

Outstanding performance by CropScience

Bayer continues its success in the 2nd quarter

- Sales up 3.6 percent to €8.5 billion - strong volume growth
- EBITDA before special items up 5.0 percent to €1.9 billion
- EBIT before special items up 5.3 percent to €1.2 billion
- Net income €0.6 billion
- Guidance for CropScience raised again
- Positive Group forecast for 2008 confirmed

Overview of Sales, Earnings and Financial Position

2nd quarter of 2008

With a successful **second quarter**, the Bayer Group continued the positive performance of the preceding quarters. **Sales** rose by 3.6 percent to €8,511 million (Q2 2007: €8,217 million). Adjusted for currency and portfolio effects, business expanded by 9.5 percent. This growth came mainly from higher volumes. Sales of CropScience jumped by 23.0 percent, while those of HealthCare and MaterialScience advanced by 6.6 and 5.3 percent, respectively.

Sales by Market			EBITDA Before Special Items		
€ million		Total	€ million		Total
Q1					
2007	1,301	7,034			1,990
2008	1,325	7,211			2,185
Q2					
2007	1,199	7,018			1,806
2008	1,202	7,309			1,896
Q3					
2007	1,190	6,603			1,559
Q4					
2007	1,125	6,915			1,422
2008					

■ Domestic ■ Foreign

Second-quarter **EBITDA** before special items improved by 5.0 percent to €1,896 million (Q2 2007: €1,806 million), despite continuing unfavorable currency parities. Earnings of HealthCare increased by 2.6 percent to €994 million (Q2 2007: €969 million). CropScience improved underlying **EBITDA** by 26.5 percent to €501 million (Q2 2007: €396 million) thanks to the very strong sales performance. However, **EBITDA** before special items of MaterialScience fell by 9.0 percent to €372 million (Q2 2007: €409 million). Bayer Group **EBITDA** rose by 12.8 percent in the second quarter, to €1,774 million.

EBIT before special items grew by 5.3 percent in the second quarter of 2008 to €1,248 million (Q2 2007: €1,185 million). There were net special charges of €143 million (Q2 2007: €268 million), of which HealthCare accounted for €126 million (Q2 2007: €209 million), CropScience for €8 million (Q2 2007: €51 million) and MaterialScience for €9 million (Q2 2007: €24 million). **EBIT** increased by 20.5 percent to €1,105 million (Q2 2007: €917 million).

After a non-operating result of minus €262 million (Q2 2007: minus €257 million), income before income taxes for the second quarter came in at €843 million (Q2 2007: €660 million). The non-operating result included net interest expense of €187 million (Q2 2007: €205 million). After tax expense of €262 million (Q2 2007: €247 million), income from continuing operations amounted to €581 million (Q2 2007: €413 million). Net income came in at €574 million. The prior-year net income of €660 million contained income of €244 million from discontinued operations, largely comprising the proceeds of the divestiture of Wolff Walsrode. Earnings per share were €0.73 (Q2 2007: €0.83). Core earnings per share improved to €1.18 (Q2 2007: €1.03). The calculation of core earnings per share is explained on page 29.

Gross Cash Flow			Net Cash Flow		
€ million			€ million		
Q1			Q1		
2007		1,411	2007		375
2008		1,651	2008		528
Q2			Q2		
2007		1,187	2007		816
2008		1,322	2008		889
Q3			Q3		
2007		1,165	2007		1,623
2008			2008		
Q4			Q4		
2007		1,021	2007		1,467
2008			2008		

Gross cash flow moved back by 11.4 percent year on year in the second quarter of 2008, to €1,322 million (Q2 2007: €1,187). Despite a seasonal increase in cash tied up in working capital, net cash flow grew by 8.9 percent to €889 million. Net debt as of June 30, 2008 was €13.3 billion, up €1.2 billion from the end of March. The increase was attributable largely to €1.0 billion in dividend payments, a further factor being the annual payments of variable compensation to our employees and the higher interest payments that are regularly made in the second quarter. The net pension liability declined by €0.2 billion compared with March 31, 2008, to €3.9 billion. The decrease was mainly due to higher long-term rates on the capital market.

1st half of 2008

The Bayer Group also considerably improved its operating performance in the **first half of 2008**. Sales from continuing operations grew by 3.0 percent to €17,047 million (H1 2007: €16,552 million). The currency- and portfolio-adjusted increase was 8.2 percent. Health-Care sales rose by 7.6 percent, CropScience by 18.6 percent and MaterialScience by 2.9 percent.

EBITDA before special items grew by 7.5 percent to €4,081 million (H1 2007: €3,796 million). First-half **EBIT** before special items increased by 7.2 percent to €2,745 million (H1 2007: €2,560 million). There were net special charges of €297 million (H1 2007: €468 million), of which HealthCare accounted for €226 million, CropScience for €62 million and MaterialScience for €9 million. **EBIT** of the Bayer Group rose by 17.0 percent to €2,448 million (H1 2007: €2,092 million).

After a non-operating result of minus €537 million (H1 2007: minus €475 million), income before income taxes in the first half amounted to €1,911 million (H1 2007: €1,617 million). The non-operating result contained net interest expense of €376 million (H1 2007: €361 million). After tax expense of €568 million (H1 2007: €548 million), income from continuing operations came in at €1,343 million (H1 2007: €1,069 million).

The €2.4 billion after-tax income from discontinued operations in the first half of 2007 largely comprised the proceeds of the divestitures of the Diagnostics business, H.C. Starck and Wolff Walsrode.

After minority stockholders' interest, net income for the first half of 2008 totaled €1,336 million, against €3,469 million in the prior-year period. Earnings per share amounted to €1.69 (H1 2007: €4.27). Core earnings per share rose to €2.62 (H1 2007: €2.28). The calculation of core earnings per share is explained on page 29.

Gross cash flow rose by 14.4 percent year on year in the first half of 2008, to €2,973 million (H1 2007: €2,598 million), due to the strong business performance. Net cash flow advanced to €1,417 million (H1 2007: €1,191 million).

Economic outlook

We expect global economic growth to slow in the second half of 2008 compared to the previous year. Uncertainties remain in view of the ongoing crisis on the financial markets, the weakness of the U.S. real-estate sector, increased oil and energy costs and significantly greater inflation risks. We anticipate that economic growth in the industrialized countries will slow during the second half, mainly due to a decline in consumer spending. For the emerging economies we expect continued growth, albeit at a slower pace, driven by robust domestic demand.

We predict steady overall growth in the markets relevant to our HealthCare business. The market environment for crop protection and seed products should continue to develop favorably in the second half of the year. We expect prices for agricultural commodities to remain high in light of continuing strong demand for food, energy and feed plants and low inventories worldwide, resulting in more intensive crop production and expanded acreages. We see increasing economic risks in the markets of importance for our MaterialScience business.

Bayer Group sales and earnings forecast

Our successful performance in the first half strengthens our confidence for the full year. We are now targeting over 5 percent currency- and portfolio-adjusted growth in Bayer Group sales (previously: approximately 5 percent) and plan to further improve EBITDA before special items and the underlying EBITDA margin.

We remain confident about the performance of our HealthCare business and expect all divisions to grow with or above the market after adjusting for currency changes. We aim to improve our EBITDA margin before special items toward 27 percent.

Our CropScience business performed very well in the first half of 2008. Against the background of the positive market environment, which we expect to continue, we are again raising the full-year guidance for this business. We now believe that we can increase sales by well over 10 percent on a currency- and portfolio adjusted basis (previously: more than 5 percent) and improve the EBITDA margin before special items to about 25 percent (previously: about 24 percent). This would mean that our goal of an approximately 25 percent EBITDA margin before special items, originally targeted for 2009, would be achieved a year earlier than planned.

Our MaterialScience business turned in a pleasingly robust performance in the first half of the year. However, we anticipate a slackening pace of growth in the third quarter, accompanied by further increases in raw material and energy costs. We therefore expect to report lower EBITDA before special items in the third quarter of 2008 than in the second quarter. For the year as a whole, we continue to expect that we can achieve a good, value-creating earnings level, though without matching the 2007 figure.

