

Condensed Consolidated Interim Financial Statements of the Bayer Group

Bayer
Stockholders'
Newsletter 2008

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

Bayer Group Consolidated Statements of Income

	3rd Quarter 2007	3rd Quarter 2008	First Nine Months 2007	First Nine Months 2008
€ million				
Net sales	7,793	7,948	24,345	24,995
Cost of goods sold	(3,978)	(4,076)	(12,184)	(12,435)
Gross profit	3,815	3,872	12,161	12,560
Selling expenses	(1,916)	(2,017)	(5,642)	(5,953)
Research and development expenses	(640)	(662)	(1,915)	(1,943)
General administration expenses	(418)	(417)	(1,279)	(1,275)
Other operating income	219	214	590	1,064
Other operating expenses	(383)	(306)	(1,146)	(1,321)
Operating result (EBIT)	677	684	2,769	3,132
Equity-method loss	(9)	(11)	(36)	(34)
Non-operating income	113	87	545	376
Non-operating expenses	(370)	(352)	(1,250)	(1,155)
Non-operating result	(266)	(276)	(741)	(813)
Income before income taxes	411	408	2,028	2,319
Income taxes	769	(133)	221	(701)
Income from continuing operations after taxes	1,180	275	2,249	1,618
Income from discontinued operations after taxes	(2)	3	2,396	3
Income after taxes	1,178	278	4,645	1,621
of which attributable to minority interest	3	1	1	8
of which attributable to Bayer AG stockholders (net income)	1,175	277	4,644	1,613
Earnings per share (€)				
From continuing operations				
Basic [*]	1.46	0.37	2.82	2.06
Diluted [*]	1.46	0.37	2.82	2.06
From discontinued operations				
Basic [*]	-	-	2.91	-
Diluted [*]	-	-	2.91	-
From continuing and discontinued operations				
Basic [*]	1.46	0.37	5.73	2.06
Diluted [*]	1.46	0.37	5.73	2.06

^{*} The ordinary shares to be issued upon conversion of the mandatory convertible bond are treated as already issued shares.

Bayer Group Consolidated Balance Sheets

	Sept. 30, 2007	Sept. 30, 2008	Dec. 31, 2007
€ million			
Noncurrent assets			
Goodwill	8,336	8,646	8,215
Other intangible assets	14,685	14,234	14,555
Property, plant and equipment	8,664	9,200	8,819
Investments in associates	481	475	484
Other financial assets	1,104	1,049	1,127
Other receivables	488	1,190	667
Deferred taxes	808	295	845
	34,566	35,089	34,712
Current assets			
Inventories	6,315	6,696	6,217
Trade accounts receivable	6,355	6,586	5,830
Other financial assets	312	327	335
Other receivables	1,524	1,325	1,461
Claims for income tax refunds	240	362	208
Cash and cash equivalents	2,381	2,281	2,531
Assets held for sale and discontinued operations	-	-	84
	17,127	17,577	16,666
Total assets	51,693	52,666	51,378
Stockholders' equity			
Capital stock of Bayer AG	1,957	1,957	1,957
Capital reserves of Bayer AG	4,028	4,028	4,028
Other reserves	10,937	12,245	10,749
	16,922	18,230	16,734
Equity attributable to minority interest	86	80	87
	17,008	18,310	16,821
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	5,268	4,442	5,501
Other provisions	1,596	1,503	1,166
Financial liabilities	13,307	9,420	12,911
Other liabilities	502	633	501
Deferred taxes	3,632	3,638	3,866
	24,305	19,636	23,945
Current liabilities			
Other provisions	4,080	3,717	3,754
Financial liabilities	1,298	6,004	1,287
Trade accounts payable	2,219	2,266	2,466
Income tax liabilities	104	242	56
Other liabilities	2,679	2,478	2,873
Liabilities directly related to assets held for sale and discontinued operations	-	13	176
	10,380	14,720	10,612
Total stockholders' equity and liabilities	51,693	52,666	51,378

