Bayer

Bayer AG
Investor Relations
51368 Leverkusen
Germany
www.investor.bayer.com

Investor News

2008 earnings targets met

Bayer: corporate strategy proves effective in a difficult environment

- Sales increase by 1.6 percent to EUR 32,918 million
- EBITDA before special items up 2.3 percent to EUR 6,931 million
- EBIT before special items up 1.3 percent to EUR 4,342 million
- Net income of EUR 1,719 million (2007: EUR 4,711 million)
- Further earnings growth expected at HealthCare and CropScience in 2009
- Sharp decline in earnings forecasted for MaterialScience
- Significant reduction of net debt targeted

Leverkusen, March 3, 2009 – The Bayer Group achieved its earnings targets for 2008. "From an operational standpoint, 2008 was the most successful year in Bayer's long history," said Management Board Chairman Werner Wenning on Tuesday at the Spring Financial News Conference in Leverkusen. He explained that Bayer is benefiting from its alignment toward the life-science businesses HealthCare and CropScience, which are less dependent on global economic development. "Our corporate strategy is proving effective even in a difficult environment," Wenning pointed out. However, he said the effects of the unexpectedly severe financial and economic crisis left a considerable mark on the MaterialScience business, especially in the fourth quarter. He expressed confidence for 2009 despite substantial risks for the future development of the world economy: "We expect further growth in earnings at HealthCare and CropScience, along with a substantial reduction in net debt." By contrast, a substantial drop in earnings is anticipated at MaterialScience.

Group sales rose by 1.6 percent in 2008, to EUR 32,918 million (2007: EUR 32,385 million). Adjusted for currency and portfolio effects, the increase came to 4.4 percent. While HealthCare and CropScience contributed to this performance with strong growth of 6.9 and 13.9 percent, respectively, sales at MaterialScience fell by 4.6 percent. Group

earnings before interest, taxes, depreciation and amortization (EBITDA) – before special items – improved by 2.3 percent to EUR 6,931 million (2007: EUR 6,777 million). Here, too, HealthCare and CropScience registered strong gains, while MaterialScience saw underlying EBITDA fall sharply. The underlying EBITDA margin for the Bayer Group came in at 21.1 percent (2007: 20.9 percent). The operating result (EBIT) before special items advanced by 1.3 percent to EUR 4,342 million (2007: EUR 4,287 million).

Bayer HealthCare: above-market growth in all divisions

“2008 was a strong year for Bayer HealthCare,” said Wenning. Sales of this subgroup climbed by 4.1 percent to EUR 15,407 million (2007: EUR 14,807 million). Adjusted for currency and portfolio effects, business expanded by 6.9 percent. Contributing to this increase was the positive business performance of both the Pharmaceuticals and Consumer Health segments. “We are particularly pleased that all divisions posted dynamic growth in sales, outperforming their respective markets,” Wenning commented.

Sales of the Pharmaceuticals segment expanded by 4.3 percent (currency- and portfolio-adjusted: 7.1 percent) to EUR 10,704 million. Particularly notable was the performance of the YAZ® family of oral contraceptives, sales of which rose by 22.2 percent on a currency-adjusted basis (Fx adj.). The highest growth rates were registered by the cancer drug Nexavar® with 75.7 percent (Fx adj.) and the intra-uterine system Mirena® with 35.5 percent (Fx adj.). The multiple sclerosis treatment Betaferon®/Betaseron® gained 15.0 percent (Fx adj.), while business with the hemophilia medicine Kogenate® expanded by 7.3 percent (Fx adj.). “Among the highlights of 2008 were the first marketing authorizations for our innovative anticoagulant Xarelto®,” said Wenning. The drug can now be administered in tablet form for prophylaxis of venous thromboembolism following elective hip or knee-joint replacement surgery in adult patients. Xarelto® is already in the final phase of clinical development for the remaining indications – including the important long-term indications. “We believe this innovative drug has the potential to achieve peak annual sales of more than EUR 2 billion,” said the Bayer Chairman.