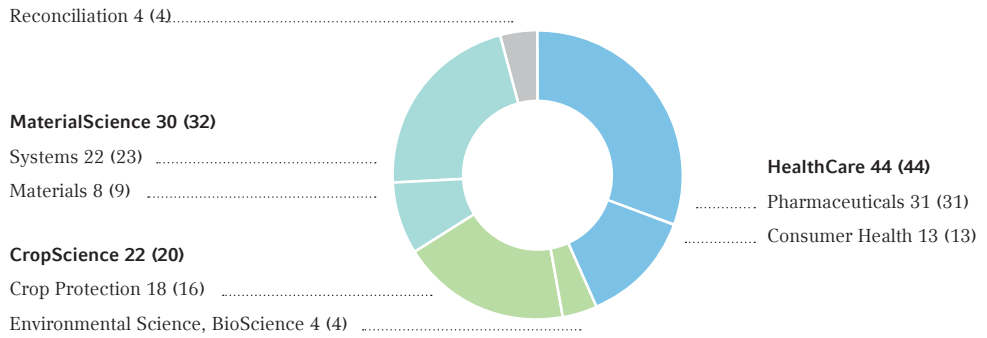
For the Bayer Group we continue to predict special charges in the region of €650 million for the full year, of which €400–450 million will be cash items.

Performance by Subgroup and Segment

Corporate structure

Our business activities are grouped into the HealthCare, CropScience and Material-Science subgroups. There was no change to the corporate structure of the Bayer Group in the second quarter of 2008. The commentaries in this report relate exclusively to continuing operations, except where specific reference is made to discontinued operations or to a total value (total).

Sales by Segment in Percent, 1st Half 2008 (1st Half 2007 in parentheses)



Key Data by Subgroup and Segment

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€ million	Sales		EBIT before special items*		EBITDA before special items*		EBITDA margin before special items*	
	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008	2nd Quarter 2007	2nd Quarter 2008
HealthCare	3,717	3,734	640	639	969	994	26.1 %	26.6 %
Pharmaceuticals	2,583	2,584	416	425	711	744	27.5 %	28.8 %
Consumer Health	1,134	1,150	224	214	258	250	22.8 %	21.7 %
CropScience	1,562	1,804	262	375	396	501	25.4 %	27.8 %
Crop Protection	1,262	1,526	196	329	310	435	24.6 %	28.5 %
Environmental Science, BioScience	300	278	66	46	86	66	28.7 %	23.7 %
MaterialScience	2,623	2,622	290	253	409	372	15.6 %	14.2 %
Systems	1,866	1,935	261	258	338	337	18.1 %	17.4 %
Materials	757	687	29	(5)	71	35	9.4 %	5.1 %
Reconciliation	315	351	(7)	(19)	32	29	10.2 %	8.3 %
Continuing operations	8,217	8,511	1,185	1,248	1,806	1,896	22.0 %	22.3 %

* for definition see Bayer Group Key Data on page 2, also page 24

€ million	Sales		EBIT before special items*		EBITDA before special items*		EBITDA margin before special items*	
	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008	1st Half 2007	1st Half 2008
HealthCare	7,327	7,465	1,264	1,302	1,917	2,044	26.2 %	27.4 %
Pharmaceuticals	5,078	5,198	836	866	1,422	1,538	28.0 %	29.6 %
Consumer Health	2,249	2,267	428	436	495	506	22.0 %	22.3 %
CropScience	3,348	3,782	709	953	980	1,214	29.3 %	32.1 %
Crop Protection	2,696	3,148	539	822	771	1,042	28.6 %	33.1 %
Environmental Science, BioScience	652	634	170	131	209	172	32.1 %	27.1 %
MaterialScience	5,231	5,134	581	534	818	779	15.6 %	15.2 %
Systems	3,735	3,774	514	539	667	705	17.9 %	18.7 %
Materials	1,496	1,360	67	(5)	151	74	10.1 %	5.4 %
Reconciliation	646	666	6	(44)	81	44	12.5 %	6.6 %
Continuing operations	16,552	17,047	2,560	2,745	3,796	4,081	22.9 %	23.9 %

* for definition see Bayer Group Key Data on page 2, also page 24

Sales of the Bayer HealthCare subgroup in the **second quarter of 2008** came in at €3,734 million (+0.5 percent). On a currency- and portfolio-adjusted basis, sales rose by 6.6 percent, thanks to the positive performance of both segments' businesses.

Bayer HealthCare increased second-quarter **EBITDA** before special items by 2.6 percent to €994 million (Q2 2007: €969 million). The gratifying performance of the business and the synergies from the integration of Schering AG, Germany, more than offset adverse shifts in currency parities and a substantial increase in marketing expenses related to the expansion of our activities in emerging countries and new product introductions. **EBIT** before special items, at €639 million, was level with the prior-year period. The special items totaling minus €126 million resulted from charges in connection with the acquisition and integration of Schering, the suspension of marketing for Trasylol® and litigations. **EBIT** advanced by a significant 19.0 percent to €513 million.

The names "Bayer Schering Pharma" or "Schering" as used in this report always refer to Bayer Schering Pharma AG, Berlin, Germany, or its predecessor, Schering AG, Berlin, Germany, respectively. The reference to Bayer Schering Pharma AG or Schering AG also includes business conducted by affiliated entities in countries outside Germany. Bayer Schering Pharma AG and Schering-Plough Corporation, New Jersey, U.S., are unaffiliated companies that have been totally independent of each other for many years.

Pharmaceuticals

Sales in our Pharmaceuticals segment in the **second quarter of 2008**, at €2,584 million, matched those of the prior-year period. Adjusted for currency and portfolio effects, business expanded by 5.8 percent.

Sales of the Primary Care business unit receded by 3.9 percent in the second quarter, to €736 million (Q2 2007: €766 million). On a currency-adjusted (Fx adj.) basis, however, business expanded by 1.2 percent. Particularly strong sales gains were registered by Aspirin Cardio® (Fx adj. +22.2 percent) and Levitra® (Fx adj. +11.9 percent). Sales of Cipro®/Ciprobay® continued to decline due to generic competition (Fx adj. -13.8 percent).

The positive trend in the Women's Healthcare business unit – particularly in the United States – continued in the second quarter of 2008, with sales up 10.9 percent to €723 million (Q2 2007: €652 million). Adjusted for shifts in exchange rates, business expanded by 18.5 percent. The strongest growth was recorded by the intra-uterine system Mirena®, sales of which climbed by 47.2 percent (Fx adj.). Business with the oral contraceptives of the Yasmin®/YAZ®/Yasminelle® product group once again climbed significantly year on year (Fx adj. +32.1 percent). The Mutual Recognition Procedure to gain marketing approval for YAZ® for the oral contraception indication in the European Union was successfully concluded in April 2008. YAZ® is to be launched on several major European markets in the fall of this year. In June 2008, Bayer and Barr Laboratories Inc. signed a supply and license agreement for Yasmin® and YAZ® for the United States. As of the end of June 2008, Bayer is supplying U.S. generics manufacturer Barr with a generic version of its oral contraceptive Yasmin®, which Barr will market solely in the United States. Irrespective of this, Bayer continues to pursue its appeal of a decision issued by a U.S. court in March 2008 invalidating the U.S. patent '531 for Yasmin®.