2007 figures reclassified

Bayer Group Consolidated Statements of Cash Flows

Bayer
Stockholders'
Newsletter 2008

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

	3rd Quarter 2007	3rd Quarter 2008	First Nine Months 2007	First Nine Months 2008
€ million				
Income from continuing operations after taxes	1,180	275	2,249	1,618
Income taxes	(769)	133	(221)	701
Non-operating result	266	276	741	813
Income taxes paid	(201)	(197)	(886)	(913)
Depreciation and amortization	762	650	2,016	2,031
Change in pension provisions	(116)	(5)	(298)	(185)
(Gains) losses on retirements of noncurrent assets	(8)	(12)	(2)	(78)
Non-cash effects of the remeasurement of acquired assets (inventory work-down)	51	51	164	157
Gross cash flow	1,165	1,171	3,763	4,144
Decrease (increase) in inventories	(107)	(299)	(282)	(563)
Decrease (increase) in trade accounts receivable	397	377	(666)	(697)
(Decrease) increase in trade accounts payable	1	(78)	(97)	(143)
Changes in other working capital, other non-cash items	167	63	96	(90)
Net cash provided by (used in) operating activities (net cash flow), continuing operations	1,623	1,234	2,814	2,651
Net cash provided by (used in) operating activities (net cash flow), discontinued operations	(2)	0	0	0
Net cash provided by (used in) operating activities (net cash flow) (total)	1,621	1,234	2,814	2,651
Cash outflows for additions to property, plant, equipment and intangible assets	(482)	(492)	(1,123)	(1,127)
Cash inflows from sales of property, plant, equipment and other assets	89	41	120	148
Cash inflows (outflows) from divestitures less divested cash	(111)	(3)	4,792	(52)
Cash inflows (outflows) for acquisitions less acquired cash	(198)	(367)	(455)	(919)
Cash inflows (outflows) from noncurrent financial assets	1	25	9	73
Interest and dividends received	96	126	565	424
Cash (inflows) outflows from current financial assets	2	3	25	1
Net cash provided by (used in) investing activities (total)	(603)	(667)	3,933	(1,452)
Capital contributions	-	-	-	-
Bayer AG dividend and dividend payments to minority stockholders	0	(2)	(775)	(1,042)
Issuances of debt	239	103	1,842	1,102
Retirements of debt	(1,555)	(166)	(7,051)	(465)
Interest paid	(222)	(267)	(1,207)	(1,023)
Net cash provided by (used in) financing activities (total)	(1,538)	(332)	(7,191)	(1,428)
Change in cash and cash equivalents due to business activities (total)	(520)	235	(444)	(229)
Cash and cash equivalents at beginning of period	2,980	2,058	2,915	2,531
Change in cash and cash equivalents due to changes in scope of consolidation	1	0	(3)	2
Change in cash and cash equivalents due to exchange rate movements	(80)	(12)	(87)	(23)
Cash and cash equivalents at end of period	2,381	2,281	2,381	2,281

Bayer Group Consolidated Statements of Recognized Income and Expense

	3rd Quarter 2007	3rd Quarter 2008	First Nine Months 2007	First Nine Months 2008
€ million				
Changes in fair values of derivatives designated as hedges and available-for-sale financial assets, recognized in stockholders' equity	76	(268)	74	(148)
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	167	630	1,272	1,575
Exchange differences on translation of operations outside the euro zone, recognized in stockholders' equity	(477)	387	(470)	(44)
Deferred taxes on valuation adjustments offset directly against stockholders' equity	(184)	(115)	(615)	(438)
Changes due to changes in scope of consolidation	-	2	36	2
Revaluation surplus (IFRS 3)	-	0	-	6
Minority interest in partnerships, recognized in liabilities	(5)	(14)	(24)	(43)
Valuation adjustments recognized directly in stockholders' equity	(423)	622	273	910
Income after taxes	1,178	278	4,645	1,621
Total income and expense recognized in the financial statements	755	900	4,918	2,531
of which attributable to minority interest	1	2	(1)	3
of which attributable to Bayer AG stockholders	754	898	4,919	2,528

