

## Bayer Group Consolidated Statements of Income

Bayer  
Stockholders'  
Newsletter 2008

**Consolidated  
Financial Statements  
as of June 30, 2008**

	2nd Quarter 2007	2nd Quarter 2008	1st Half 2007	1st Half 2008
€ million				
<b>Net sales</b>	<b>8,217</b>	<b>8,511</b>	<b>16,552</b>	<b>17,047</b>
Cost of goods sold	(4,072)	(4,256)	(8,206)	(8,359)
<b>Gross profit</b>	<b>4,145</b>	<b>4,255</b>	<b>8,346</b>	<b>8,688</b>
Selling expenses	(1,919)	(2,034)	(3,726)	(3,936)
Research and development expenses	(650)	(648)	(1,275)	(1,281)
General administration expenses	(425)	(439)	(861)	(858)
Other operating income	228	563	371	850
Other operating expenses	(462)	(592)	(763)	(1,015)
<b>Operating result [EBIT]</b>	<b>917</b>	<b>1,105</b>	<b>2,092</b>	<b>2,448</b>
Equity-method loss	(13)	(13)	(27)	(23)
Non-operating income	190	161	432	289
Non-operating expenses	(434)	(410)	(880)	(803)
<b>Non-operating result</b>	<b>(257)</b>	<b>(262)</b>	<b>(475)</b>	<b>(537)</b>
<b>Income before income taxes</b>	<b>660</b>	<b>843</b>	<b>1,617</b>	<b>1,911</b>
Income taxes	(247)	(262)	(548)	(568)
<b>Income from continuing operations after taxes</b>	<b>413</b>	<b>581</b>	<b>1,069</b>	<b>1,343</b>
<b>Income from discontinued operations after taxes</b>	<b>244</b>	<b>-</b>	<b>2,398</b>	<b>-</b>
<b>Income after taxes</b>	<b>657</b>	<b>581</b>	<b>3,467</b>	<b>1,343</b>
of which attributable to minority interest	(3)	7	(2)	7
of which attributable to Bayer AG stockholders (net income)	<b>660</b>	<b>574</b>	<b>3,469</b>	<b>1,336</b>
<b>Earnings per share (€)</b>				
<b>From continuing operations</b>				
Basic <sup>*</sup>	0.53	0.73	1.36	1.69
Diluted <sup>*</sup>	0.53	0.73	1.36	1.69
<b>From discontinued operations</b>				
Basic <sup>*</sup>	0.30	-	2.91	-
Diluted <sup>*</sup>	0.30	-	2.91	-
<b>From continuing and discontinued operations</b>				
Basic <sup>*</sup>	0.83	0.73	4.27	1.69
Diluted <sup>*</sup>	0.83	0.73	4.27	1.69

<sup>\*</sup> The ordinary shares to be issued upon conversion of the mandatory convertible bond are treated as already issued shares.

# Bayer Group Consolidated Balance Sheets

	June 30, 2007	June 30, 2008	Dec. 31, 2007
€ million			
<b>Noncurrent assets</b>			
Goodwill	8,439	8,287	8,215
Other intangible assets	15,112	14,042	14,555
Property, plant and equipment	8,662	8,637	8,819
Investments in associates	501	456	484
Other financial assets	1,190	1,364	1,127
Other receivables	413	870	667
Deferred taxes	773	458	845
	<b>35,090</b>	<b>34,114</b>	<b>34,712</b>
<b>Current assets</b>			
Inventories	6,277	6,232	6,217
Trade accounts receivable	6,880	6,805	5,830
Other financial assets	252	484	335
Other receivables	1,600	1,361	1,461
Claims for income tax refunds	243	301	208
Cash and cash equivalents	2,980	2,058	2,531
Assets held for sale and discontinued operations	82	82	84
	<b>18,314</b>	<b>17,323</b>	<b>16,666</b>
<b>Total assets</b>	<b>53,404</b>	<b>51,437</b>	<b>51,378</b>
<b>Stockholders' equity</b>			
Capital stock of Bayer AG	1,957	1,957	1,957
Capital reserves of Bayer AG	4,028	4,028	4,028
Other reserves	10,183	11,347	10,749
	<b>16,168</b>	<b>17,332</b>	<b>16,734</b>
Equity attributable to minority interest	81	80	87
	<b>16,249</b>	<b>17,412</b>	<b>16,821</b>
<b>Noncurrent liabilities</b>			
Provisions for pensions and other post-employment benefits	5,550	4,696	5,501
Other provisions	1,671	1,379	1,166
Financial liabilities	13,644	8,925	12,911
Other liabilities	504	649	501
Deferred taxes	4,347	3,698	3,866
	<b>25,716</b>	<b>19,347</b>	<b>23,945</b>
<b>Current liabilities</b>			
Other provisions	4,087	3,599	3,754
Financial liabilities	2,309	6,010	1,287
Trade accounts payable	2,249	2,284	2,466
Income tax liabilities	127	129	56
Other liabilities	2,667	2,527	2,873
Liabilities directly related to assets held for sale and discontinued operations	-	129	176
	<b>11,439</b>	<b>14,678</b>	<b>10,612</b>
<b>Total stockholders' equity and liabilities</b>	<b>53,404</b>	<b>51,437</b>	<b>51,378</b>