Bayer HealthCare	2nd Quarter 2007	2nd Quarter 2008	Change	1st Half 2007	1st Half 2008	Change
	€ million	€ million	%	€ million	€ million	%
Sales	3,717	3,734	+0.5	7,327	7,465	+1.9
Pharmaceuticals	2,583	2,584	0.0	5,078	5,198	+2.4
Consumer Health	1,134	1,150	+1.4	2,249	2,267	+0.8
Sales by Region						
Europe	1,566	1,538	-1.8	3,061	3,164	+3.4
North America	1,093	1,085	-0.7	2,238	2,130	-4.8
Asia/Pacific	523	545	+4.2	989	1,071	+8.3
Latin America/Africa/Middle East	535	566	+5.8	1,039	1,100	+5.9
EBITDA¹	788	887	+12.6	1,571	1,857	+18.2
<i>Special items</i>	(181)	(107)		(346)	(187)	
<i>EBITDA before special items²</i>	969	994	+2.6	1,917	2,044	+6.6
EBITDA margin before special items	26.1 %	26.6 %		26.2 %	27.4 %	
EBIT¹	431	513	+19.0	916	1,076	+17.5
<i>Special items</i>	(209)	(126)		(348)	(226)	
<i>EBIT before special items²</i>	640	639	-0.2	1,264	1,302	+3.0
Gross cash flow¹	545	606	+11.2	1,102	1,343	+21.9
Net cash flow¹	284	154	-45.8	667	731	+9.6

¹ for definition see Bayer Group Key Data on page 2

² for definition see also page 24

Pharmaceuticals	2nd Quarter 2007	2nd Quarter 2008	Change	1st Half 2007	1st Half 2008	Change
	€ million	€ million	%	€ million	€ million	%
Sales	2,583	2,584	0.0	5,078	5,198	+2.4
Primary Care	766	736	-3.9	1,539	1,512	-1.8
Women's Healthcare	652	723	+10.9	1,279	1,419	+10.9
Diagnostic Imaging (including Medrad)	330	321	-2.7	637	619	-2.8
Specialized Therapeutics	310	329	+6.1	613	656	+7.0
Hematology/Cardiology	271	188	-30.6	539	443	-17.8
Oncology	188	222	+18.1	347	424	+22.2
Dermatology (Intendis)	66	65	-1.5	124	125	+0.8
Sales by Region						
Europe	1,114	1,061	-4.8	2,153	2,201	+2.2
North America	696	705	+1.3	1,450	1,412	-2.6
Asia/Pacific	438	449	+2.5	817	878	+7.5
Latin America/Africa/Middle East	335	369	+10.1	658	707	+7.4
EBITDA¹	530	672	+26.8	1,076	1,386	+28.8
<i>Special items</i>	(181)	(72)		(346)	(152)	
<i>EBITDA before special items²</i>	711	744	+4.6	1,422	1,538	+8.2
EBITDA margin before special items	27.5 %	28.8 %		28.0 %	29.6 %	
EBIT¹	207	334	+61.4	488	675	+38.3
<i>Special items</i>	(209)	(91)		(348)	(191)	
<i>EBIT before special items²</i>	416	425	+2.2	836	866	+3.6
Gross cash flow¹	381	447	+17.3	771	991	+28.5
Net cash flow¹	202	78	-61.4	481	493	+2.5

¹ for definition see Bayer Group Key Data on page 2

² for definition see also page 24

Sales of the Diagnostic Imaging business unit fell by 2.7 percent in the second quarter of 2008, to €321 million (Q2 2007: €330 million). Adjusted for currency and portfolio changes, business remained at the previous year's level. Sales of Ultravist® rose by 8.9 percent after adjusting for shifts in exchange rates. On the other hand, business with our contrast agent Magnevist® shrank by a currency-adjusted 13.1 percent. This resulted primarily from the shift toward our other contrast agent Gadovist®. Sales of Iopamiron® fell by 15.5 percent (Fx adj.), due mainly to price declines in Japan. Sales of our subsidiary Medrad increased by 14.8 percent on a currency- and portfolio-adjusted basis. In April 2008 we completed the acquisition of U.S.-based Possis Medical, Inc., a supplier of thrombectomy systems to treat constricted or blocked arteries and veins.

The Specialized Therapeutics business unit saw sales expand by 6.1 percent to €329 million (Q2 2007: €310 million). Adjusted for changes in currency parities, business expanded by 12.5 percent. Sales of Betaferon®/Betaseron® moved forward by a currency-adjusted 13.6 percent. The findings of a Phase IIb clinical study investigating the efficacy of Spheramine® in Parkinson's patients did not meet the primary or secondary endpoints following the 12-month observation period. As a result, a €20 million write-down was made in respect of intangible assets capitalized for this research project upon the acquisition of Schering, Germany.

In the Hematology/Cardiology business unit, sales declined by 30.6 percent to €188 million (Q2 2007: €271 million). On a currency- and portfolio-adjusted basis, sales dropped by 24.6 percent. The reason for this was the worldwide suspension of marketing in November 2007 for Trasylol®, the product to control loss of blood during coronary bypass operations. Furthermore, business with Kogenate® receded by a currency-adjusted 6.7 percent, mainly due to our marketing partner's order pattern. In July 2008, Bayer HealthCare acquired the hematology portfolio of the U.S. company Maxygen Inc. for US\$ 90 million plus milestone payments of up to US\$ 30 million, thus enhancing its future perspectives in the hemophilia market. Included in the scope of the transaction is the innovative recombinant Factor VIIa protein MAXY-VII, for which a Phase I development program is expected to begin in the third quarter of 2008.

Best-Selling Pharmaceutical Products	2nd Quarter 2007	2nd Quarter 2008	Change	Currency-adjusted change	1st Half 2007	1st Half 2008	Change	Currency-adjusted change
	€ million	€ million			€ million	€ million		
Yasmin®/YAZ®/Yasminelle® (Women's Healthcare)	250	305	+22.0	+32.1	490	602	+22.9	+32.7
Betaferon®/Betaseron® (Specialized Therapeutics)	256	274	+7.0	+13.6	500	548	+9.6	+15.9
Kogenate® (Hematology/Cardiology)	210	182	-13.3	-6.7	411	415	+1.0	+7.1
Adalat® (Primary Care)	162	158	-2.5	+2.8	307	308	+0.3	+4.3
Avalox®/Avelox® (Primary Care)	90	90	0.0	+7.8	218	233	+6.9	+13.9
Mirena® (Women's Healthcare)	88	118	+34.1	+47.2	169	230	+36.1	+48.9
Nexavar® (Oncology)	60	108	+80.0	+90.4	107	209	+95.3	+107.7
Levitra® (Primary Care)	81	84	+3.7	+11.9	165	166	+0.6	+7.9
Cipro®/Ciprobay® (Primary Care)	93	77	-17.2	-13.8	201	158	-21.4	-18.0
Glucobay® (Primary Care)	79	74	-6.3	-2.1	151	154	+2.0	+5.9
Ultravist® (Diagnostic Imaging)	64	65	+1.6	+8.9	119	133	+11.8	+18.0
Aspirin Cardio® (Primary Care)	57	67	+17.5	+22.2	111	131	+18.0	+22.3
Magnevist® (Diagnostic Imaging)	74	59	-20.3	-13.1	154	119	-22.7	-16.8
Iopamiron® (Diagnostic Imaging)	57	48	-15.8	-15.5	104	91	-12.5	-12.0
Diane® (Women's Healthcare)	43	41	-4.7	-2.0	88	82	-6.8	-4.8
Total	1,664	1,750	+5.2	+12.2	3,295	3,579	+8.6	+15.1
Proportion of Pharmaceuticals sales	64 %	68 %			65 %	69 %		

The Oncology business unit saw sales expand by 18.1 percent to €222 million (Q2 2007: €188 million). On a currency-adjusted basis the increase came to 25.0 percent. This gratifying expansion was driven by our cancer drug Nexavar[®], which posted a 90.4 percent increase in sales after adjusting for shifts in exchange rates. During 2007 and the first half of 2008, we received marketing authorization for Nexavar[®] in various countries, most recently China, to treat renal cell carcinoma and/or hepatocellular carcinoma.

Our dermatology business (Intendis) posted sales of €65 million (-1.5 percent). On a currency-adjusted basis, sales rose by 2.4 percent.

EBITDA before special items in the Pharmaceuticals segment improved by 4.6 percent in the second quarter of 2008 to €744 million (Q2 2007: €711 million). Contributing to the increase were the growth in business and, in particular, the synergies already realized from the integration of Schering AG, Germany. Earnings were hampered by negative currency effects and by higher marketing costs, mainly in connection with product introductions and the expansion of our activities in emerging markets such as China, Russia and Brazil. **EBIT** before special items came in at €425 million, up 2.2 percent from the prior-year period. The net special charges of €91 million comprised €54 million in expenses concerning the suspension of marketing for Trasylol[®] and a €37 million net charge related to the acquisition and integration of Schering AG, Germany, after income of €69 million from the sale of buildings. **EBIT** climbed by 61.4 percent to €334 million (Q2 2007: €207 million).