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

Key Data by Segment

Segment	HealthCare			
	Pharmaceuticals		Consumer Health	
	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008
€ million				
Sales (external)	2,570	2,638	1,110	1,164
Change	+5.2%	+2.6%	+6.9%	+4.9%
Currency-adjusted change	+8.1%	+6.4%	+10.2%	+10.0%
Intersegment sales	22	18	2	1
Operating result (EBIT)	169	306	206	237
Gross cash flow ¹	519	586	189	213
Net cash flow ¹	464	496	220	183
Depreciation, amortization and write-downs/write-backs	429	324	32	38

¹ for definition see Bayer Group Key Data on page 2

Segment	HealthCare			
	Pharmaceuticals		Consumer Health	
	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008
€ million				
Sales (external)	7,648	7,836	3,359	3,431
Change	+60.0%	+2.5%	+6.2%	+2.1%
Currency-adjusted change	+63.5%	+7.5%	+10.5%	+8.4%
Intersegment sales	44	54	6	3
Operating result (EBIT)	657	981	634	638
Gross cash flow ¹	1,290	1,577	520	565
Net cash flow ¹	945	989	406	421
Depreciation, amortization and write-downs/write-backs	1,017	1,035	99	108
Number of employees at end of period ²	39,100	39,200	12,100	13,700

¹ for definition see Bayer Group Key Data on page 2² number of employees in full-time equivalents

CropScience				MaterialScience							
Crop Protection		Environmental Science, BioScience		Systems		Materials		Reconciliation		Continuing Operations	
3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008
985	1,067	172	181	1,858	1,850	767	699	331	349	7,793	7,948
+13.0%	+8.3%	-2.8%	+5.2%	+0.3%	-0.4%	+3.2%	-8.9%			+4.5%	+2.0%
+13.7%	+14.7%	-1.2%	+11.0%	+3.2%	+2.5%	+7.1%	-4.7%			+7.2%	+6.0%
13	4	2	1	33	36	7	3	(79)	(63)		
56	46	(26)	(10)	260	144	32	(11)	(20)	(28)	677	684
149	151	0	16	257	170	69	27	(18)	8	1,165	1,171
325	208	108	65	275	118	103	21	128	143	1,623	1,234
118	111	18	20	79	76	48	40	38	41	762	650

CropScience				MaterialScience							
Crop Protection		Environmental Science, BioScience		Systems		Materials		Reconciliation		Continuing Operations	
First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008
3,681	4,215	824	815	5,593	5,624	2,263	2,059	977	1,015	24,345	24,995
+3.6%	+14.5%	-2.4%	-1.1%	+2.6%	+0.6%	+4.0%	-9.0%			+16.0%	+2.7%
+6.0%	+20.8%	+1.3%	+4.3%	+6.0%	+4.9%	+8.2%	-3.7%			+19.4%	+7.8%
47	35	6	8	108	106	15	12	(226)	(218)		
540	813	109	114	744	677	99	(19)	(14)	(72)	2,769	3,132
650	892	127	141	730	690	193	95	253	184	3,763	4,144
525	572	164	120	590	420	103	141	81	(12)	2,814	2,651
356	335	57	61	242	244	132	119	113	129	2,016	2,031
14,700	14,900	3,100	3,300	10,300	10,500	5,300	4,700	21,600	22,300	106,200	108,600

Key Data by Region

Bayer
Stockholders'
Newsletter 2008

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

Notes

Region	Europe		North America	
	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008
€ million				
Sales (external) – by market	3,377	3,443	1,889	1,866
Change	+5.7%	+2.0%	-3.8%	-1.2%
Currency-adjusted change	+5.7%	+2.3%	+2.6%	+8.0%
Sales (external) – by point of origin	3,669	3,769	1,905	1,855
Change	+6.0%	+2.7%	-3.2%	-2.6%
Currency-adjusted change	+6.0%	+3.2%	+3.4%	+6.6%
Interregional sales	1,367	1,440	525	530
Operating result (EBIT)	445	331	108	237

