Bayer

Q4 2006 Analyst and Investor Briefing

March 15, 2007

- **Sales** increased by 25.1% to €7,970m (Q4'05: €6,371m); Volume +5%, price +1%, currency -4%, portfolio +23%. Portfolio and currency adjusted sales increased +5.8% (Schering €1,528m).

- **Reported EBIT** up by 59.7% to €206m (Q4'05: €129m), Schering -€122m.

- **Net Special Items** of -€416m include: *HealthCare*: Total -€274m, mainly due to Schering integration (-€145m), Schering PPA (-€47m) and a write-down due to Alfimeprase (-€41m)
  CropScience: Total -€42m, mainly related to efficiency projects,
  MaterialScience: Total -€56m, mainly due to restructuring,
  Reconciliation: Total -€44m, mainly from restructuring of Bayer Industry Services.

- **Underlying EBIT** up 12.5% to €622m (Q4'05: €553m), driven by Pharmaceuticals and Consumer Health (Schering: €94m).

- **Reported EBITDA** at €846m up by 57.0% (Q4'05: €539m), thereof Schering €40m.

- **Underlying EBITDA** at €1,258m up 34.3% (Q4'05: €937m). Schering: €352m

- **Non-operating result** up by 53.9% to -€77m (Q4'05: -€167m) including net interest expenses of -€242m (Q4'05: -€64m). Disposal gain of 49.9% stake in GE Bayer Silicones (GEBS) contributed €236m.

- **Tax income** of €130m, mainly resulting from one-time recognition of deferred tax assets on loss carryforwards (€203m).

- **Net income** after minorities (incl. discontinued operations) up by €265m to €311m (Q4'05: €46m); **EPS** accordingly at €0.41 (Q4'05: €0.06).

- **Core EPS** at €0.74 (Q4'05: €0.46). Details on Core EPS see page 5.

- **Gross cash flow** up by 73.3% to €761m (Q4'05: €439m). Delta **Working Capital** €732m. **Net cash flow (cont.)** at €1,493m (Q4'05: €1,182m). **Investments** up by 34.0% to €792m. **Operating free cash flow** at €786m (Q4'05: €718m). Cash-in from disposal of GEBS and prepayment Diagnostics €826m.

- **Net debt** (total) qoq down by €1,482 to €17,539m and up by €12,045m compared to December 31, 2005.

€ million	Q4 2005						Q4 2006					
	Sales	EBIT rep.	Special Items	EBIT under-lying	EBITDA rep.	EBITDA under-lying	Sales	EBIT Rep.	Special Items	EBIT under-lying	EBITDA rep.	EBITDA under-lying
HealthCare	**2,157**	**186**	**(90)**	**276**	**269**	**339**	**3,782**	**187**	**(274)**	**461**	**469**	**796**
Pharma	1,098	92	(52)	144	135	167	2,698	3	(260)	263	250	563
Cons. Health	1,059	94	(38)	132	134	172	1,084	184	(14)	198	219	233
CropScience	**1,377**	**44**	**(14)**	**58**	**194**	**202**	**1,302**	**(42)**	**(42)**	**0**	**107**	**142**
CP	1,160	47	(7)	54	173	175	1,090	(53)	(42)	(11)	76	111
ES/BS	217	(3)	(7)	4	21	27	212	11	(0)	11	31	31
MaterialSc.	**2,448**	**215**	**(65)**	**280**	**339**	**404**	**2,532**	**131**	**(56)**	**187**	**288**	**307**
Materials	758	105	0	105	148	148	749	18	0	18	62	62
Systems	1,690	110	(65)	175	191	256	1,783	113	(56)	169	226	245
Reconc.	**389**	**(316)**	**(255)**	**(61)**	**(263)**	**(8)**	**354**	**(70)**	**(44)**	**(26)**	**(18)**	**13**
Group	**6,371**	**129**	**(424)**	**553**	**539**	**937**	**7,970**	**206**	**(416)**	**622**	**846**	**1,258**

Outlook Summary

(This summary does not contain the full outlook statement. We therefore recommend to carefully check against the forecast given in the Annual Report 2006 on page 96f.)