Sales of the Pharmaceuticals segment in the **first half of 2008** climbed by 2.4 percent to €5,198 million (H1 2007: €5,078 million). Adjusted for currency and portfolio changes, business was up by 7.9 percent. This was attributable especially to the pleasing growth recorded for Yasmin[®]/YAZ[®]/Yasminelle[®] (Fx adj. +32.7 percent), Mirena[®] (Fx adj. +48.9 percent) and Nexavar[®] (Fx adj. +107.7 percent). However, we experienced the anticipated negative effects from Trasylol[®] and Cipro[®]/Ciprobay[®] (Fx adj. -18.0 percent). In the Pharmaceuticals segment, first-half **EBITDA** before special items improved by 8.2 percent to €1,538 million (H1 2007: €1,422 million). **EBIT** before special items rose by 3.6 percent to €866 million (H1 2007: €836 million). The net special charges of €191 million resulted from the suspension of marketing for Trasylol[®] and a net charge related to the acquisition and integration of Schering AG, Germany. **EBIT** advanced by 38.3 percent to €675 million (H1 2007: €488 million).

Consumer Health

Sales in the Consumer Health segment amounted to €1,150 million in the **second quarter of 2008** (Q2 2007: €1,134 million). Adjusted for currency and portfolio effects, business expanded by 8.3 percent. All divisions contributed to this increase.

In the Consumer Care Division, sales rose by 2.7 percent to €641 million (Q2 2007: €624 million). Adjusted for currency and portfolio effects, business was up by 8.6 percent. Particularly good growth was achieved by Canesten® (Fx adj. +23.4 percent), Aleve®/naproxen (Fx adj. +19.4 percent) and the products from the Bepanthen®/Bepanthol® line (Fx adj. +13.9 percent). In June 2008 we completed the acquisition of the eastern European over-the-counter (OTC) medicines business of Sagmel, Inc. In July 2008, after receiving the necessary regulatory approvals, we acquired the over-the-counter cough and cold portfolio of Chinese-based Topsun Science and Technology Qidong Gaitianli Pharmaceutical Co., Ltd. These acquisitions strengthen Bayer HealthCare's presence in eastern Europe and China, which are among the world's fastest growing OTC markets.

Our Diabetes Care Division posted second-quarter sales of €249 million (+2.0 percent). Adjusted for shifts in exchange rates, business expanded by 10.0 percent. This performance was attributable largely to the successful marketing of our Contour® blood glucose monitoring systems (Fx adj. +22.3 percent), which are replacing the older Elite® systems (Fx adj. -25.4 percent).

Sales of the Animal Health Division slipped by 2.3 percent to €260 million (Q2 2007: €266 million). On a currency-adjusted basis, business expanded by 6.0 percent. Growth rates were particularly high in the Asia-Pacific region. Business with the Advantage® product line rose by a currency-adjusted 6.2 percent.

EBITDA before special items of the Consumer Health segment in the second quarter came to €250 million (Q2 2007: €258 million). Negative currency effects and integration costs for the OTC business acquired from Sagmel were nearly offset by the growth in business. **EBIT** before special items fell by 4.5 percent to €214 million. Special charges of €35 million were recorded in connection with litigations. **EBIT** dropped by €45 million to €179 million (Q2 2007: €224 million).

In the **first half of 2008**, sales of the Consumer Health segment increased by €18 million to €2,267 million. The currency-adjusted increase came to 6.9 percent. **EBITDA** before special items improved by 2.2 percent to €506 million (H1 2007: €495 million). **EBIT** before special items grew by €8 million to €436 million (H1 2007: €428 million). After special items, **EBIT** came in at €401 million (H1 2007: €428 million).

Consumer Health	2nd Quarter 2007	2nd Quarter 2008	Change	1st Half 2007	1st Half 2008	Change
	€ million	€ million	%	€ million	€ million	%
Sales	1,134	1,150	+1.4	2,249	2,267	+0.8
Consumer Care	624	641	+2.7	1,283	1,296	+1.0
Diabetes Care	244	249	+2.0	470	476	+1.3
Animal Health	266	260	-2.3	496	495	-0.2
Sales by Region						
Europe	452	477	+5.5	908	963	+6.1
North America	397	380	-4.3	788	718	-8.9
Asia/Pacific	85	96	+12.9	172	193	+12.2
Latin America/Africa/Middle East	200	197	-1.5	381	393	+3.1
EBITDA¹	258	215	-16.7	495	471	-4.8
<i>Special items</i>	0	(35)		0	(35)	
<i>EBITDA before special items²</i>	258	250	-3.1	495	506	+2.2
EBITDA margin before special items	22.8 %	21.7 %		22.0 %	22.3 %	
EBIT¹	224	179	-20.1	428	401	-6.3
<i>Special items</i>	0	(35)		0	(35)	
<i>EBIT before special items²</i>	224	214	-4.5	428	436	+1.9
Gross cash flow¹	164	159	-3.0	331	352	+6.3
Net cash flow¹	82	76	-7.3	186	238	+28.0

¹ for definition see Bayer Group Key Data on page 2

² for definition see also page 24

Best-Selling Consumer Health Products	2nd Quarter 2007	2nd Quarter 2008	Change	Currency- adjusted change	1st Half 2007	1st Half 2008	Change	Currency- adjusted change
	€ million	€ million	%	%	€ million	€ million	%	%
Contour ^{®1} (Diabetes Care)	129	145	+12.4	+22.3	235	273	+16.2	+24.8
Aspirin ^{®2} (Consumer Care)	107	105	-1.9	+4.6	220	219	-0.5	+5.9
Advantage [®] product line (Animal Health)	105	100	-4.8	+6.2	180	177	-1.7	+7.9
Aleve [®] /naproxen (Consumer Care)	55	57	+3.6	+19.4	124	105	-15.3	-3.5
Canesten [®] (Consumer Care)	47	54	+14.9	+23.4	90	101	+12.2	+19.4
Bepanthen [®] /Bepanthol [®] (Consumer Care)	40	45	+12.5	+13.9	76	91	+19.7	+20.5
Baytril [®] (Animal Health)	33	31	-6.1	-0.4	73	69	-5.5	+0.9
Supradyn [®] (Consumer Care)	32	33	+3.1	+4.1	65	68	+4.6	+7.4
Breeze ^{®1} (Diabetes Care)	38	34	-10.5	-0.7	81	68	-16.0	-9.4
Elite ^{®1} (Diabetes Care)	44	31	-29.5	-25.4	88	63	-28.4	-25.8
Total	630	635	+0.8	+9.1	1,232	1,234	+0.2	+7.2
Proportion of Consumer Health sales	56 %	55 %			55 %	54 %		

¹ previously included with the Ascensia[®] product family

² total Aspirin[®] second-quarter sales = €172 million (Q2 2007: €164 million), first-half sales = €350 million (H1 2007: €331 million) including Aspirin Cardio[®], which is reflected in sales of the Pharmaceuticals segment

The Bayer CropScience subgroup once again considerably expanded its business in the **second quarter of 2008**. **Sales** climbed by a gratifying 15.5 percent to €1,804 million (Q2 2007: €1,562 million), with the currency- and portfolio-adjusted increase amounting to 23.0 percent. Our business benefited from the positive development of global agricultural markets and largely favorable weather patterns in the most important European and Latin American markets.

EBITDA before special items grew by 26.5 percent to €501 million (Q2 2007: €396 million). This outstanding earnings improvement was due especially to volume and selling price increases in our crop protection business. Earnings were diminished by negative currency effects, higher research and development expenditures at BioScience and a drop in sales at Environmental Science. **EBIT** before special items climbed by 43.1 percent to €375 million (Q2 2007: €262 million). Special charges of €8 million were recorded for our cost structure program. **EBIT** jumped by 73.9 percent to €367 million.