Region	Europe		North America	
	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008
€ million				
Sales (external) – by market	10,922	11,348	6,255	5,979
Change	+18.4%	+3.9%	+9.3%	-4.4%
Currency-adjusted change	+18.3%	+4.5%	+17.6%	+6.8%
Sales (external) – by point of origin	11,792	12,292	6,285	5,987
Change	+18.5%	+4.2%	+9.4%	-4.7%
Currency-adjusted change	+18.5%	+4.8%	+17.8%	+6.6%
Interregional sales	4,012	4,095	1,571	1,393
Operating result (EBIT)	1,798	1,907	657	848
Number of employees at end of period*	56,600	55,800	16,700	17,000

* number of employees in full-time equivalents

	Asia/Pacific		Latin America/ Africa/Middle East		Reconciliation		Continuing Operations	
	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008
	1,329	1,349	1,198	1,290			7,793	7,948
	+6.5%	+1.5%	+13.8%	+7.7%			+4.5%	+2.0%
	+11.2%	+7.1%	+15.7%	+12.1%			+7.2%	+6.0%
	1,272	1,287	947	1,037			7,793	7,948
	+6.0%	+1.2%	+14.2%	+9.5%			+4.5%	+2.0%
	+10.9%	+7.8%	+16.2%	+13.6%			+7.2%	+6.0%
	67	56	65	50	(2,024)	(2,076)		
	45	10	125	140	(46)	(34)	677	684

	Asia/Pacific		Latin America/ Africa/Middle East		Reconciliation		Continuing Operations	
	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008
	3,837	4,015	3,331	3,653			24,345	24,995
	+15.7%	+4.6%	+22.2%	+9.7%			+16.0%	+2.7%
	+22.5%	+11.5%	+27.2%	+16.1%			+19.4%	+7.8%
	3,675	3,904	2,593	2,812			24,345	24,995
	+15.4%	+6.2%	+23.1%	+8.4%			+16.0%	+2.7%
	+22.4%	+12.3%	+29.0%	+17.8%			+19.4%	+7.8%
	182	151	181	106	(5,946)	(5,745)		
	185	181	263	333	(134)	(137)	2,769	3,132
	18,700	20,700	14,200	15,100			106,200	108,600

Accounting policies

Pursuant to Section 315a of the German Commercial Code, the consolidated interim financial statements as of September 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	
		Sept. 30, 2007	Sept. 30, 2008	Dec. 31, 2007	First Nine Months 2007	First Nine Months 2008
ARS	Argentina	4.47	4.46	4.64	4.17	4.73
BRL	Brazil	2.62	2.80	2.61	2.69	2.56
CAD	Canada	1.41	1.50	1.44	1.49	1.55
CHF	Switzerland	1.66	1.58	1.65	1.64	1.61
CNY	China	10.64	9.80	10.75	10.30	10.63
GBP	United Kingdom	0.70	0.79	0.73	0.68	0.78
JPY	Japan	163.55	150.47	164.93	160.35	160.97
MXN	Mexico	15.48	15.71	16.08	14.72	16.00
USD	United States	1.42	1.43	1.47	1.34	1.52

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

	Dec. 31, 2007	June 30, 2008	Sept. 30, 2008
%			
Germany	5.5	6.4	6.8
United Kingdom	5.8	6.7	7.3
United States	6.6	7.0	7.9