2007 figures reclassified

## Bayer Group Consolidated Statements of Cash Flows

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	2nd Quarter 2007	2nd Quarter 2008	1st Half 2007	1st Half 2008
€ million				
Income from continuing operations after taxes	413	581	1,069	1,343
Income taxes	247	262	548	568
Non-operating result	257	262	475	537
Income taxes paid	(342)	(352)	(685)	(716)
Depreciation and amortization	655	669	1,254	1,381
Change in pension provisions	(86)	(86)	(182)	(180)
(Gains) losses on retirements of noncurrent assets	(6)	(69)	6	(66)
Non-cash effects of the remeasurement of acquired assets (inventory work-down)	49	55	113	106
<b>Gross cash flow</b>	<b>1,187</b>	<b>1,322</b>	<b>2,598</b>	<b>2,973</b>
Decrease (increase) in inventories	38	(13)	(175)	(264)
Decrease (increase) in trade accounts receivable	(52)	(36)	(1,063)	(1,074)
(Decrease) increase in trade accounts payable	16	131	(98)	(65)
Changes in other working capital, other non-cash items	(373)	(515)	(71)	(153)
<b>Net cash provided by (used in) operating activities (net cash flow), continuing operations</b>	<b>816</b>	<b>889</b>	<b>1,191</b>	<b>1,417</b>
Net cash provided by (used in) operating activities (net cash flow), discontinued operations	(36)	0	2	0
<b>Net cash provided by (used in) operating activities (net cash flow) (total)</b>	<b>780</b>	<b>889</b>	<b>1,193</b>	<b>1,417</b>
Cash outflows for additions to property, plant, equipment and intangible assets	(440)	(347)	(641)	(635)
Cash inflows from sales of property, plant, equipment and other assets	13	91	31	107
Cash inflows (outflows) from divestitures less divested cash	230	(9)	4,903	(49)
Cash inflows (outflows) for acquisitions less acquired cash	(235)	(306)	(257)	(552)
Cash inflows (outflows) from noncurrent financial assets	3	21	8	48
Interest and dividends received	376	224	469	298
Cash (inflows) outflows from current financial assets	0	5	23	(2)
<b>Net cash provided by (used in) investing activities (total)</b>	<b>(53)</b>	<b>(321)</b>	<b>4,536</b>	<b>(785)</b>
Capital contributions	0	0	0	0
Bayer AG dividend and dividend payments to minority stockholders	(766)	(1,031)	(775)	(1,040)
Issuances of debt	1,159	602	1,603	999
Retirements of debt	(3,542)	(179)	(5,496)	(299)
Interest paid	(740)	(619)	(985)	(756)
<b>Net cash provided by (used in) financing activities (total)</b>	<b>(3,889)</b>	<b>(1,227)</b>	<b>(5,653)</b>	<b>(1,096)</b>
<b>Change in cash and cash equivalents due to business activities (total)</b>	<b>(3,162)</b>	<b>(659)</b>	<b>76</b>	<b>(464)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>6,143</b>	<b>2,717</b>	<b>2,915</b>	<b>2,531</b>
Change in cash and cash equivalents due to changes in scope of consolidation	(3)	2	(4)	2
Change in cash and cash equivalents due to exchange rate movements	2	(2)	(7)	(11)
<b>Cash and cash equivalents at end of period</b>	<b>2,980</b>	<b>2,058</b>	<b>2,980</b>	<b>2,058</b>