Crop Protection

Sales of the Crop Protection segment expanded by 20.9 percent in the **second quarter of 2008**, to €1,526 million (Q2 2007: €1,262 million). Adjusted for currency effects, sales advanced by 29.1 percent. Sales of all business units rose in a positive market environment, with our fungicides portfolio developing especially well. Above-average growth was achieved especially by our young products based on active ingredients introduced in core markets since 2000. Sales of these products advanced by 50 percent year on year, to more than €500 million.

In the **Europe** region, sales moved ahead by 22.8 percent to €695 million (Q2 2007: €566 million), or by 25.0 percent on a currency-adjusted basis. Thanks to the higher acreages in the European Union - particularly for cereals - and favorable weather patterns, we increased sales of the cereal herbicides Puma® and Hussar® and, in particular, the cereal fungicides Proline®, Input® and Fandango®. Our fungicides for grapes and potatoes also contributed to sales growth.

Our crop protection business in **North America** expanded considerably by 13.8 percent to €363 million, against €319 million in the previous year. Adjusted for currency effects, the increase came to 26.0 percent. Demand increased, particularly for our fungicides, such as Flint®, Proline® and Folicur®, and for our insecticidal seed treatment products. In our herbicides portfolio, the new products Huskie® and Infinity™, introduced in the first quarter of this year, performed very well. Despite pressure on prices from generic products, the insecticides business held steady at the prior-year level.

Sales in the **Asia-Pacific** region rose by 9.8 percent to €202 million (Q2 2007: €184 million). The currency-adjusted increase was 20.6 percent. The main factor contributing to this growth was the higher sales of insecticides and fungicides in India and Southeast Asia. More favorable weather patterns in parts of Australia led to a recovery in our business, particularly with herbicides.

Sales in **Latin America/Africa/Middle East** rose by 37.8 percent to €266 million (Q2 2007: €193 million). Adjusted for currency effects, the increase was 53.8 percent. While sales in Africa and the Middle East were largely in line with the second quarter of 2007, business in Latin America registered a very pleasing increase, as in the first quarter. In Brazil, particularly, we successfully expanded sales across our entire portfolio in a positive market environment. Fungicides posted especially strong growth.

Bayer CropScience	2nd Quarter 2007	2nd Quarter 2008	Change	1st Half 2007	1st Half 2008	Change
	€ million	€ million	%	€ million	€ million	%
Sales	1,562	1,804	+15.5	3,348	3,782	+13.0
Crop Protection	1,262	1,526	+20.9	2,696	3,148	+16.8
Environmental Science, BioScience	300	278	-7.3	652	634	-2.8
Sales by Region						
Europe	675	798	+18.2	1,537	1,820	+18.4
North America	431	453	+5.1	878	909	+3.5
Asia/Pacific	237	260	+9.7	456	471	+3.3
Latin America/Africa/Middle East	219	293	+33.8	477	582	+22.0
EBITDA¹	348	493	+41.7	896	1,156	+29.0
Special items	(48)	(8)		(84)	(58)	
EBITDA before special items ²	396	501	+26.5	980	1,214	+23.9
EBITDA margin before special items	25.4 %	27.8 %		29.3 %	32.1 %	
EBIT¹	211	367	+73.9	619	891	+43.9
Special items	(51)	(8)		(90)	(62)	
EBIT before special items ²	262	375	+43.1	709	953	+34.4
Gross cash flow¹	259	377	+45.6	628	866	+37.9
Net cash flow¹	494	731	+48.0	256	419	+63.7

¹ for definition see Bayer Group Key Data on page 2

² for definition see also page 24

Best-Selling Bayer CropScience Products*	2nd Quarter 2007	2nd Quarter 2008	Change	Currency- adjusted change	1st Half 2007	1st Half 2008	Change	Currency- adjusted change
	€ million	€ million	%	%	€ million	€ million	%	%
Confidor®/Gaucho®/Admire®/Merit® (Insecticides/Seed Treatment/Environmental Science)	132	133	+0.8	+12.7	295	290	-1.7	+7.0
Proline® (Fungicides)	75	125	+66.7	+80.3	147	206	+40.1	+47.5
Flint®/Stratego®/Sphere® (Fungicides)	53	91	+71.7	+89.9	113	182	+61.1	+75.6
Basta®/Liberty® (Herbicides)	89	90	+1.1	+8.9	161	171	+6.2	+11.6
Folicur®/Raxil® (Fungicides/Seed Treatment)	61	83	+36.1	+44.6	138	158	+14.5	+19.6
Puma® (Herbicides)	69	84	+21.7	+30.1	138	150	+8.7	+14.3
Atlantis® (Herbicides)	15	12	-20.0	-11.5	91	136	+49.5	+55.3
Poncho® (Seed Treatment)	31	35	+12.9	+27.1	90	107	+18.9	+31.0
Decis®/K-Othrine® (Insecticides/Environmental Science)	52	53	+1.9	+9.3	97	99	+2.1	+8.4
Fandango® (Fungicides)	15	50	•	•	42	95	+126.2	+131.4
Total	592	756	+27.7	+38.5	1,312	1,594	+21.5	+29.2
Proportion of Bayer CropScience sales	38 %	42 %			39 %	42 %		

* Figures are based on active ingredient class. For the sake of clarity, only the principal brands and business units are listed.

EBITDA before special items in the Crop Protection segment advanced by 40.3 percent to €435 million (Q2 2007: €310 million). This strong earnings growth was mainly the result of considerably higher volumes and selling price increases. Earnings were held back by negative currency effects. **EBIT** before special items climbed by 67.9 percent to €329 million (Q2 2007: €196 million). Special charges of €8 million were taken in connection with the cost structure program we initiated in 2006. **EBIT** came in at €321 million (Q2 2007: €180 million).

Sales of the Crop Protection segment in the **first half** grew by 16.8 percent to €3,148 million (H1 2007: €2,696 million). The currency-adjusted increase was 23.1 percent. **EBITDA** before special items rose by 35.1 percent to €1,042 million. **EBIT** before special items improved by 52.5 percent to €822 million (H1 2007: €539 million). Our cost structure program resulted in special charges of €55 million. **EBIT** came in at €767 million, up 58.5 percent year on year (H1 2007: €484 million).

Environmental Science, BioScience

In the Environmental Science, Bioscience segment, **sales** fell by 7.3 percent in the **second quarter of 2008** to €278 million (Q2 2007: €300 million). On a currency- and portfolio-adjusted basis, sales decreased by 2.6 percent.

Sales of Environmental Science receded by 17.5 percent in the second quarter to €165 million (Q2 2007: €200 million). The currency-adjusted decrease came to 10.9 percent. In North America, this was mainly attributable to a further drop in sales of products for professional users in the green industry, while in Europe, sales were down particularly in the area of home and garden products for consumers. We also registered lower sales of specialty active ingredients to downstream customers.

Sales of BioScience grew by 13.0 percent in the second quarter, to €113 million. Adjusted for currency and portfolio effects – the latter resulting from acquisitions in the cotton and vegetable seed businesses – sales expanded by 13.9 percent. This increase was mainly attributable to the good performance of our cotton seed business in North America, Mexico and India, and the successful expansion of our hybrid rice business under the Arize® brand in Asia.

EBITDA before special items in the Environmental Science, BioScience segment came in at €66 million, down 23.3 percent from €86 million in the same period of 2007. Earnings were held back by lower sales of Environmental Science and adverse shifts in exchange rates. In addition, we increased research and development spending at BioScience to strengthen our future competitiveness. **EBIT** before special items fell by 30.3 percent to €46 million. While the prior-period figure contained special charges for litigations, there were no special items in the second quarter of 2008. **EBIT** climbed by 48.4 percent to €46 million (Q2 2007: €31 million).

Sales in the Environmental Science, BioScience segment in the **first half** decreased by 2.8 percent to €634 million (H1 2007: €652 million). Adjusted for currency and portfolio effects, sales were level with the prior-year period. **EBITDA** before special items dropped by 17.7 percent to €172 million. **EBIT** before special items amounted to €131 million (H1 2007: €170 million). After special charges of €7 million, first-half **EBIT** came in at €124 million (H1 2007: €135 million).