Changes in the Bayer Group**Scope of consolidation**

As of September 30, 2008, the Bayer Group comprised 323 fully or proportionately consolidated companies (December 31, 2007: 326 companies). Four 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 €919 million on acquisitions in the first nine months of 2008, resulting chiefly from the following transactions: Bayer subsidiary Medrad, Inc. acquired the remaining shares of Possis Medical through its subsidiary Phoenix Acquisi-

tion Corp. for €227 million. 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, for €265 million. The OTC business of Sigmel is now integrated into the operations of Bayer HealthCare in Russia, Ukraine, Kazakhstan, the Baltic states and several countries of the Caucasus and Central Asia regions. In July 2008 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 €109 million. The provisional allocation of the difference between the value of the acquired assets and the purchase price relates primarily to trademark rights and goodwill. Effective September 30, 2008, we acquired the protein engineering specialist DIREVO Biotech AG, Cologne, Germany, for €185 million. The provisional allocation of the difference between the value of the acquired assets and the purchase price relates primarily to research and development technologies and goodwill.

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			
Acquired assets and assumed liabilities			
Goodwill	0	373	373
Other intangible assets	0	584	584
Property, plant and equipment	27	0	27
Other noncurrent assets	22	0	22
Inventories	32	7	39
Other current assets	51	0	51
Cash and cash equivalents	13	0	13
Provisions for pensions and other post-employment benefits	(1)	0	(1)
Other provisions	(7)	(1)	(8)
Financial liabilities	(31)	0	(31)
Other liabilities	(33)	(1)	(34)
Deferred taxes	10	(113)	(103)
Net assets	83	849	932
Minority interests			0
Purchase price			932
of which ancillary acquisition costs			6
Acquired cash and cash equivalents			13
Liabilities to minority stockholders			0
Net cash outflow for the acquisitions			919

Discontinued operations

The diagnostics activities, along with H.C. Starck and Wolff Walsrode, were recognized as discontinued operations in 2007. Tax payments made in connection with the divestiture of the diagnostics business and a subsequent purchase price payment are therefore recognized in discontinued operations in 2008. 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	
	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008	3rd Quarter 2007	3rd Quarter 2008
€ million								
Sales	-	-	-	-	-	-	-	-
Operating result (EBIT)*	-	4	(1)	-	(1)	-	(2)	4
Income after taxes	-	3	(1)	-	(1)	-	(2)	3
Gross cash flow*	-	-	(1)	-	(1)	-	(2)	-
Net cash flow*	-	-	(1)	-	(1)	-	(2)	-
Net investing cash flow	(107)	(3)	7	-	1	-	(99)	(3)
Net financing cash flow	107	3	(6)	-	0	-	101	3

* for definition see Bayer Group Key Data on page 2

Discontinued Operations	First Nine Months 2007		First Nine Months 2008		First Nine Months 2007		First Nine Months 2008	
	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008	First Nine Months 2007	First Nine Months 2008
€ million								
Sales	-	-	74	-	172	-	246	-
Operating result (EBIT)*	2,778	4	108	-	266	-	3,152	4
Income after taxes	2,044	3	102	-	250	-	2,396	3
Gross cash flow*	(10)	-	13	-	14	-	17	-
Net cash flow*	(32)	-	25	-	7	-	-	-
Net investing cash flow	3,432	(52)	929	-	431	-	4,792	(52)
Net financing cash flow	(3,400)	52	(954)	-	(438)	-	(4,792)	52

* 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	3rd Quarter 2007	3rd Quarter 2008	First Nine Months 2007	First Nine Months 2008
€ million				
Income after taxes	1,178	278	4,645	1,621
Income attributable to minority interest	3	1	1	8
Income attributable to Bayer AG stockholders	1,175	277	4,644	1,613
Income from discontinued operations	(2)	3	2,396	3
Financing expenses for the mandatory convertible bond, net of tax effects	25	28	73	84
Adjusted income from continuing operations after taxes	1,202	302	2,321	1,694
Adjusted net income	1,200	305	4,717	1,697
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	59,585,493	60,040,823	59,558,606	59,843,529
Adjusted weighted average total number of issued and potential ordinary shares	823,927,413	824,382,743	823,900,526	824,185,449
Basic earnings per shares (€)				
from continuing operations	1.46	0.37	2.82	2.06
from discontinued operations	0.00	0.00	2.91	0.00
from continuing and discontinued operations	1.46	0.37	5.73	2.06
Diluted earnings per share (€)				
from continuing operations	1.46	0.37	2.82	2.06
from discontinued operations	0.00	0.00	2.91	0.00
from continuing and discontinued operations	1.46	0.37	5.73	2.06

