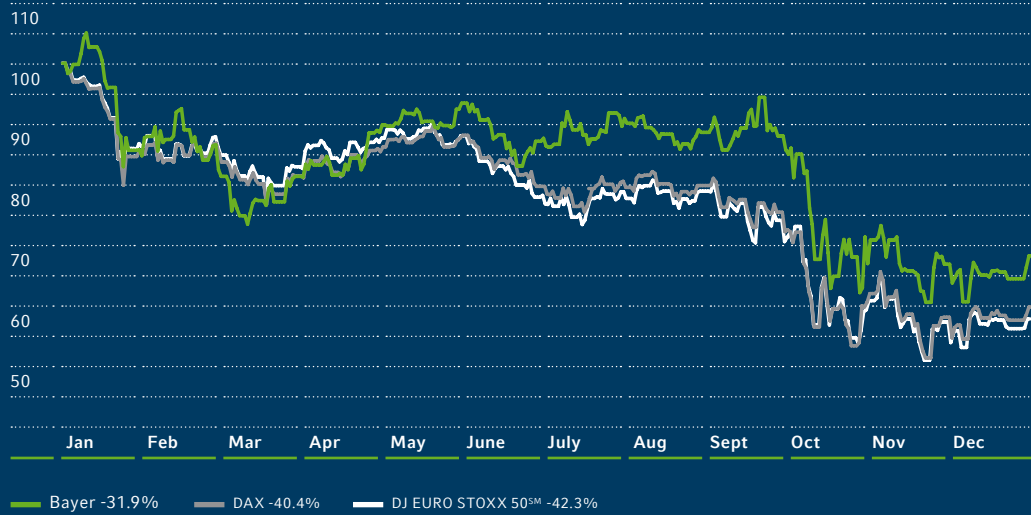


# Investor Information

## Performance of Bayer Stock in 2008

(indexed; 100 = closing price on December 31, 2007)



Although Bayer stock was unable to escape last year's global market turmoil, its performance placed it in the top third of the stocks in the German DAX index. The price fell by nearly 32 percent on the year, compared with a 40 percent drop in the DAX. The Board of Management and the Supervisory Board propose that the dividend be raised by 4 percent to €1.40 per share.

## Difficult year on the stock market

### WEAKEST YEAR FOR GERMAN STOCKS SINCE 2002

Last year saw the second-worst performance by the DAX since its introduction on July 1, 1988. The index closed 2008 at 4,810 points, down 40 percent from the end of the previous year. Only in 2002 did it sustain a heavier loss of 44 percent.

#### INTERNET

For more information about Bayer on the capital market, go to [WWW.INVESTOR.BAYER.COM](http://WWW.INVESTOR.BAYER.COM)

The downward movement was triggered by the subprime mortgage crisis in the United States, which began in summer 2007. The resulting crisis on the financial markets eventually spread to the real economy, leading to the current global economic downturn. Nearly all DAX companies saw double-digit falls in their share prices.

The performance of stock markets in other European countries, North America and Asia was equally disappointing, with the EURO STOXX 50<sup>SM</sup> ending the year down roughly 42 percent, the S&P 500 in the U.S. falling by some 38 percent, and Japan's Nikkei index losing 42 percent.

### BAYER STOCK MOVED LOWER

Caught up in the global market turbulence, Bayer stock lost 33.6 percent on the year. Including the dividend of €1.35 per share paid in May 2008, its performance amounted to minus 31.9 percent. Despite the drop in the share price, Bayer ranked among the top third of DAX 30 stocks in performance terms.

The price initially fell by some 25 percent at the start of the year to €47 at the beginning of March. This was followed by a rally that lasted until mid-September and restored the price to about €57. The collapse of the investment bank Lehman Brothers in mid-September was just one of the factors causing share prices around the world to plummet in the fourth quarter. Amid very high trading volumes, especially in October (11.5 million shares per day), Bayer stock fell to a year low of €36.83 on November 21, 2008.