# Bayer Group Consolidated Statements of Recognized Income and Expense

	2nd Quarter 2007	2nd Quarter 2008	1st Half 2007	1st Half 2008
€ million				
Changes in fair values of derivatives designated as hedges and available-for-sale financial assets, recognized in stockholders' equity	(3)	78	(2)	120
Changes in actuarial gains/losses on defined benefit obligations for pensions and other post-employment benefits and effects of the limitation on pension plan assets, recognized in stockholders' equity	774	128	1,105	945
Exchange differences on translation of operations outside the euro zone, recognized in stockholders' equity	(36)	121	7	(431)
Deferred taxes on valuation adjustments offset directly against stockholders' equity	(297)	(62)	(431)	(323)
Changes due to changes in scope of consolidation	5	(1)	36	0
Revaluation surplus (IFRS 3)	-	2	-	6
Minority interest in partnerships, recognized in liabilities	(12)	(9)	(19)	(29)
<b>Valuation adjustments recognized directly in stockholders' equity</b>	<b>431</b>	<b>257</b>	<b>696</b>	<b>288</b>
<b>Income after taxes</b>	<b>657</b>	<b>581</b>	<b>3,467</b>	<b>1,343</b>
<b>Total income and expense recognized in the financial statements</b>	<b>1,088</b>	<b>838</b>	<b>4,163</b>	<b>1,631</b>
of which attributable to minority interest	(4)	2	(2)	1
of which attributable to Bayer AG stockholders	1,092	836	4,165	1,630

Notes to the Condensed Consolidated Interim Financial  
Statements of the Bayer Group as of June 30, 2008

## Key Data by Segment

Segment	HealthCare			
	Pharmaceuticals		Consumer Health	
	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008
€ million				
Sales (external)	2,583	2,584	1,134	1,150
Change	+117.4%	0.0%	+6.1%	+1.4%
Currency-adjusted change	+120.6%	+6.2%	+9.7%	+9.2%
Intersegment sales	10	17	1	2
Operating result (EBIT)	207	334	224	179
Gross cash flow <sup>1</sup>	381	447	164	159
Net cash flow <sup>1</sup>	202	78	82	76
Depreciation, amortization and write-downs/write-backs	323	338	34	36

<sup>1</sup> for definition see Bayer Group Key Data on page 2

Segment	HealthCare			
	Pharmaceuticals		Consumer Health	
	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008
€ million				
Sales (external)	5,078	5,198	2,249	2,267
Change	+117.4%	+2.4%	+5.9%	+0.8%
Currency-adjusted change	+121.4%	+8.0%	+10.6%	+7.7%
Intersegment sales	22	36	4	2
Operating result (EBIT)	488	675	428	401
Gross cash flow <sup>1</sup>	771	991	331	352
Net cash flow <sup>1</sup>	481	493	186	238
Depreciation, amortization and write-downs/write-backs	588	711	67	70
Number of employees at end of period <sup>2</sup>	39,200	39,400	11,100	13,100

<sup>1</sup> for definition see Bayer Group Key Data on page 2<sup>2</sup> number of employees in full-time equivalents

CropScience				MaterialScience							
Crop Protection		Environmental Science, BioScience		Systems		Materials		Reconciliation		Continuing Operations	
2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008
1,262	1,526	300	278	1,866	1,935	757	687	315	351	8,217	8,511
-0.6%	+20.9%	-2.9%	-7.3%	+2.3%	+3.7%	+4.7%	-9.2%			+22.0%	+3.6%
+1.4%	+29.1%	-0.2%	+0.8%	+5.4%	+9.4%	+8.5%	-3.1%			+24.9%	+10.0%
16	17	2	2	37	36	4	4	(70)	(78)		
180	321	31	46	237	252	29	(8)	9	(19)	917	1,105
219	325	40	52	238	247	55	31	90	61	1,187	1,322
313	630	181	101	253	239	25	37	(240)	(272)	816	889
117	106	20	20	81	81	42	40	38	48	655	669

CropScience				MaterialScience							
Crop Protection		Environmental Science, BioScience		Systems		Materials		Reconciliation		Continuing Operations	
1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008
2,696	3,148	652	634	3,735	3,774	1,496	1,360	646	666	16,552	17,047
+0.5%	+16.8%	-2.2%	-2.8%	+3.8%	+1.0%	+4.4%	-9.1%			+22.4%	+3.0%
+3.5%	+23.1%	+1.9%	+2.6%	+7.5%	+6.1%	+8.7%	-3.3%			+26.1%	+8.6%
34	31	4	7	75	70	8	9	(147)	(155)		
484	767	135	124	484	533	67	(8)	6	(44)	2,092	2,448
501	741	127	125	473	520	124	68	271	176	2,598	2,973
200	364	56	55	315	302	0	120	(47)	(155)	1,191	1,417
238	224	39	41	163	168	84	79	75	88	1,254	1,381
14,800	14,700	3,000	3,300	10,200	10,300	5,000	4,800	21,300	21,500	104,600	107,100