The Consumer Health segment increased sales by 3.6 percent to EUR 4,703 million. On a currency- and portfolio-adjusted basis, sales were up by 6.3 percent, with all divisions contributing similarly to growth. In the non-prescription medicines business (Consumer Care), the Bepanthen®/Bepanthol® product line posted the strongest growth, with a 20.7 percent (Fx adj.) increase. The antifungal Canesten® also performed very well, with

sales up 16.1 percent (Fx adj.). In the Diabetes Care Division, the Contour® blood glucose monitoring devices were once again the fastest-growing product line, with a gain of 18.4 percent (Fx adj.). The top-selling products of the Animal Health Division – the flea and tick control products of the Advantage® line – recorded 11.1 percent higher sales (Fx adj.).

EBITDA before special items of Bayer HealthCare improved by 9.6 percent to EUR 4,157 million (2007: EUR 3,792 million). This earnings growth was mainly attributable to the successful development of the business and the synergies realized from the Schering integration. Earnings were diminished by negative currency effects and considerably higher marketing costs for the expansion of activities in emerging markets and the introduction of new products. The subgroup met its target with an underlying EBITDA margin of 27.0 percent.

Record year for Bayer CropScience

“Bayer CropScience achieved the best performance in the history of our crop protection business,” Wenning reported. Sales of the subgroup grew by 9.5 percent to a record EUR 6,382 million (2007: EUR 5,826 million). The currency- and portfolio-adjusted increase was even more substantial, at 13.9 percent.

Business in the Crop Protection segment expanded by 11.7 percent (Fx adj.: 16.4 percent) to EUR 5,339 million. In a positive market environment with more favorable weather patterns than in the previous year, sales of all business units improved significantly. Particularly strong growth was recorded in the fungicides business, where sales rose by 28 percent (Fx adj.). Key growth drivers at Crop Protection were the young products based on active substances introduced since 2000. Sales of these products climbed by some 36 percent (Fx adj.) to EUR 1.8 billion.

Sales in the Environmental Science, BioScience segment held steady year on year at EUR 1,043 million. On a currency- and portfolio-adjusted basis, business expanded by 2.4 percent, to which BioScience contributed with a gratifying 18.8 percent improvement. Sales at Environmental Science, however, were down by 7.0 percent after adjusting for currency effects. This was mainly due to lower sales of products for professional users in the North American green industry on account of adverse market conditions.

Bayer CropScience as a whole improved EBITDA before special items by 21.1 percent last year, to EUR 1,603 million (2007: EUR: 1,324 million). The underlying EBITDA margin of 25.1 percent meant that the figure originally targeted for 2009 was achieved a year earlier than planned.

Business of Bayer MaterialScience hampered by the global economic crisis

The high-tech materials business was hampered by the effects of the global financial and economic crisis in nearly all its product groups and regional markets. Volumes fell in the fourth quarter of 2008 by almost 30 percent year on year, and capacity utilization was also substantially lower. “We have not seen anything like this before,” declared Wenning. For 2008 as a whole, sales of Bayer MaterialScience receded by 6.7 percent to EUR 9,738 million (2007: EUR 10,435 million). The currency- and portfolio-adjusted decrease came to 4.6 percent.

Sales in the Systems segment fell by 3.6 percent from the previous year, to EUR 7,130 million. On a currency- and portfolio-adjusted basis, business shrank by 2.7 percent. There were declines both for foam raw materials (Polyurethanes), and in the Coatings, Adhesives, Specialties business.

Sales in the Materials segment declined by 14.2 percent (currency- and portfolio-adjusted: 9.5 percent) to EUR 2,608 million. While business with polycarbonates fell by 10.1 percent after adjusting for currency and portfolio effects, the Thermoplastic Polyurethanes business unit saw sales recede by an adjusted 2.4 percent.

