €22m to €70m.

Lanxess

Local currency adjusted sales up 7.5%, mainly driven by increased volumes and prices in Engineering Plastics and volume increase in Basic Chemicals. All regions showing growth, Asia/Pacific notably strong. Underlying EBIT improved by €64m to €46m, benefiting also from lower D&A. Increased raw material costs could be partly passed along to customers.

Outlook

We are increasing our full-year forecasts for sales and underlying EBIT. We now expect FY'04 sales to grow by about the same percentage as in the first three quarters. Our target of improving underlying EBIT by more than 10% compared with last year was already achieved in the first nine months. EBIT before special items for that period, at €1,870m, exceeded the FY'03 figure by 27.6%. For the fourth quarter, too, we expect to report positive underlying EBIT well above the level of the same quarter of last year despite the continuing high level of raw material costs. We also reaffirm our goal for the full year 2004 of improving EBITDA by more than 10% compared with 2003.

	Q3 / 2003					Q3 / 2004								
€ million	Sales	EBIT rep.	Special Items	EBIT clean	EBITDA	Sales	% yoy	EBIT rep.	% yoy	Special Items	EBIT clean	% yoy	EBITDA	% yoy
HealthCare	2,259	224	-26	250	368	2,070	-8.4	266	11.8	-52	318	27.2	392	6.5
PH/BP	1,210	44	-44	88	112	1,025	-15.[illegible]	86	[illegible]5	-40	126	43.2	146	30.4
thereof discont.	*159*	*-18*	*0*	*-16*	*-9*	*171*	*7.5*	*1*	*•*	*-12*	*13*	*•*	*21*	*•*
CC/DS	845	136	18	118	205	850	0.[illegible]	122	-10.3	-12	134	13.6	163	-10.7
AH	204	44	0	44	51	195	-4.4	68	3[illegible].8	0	68	31.8	63	23.5
CropScience	1,125	-130	-25	-105	55	1,124	-0.1	-96	2[illegible].2	12	-108	-2.9	81	47.3
MaterialScience	1,887	45	-12	57	244	2,228	18.[illegible]	119	16[illegible].4	-27	146	156.1	262	7.4
Materials	704	6	-3	9	76	839	19.2	76	•	0	76	•	131	72.4
Systems	1,183	39	-9	48	168	1,389	17.4	43	10.3	-27	70	45.8	131	-22.0
Lanxess	1,406	-35	-17	-18	78	1,471	4.6	-4	8[illegible].6	-50	46	•	60	-23.1
Reconciliation	157	-62	-3	-59	29	172	9.6	-41	3[illegible].9	-22	-19	67.8	14	-51.7
Group	6,834	42	-83	125	774	7,065	3.4	244	•	-139	383	206.4	809	4.5
thereof discont.	*1,565*	*-51*	*-17*	*-34*	*69*	*1,642*	*4.9*	*-3*	*•*	*-62*	*59*	*•*	*81*	*17.4*

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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.

Pharmaceuticals Division is progressing well. He said Bayer's pharmaceutical alliance with Schering-Plough is an important step towards positioning the company as a medium-sized supplier in this sector. Over the medium term, Bayer aims for its pharmaceuticals business to achieve sales and returns comparable to those of similarly sized competitors.

"We are on the right track, both strategically and operationally," Wenning emphasized, adding that the realignment of the portfolio would allow the Bayer Group to optimally exploit its value creation potential. "And we intend to prove that in the coming quarters."

Leverkusen, November 25, 2004

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Logical step in Pharma realignment:

Bayer HealthCare adapts pharmaceutical research and development to suit new business conditions

Concentration on therapeutic areas of cancer and cardiovascular risk management including diabetes

Leverkusen / Dezember 2, 2004 – Bayer HealthCare (BHC) is systematically continuing the realignment of its pharmaceuticals business and has decided to adapt global pharmaceutical research and development to suit changed business conditions at the unit. This will bring the Research and Development departments in line with the Pharmaceuticals Division's strategy of concentrating on specific therapeutic segments and increasing regional differentiation. In the future, research at Bayer HealthCare will concentrate on the therapeutic fields of cancer and cardiovascular risk management including diabetes at its sites in West Haven, Connecticut, and Wuppertal, Germany.