2007 Sales and earnings outlook

Group:
Plan to increase **sales** and **underlying EBITDA** by >10%, slightly improve **underlying EBITDA-margin**.
Special charges for 2007: €900-950m including some €200m in write-downs (Schering integration €650-700m; Bayer CropScience restructuring €150-200m).
CapEx planned at €1.7bn including €1.6bn for property, plant and equipment.
D&A anticipated roughly at €2.5bn with depreciation of property, plant and equipment at €1.2bn.
R&D budget at €2.8bn

HealthCare:
Intention to grow with or faster than market in all divisions. Drive underlying EBITDA-margin towards 24%.

CropScience:
Plan to grow slightly faster than market. Intention to increase underlying EBITDA-margin towards 22%.

MaterialScience:
Plan further volume increases in 2007 and sustain a good, value-creating earnings level. Intend to achieve significantly higher underlying EBITDA-margin in Q1'07 versus Q4'06.

Earnings outlook beyond 2007

Group:
Target 22% underlying EBITDA-margin by 2009.

HealthCare:
Target 27% underlying EBITDA-margin by 2009 driven by business expansion and synergies from integration of Schering.

CropScience:
Target 25% underlying EBITDA-margin by 2009 in a normal market environment.

MaterialScience
We believe, MaterialScience can create value even in a difficult market environment by earning an attractive premium over its capital and asset reproduction costs. Underlying EBITDA margin >18% under favorable market conditions.

Q4'06 HealthCare

Pharmaceuticals sales up 145.7% to €2,698m with Schering contributing €1,528m. *Primary Care:* Adalat at €174m (+0.0%). US Government order (€31m) drove Cipro sales up 16.1% to €137m. Avelox sales down 16.8% to €99m driven by weak flu season in Europe; Q4'05 effected by launch in Japan. Levitra mainly driven by US (€86m, +22.9%). *Hematology/Cardiology:* Trasylol down 39.4% to €40m. Kogenate (€205m, +15.8%) showed best quarter ever, mainly driven by EU business. Rx Aspirin Cardio up 21.7% (€56m). *Oncology*: Nexavar contributing €49m. *Women's Health:* Yasmin sales (including Yaz and Yasminelle) increased by pro-forma 38.2% to €228m. Yaz as fastest growing oral contraceptive in the US. *Special Therapeutics:* Betaferon up (pro-forma) 10.0% to €264m due to strong growth in all major markets.
Underlying EBIT up 82.6% to €263m (Schering: €94m). Underlying EBITDA at €563m, up 237.1% (Schering €352m). Sequentially higher marketing and R&D costs (approx. €200m qoq).

Please see pages 4ff. for more information on accounting issues related to Schering.

Consumer Health sales advanced by 2.4% to €1,084m (Fx adj. +7.0%). Aleve (€56m, +3.7%). Favorable performance of Canesten (€40m, +14.3%). Continuing growth of Bepanthen family (€30m, +7.1%).
Weak flu season in Germany and weakness in Brazil caused fall in Aspirin OTC by 8.5% to

€118m. Ascensia +9.8% (€212m) driven by US and EU business.
Underlying EBIT up 50.0% to €198m due to top-line growth and improved cost structures. Underlying EBITDA at €233m (+35.5%)

Q4'06 CropScience

Crop Protection sales down by 6.0% to €1,090m (Fx adj. -1.4%). Sales of **Insecticides** decreased by 8.6% to €287m due to divestments of older products and unfavorable Fx development. **Fungicides** sales slightly up by 2.6% to €318m, due to good performance of Proline and Fandango in Europe. Sales in the **Herbicides** segment (€379m) decreased by 11.0%, mainly due to price declines in North and Latin America. **Seed Treatment** down 3.6% but Fx adjusted flat to €106m with excellent performance of Poncho compensating for sales shortfall due to divested products.
Underlying EBIT in Crop Protection down by €65m to -€11m due to unfavorable exchange rates and price reductions (mainly Brazil). Underlying EBITDA down 36.6% to €111m.

Environmental Science/BioScience sales down by 2.3% to €212m. Environmental Science flat (€159m; +0.0%, currency adjusted +5.0%) with good performance of Professional Products. BioScience with lower sales at €53m (-8.6%, Fx adj. flat).
Underlying EBIT up by €7m to €11m due to increased business in the Professional Products segment. Underlying EBITDA at €31m (+14.8%).