EBITDA of the subgroup before special items fell by 32.3 percent to EUR 1,088 million. Earnings for the year were diminished by a EUR 0.5 billion rise in prices for petrochemical raw materials and energies. The relative easing of prices on the raw material markets of importance to MaterialScience did not yet bring significant relief in the fourth quarter. Over the year as a whole, savings from the ongoing restructuring program and further countermeasures adopted only partially offset the negative effects of lower volumes and higher raw material costs.

Increase in core earnings per share

Earnings of the Bayer Group were diminished in 2008 by net special charges of EUR 798 million, compared to EUR 1,133 million in the prior year. Special charges of EUR 365 million related to the acquisition and integration of Schering AG, Berlin, Germany, EUR 215 million to restructuring at CropScience and MaterialScience, EUR 106 million to litigations and EUR 98 million to impairments. After special items, depreciation and amortization, EBIT of the Bayer Group rose by 12.4 percent to EUR 3,544 million (2007: EUR 3,154 million). Group net income came in at EUR 1,719 million (2007: EUR 4,711 million). The prior-year figure included one-time tax income of more than EUR 900 million, along with EUR 2.4 billion in gains from the divestitures of the diagnostics business, H.C. Starck and Wolff Walsrode. Accordingly, earnings per share fell to EUR 2.22 (2007: EUR 5.84). Core earnings per share, however, rose to EUR 4.17 (2007: EUR 3.80), as CFO Klaus Kühn explained.

Gross cash flow moved ahead by 10.7 percent to EUR 5,295 million thanks to the gratifying business expansion at HealthCare and CropScience. Net cash flow declined by 15.7 percent to EUR 3,608 million, due largely to a considerable increase in cash tied up in working capital. Net debt rose to EUR 14.2 billion as of December 31, 2008 (2007: EUR 12.2 billion). This increase was attributable mainly to the greater amount of cash tied up in working capital and to a EUR 0.9 billion cash outflow for acquisitions. Changes in the value of key financing currencies against the euro had a EUR 0.6 billion effect.

“We aim to reduce net debt toward EUR 10 billion by the end of this year,” Kühn announced. He said the scheduled conversion of the EUR 2.3 billion mandatory convertible bond will help Bayer to do this, with further contributions to come from operating cash flow and a perceptible improvement in the working capital situation.

MaterialScience holds back fourth-quarter business performance

Due to the significant drop in business at MaterialScience, Group sales fell by 1.5 percent in the fourth quarter of 2008, to EUR 7,923 million (Q4 2007: EUR 8,040 million). Adjusted for currency and portfolio changes, the decrease came to 4.0 percent. HealthCare and CropScience, with growth rates of 6.2 and 1.7 percent, respectively, were unable to offset the 24.2 percent decline at MaterialScience. EBITDA before special items, at EUR 1,357 million (Q4 2007: EUR 1,422 million), came in 4.6 percent lower year

on year. EBIT before special items moved back 8.8 percent to EUR 706 million (Q4 2007: EUR 774 million). Group net income rose to EUR 106 million (Q4 2007: EUR 67 million).

Stockholders and employees to participate in the company's success

"We want both stockholders and employees to share in Bayer's success last year," said Wenning. The Board of Management and the Supervisory Board will therefore propose to the Annual Stockholders' Meeting that the dividend per share for 2008 be raised by 3.7 percent to EUR 1.40 (2007: EUR 1.35). This dividend amounts to 34 percent of core earnings per share and is thus within the announced range of between 30 and 40 percent.