Crop Protection	2nd Quarter 2007	2nd Quarter 2008	Change	1st Half 2007	1st Half 2008	Change
	€ million	€ million	%	€ million	€ million	%
Sales	1,262	1,526	+20.9	2,696	3,148	+16.8
Herbicides	479	521	+8.8	1,047	1,185	+13.2
Fungicides	385	576	+49.6	769	1,024	+33.2
Insecticides	313	321	+2.6	624	643	+3.0
Seed Treatment	85	108	+27.1	256	296	+15.6
Sales by Region						
Europe	566	695	+22.8	1,289	1,575	+22.2
North America	319	363	+13.8	611	659	+7.9
Asia/Pacific	184	202	+9.8	373	387	+3.8
Latin America/Africa/Middle East	193	266	+37.8	423	527	+24.6
EBITDA¹	297	427	+43.8	722	991	+37.3
<i>Special items</i>	<i>(13)</i>	<i>(8)</i>		<i>(49)</i>	<i>(51)</i>	
<i>EBITDA before special items²</i>	<i>310</i>	<i>435</i>	<i>+40.3</i>	<i>771</i>	<i>1,042</i>	<i>+35.1</i>
EBITDA margin before special items	24.6 %	28.5 %		28.6 %	33.1 %	
EBIT¹	180	321	+78.3	484	767	+58.5
<i>Special items</i>	<i>(16)</i>	<i>(8)</i>		<i>(55)</i>	<i>(55)</i>	
<i>EBIT before special items²</i>	<i>196</i>	<i>329</i>	<i>+67.9</i>	<i>539</i>	<i>822</i>	<i>+52.5</i>
Gross cash flow¹	219	325	+48.4	501	741	+47.9
Net cash flow¹	313	630	+101.3	200	364	+82.0

¹ for definition see Bayer Group Key Data on page 2

² for definition see also page 24

Environmental Science, BioScience	2nd Quarter 2007	2nd Quarter 2008	Change	1st Half 2007	1st Half 2008	Change
	€ million	€ million	%	€ million	€ million	%
Sales	300	278	-7.3	652	634	-2.8
Environmental Science	200	165	-17.5	388	330	-14.9
BioScience	100	113	+13.0	264	304	+15.2
Sales by Region						
Europe	109	103	-5.5	248	245	-1.2
North America	112	90	-19.6	267	250	-6.4
Asia/Pacific	53	58	+9.4	83	84	+1.2
Latin America/Africa/Middle East	26	27	+3.8	54	55	+1.9
EBITDA¹	51	66	+29.4	174	165	-5.2
<i>Special items</i>	<i>(35)</i>	<i>0</i>		<i>(35)</i>	<i>(7)</i>	
<i>EBITDA before special items²</i>	<i>86</i>	<i>66</i>	<i>-23.3</i>	<i>209</i>	<i>172</i>	<i>-17.7</i>
EBITDA margin before special items	28.7 %	23.7 %		32.1 %	27.1 %	
EBIT¹	31	46	+48.4	135	124	-8.1
<i>Special items</i>	<i>(35)</i>	<i>0</i>		<i>(35)</i>	<i>(7)</i>	
<i>EBIT before special items²</i>	<i>66</i>	<i>46</i>	<i>-30.3</i>	<i>170</i>	<i>131</i>	<i>-22.9</i>
Gross cash flow¹	40	52	+30.0	127	125	-1.6
Net cash flow¹	181	101	-44.2	56	55	-1.8

¹ for definition see Bayer Group Key Data on page 2

² for definition see also page 24

Sales of MaterialScience in the **second quarter of 2008** came in at €2,622 million, which was level with the prior-year figure. When adjusted for portfolio and currency effects, sales improved by 5.3 percent, thanks to price and volume increases.

Despite the growth in business, **EBITDA** before special items decreased by 9.0 percent in the second quarter, to €372 million. The Systems segment matched its prior-year earnings, while our Materials segment saw earnings decline significantly as difficult market conditions continued. Earnings as a whole were greatly hampered by raw material and energy price increases exceeding €100 million year on year, and by negative currency effects. These were not fully offset by price and volume increases and savings from the cost structure programs. **EBIT** before special items fell by 12.8 percent to €253 million. Special charges of €9 million were taken in connection with the restructuring program launched in 2007. The prior-year figure contained special charges of €24 million. **EBIT** fell by 8.3 percent to €244 million.

Systems

Sales in the Systems segment grew by 3.7 percent to €1,935 million (Q2 2007: €1,866 million). Adjusted for currency and portfolio changes, sales rose by 8.1 percent, thanks to higher volumes and selling prices. On a currency-adjusted basis, sales expanded in all regions. In Europe, sales edged up despite the declines for polymer raw materials, such as styrene. In North America, sales rose by a currency-adjusted 6.2 percent, with higher selling prices for certain products compensating for the overall volume decline due to the economic situation. We experienced good growth in the Asia-Pacific and Latin America/Africa/Middle East regions, primarily on account of higher volumes.

All units of the Systems segment succeeded in improving sales from the prior-year period. The Polyurethanes business unit saw sales rise by 2.9 percent to €1,351 million. On a currency- and portfolio-adjusted basis, business expanded by 8.7 percent. Sales of toluene diisocyanate (TDI), in particular, developed well in all regions.

Sales of our Coatings, Adhesives, Specialties business unit grew by 5.4 percent to €432 million. Adjusted for currency and portfolio changes, the increase was 5.2 percent. Sales growth took place primarily in the Asia-Pacific market.

Inorganic Basic Chemicals raised sales by 8.7 percent to €113 million. On a currency-adjusted basis, the increase was 12.6 percent. Growth in this business unit was due largely to higher selling prices for sodium hydroxide solution in the United States.

EBITDA before special items in the Systems segment held steady from the prior-year period, at €337 million (Q2 2007: €338 million). Here we succeeded in offsetting negative currency effects and price increases for raw materials and energies, which were substantial in some cases, through higher selling prices and volumes. **EBIT** before special items dipped by 1.1 percent to €258 million. Special charges in the second quarter came to €6 million. The figure for the prior-year period contained special charges of €24 million for the closure of our MDI plant in New Martinsville, West Virginia, United States. **EBIT** improved by 6.3 percent to €252 million.

Bayer MaterialScience	2nd Quarter 2007	2nd Quarter 2008	Change	1st Half 2007	1st Half 2008	Change
	€ million	€ million	%	€ million	€ million	%
Sales	2,623	2,622	0.0	5,231	5,134	-1.9
Systems	1,866	1,935	+3.7	3,735	3,774	+1.0
Materials	757	687	-9.2	1,496	1,360	-9.1
Sales by Region						
Europe	1,169	1,169	0.0	2,354	2,304	-2.1
North America	613	548	-10.6	1,244	1,069	-14.1
Asia/Pacific	537	577	+7.4	1,043	1,106	+6.0
Latin America/Africa/Middle East	304	328	+7.9	590	655	+11.0
EBITDA¹	389	365	-6.2	798	772	-3.3
<i>Special items</i>	(20)	(7)		(20)	(7)	
<i>EBITDA before special items²</i>	409	372	-9.0	818	779	-4.8
EBITDA margin before special items	15.6 %	14.2 %		15.6 %	15.2 %	
EBIT¹	266	244	-8.3	551	525	-4.7
<i>Special items</i>	(24)	(9)		(30)	(9)	
<i>EBIT before special items²</i>	290	253	-12.8	581	534	-8.1
Gross cash flow¹	293	278	-5.1	597	588	-1.5
Net cash flow¹	278	276	-0.7	315	422	+34.0