Q4'06 MaterialScience

Materials segment sales slightly decreased by 1.1% to €750m with Polycarbonates sales down 1.5% to €700m. Robust volume growth compensated for declining prices, while Fx impact was negative.
Underlying EBIT down €87m to €18m, mainly due to considerably lower selling prices and higher raw material costs. Underlying EBITDA at €62m (-58.1%).

Systems segment sales were up 5.5% to €1,783m (Fx adj. +9.4%), with Polyurethanes up 4.5% to €1,283m. MDI and TDI showed favorable volume growth. MDI prices down yoy, but stable qoq. Strong TDI price enhancements yoy due to tight markets. Lower Polyols volumes balanced by higher prices. CAS up by 5.2% to €354m due to continuing high demand and price increases.
Underlying EBIT down by 3.4% to €169m, partly due to higher raw material prices. Underlying EBITDA at €245m (-4.3%).

Overall, fourth-quarter earnings both at Materials and Systems were also held back by a temporary loss of production in Krefeld-Uerdingen, Germany. In addition, the expansion of our sales organization in Asia and expenses for the start-up of our production facilities in china led to an increase in costs.

March 15, 2007

Impact of the Acquisition of Schering on Q4/FY 2006 Accounting

1. Indicative impact of the additional amortization charge and work-down of inventory step-up on EBIT and EBITDA

The additional charge from the amortization of intangible and tangible assets related to the acquisition of Schering is expected to be around 0.9 to 1.0 billion euros per annum. This will be the average run-rate of acquisition related additional amortization charges for the next few years.

Approximately 0.9 billion euros step-up of inventories will be worked down by the end of 2008 reflecting the lifespan of these assets. Charges of 429 million euros have been taken in 2006. As a rough guidance, additional charges of 220 million euros in 2007 and 200 million euros in 2008 are assumed. These charges will be a component of special items in the EBIT as well as in the EBITDA line.

The major part of the intangible assets identified during the purchase price allocation, such as patents, production know-how and other product-related assets is linked to manufacturing. Thus, amortization of these assets is part of the manufacturing cost and hence is capitalized in inventories until inventories are sold.

345 million euros of the additional amortization charge associated with the acquisition of Schering have been capitalized in 2006, reducing the P&L effect of the amortization on the EBIT level from -419 million euros to -74 million euros. Adding the -429 million euros work-down of the inventory step-up and € -48 million amortization of trademarks led to overall charges of 551 million euros in the reported EBIT for 2006. The capitalized amortization charge of 345 million euros was treated as a positive special item, partly compensating the charge from the work-down of the inventory step-up. As a result, the net one-time charge related to the additional amortization and the work-down of inventory step-up was 84 million euros in 2006. Hence, the effect on the underlying EBIT line was -467 million euros in 2006.

Accordingly, for 2007, the reported EBIT impact should be approximately 895 million euros, while the impact on the underlying EBIT is estimated to be about 830 million euros. Further details are given in the table below. The EBITDA line is only impacted by the work-down of the inventory step-up, all amortization related charges are excluded. Purchase price accounting will have no impact on the underlying EBITDA.

Bayer

Acquisition of Schering - Indicative Impact of Additional Amortization*

In € million, figures rounded	Q4 2006a	FY 2006a	FY 2007e	Q1 2007e	FY 2008e	FY 2009e
Work-down of inventory step-up	**-154**	**-429**	**-220**	**-60**	**-200**	**0**
Amortization of intangibles & tangibles, excl. trademarks	-174	-419	-740	-190	-900	-900
> Of which capitalized as part of inventory	115	345	500	140	600	600
Expensed amortization capitalized in previous period			-345	-90	-500	-600
Amortization of trademarks	-34	-48	-90	-20	-90	-90
Amortization	**-93**	**-122**	**-675**	**-160**	**-890**	**-990**
EBIT impact	**-247**	**-551**	**-895**	**-220**	**-1,090**	**-990**
EBIT special items	-47 [1]	-84	-65	-10	-100	0
Underlying EBIT impact	**-200**	**-467**	**-830**	**-210**	**-990**	**-990**
EBITDA impact	**-154**	**-429**	**-220**	**-60**	**-200**	**0**
EBITDA special items	-154	-429	-220	-60	-200	0
Underlying EBITDA impact	**0**	**0**	**0**	**0**	**0**	**0**

1) Includes additional -€8m from previous quarters

* Status: March 15, 2007
All figures are indicative as the purchase price allocation is still provisional. Assumptions subject to change.
Figures may change during the finalization of the process.