It was the outstanding dedication of Bayer's 108,600 employees that made last year's success possible, Wenning stressed. Bonuses for 2008 totaling some EUR 475 million are to be paid out to employees under the Group-wide incentive program. To help safeguard jobs, all staff in Germany – from payscale employees all the way to the members of the Board of Management – regularly make a solidarity contribution, which for 2008 amounts to just under 2 percent of each employee's variable remuneration. This contribution finances the salaries of employees whose jobs have been eliminated by structural measures and for whom new employment is not immediately available. This solidarity pact was arranged years ago and is part of the company's agreement with the works council on safeguarding jobs. Under this agreement, dismissals for operational reasons in Germany are ruled out – currently until the end of 2009. "We take our responsibility toward our employees very seriously," Wenning assured his audience.

"Of course, we too have to respond to the crisis," he continued. Management and the employee representatives at MaterialScience have therefore agreed to temporarily reduce working hours at the subgroup's German sites, coupled with a corresponding reduction in collectively agreed rates of pay. Comparable measures have been instituted for managerial employees of MaterialScience. "The aim of this solidarity-based solution is to help us overcome the difficult business situation at MaterialScience," Wenning said.

Bayer also embarked at an early stage on improving the competitiveness of all its subgroups and service companies by way of structural and efficiency programs. In the years 2006 to 2008, for example, the company implemented cost-containment measures with a total volume of some EUR 1.5 billion. "In this way we have steadily strengthened

the foundation for our long-term success," Wenning explained. "We will now wait and see how things develop – particularly at MaterialScience – before we decide on any further measures. Any future adjustments will be made in a way that does not impair the sustainability of our business."

Positive outlook for the life-science businesses in 2009

Looking ahead to the company's future business performance, Wenning said 2009 will undoubtedly be a difficult year dominated by uncertainty. "Yet we believe we are well positioned, and remain relatively confident."

For the markets relevant to the HealthCare business, Bayer predicts largely steady growth of between 3 and 5 percent. For the CropScience markets the company is assuming moderate growth of between 2 and 3 percent. "For HealthCare and CropScience we expect a gratifying trend in 2009, with growth in sales and EBITDA before special items," said Wenning. HealthCare plans to achieve currency-adjusted growth rates ahead of the market average in all divisions. He announced that Bayer intends to further improve the underlying EBITDA margin in that subgroup toward 28 percent, while CropScience aims to maintain the margin at the high level of about 25 percent.

"In the main sectors of importance for our MaterialScience business, however, we anticipate a very difficult year marked by a great deal of uncertainty," said Wenning. The start to the year at MaterialScience has been even weaker than anticipated, and the subgroup must expect a severe drop in sales and EBITDA before special items for 2009.

In this negative scenario for MaterialScience, Bayer is nevertheless confident of limiting the decline in Group EBITDA before special items to about 5 percent. Group sales would probably then be in the region of EUR 32 billion. "Should there be a tangible recovery in our MaterialScience business in the short term, Group EBITDA before special items could match the very high level of 2008 or even post a slight increase," the Bayer Chairman said.

Bayer's capital expenditure budget for 2009 is EUR 1.5 billion, against EUR 1.3 billion in depreciation and amortization. Wenning said Bayer will definitely strengthen its research activities. The EUR 2.9 billion research and development budget for this year is the highest in the company's history. "Our investment in research and development is

intended to produce groundbreaking innovations. That is how we safeguard growth – and with it jobs and prosperity, even if in most cases it will be many years before we reap the fruits of this investment," Wenning said, concluding: "At Bayer, innovation and sustainability have always been linked. That is the basis of our business model."

Note:
Below you will find tables containing the key data of the Bayer Group and its subgroups for the full year and the fourth quarter of 2008.