### SUCCESSFUL FINANCING DESPITE THE DIFFICULT MARKET CONDITIONS

The subprime mortgage crisis in the U.S. had already put pressure on credit markets in the second half of 2007. Uncertainty among credit investors continued in 2008, leading to a surge in the risk premiums for credit default swaps (CDS) (see CDS graph on page 17).

The market price of these tradable insurance contracts, which are used to hedge against default of a borrower, depends on the underlying credit risk and thus helps to determine the credit margin when raising debt.

Despite the difficult environment, Bayer concluded two opportunistic financing agreements on comparatively attractive terms in the second half of the year. Apart from small private placements totaling Yen 25 billion (approximately €198 million) in Japan, special mention should be made of a €450 million seven-year credit financing agreement with the European Investment Bank and a €200 million private placement. A list of the bonds issued by Bayer can be found in Note 27 to the consolidated financial statements.

## Bayer stock data

		2007	2008
Earnings per share	€	5.84	2.22
Core earnings per share <sup>1</sup>	€	3.80	4.17
Cash flow per share	€	6.26	6.93
Equity per share	€	22.01	21.38
Dividend per share	€	1.35	1.40
Year-end price <sup>2</sup>	€	62.53	41.55
High for the year <sup>2</sup>	€	62.53	65.68
Low for the year <sup>2</sup>	€	40.20	36.83
Total dividend payment	€ million	1,032	1,070
Shares entitled to the dividend (Dec. 31)	million	764.34	764.34
Market capitalization (Dec. 31)	€ billion	47.8	31.8
Average daily trading volume	million	5.7	6.0
Price/EPS <sup>2</sup>		10.7	18.7
Price/core EPS <sup>1,2</sup>		16.5	10.0
Price/cash flow <sup>2</sup>		10.0	6.0
Dividend yield	%	2.2	3.4

<sup>1</sup>For details on the calculation of core earnings per share, see page 21.

<sup>2</sup>XETRA closing prices (source: Bloomberg)

## Rates for five-year credit default swaps (CDS) in 2008

in basis points<sup>1</sup>



<sup>1</sup>source: Bloomberg

<sup>2</sup>iTraxx Europe is a CDS index comprising the CDS of 125 companies (including financial institutions) with investment-grade ratings.

### HIGHER LONG-TERM YIELD THAN THE DAX AVERAGE

A long-term investor who purchased Bayer shares for €10,000 five years ago on January 1, 2004 and reinvested all dividends would have seen the value of the position grow to €21,442 as of December 31, 2008, giving an average annual return of 16.5 percent.

#### Comparison of average annual performance in % (dividends reinvested)

Performance p.a.	1 year 2008	3 years 2006–2008	5 years 2004–2008
	%	%	%
Bayer	-31.9	+8.1	+16.5
DAX	-40.4	-3.8	+3.9
DJ EURO STOXX 50 <sup>SM</sup>	-42.4	-9.3	+0.3

### BAYER STOCK INCLUDED IN THE STOXX 50 INDEX

Since September 22, 2008, Bayer stock has been included in the Dow Jones STOXX 50, a European blue chip index comprising the top 50 stocks from 17 western European countries. It also continues to be listed in the EURO STOXX 50<sup>SM</sup> index of the 50 top shares in the euro currency zone.

### MSCI INDEX FAMILY RECLASSIFIES BAYER TO HEALTHCARE SECTOR

The index provider MSCI reclassified Bayer stock from the “Materials” sector, category “Diversified Chemicals,” to the “Health Care” sector, category “Pharmaceuticals,” effective July 1, 2008, reflecting our new focus on the HealthCare business.

### BAYER STOCK DELISTED IN JAPAN

Bayer AG withdrew from the Tokyo Stock Exchange in early December 2008 because the low trading volume made its listing there superfluous. Bayer shares had been listed in Japan since 1988.