¹ for definition see Bayer Group Key Data on page 2

² for definition see also page 24

Systems	2nd Quarter 2007	2nd Quarter 2008	Change	1st Half 2007	1st Half 2008	Change
	€ million	€ million	%	€ million	€ million	%
Sales	1,866	1,935	+3.7	3,735	3,774	+1.0
Polyurethanes	1,313	1,351	+2.9	2,645	2,610	-1.3
Coatings, Adhesives, Specialties	410	432	+5.4	803	855	+6.5
Inorganic Basic Chemicals	104	113	+8.7	210	230	+9.5
Other Systems	39	39	0.0	77	79	+2.6
Sales by Region						
Europe	880	893	+1.5	1,782	1,756	-1.5
North America	464	428	-7.8	946	829	-12.4
Asia/Pacific	293	356	+21.5	559	672	+20.2
Latin America/Africa/Middle East	229	258	+12.7	448	517	+15.4
EBITDA¹	318	333	+4.7	647	701	+8.3
<i>Special items</i>	(20)	(4)		(20)	(4)	
<i>EBITDA before special items²</i>	338	337	-0.3	667	705	+5.7
EBITDA margin before special items	18.1%	17.4%		17.9%	18.7%	
EBIT¹	237	252	+6.3	484	533	+10.1
<i>Special items</i>	(24)	(6)		(30)	(6)	
<i>EBIT before special items²</i>	261	258	-1.1	514	539	+4.9
Gross cash flow¹	238	247	+3.8	473	520	+9.9
Net cash flow¹	253	239	-5.5	315	302	-4.1

¹ for definition see Bayer Group Key Data on page 2

² for definition see also page 24

Sales in our Systems segment in the **first half of 2008**, at €3,774 million, were up slightly year on year (+1.0 percent). Adjusted for shifts in exchange rates and portfolio changes, business expanded by 4.8 percent, thanks to higher volumes and selling prices. **EBITDA** before special items advanced by 5.7 percent to €705 million. **EBIT** before special items came in at €539 million (H1 2007: €514 million). **EBIT** advanced by 10.1 percent to €533 million.

In May 2008, Bayer acquired the polyurethane systems house Resina Chemie B.V., Netherlands, a supplier of rigid polyurethane foam systems for the refrigeration and construction industries. In addition, the cast elastomers businesses of Bayer MaterialScience AG and Michel Baulé SA were merged in July into a joint venture named Baulé SAS, in which each company holds a 50 percent interest.

Materials

Sales of the Materials segment fell by 9.2 percent in the **second quarter of 2008**, to €687 million (Q2 2007: €757 million). After adjusting for currency and portfolio effects, sales declined by 1.8 percent as a result of lower selling prices, with volumes remaining steady. Sales in Europe were at the prior-year level despite lower selling prices. Sales in Asia/Pacific came in below the previous year's level due to a drop in business with raw materials. Volumes in the North American market shrank due to the economic situation, causing sales to move back by a currency-adjusted 7.5 percent. Sales in the Latin America/Africa/Middle East region did not match the prior-year period despite higher volumes.

Sales in our Polycarbonates business unit fell by 11.1 percent to €625 million in a difficult market environment. Adjusted for currency and portfolio effects, business was down by 2.3 percent, due largely to lower selling prices.

Our Thermoplastic Polyurethanes business unit saw sales expand by 14.8 percent to €62 million, with sales of the acquired Uretech business making a key contribution to growth. The currency- and portfolio-adjusted increase was 4.3 percent.

EBITDA before special items of the Materials segment fell by 50.7 percent to €35 million. The drop in earnings was largely attributable to lower selling prices and to higher raw material and energy costs. **EBIT** before special items declined to minus €5 million (Q2 2007: €29 million). **EBIT** came in at minus €8 million.

Sales of the Materials segment moved back by 9.1 percent in the **first half of 2008**, to €1,360 million. Adjusted for currency and portfolio effects, business shrank by 2.0 percent. **EBITDA** before special items fell by 51.0 percent in the first six months, to €74 million. **EBIT** before special items came in at minus €5 million (Q2 2007: plus €67 million). **EBIT** amounted to minus €8 million.

Materials	2nd Quarter 2007	2nd Quarter 2008	Change	1st Half 2007	1st Half 2008	Change
	€ million	€ million	%	€ million	€ million	%
Sales	757	687	-9.2	1,496	1,360	-9.1
Polycarbonates	703	625	-11.1	1,386	1,235	-10.9
Thermoplastic Polyurethanes	54	62	+14.8	110	125	+13.6
Sales by Region						
Europe	289	276	-4.5	572	548	-4.2
North America	149	120	-19.5	298	240	-19.5
Asia/Pacific	244	221	-9.4	484	434	-10.3
Latin America/Africa/Middle East	75	70	-6.7	142	138	-2.8
EBITDA¹	71	32	-54.9	151	71	-53.0
<i>Special items</i>	0	(3)		0	(3)	
<i>EBITDA before special items²</i>	71	35	-50.7	151	74	-51.0
EBITDA margin before special items	9.4 %	5.1 %		10.1 %	5.4 %	
EBIT¹	29	(8)	-127.6	67	(8)	-111.9
<i>Special items</i>	0	(3)		0	(3)	
<i>EBIT before special items²</i>	29	(5)	-117.2	67	(5)	-107.5
Gross cash flow¹	55	31	-43.6	124	68	-45.2
Net cash flow¹	25	37	+48.0	0	120	•

¹ for definition see Bayer Group Key Data on page 2

² for definition see also page 24

Calculation of EBIT(DA) Before Special Items

To permit a more accurate assessment of business operations, EBIT and EBITDA are also stated "before special items." The special items concerned are detailed in the table below. "EBITDA," "EBITDA before special items" and "EBIT before special items" are not defined in the International Financial Reporting Standards and should therefore be regarded only as supplementary information.

Special Items Reconciliation	EBIT 2nd Quarter 2007	EBIT 2nd Quarter 2008	EBIT 1st Half 2007	EBIT 1st Half 2008	EBITDA 2nd Quarter 2007	EBITDA 2nd Quarter 2008	EBITDA 1st Half 2007	EBITDA 1st Half 2008
€ million								
After special items	917	1,105	2,092	2,448	1,572	1,774	3,346	3,829
HealthCare	209	126	348	226	181	107	346	187
Schering PPA effects*	33	55	53	106	50	55	114	106
Schering Integration	176	(18)	295	31	131	(27)	232	2
Write-downs	0	21	0	21	0	11	0	11
Litigations	0	68	0	68	0	68	0	68
CropScience	51	8	90	62	48	8	84	58
Restructuring	18	8	57	62	15	8	51	58
Litigations	33	0	33	0	33	0	33	0
MaterialScience	24	9	30	9	20	7	20	7
Restructuring	24	9	30	9	20	7	20	7
Reconciliation	(16)	0	0	0	(15)	0	0	0
Restructuring	(16)	0	0	0	(15)	0	0	0
Total special items	268	143	468	297	234	122	450	252
Before special items	1,185	1,248	2,560	2,745	1,806	1,896	3,796	4,081

* The purchase price paid for Schering AG, Germany, was allocated among the acquired assets and assumed liabilities in accordance with the International Financial Reporting Standards (IFRS). To ensure comparability with future earnings data, the expected long-term effects of the step-up are reflected in EBIT and EBITDA before special items, whereas temporary, non-cash effects of the purchase price allocation are eliminated. In this connection we recognized a €55 million special charge when calculating EBIT before special items for the second quarter of 2008.

Liquidity and Capital Resources

Bayer Group Summary Cash Flow Statements	2nd Quarter 2007	2nd Quarter 2008	1st Half 2007	1st Half 2008
€ million				
Gross cash flow*	1,187	1,322	2,598	2,973
Changes in working capital/other non-cash items	(371)	(433)	(1,407)	(1,556)
Net cash provided by (used in) operating activities (net cash flow), continuing operations	816	889	1,191	1,417
Net cash provided by (used in) operating activities (net cash flow), discontinued operations	(36)	0	2	0
Net cash provided by (used in) operating activities (net cash flow) (total)	780	889	1,193	1,417
Net cash provided by (used in) investing activities (total)	(53)	(321)	4,536	(785)
Net cash provided by (used in) financing activities (total)	(3,889)	(1,227)	(5,653)	(1,096)
Change in cash and cash equivalents due to business activities (total)	(3,162)	(659)	76	(464)
Cash and cash equivalents at beginning of period	6,143	2,717	2,915	2,531
Change due to exchange rate movements and to changes in scope of consolidation	(1)	0	(11)	(9)
Cash and cash equivalents at end of period	2,980	2,058	2,980	2,058

* for definition see Bayer Group Key Data on page 2

Operating cash flow

Gross cash flow in the **second quarter of 2008** rose by 11.4 percent, from €1,187 million in the prior-year period to €1,322 million, as a result of the strong business performance. Net cash flow improved by €73 million to €889 million (Q2 2007: €816 million) despite a seasonal increase in cash tied up in working capital.