The realignment is intended to boost the efficiency of the Pharmaceuticals Division and BHC in the medium term. It will also include reductions to global personnel in Research & Development and Production, affecting some 560 positions. Approximately 110 jobs in the United States and around 440 jobs in Germany will be affected by the restructuring measures. Bayer's Employment Pact with employees means the company may not dismiss staff in Germany for economic reasons before the end of 2007. Bayer plans to reduce personnel in a way that will minimize social hardship and will seek to find individual solutions for the staff affected.

In the medium term, the research and development budget for the Pharmaceuticals Division will be set at a competitive level of approximately 20 percent of pharmaceutical sales. "We intend to use our resources in a targeted fashion to exploit our research and development capacities to the best of our abilities and in a manner suitable to a company of our size," explained Wolfgang Plischke, Head of Bayer HealthCare's Pharmaceuticals Division, adding, "Thanks to our new pharmaceutical research and development strategy and the recently signed agreement with Schering-Plough in the United States, we are now on track to focus our business," he adds.

Activities in the Wuppertal Research Center are concentrated on the field of Cardiovascular Risk Management in the indications coronary heart disease and thrombosis. Pharma intends to systematically use its many years of experience and expertise in the field of cardiovascular disease to continue developing primary care products. At the same time, the Pharmaceuticals Division will establish its own unit for product-flanking research in Wuppertal. This unit will have the assignment of exploiting the potential of late-stage development candidates and products that have already been launched on the market, including what is known as life-cycle management, i.e. the further development of marketed drug products and the scientific assessment of licensing projects.

The Pharmaceuticals Division has set up the Bayer Cancer Research Center at its site in West Haven, Connecticut, where it also conducts research into diabetes. Since October 1, 2004, West Haven has also been the home of Bayer's new Oncology Business Unit, which holds global responsibility for this field and is preparing the market launch of BAY 43-9006, a promising development candidate for the treatment of tumor disorders such as advanced renal cell carcinoma. Bayer recently announced that it intends to concentrate on specialist drugs and biotech products, such as Kogenate for the treatment of hemophilia, Trasylol, which is used during open-heart surgery and Viadur, for the treatment of prostate cancer, in the United States. The transfer of the primary care business to Schering-Plough in the United States led to a reduction of approximately 1,800 staff in Marketing and Sales. The majority of these staff have since received an offer from Schering-Plough.

Development projects in other therapeutic segments such as anti-infectives and urology will be continued until the next development stage. Afterwards the company will examine different options for creating the best value from these projects - possibly including out-licensing. New active substance classes for the treatment of viral and bacterial infections or urological disorders are no longer on the research agenda. Bayer HealthCare intends to exploit the potential of its projects, technologies and patents in anti-infectives research to the greatest possible extent and is therefore investigating the possibility of a spin-off.

The personnel adjustments in Research and Development and other significant savings will bring the Pharmaceuticals Division cost savings of approximately EUR 130 million by 2006. The one-time costs relating to this will depend on the exact measures taken, which haven´t yet been agreed with employee representatives. The restructuring measures that have been ongoing since 2001, the reorganization in the United States and the new R&D strategy will allow Bayer HealthCare to reduce its cost base by approximately EUR 1 billion by 2006.

Leverkusen, December 2, 2004

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Bayer HealthCare AG, a subgroup of Bayer AG with sales of approximately 8.9 billion Euro in 2003 is one of the world's leading, innovative companies in the health care and medical products industry.

The company combines the global activities of the divisions Animal Health, Biological Products, Consumer Care, Diabetes Care, Diagnostics and Pharmaceuticals. More than 34.000 people are employed by Bayer HealthCare worldwide.

Our aim is to discover and manufacture innovative products that will improve human and animal health worldwide. Our products enhance well-being and quality of life by diagnosing, preventing and treating disease.

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