2. Q4 and FY´06 Core EPS Calculation

Q4 and FY´06 – Core EPS Calculation

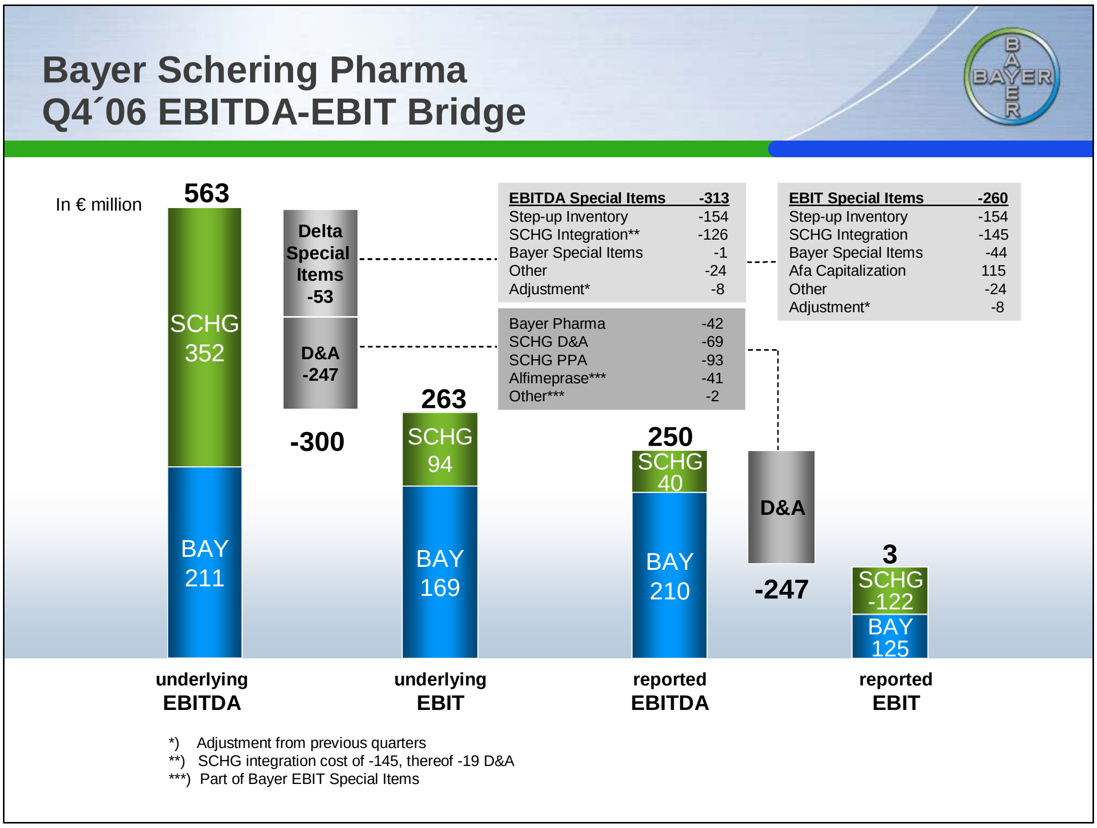
In € million	Q4 2005	Q4 2006	FY 2005	FY 2006
EBIT	**129**	**206**	**2,514**	**2,762**
+ Amortization and write-downs of intangible assets	135	267	550	734
+ Write-downs of property, plants and equipment	5	78	55	107
± Special items (other than write-downs)	398	412	480	909
Core EBIT	**667**	**963**	**3,599**	**4,512**
± Non-operating result	(167)	(77)	(602)	(782)
± Extraordinary income/loss from investments in affiliated companies	-	(236)	-	(236)
± Income taxes	24	130	(538)	(454)
± Tax adjustments	(192)	(180)	(386)	(531)
± Earnings after taxes attributable to minority interest	4	(12)	2	(12)
Core net income (continuing)	**336**	**588**	**2,075**	**2,497**
+ Financing expenses for the mandatory convertible bond, net of taxes	-	25	-	72
Adjusted core net income	**336**	**613**	**2,075**	**2,569**
Weighted average number of issued ordinary shares	730.34	764.34	730.34	746.46
Potential shares to be issued upon conversion of the mandatory convertible bond	-	59.52	-	45.30
Adjusted weighted average total number of issued and potential ordinary shares	730.34	823.87	730.34	791.76
Core earnings per share from continuing operations (€)	**0.46**	**0.74**	**2.84**	**3.24**

3. Q4´06 reconciliation of underlying/reported EBITDA to underlying/reported EBIT for Bayer Schering Pharma

For the reconciliation of underyling EBITDA to underlying EBIT as well as for reported EBITDA to reported EBIT, D&A charges and the difference between special items on the EBIT level and special items on the EBITDA level have to be taken into account.