Gross cash flow in the **first half of 2008** advanced to €2,973 (H1 2007: €2,598 million). Net cash flow rose by 19.0 percent to €1,417 million (H1 2007: €1,191 million).

Investing cash flow

In the **second quarter of 2008**, there was a net cash outflow of €321 million for investing activities (Q2 2007: €53 million). This amount mainly comprised €265 million in disbursements relating to the purchase of the eastern European oTC business of Sigmel, Inc. Cash outflows for property, plant and equipment in the second quarter totaled €347 million (Q2 2007: €440 million). This figure included the expenditures for the expansion of our polymers production facilities in Caojing, near Shanghai, China. Inflows consisted primarily of €224 million in interest and dividend payments, as well as €91 million in proceeds from the divestiture of property, plant, equipment and other assets.

The net cash outflow for investing activities in the **first six months** of 2008 amounted to €785 million. This amount mainly comprised €227 million in payments concerning the acquisition of U.S.-based Possis Medical, Inc. and €265 million relating to the purchase of the oTC business of Sigmel, Inc. In the prior-year period, there was a cash inflow of €4,536 million, comprising mainly the net proceeds from the divestitures of the diagnostics business, H.C. Starck and Wolff Walsrode. Cash outflows for property, plant and equipment and intangible assets in the first half came to €635 million (H1 2007: €641 million). The principal cash inflows were €298 million in interest and dividend payments and €107 million in proceeds from the divestiture of property, plant, equipment and other assets.

Financing cash flow

The net cash outflow for financing activities in the first half of 2008 amounted to €1,096 million. The outflow in the prior-year period came to €5,653 million. This included €3.9 billion for net loan repayments, the greater part of this amount (€2.1 billion) being for the scheduled redemption of our 2002/2007 Eurobond in April 2007. The Bayer AG dividend and dividend payments to minority stockholders of consolidated companies amounted to €1,040 million in the first half of 2008 (H1 2007: €775 million).

Liquid assets and net debt

As of June 30, 2008 the Bayer Group held cash and cash equivalents of €2,058 million, including €747 million deposited in escrow accounts. This amount is earmarked for payments to be made in connection with the squeeze-out of the remaining minority stockholders of Bayer Schering Pharma AG and civil law settlements of antitrust proceedings. Pursuant to a resolution of the Extraordinary Stockholders' Meeting of Bayer Schering Pharma AG on January 17, 2007, the shares of that company that are still held by minority stockholders will be transferred to the main stockholder, Bayer Schering GmbH, a wholly owned subsidiary of Bayer AG, in return for cash compensation of €98.98 per share. Dissenting stockholders are seeking to have the stockholder resolution set aside or to have it declared null and void. As of June 30, 2008, we held a 96.3 percent interest in Bayer Schering Pharma AG. In view of the restriction on its use, the liquidity held in escrow accounts was not deducted when calculating net debt.

Net Debt	Dec. 31, 2007	March 31, 2008	June 30, 2008
€ million			
Noncurrent financial liabilities as per balance sheets (including derivatives)	12,911	12,648	8,925
of which hybrid bond	1,237	1,237	1,221
Current financial liabilities as per balance sheets (including derivatives)	1,287	1,757	6,010
Derivative receivables	(230)	(301)	(314)
Financial liabilities	13,968	14,104	14,621
Cash and cash equivalents*	(1,776)	(1,967)	(1,311)
Current financial assets	(8)	(35)	(6)
Net debt from continuing operations	12,184	12,102	13,304
Net debt from discontinued operations	-	-	-
Net debt (total)	12,184	12,102	13,304

* In view of the restriction on its use, the €747 million liquidity in escrow accounts in the second quarter of 2008 (March 31, 2008: €750 million; Dec. 31, 2007: €755 million) was not deducted when calculating net debt. June 30, 2008: €1,311 million = €2,058 million - €747 million.

In the second quarter net debt (total) rose by €1.2 billion to €13.3 billion. This was mainly due to our dividend payout of €1.0 billion and to payments of €0.5 billion for annual payments of variable compensation to our employees. In addition, the interest payment dates for our bonds occur mainly in the second quarter, resulting in expectedly high disbursements. As of June 30, 2008 we had financial liabilities of €14.6 billion, including the €1.2 billion subordinated hybrid bond issued in July 2005 and the €2.3 billion mandatory convertible bond issued in April 2006. Net debt should be viewed against the fact that Moody's and Standard & Poor's treat 75 percent and 50 percent, respectively, of the hybrid bond as equity. Both rating agencies consider the mandatory convertible bond wholly as equity. Unlike conventional borrowings, the hybrid bond thus only has a limited effect on the Group's rating-specific indicators, while the mandatory convertible bond has no effect. In light of their maturity dates, the mandatory convertible bond issued in 2006 and the floating rate note of Bayer AG, also issued in 2006, were reclassified from noncurrent to current financial liabilities. Our noncurrent financial liabilities amounted to €8.9 billion as of June 30, 2008.

In the second quarter of 2008, Standard & Poor's raised Bayer's long-term issuer rating to A- with stable outlook. Moody's has changed the outlook for our long-term issuer rating of A3 from "negative" to "stable." The short-term ratings are A-2 (Standard & Poor's) and P-2 (Moody's). These investment-grade ratings document good creditworthiness.

Net pension liability

Capital market interest rates continued to rise in the second quarter of 2008. The net pension liability fell once again, to €3.9 billion. Provisions for pensions and other post-employment benefits declined from €5.0 billion to €4.7 billion. At the same time prepaid benefit assets, reflected in the balance sheet under "Other receivables," declined by €0.1 billion to €0.8 billion.

Net pension liability	Dec. 31, 2007	March 31, 2008	June 30, 2008
€ million			
Provisions for pensions and other post-employment benefits	5,501	4,970	4,696
Prepaid benefit assets	(533)	(882)	(760)
Net pension liability	4,968	4,088	3,936

The number of employees has been converted to full-time equivalents, which means part-time employees are included in proportion to their contractual working hours.

On June 30, 2008, the Bayer Group had 107,100 employees, 900 more than on December 31, 2007. We employed 17,000 people in North America, including the 300 employees of the recently acquired U.S. company Possis Medical, Inc. Bayer had 19,800 employees in the Asia-Pacific region and 14,900 in Latin America/Africa/Middle East. The number of employees in Europe was 55,400, including for the first time the 600 employees of Sagemel. In Germany we had 37,500 employees, accounting for 35.0 percent of the Group workforce. Personnel expenses in the first half of 2008 amounted to €3,852 million (H1 2007: €3,792 million).

Opportunities and Risks

As a global enterprise with a diverse business portfolio, the Bayer Group enjoys a variety of opportunities and is also exposed to numerous risks. The anticipated development opportunities are materially unchanged from those outlined in the Bayer Annual Report 2007.

A risk management system is in place. Apart from financial risks there are also business-specific selling market, procurement market, product development, patent, production, environmental and regulatory risks. Legal risks exist particularly in the areas of product liability, competition and antitrust law, patent disputes, tax assessments and environmental matters. Significant changes that have occurred in respect of the legal risks since publication of the Bayer Annual Report 2007 are described in the Notes to the Condensed Consolidated Interim Financial Statements on page 42 ff. under "Legal Risks." Information on the Bayer Group's risk situation is provided in the Bayer Annual Report 2007 on pages 80–88 and 188–193. The Bayer Annual Report 2007 can be downloaded free of charge at www.bayer.com.

At present, no potential risks have been identified that either individually or in combination could endanger the continued existence of the Bayer Group.

Subsequent Events

Since June 30, 2008, no events of special significance have occurred that we expect to have a material impact on the financial position or results of operations of the Bayer Group.