## Key Data by Region

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Notes

Region	Europe		North America	
	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008
€ million				
Sales (external) – by market	3,697	3,833	2,140	2,087
Change	+22.8%	+3.7%	+17.4%	-2.5%
Currency-adjusted change	+22.6%	+4.5%	+25.5%	+11.5%
Net sales (external) – by point of origin	3,970	4,130	2,160	2,099
Change	+21.8%	+4.0%	+18.3%	-2.8%
Currency-adjusted change	+21.7%	+4.8%	+26.5%	+11.1%
Interregional sales	1,271	1,054	530	359
Operating result (EBIT)	629	696	192	270

Region	Europe		North America	
	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008
€ million				
Sales (external) – by market	7,545	7,905	4,366	4,113
Change	+25.1%	+4.8%	+16.1%	-5.8%
Currency-adjusted change	+25.0%	+5.5%	+25.4%	+6.4%
Net sales (external) – by point of origin	8,123	8,523	4,380	4,132
Change	+25.2%	+4.9%	+15.9%	-5.7%
Currency-adjusted change	+25.1%	+5.6%	+25.3%	+6.6%
Interregional sales	2,645	2,655	1,046	863
Operating result (EBIT)	1,353	1,576	549	611
Number of employees at end of period*	56,200	55,400	16,600	17,000

\* number of employees in full-time equivalents

	Asia/Pacific		Latin America/ Africa/Middle East		Reconciliation		Continuing Operations	
	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008
	1,308	1,390	1,072	1,201			8,217	8,511
	+23.3%	+6.3%	+27.5%	+12.0%			+22.0%	+3.6%
	+30.6%	+14.9%	+30.2%	+21.0%			+24.9%	+10.0%
	1,266	1,410	821	872			8,217	8,511
	+24.0%	+11.4%	+30.5%	+6.2%			+22.0%	+3.6%
	+31.6%	+16.1%	+33.8%	+23.5%			+24.9%	+10.0%
	62	42	59	24	(1,922)	(1,479)		
	67	86	75	101	(46)	(48)	917	1,105

	Asia/Pacific		Latin America/ Africa/Middle East		Reconciliation		Continuing Operations	
	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008
	2,508	2,666	2,133	2,363			16,552	17,047
	+21.3%	+6.3%	+27.6%	+10.8%			+22.4%	+3.0%
	+29.3%	+14.0%	+34.4%	+18.4%			+26.1%	+8.6%
	2,403	2,617	1,646	1,775			16,552	17,047
	+21.1%	+8.9%	+28.8%	+7.8%			+22.4%	+3.0%
	+29.3%	+14.6%	+37.3%	+20.2%			+26.1%	+8.6%
	115	95	116	56	(3,922)	(3,669)		
	140	171	138	193	(88)	(103)	2,092	2,448
	18,000	19,800	13,800	14,900			104,600	107,100

**Accounting policies**

Pursuant to Section 315a of the German Commercial Code, the consolidated interim financial statements as of June 30, 2008 have been prepared in condensed form according to the International Financial Reporting Standards (IFRS) – including IAS 34 – of the International Accounting Standards Board (IASB), London, which are endorsed by the European Union, and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), in effect at the closing date.

Reference should be made as appropriate to the notes to the consolidated financial statements for the 2007 fiscal year, particularly with regard to the main recognition and valuation principles. Changes in the underlying parameters relate primarily to currency exchange rates and the interest rates used to calculate pension obligations.