D&A charges in Q4´06 amount to 247 million euros, including 43 million euros of write-downs (mainly Alfimeprase) and 93 million euros additional amortization associated with the acquisition of Schering. Special charges on the EBIT level amount to 260 million euros, including a positive 115 million from the capitalized amortization charge.

The special items on the EBITDA level do not include any D&A related charges, i.e. the 115 million euros gain from the capitalization of additional amortization, 43 million euros write-downs and 19 million euros write-downs associated with the Schering integration charges. Hence, EBITDA special charges amount to 313 million euros.



4. Q4´06 performance of Bayer Schering Pharma

The following chart summarizes the Q4´06 performance of Bayer Schering Pharma. Separate figures for the former Bayer Pharma business and the acquired Schering business are provided.

Q4´06 Performance of Bayer Schering Pharma

In € million	Q4´05		Q4´06			
	Bayer Pharma	Schering	Bayer Pharma	%yoy	Schering	BSP
Sales	**1,098**	•	**1,170**	**6.6***	**1,528**	**2,698**
EBITDA	**135**	•	**210**	**55.8**	**40**	**250**
Special Items	**(32)**	•	**(1)**	•	**(312)**	**(313)**
▪ Work-down of inventory step-up	*0*	•	*0*	•	*(154)*	*(154)*
▪ Capitalization of amortization as part of inventory	*0*	•	*0*	•	*0*	*0*
▪ Schering integration	*0*	•	*0*	•	*(126)*	*(126)*
▪ Other	*(32)*	•	*(1)*	•	*(32)*	*(33)*
Underlying EBITDA	**167**	•	**211**	**26.3**	**352**	**563**
EBIT	**92**	•	**125**	**35.9**	**(122)**	**3**
Special Items	**(52)**	•	**(44)**	•	**(216)**	**(260)**
▪ Work-down of inventory step-up	*0*	•	*0*	•	*(154)*	*(154)*
▪ Capitalization of amortization as part of inventory	*0*	•	*0*	•	*115*	*115*
▪ Schering integration	*0*	•	*0*	•	*(145)*	*(145)*
▪ Other	*(52)*	•	*(44)*	•	*(32)*	*(76)*
Underlying EBIT	**144**	•	**169**	**17.4**	**94**	**263**

*) + 9.7% sales growth if adjusted for cessation of plasma product distribution in Canada (-€35m)

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Werner Wenning at the Spring Financial News Conference on March 15

2006 a record year for Bayer

- Sales up 17.2% to EUR 28,956 million
- EBITDA before special items climbs 21.3% to EUR 5,584 million
- EBIT before special items advances 14.2% to EUR 3,479 million
- Sales and underlying EBITDA expected to grow more than 10% in 2007
- Bayer Group targets underlying EBITDA margin of about 22% for 2009
- Bayer HealthCare aims for an underlying EBITDA margin of some 27% in 2009

Leverkusen / March 15, 2007 – The Bayer Group achieved a record underlying operating result in 2006. “Fiscal 2006 was an extraordinarily eventful and very successful year for Bayer,” said Management Board Chairman Werner Wenning on Thursday at the company’s Spring Financial News Conference in Leverkusen. Bayer, he said, had improved major performance indicators substantially compared to the previous year. In addition, Bayer decisively strengthened its pharmaceuticals business with the acquisition of Schering AG, Berlin, Germany. Wenning forecast a further improvement in earning power for 2007.

Sales of the Bayer Group rose in 2006 by 17.2 percent to EUR 28,956 million (2005: EUR 24,701 million). The total for 2006 includes EUR 3,082 million in revenues from the Schering business in the period from June 23, 2006, while the divested Diagnostics Division and the subsidiaries H.C. Starck and Wolff Walsrode, as discontinued operations, are omitted except that their net earnings are included in Group net income. Adjusted for currency and portfolio effects, Group sales rose by 5.2 percent.