Legal risks

The following significant changes have occurred in respect of the Bayer Group's legal risks compared to their presentation on pages 188–193 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 October 8, 2008, Bayer has been served in a total of 230 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 256 as of October 6, 2008.

Competition law proceedings

Cipro®: On page 189 of the Bayer Annual Report 2007 we reported that lawsuits were pending against Bayer in connection with our medication Cipro®. In October 2008 the Court of Appeals of the Federal Circuit in Washington D.C. affirmed the earlier ruling of a United States District Court in New York dismissing all lawsuits filed in federal court. The recent appellate decision affirmed the dismissal of various lawsuits brought by indirect purchaser plaintiffs in federal courts. Another appeal remains pending concerning the claims brought by direct purchasers of Cipro®. These claims were also dismissed by the federal district court, but the appellate court in New York has jurisdiction for the appeal of these lawsuits.

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. In August 2008, The Goodyear Tire & Rubber Company filed an amended complaint in U.S. federal court alleging that Bayer and other producers of butadiene rubber and styrene butadiene rubber violated antitrust law. The complaint seeks, among other things, treble damages. Bayer intends to defend itself against the Goodyear claim and in September 2008 filed a motion asking the court to dismiss Goodyear's complaint for failure to state a cause of action.

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 genetically modified rice

On page 190 of the Bayer Annual Report 2007, we reported on lawsuits filed by rice farmers and resellers in the United States, who allege that they have suffered economic losses following the detection of traces of pre-commercial biotech rice in the 2006 long-grain rice harvest in the southern U.S. In August 2008, a motion to certify a plaintiff class of rice farmers in five U.S. states was denied by federal court. The appellate court subsequently denied plaintiffs' request for an interim appeal of the decision denying class certification.

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[®] covering the United States. Bayer Schering Pharma already has begun to supply Barr with a generic version of Yasmin[®] 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[®]. 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[®] 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[®] 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[®]. 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[®]: 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[®] 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[®]. 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[®]. 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 patent infringement suits against Watson and Sandoz claiming that certain of Bayer Schering Pharma's patents have been infringed. Originally, Bayer Schering Pharma included the '531 patent in its first suit against Watson. After the court decision in the suit against Barr regarding Yasmin[®], 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[®], 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[®] as an oral contraceptive in the U.S. until March 16, 2009. No generic manufacturer can lawfully market a generic version of YAZ[®] 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[®] 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[®], at that time Bayer Schering Pharma will begin supplying the product to Barr and Barr will begin marketing generic YAZ[®] 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® Contour® system and its DEX® and Autodisc® 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 appealed both decisions. In August 2008 the judge determined that Bayer could recover its reasonable attorneys fees and costs associated with the patent that was litigated through trial. The motion to determine the amount of those fees is currently pending.

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®). 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® 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 61 cases have since been settled.

In September 2008, certain Bayer subsidiaries were named as defendants in a putative class action filed in West Virginia state court, alleging personal injuries from exposure to MDI, TDI and HDI based products in mining applications.

In October 2008, the claim mentioned on page 191 of the Bayer Annual Report 2007, in which Bayer was seeking equitable reformation of an agreement and restitution of certain monies against Lyondell, was dismissed in Lyondell's favor.

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, October 23, 2008
Bayer Aktiengesellschaft

The Board of Management

Werner Wenning

Klaus Kühn

Dr. Wolfgang Plischke

Dr. Richard Pott