The exchange rates for major currencies against the euro varied as follows:

1 €		Closing rate			Average rate	
		June 30, 2007	June 30, 2008	Dec. 31, 2007	1st Half 2007	1st Half 2008
Argentina	ARS	4.17	4.77	4.64	4.11	4.80
Brazil	BRL	2.63	2.53	2.61	2.72	2.60
China	CNY	10.28	10.81	10.75	10.26	10.80
U.K.	GBP	0.67	0.79	0.73	0.67	0.77
Japan	JPY	166.63	166.44	164.93	159.58	160.54
Canada	CAD	1.42	1.59	1.44	1.51	1.54
Mexico	MXN	14.56	16.23	16.08	14.55	16.24
Switzerland	CHF	1.66	1.61	1.65	1.63	1.61
United States	USD	1.35	1.58	1.47	1.33	1.53

The most important interest rates applied in the calculation of actuarial gains and losses from pension obligations are given below:

	Dec. 31, 2007	March 31, 2008	June 30, 2008
%			
Germany	5.5	6.1	6.4
U.K.	5.8	6.8	6.7
United States	6.6	7.0	7.0

## Changes in the Bayer Group

### Scope of consolidation

As of June 30, 2008, the Bayer Group comprised 323 fully consolidated companies, compared with 326 companies as of December 31, 2007. Three joint ventures were included by proportionate consolidation according to IAS 31 (Interests in Joint Ventures). In addition, five associated companies were included in the consolidated financial statements by the equity method according to IAS 28 (Investments in Associates).

### Acquisitions

The Bayer Group spent a total of €552 million on acquisitions in the first half of 2008, resulting chiefly from the following transactions: Bayer subsidiary Medrad, Inc. acquired the remaining shares of Possis Medical through its subsidiary Phoenix Acquisition Corp. By virtue of the merger of Phoenix Acquisition Corp. with Possis Medical, the latter became a wholly owned subsidiary of Medrad. At the beginning of June 2008, we successfully completed the acquisition of the over-the-counter (OTC) business of U.S.-based Sigmel, Inc., including the related goodwill. This business is now integrated into the operations of Bayer HealthCare in Russia, Ukraine, Belarus, Kazakhstan, the Baltic states and several countries of the Caucasus and Central Asia regions.

The effects of these and other, smaller acquisitions on the Group's assets and liabilities as of the respective acquisition dates are shown in the table. Including acquired cash and cash equivalents, they resulted in the following net cash outflow:

	Net carrying amounts at the dates of first-time consolidation	Fair-value adjustments	Net carrying amounts after the acquisitions
€ million			
<b>Acquired assets and assumed liabilities</b>			
Goodwill	0	205	205
Other intangible assets	0	303	303
Property, plant and equipment	15	0	15
Other noncurrent assets	22	0	22
Inventories	27	7	34
Other current assets	43	0	43
Cash and cash equivalents	5	0	5
Provisions for pensions and other post-employment benefits	(1)	0	(1)
Other provisions	(2)	(1)	(3)
Financial liabilities	(10)	0	(10)
Other liabilities	(26)	0	(26)
Deferred taxes	10	(40)	(30)
<b>Net assets</b>	<b>83</b>	<b>474</b>	<b>557</b>
Minority interests			0
<b>Purchase prices</b>			<b>557</b>
of which ancillary acquisition costs			5
Acquired cash and cash equivalents			5
Liabilities to minority stockholders			0
<b>Net cash outflow for the acquisitions</b>			<b>552</b>

After the closing date, the over-the-counter cough and cold medicines business of the Chinese company Topsun Science and Technology Qidong Gaitianli Pharmaceutical Co., Ltd. was acquired for €99 million. The provisional allocation of the difference between the value of the acquired assets and the purchase price relates primarily to trademark rights (€48 million) and goodwill (€40 million).

### Discontinued operations

The diagnostics activities, along with H.C. Starck and Wolff Walsrode, were recognized as discontinued operations in 2007. The information on discontinued operations, which is provided from the standpoint of the Bayer Group, is to be regarded as part of the reporting for the entire Bayer Group by analogy with our segment reporting and is not intended to portray either the discontinued operations or the remaining operations of Bayer as separate entities. This presentation is thus in line with the principles for reporting discontinued operations.

Discontinued Operations	Diagnostics		H.C. Starck		Wolff Walsrode		Total	
	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008
€ million								
Sales	-	-	-	-	87	-	87	-
Operating result (EBIT)*	-	-	-	-	254	-	254	-
Income after taxes	-	-	-	-	244	-	244	-
Gross cash flow*	-	-	-	-	5	-	5	-
Net cash flow*	(39)	-	-	-	3	-	(36)	-
Net investing cash flow	(209)	(9)	-	-	432	-	223	(9)
Net financing cash flow	248	9	-	-	(435)	-	(187)	9