### HIGH TURNOUT AT THE ANNUAL STOCKHOLDERS’ MEETING

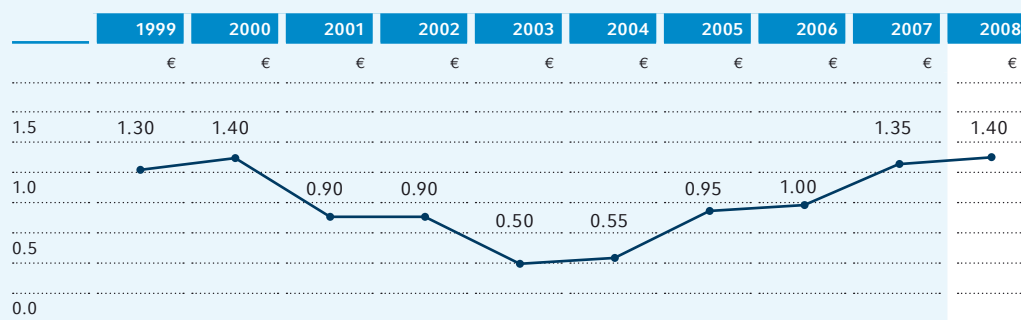
In 2008, the number of stockholders represented at the Annual Stockholders’ Meeting increased for the fourth consecutive year, with 62 percent of the voting capital represented at the meeting held on April 25, 2008.

### DIVIDEND RAISED TO €1.40 PER SHARE

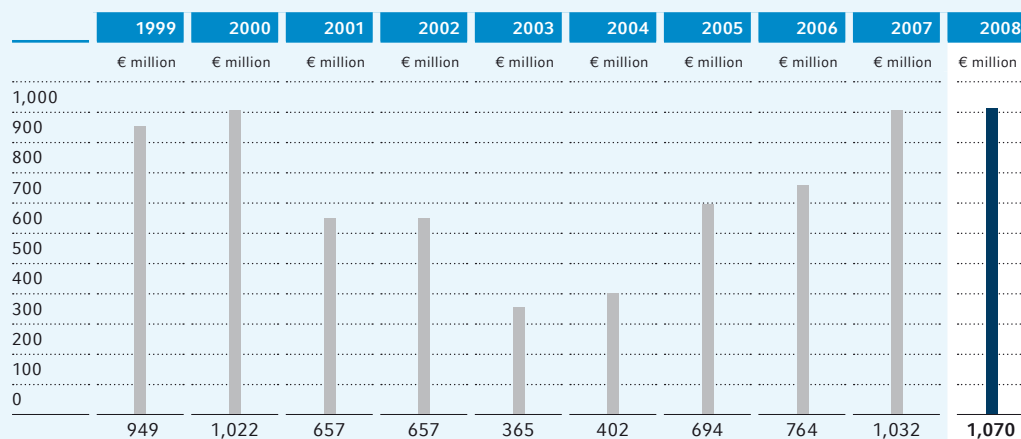
The Board of Management and Supervisory Board will propose to the Annual Stockholders’ Meeting that the dividend be raised by €0.05 to €1.40 per share. This results in a payout ratio of approximately 34 percent calculated on core earnings per share (see page 21), which is within the target corridor of 30 to 40 percent.

The dividend yield calculated on the share price of €41.55 at year end 2008 amounts to 3.4 percent and the total dividend payment to €1,070 million.

Dividends per share



Total dividend payment



### **BROADER STOCKHOLDER STRUCTURE**

The latest survey of domestic and foreign stockholders, which covered 85 percent of Bayer stock (approximately 650.8 million shares out of the 764.3 million total), revealed a slight increase in the proportion of foreign institutional investors compared with the previous year. Of the shares identified, 80 percent are owned by institutions outside Germany, with 43 percent held by U.S.-based institutions, 20 percent by those in Germany and 13 percent by institutions headquartered in the U.K. The high proportion of foreign investors reflects the importance of Bayer stock on the international financial markets.

### **BAYER STOCK A SUSTAINABLE INVESTMENT**

In 2008 Bayer was again included in leading sustainability indices. Our stock has been listed right from the beginning in both the Dow Jones Sustainability Index World and the FTSE4Good Index series. Bayer also featured once more in the Carbon Disclosure Leadership Index and has thus been honored for its activities in the area of climate protection.