The complete Annual Report 2008 is available on the Internet at ***www.investor.bayer.com.***

Supplementary material at ***www.investor.bayer.com*** *includes:*
- Live webcast of the ***Spring Financial News Conference***
beginning at approx. 10:00 a.m. CET
- Presentation charts for the ***Investor Conference Call*** *at 12:00 noon CET*
- Live webcast of the ***Investor Conference Call*** *beginning at approx. 3:00 p.m. CET*

Bayer AG, Investor Relations contacts:
Dr. Alexander Rosar (+49-214-30-81013)
Dr. Juergen Beunink (+49-214-30-65742)
Peter Dahlhoff (+49-214-30-33022)
Ilia Kürten (+49-214-30-35426)
Ute Menke (+49-214-30-33021)
Judith Nestmann (+49-214-30-66836)
Dr. Olaf Weber (+49-214-30-33567)

Forward-Looking Statements
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Bayer Group Key Data, Fourth Quarter and Full Year 2008

Bayer Group (EUR million)	Q4 2007	**Q4 2008**	Change in %	FY 2007	**FY 2008**	Change in %
Sales	8,040	**7,923**	-1.5	32,385	**32,918**	+1.6
EBITDA	1,081	**1,103**	+2.0	5,866	**6,266**	+6.8
Special items	*(341)*	***(254)***	-	*(911)*	***(665)***	-
EBITDA before special items	1,422	**1,357**	-4.6	6,777	**6,931**	+2.3
EBIT	385	**412**	+7.0	3,154	**3,544**	+12.4
Special items	*(389)*	***(294)***	-	*(1,133)*	***(798)***	-
EBIT before special items	774	**706**	-8.8	4,287	**4,342**	+1.3
Group net income	67	**106**	+58.2	4,711	**1,719**	-63.5

Bayer HealthCare (EUR million)	Q4 2007	**Q4 2008**	Change in %	FY 2007	**FY 2008**	Change in %
Sales	3,800	**4,140**	+8.9	14,807	**15,407**	+4.1
EBITDA	658	**930**	+41.3	3,065	**3,692**	+20.5
Special items	*(264)*	***(165)***	-	*(727)*	***(465)***	-
EBITDA before special items	922	**1,095**	+18.8	3,792	**4,157**	+9.6
EBIT	273	**562**	+105.9	1,564	**2,181**	+39.5
Special items	*(311)*	***(197)***	-	*(928)*	***(583)***	-
EBIT before special items	584	**759**	+30.0	2,492	**2,764**	+10.9

Bayer CropScience (EUR million)	Q4 2007	**Q4 2008**	Change in %	FY 2007	**FY 2008**	Change in %
Sales	1,321	**1,352**	+2.3	**5,826**	**6,382**	+9.5
EBITDA	142	**127**	-10.6	**1,204**	**1,450**	+20.4
Special items	*(35)*	***(55)***	-	***(120)***	***(153)***	-
EBITDA before special items	177	**182**	+2.8	**1,324**	**1,603**	+21.1
EBIT	7	**(9)**	-	**656**	**918**	+39.9
Special items	*(36)*	***(62)***	-	***(130)***	***(166)***	-
EBIT before special items	43	**53**	+23.3	**786**	**1,084**	+37.9

Bayer MaterialScience (EUR million)	Q4 2007	**Q4 2008**	Change in %	FY 2007	**FY 2008**	Change in %
Sales	2,579	**2,055**	-20.3	10,435	**9,738**	-6.7
EBITDA	325	**20**	-93.8	1,542	**1,041**	-32.5
Special items	*(42)*	***(34)***	-	*(64)*	***(47)***	-
EBITDA before special items	367	**54**	-85.3	1,606	**1,088**	-32.3
EBIT	199	**(121)**	-	1,042	**537**	-48.5
Special items	*(42)*	***(35)***	-	*(75)*	***(49)***	-
EBIT before special items	241	**(86)**	-	1,117	**586**	-47.5

EBITDA = EBIT plus amortization of intangible assets and depreciation of property, plant and equipment. EBITDA, EBITDA before special items and EBITDA margin are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information. The company considers underlying EBITDA to be a more suitable indicator of operating performance since it is not affected by depreciation, amortization, write-downs/write-backs or special items. The company also believes that this indicator gives readers a clearer picture of the results of operations and ensures greater comparability of data over time. The underlying EBITDA margin is calculated by dividing underlying EBITDA by sales.