\* for definition see Bayer Group Key Data on page 2

Discontinued Operations	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008
	€ million							
Sales	-	-	74	-	172	-	246	-
Operating result (EBIT)*	2,778	-	109	-	267	-	3,154	-
Income after taxes	2,044	-	103	-	251	-	2,398	-
Gross cash flow*	(10)	-	14	-	15	-	19	-
Net cash flow*	(32)	-	26	-	8	-	2	-
Net investing cash flow	3,539	(49)	922	-	430	-	4,891	(49)
Net financing cash flow	(3,507)	49	(948)	-	(438)	-	(4,893)	49

\* for definition see Bayer Group Key Data on page 2

## Information on earnings per share

The ordinary shares to be issued upon conversion of the mandatory convertible bond are treated as already issued shares. Diluted earnings per share are therefore equal to basic earnings per share.

Calculation of Earnings per Share	2nd Quarter 2007	2nd Quarter 2008	1st Half 2007	1st Half 2008
€ million				
Income after taxes	657	581	3,467	1,343
Income attributable to minority interest	(3)	7	(2)	7
Income attributable to Bayer AG stockholders	660	574	3,469	1,336
Income from discontinued operations	244	-	2,398	-
Financing expenses for the mandatory convertible bond, net of tax effects	24	28	48	56
Adjusted income from continuing operations after taxes	440	602	1,119	1,392
Adjusted net income	684	602	3,517	1,392
Weighted average number of issued ordinary shares	764,341,920	764,341,920	764,341,920	764,341,920
Potential shares to be issued upon conversion of the mandatory convertible bond	59,565,835	59,904,897	59,544,939	59,743,798
Adjusted weighted average total number of issued and potential ordinary shares	823,907,755	824,246,817	823,886,859	824,085,718
Basic earnings per share (€)				
from continuing operations	0.53	0.73	1.36	1.69
from discontinued operations	0.30	-	2.91	-
from continuing and discontinued operations	0.83	0.73	4.27	1.69
Diluted earnings per share (€)				
from continuing operations	0.53	0.73	1.36	1.69
from discontinued operations	0.30	-	2.91	-
from continuing and discontinued operations	0.83	0.73	4.27	1.69

## Legal Risks

Information on the Bayer Group's legal risks is provided in the Bayer Annual Report 2007 on pages 188–193. The following significant changes have occurred in respect of the legal risks since publication of the Bayer Annual Report 2007:

**Magnevist®:** On pages 188–189 of the Bayer Annual Report 2007 we reported a total of 29 lawsuits in the United States based on allegations of physical harm suffered as a result of the use of Bayer's contrast agent Magnevist®. As of July 16, 2008, Bayer has been served in a total of 134 lawsuits and the pending motion to create a multi-district litigation (MDL) has been granted.

**Trasylol®:** The number of lawsuits filed in the United States against Bayer on behalf of plaintiffs alleging personal injuries from the use of Trasylol® as reported on page 189 of the Bayer Annual Report 2007 has increased from 46 as of February 1, 2008 to 103 as of July 15, 2008.

### ***Antitrust proceedings in connection with polymers***

As reported on page 190 of the Bayer Annual Report 2007, Bayer expects that civil antitrust lawsuits for damages concerning the products rubber chemicals, butadiene rubber, styrene butadiene rubber, polychloroprene rubber and nitrile butadiene rubber will be filed against Bayer in Europe. At the end of February 2008, a group of plaintiffs who are primarily producers of tires brought an action for damages before the High Court of Justice in the United Kingdom against Bayer and other producers of butadiene rubber and styrene butadiene rubber based on alleged violations of antitrust law. In June 2008, Bayer filed its defense with the High Court. Due to a parallel proceeding initiated before a court in Milan, to which Bayer joined as intervenient, the question arises as to which jurisdiction is competent to judge the case.

### ***Antitrust proceedings in connection with over-the-counter drugs in Germany***

The inquiry by the German Federal Cartel Office (Bundeskartellamt) against Bayer Vital GmbH concerning certain discounts Bayer had granted to pharmacies, as reported on page 190 of the Bayer Annual Report 2007, resulted in a €10.34 million fine imposed in May 2008. The fine has been accepted by Bayer Vital.