At conferences and one-on-one discussions we stepped up our dialogue with investors who are guided largely by sustainability criteria when making their investment decisions.

### **CONTINUING HIGH LEVEL OF INVESTOR RELATIONS ACTIVITIES**

A broad range of investor relations activities again took place in 2008. The Board of Management and Investor Relations department held over 400 one-on-one meetings in some 25 financial centers to provide information on current events in the Bayer Group.

The focus of attention was on progress with the pharmaceutical research pipeline, and especially the anti-thrombosis drug Xarelto®. Experts explained the main research findings at conference calls, which were streamed in parallel on the Internet. Other key topics were the sustained boom in the agricultural sector and the demand situation for polymers.

### **AWARDS FOR INVESTOR RELATIONS ACTIVITIES**

Bayer's capital market communications again received several awards in 2008.

For example, Bayer garnered first place in a buy-side survey conducted by the Institutional Investor Research Group as the company with the best IR work in the European chemicals sector. More than 600 buy-side analysts and portfolio managers in Europe and the U.S. took part in this survey.

The German business journal *Capital* presents the *Capital* Investor Relations Award annually in conjunction with the Society of Investment Professionals in Germany (DVFA). For this purpose financial communications are rated by target-group focus, transparency, and continuity of reporting. In 2008 Bayer came third in the EURO STOXX 50<sup>SM</sup> category.

The French financial journal *La Vie Financière* also honored the excellent service provided by Bayer's financial communications. Bayer was awarded the "Fils d'or 2008" as the best non-French company in the FTSE Eurofirst 80 share index in the category "Prix du Meilleur Service Actionnaire."

For the fourth time, Bayer's investor relations website took first place in the overall ranking issued by the leading international consultancy MZ Consult. The factors appealing to the jury included the breadth of the Internet offering, the use of modern technologies such as RSS (Rich Site Summary) feeds, podcasts and mobile services, and the high update frequency.

## CALCULATION OF CORE EARNINGS PER SHARE

Earnings per share according to IFRS are affected by the purchase price allocation for Schering, Berlin, Germany, and other special factors. To enhance comparability, we also determine core net income from continuing operations after elimination of the amortization of intangible assets, asset write-downs (including any impairment losses), special items in EBITDA including the related tax effects, and one-time tax income or expense.

The calculation of earnings per share in accordance with the International Financial Reporting Standards (IFRS) is explained in the notes to the financial statements on page 185. Adjusted core net income, core earnings per share and core EBIT are not defined in the IFRS. Therefore they should be regarded as supplementary information rather than stand-alone indicators.

Calculation of core EBIT and core earnings per share	2007	2008
	€ million	€ million
<b>EBIT as per income statement</b>	<b>3,154</b>	<b>3,544</b>
Amortization and write-downs of intangible assets	1,463	1,550
Write-downs of property, plant and equipment	118	88
Special items (other than write-downs)	911	665
<b>Core EBIT</b>	<b>5,646</b>	<b>5,847</b>
Non-operating result (as per income statement)	(920)	(1,188)
Income taxes (as per income statement)	72	(636)
One-time tax income*	(870)	–
Tax adjustment	(887)	(691)
Income after taxes attributable to non-controlling interest (as per income statement)	(5)	(5)
<b>Core net income from continuing operations</b>	<b>3,036</b>	<b>3,327</b>
Financing expenses for the mandatory convertible bond, net of tax effects	98	112
<b>Adjusted core net income</b>	<b>3,134</b>	<b>3,439</b>
	Shares	Shares
<b>Weighted average number of issued ordinary shares</b>	<b>764,341,920</b>	<b>764,342,029</b>
Potential shares to be issued upon conversion of the mandatory convertible bond	59,565,383	59,893,122
<b>Adjusted weighted average total number of issued and potential ordinary shares</b>	<b>823,907,303</b>	<b>824,235,151</b>
<b>Core earnings per share from continuing operations (€)</b>	<b>3.80</b>	<b>4.17</b>

\*arising from the corporate tax reform in Germany in 2007