### ***Proceedings involving contraceptives***

**Yasmin®:** On page 191 of the Bayer Annual Report 2007, we reported that, in April 2005, Bayer Schering Pharma filed suit against Barr Pharmaceuticals Inc. and Barr Laboratories Inc. in U.S. federal court alleging patent infringement by Barr for the intended generic version of Bayer Schering Pharma's Yasmin® oral contraceptive product in the United States. In June 2005 Barr filed its counterclaim seeking to invalidate Bayer Schering Pharma's patent. In March 2008, the U.S. federal court invalidated Bayer Schering Pharma's '531 patent for Yasmin®. Bayer Schering Pharma has appealed this ruling.

In June 2008, Bayer Schering Pharma and Barr Laboratories Inc. signed a supply and licensing agreement for Yasmin<sup>®</sup> covering the United States. Bayer Schering Pharma already has begun to supply Barr with a generic version of Yasmin<sup>®</sup> which Barr will market solely in the United States. Barr will pay Bayer Schering Pharma a fixed percentage of the revenues from the product sold by Barr. Bayer Schering Pharma will continue to pursue its appeal of the court decision that invalidated Bayer Schering Pharma's U.S. patent '531 for Yasmin<sup>®</sup>. If Bayer Schering Pharma prevails in its appeal, Bayer Schering Pharma will receive a larger share of Barr's revenues from sales of its generic version of Yasmin<sup>®</sup> in the United States.

In March 2008 Bayer Schering Pharma received two notices of an Abbreviated New Drug Application with a Paragraph IV certification (an "ANDA IV") pursuant to which Watson Laboratories Inc. and Sandoz Inc. each seek approval to market a generic version of Bayer Schering Pharma's oral contraceptive Yasmin<sup>®</sup> in the United States. Bayer Schering Pharma has filed suit against Watson and Sandoz in U.S. federal court alleging patent infringement by Watson and Sandoz for the intended generic version of Yasmin<sup>®</sup>. In reply, Sandoz has filed its answer and counterclaim alleging, among other things, the invalidity of various Bayer patents and that the agreement reached with Barr is anticompetitive and violates the Sherman Act antitrust law.

**YAZ<sup>®</sup>:** On page 191 of the Bayer Annual Report 2007, we reported that, in January 2007, Barr Laboratories Inc. filed an ANDA IV with the U.S. FDA seeking approval of a generic version of Bayer Schering Pharma's YAZ<sup>®</sup> oral contraceptive. In October 2007 Bayer Schering Pharma also received notice from Watson Laboratories Inc. that it has filed an ANDA IV with the U.S. FDA seeking approval of a generic version of YAZ<sup>®</sup>. In June/July 2008 Bayer Schering Pharma further received notice from Sandoz Inc. that it has filed an ANDA IV with the U.S. FDA seeking approval of a generic version of YAZ<sup>®</sup>; Bayer Schering Pharma is currently evaluating the information in Sandoz's notice letter. All three applications claim that Bayer Schering Pharma's patents are invalid and/or that the respective generic product does not infringe them. Bayer Schering Pharma has filed a patent infringement suit against Watson claiming that certain of Bayer Schering Pharma's patents have been infringed. Originally, Bayer Schering Pharma included the '531 patent in this suit. After the court decision in the suit against Barr regarding Yasmin<sup>®</sup>, Bayer Schering Pharma had to exclude the '531 patent from the suit against Watson. If Bayer Schering Pharma prevails in its appeal against the court decision regarding Yasmin<sup>®</sup>, Bayer Schering Pharma will evaluate its options to use the '531 patent. However, regardless of these patent disputes, Bayer Schering Pharma retains data exclusivity for YAZ<sup>®</sup> as an oral contraceptive in the U.S. until March 16, 2009. No generic manufacturer can lawfully market a generic version of YAZ<sup>®</sup> for an oral contraceptive indication in the United States until after March 16, 2009.

In June 2008, Bayer Schering Pharma and Barr agreed that Bayer Schering Pharma will grant Barr a license to market a generic version of *YAZ*<sup>®</sup> in the United States starting July 2011. Bayer Schering Pharma will supply Barr with the product for this purpose. Should Bayer Schering Pharma lose patent lawsuits in the United States against other companies concerning *YAZ*<sup>®</sup>, at that time Bayer Schering Pharma will begin supplying the product to Barr and Barr will begin marketing generic *YAZ*<sup>®</sup> in the United States. Barr will pay Bayer Schering Pharma a fixed percentage of the revenues from the product sold by Barr.

***Further patent disputes***

On page 192 of the Bayer Annual Report 2007, we reported that Abbott Laboratories commenced a lawsuit in the United States against Bayer and another party alleging infringement of two of Abbott's patents relating to blood glucose monitoring devices. The devices concerned are sold by Bayer as part of its Ascensia<sup>®</sup> Contour<sup>®</sup> system and its DEX<sup>®</sup> and Autodisc<sup>®</sup> system. In April 2008 the court granted summary judgment in favor of Bayer with regard to one of the two patents on the basis that the patent's claims that were asserted by Abbott against Bayer are invalid. In June, after a trial on the issue of invalidity, the court held the second patent invalid. Abbott has the right to appeal this decision.

As reported on page 192 of the Bayer Annual Report 2007, Limagrain had filed suit against Bayer for indemnity against liabilities to third parties arising from an alleged breach of a 1986 contract to which Rhône-Poulenc – one of the predecessor companies of Bayer CropScience – was a party. At the end of March 2008 the Commercial Court in Paris as the court of first instance dismissed all claims of Limagrain.

On page 192 of the Bayer Annual Report 2007, we reported that Bayer has filed suit against several companies in the U.S. alleging patent infringement in connection with moxifloxacin (Avelox<sup>®</sup>). In the two proceedings still pending Bayer has reached agreement with Teva Pharmaceuticals USA, Inc., the adverse party, to settle their patent litigation with regard to the two Bayer patents. Under the settlement terms agreed upon, Teva will obtain a license to sell its generic moxifloxacin tablet product in the U.S. shortly before the second of the two Bayer patents expires in March 2014. The impact on the Avelox<sup>®</sup> business in the U.S. is expected to be immaterial. Teva acknowledges the validity and enforceability of the two Bayer patents.

**Other cases**

On page 193 of the Bayer Annual Report 2007 we reported on numerous lawsuits seeking to set aside, or to have declared null and void, the Bayer Schering Pharma AG shareholders resolution of September 2006 approving the domination and profit and loss transfer agreement between Bayer Schering GmbH and Bayer Schering Pharma AG. These lawsuits are still pending before the High Court of Berlin (Kammergericht Berlin). However, in the special proceedings initiated by Bayer Schering Pharma AG (Freigabeverfahren), the Kammergericht Berlin ruled in June 2008 that defects of the shareholders resolution, if any, do not affect the validity of the registration of the domination and profit and loss transfer agreement in the commercial register. This decision cannot be appealed. Therefore, the domination and profit and loss transfer agreement will remain effective even if the court should rule against Bayer Schering Pharma AG in the main proceedings at a later point in time.

In the litigation described on page 193 of the Bayer Annual Report 2007 concerning the rupture of a tank in Baytown, Texas, 35 out of a total of 60 cases have since been settled.

**Related parties**

Our business partners include companies in which an interest is held, and companies with which members of the Supervisory Board of Bayer AG are associated. Transactions with these companies are carried out on an arm's-length basis. Business with such companies was not material from the viewpoint of the Bayer Group. The Bayer Group was not a party to any transaction of an unusual nature or structure that was material to it or to companies or persons closely associated with it. Business transactions with companies included in the consolidated financial statements at equity, or at cost less impairment charges, mainly comprised trade in goods and services. The value of these transactions was, however, immaterial from the point of view of the Bayer Group. The same applies to financial receivables and payables vis-à-vis related parties.

Leverkusen, July 28, 2008

Bayer Aktiengesellschaft

Board of Management

Werner Wenning

Klaus Kühn

Dr. Wolfgang Plischke

Dr. Richard Pott

## Responsibility Statement

Bayer  
Stockholders'  
Newsletter 2008

**Consolidated  
Financial Statements  
as of June 30, 2008**

Responsibility  
Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Leverkusen, July 28, 2008  
Bayer Aktiengesellschaft

The Board of Management

Werner Wenning

Klaus Kühn

Dr. Wolfgang Plischke

Dr. Richard Pott

To Bayer AG, Leverkusen

We have reviewed the condensed consolidated interim financial statements – comprising the statement of income, balance sheet, cash flow statement, statement of recognized income and expense and selected explanatory notes – and the interim group management report of Bayer AG for the period from January 1, 2008 to June 30, 2008 which are part of the half-year financial report pursuant to § (Article) 37w WpHG (“Wertpapier-handelsgesetz”: German Securities Trading Act.) The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the E.U. and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent company’s Board of Management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the E.U. and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the E.U. nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Essen, July 29, 2008

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

A. Slotta  
(German Public Auditor)

V. Linke  
(German Public Auditor)