“The gratifying expansion of business also led to an improvement in operational profitability of which our employees are justly proud: in fact we set a new earnings record," Wenning said. Earnings before interest, taxes, depreciation and amortization (EBITDA) and before special items rose by 21.3 percent to the record level of EUR 5,584 million (2005: EUR 4,602 million), yielding an underlying EBITDA margin of 19.3 percent in line with Bayer's announced target for 2006. The operating result (EBIT) before special items climbed to a record high of EUR 3,479 million (2005: EUR 3,047 million).

Strong growth in sales and earnings of Bayer HealthCare

Business trends in 2006 varied across the subgroups. Bayer HealthCare was particularly successful, with above-market growth in all its divisions and additional momentum coming from the Schering acquisition. Sales of Bayer HealthCare rose by 46.6 percent to EUR 11,724 million, with business in the Pharmaceuticals segment expanding by 83.9 percent to EUR 7,478 million. "Including Schering's sales prior to the acquisition date as well gave Bayer Schering Pharma total pro forma sales of more than EUR 10 billion for 2006. This is an impressive figure," said Wenning. Pro forma sales grew by 8 percent year on year, compared to about 6 percent for the market as a whole.

Bayer achieved dynamic growth in major pharmaceutical products. Pro forma sales of the oral contraceptive Yasmin®, including YAZ® and Yasminelle®, advanced by 35.5 percent. The erectile dysfunction treatment Levitra® and the hemophilia drug Kogenate® posted sales growth of 20.8 and 18.7 percent, respectively. Pro forma sales of Betaferon®/Betaseron® for the treatment of multiple sclerosis expanded by 14.3 percent. "Our cancer drug Nexavar® turned in a particularly encouraging performance, posting sales of EUR 130 million in the year of its introduction," Wenning stressed.

Sales of the Consumer Health segment moved ahead 8.1 percent to EUR 4,246 million, with all the divisions in this segment contributing to the gratifying increase. Business of the Consumer Care Division, which markets non-prescription medicines, expanded by 7.5 percent. Among its top ten products, the largest sales gains were posted by Aleve® with a 27.5 percent gain, Bepanthen® with 14.9 percent and Canesten® with 11.7 percent. The Diabetes Care (+12.8 percent) and Animal Health (+5.7 percent) divisions also boosted sales significantly.

The HealthCare subgroup's operating result also improved considerably, with EBITDA before special items advancing 75.7 percent to EUR 2,613 million.

Even without Schering's contribution of EUR 774 million, there was a notable 23.7 percent increase. The underlying EBITDA margin of Bayer HealthCare came to 22.3 percent, in line with the earnings guidance for 2006 which had been raised in light of the Schering acquisition.

Bayer CropScience held up well in a shrinking market

Sales of Bayer CropScience came in at EUR 5,700 million, down 3.3 percent from the previous year. Wenning said the subgroup held up relatively well in 2006 in a declining crop protection market. In the Crop Protection segment, representing the conventional agricultural chemicals business, sales decreased by 4.7 percent to EUR 4,644 million. Sales declines were partially offset by successful marketing of innovative active ingredients introduced over the past few years. Bayer CropScience achieved its 2006 target of EUR 1 billion in sales of these new active ingredients that have been launched in core markets since 2000. Sales of the Environmental Science, BioScience segment rose by 3.3 percent to EUR 1,056 million.

EBITDA before special items in CropScience was down by 5.4 percent from the previous year, to EUR 1,204 million, while the underlying EBITDA margin was 21.1 percent. The savings achieved through cost structure and efficiency improvement programs partly compensated for the squeeze on margins.

Business at Bayer MaterialScience continued to expand

The upward business trend at Bayer MaterialScience continued in 2006, with sales advancing 7.6 percent to EUR 10,161 million. This encouraging growth was due primarily to higher volumes in all business units, while selling prices rose slightly on average. Sales of the Materials segment, where the main product is polycarbonate, were up 3.1 percent from the prior year, to EUR 2,925 million. In the Systems segment, dominated by the polyurethanes business, sales climbed by 9.5 percent year on year to EUR 7,236 million.

EBITDA before special items for the subgroup, at EUR 1,677 million (2005: EUR 1,764 million) almost matched the previous year's level. Substantial price hikes for energy and raw materials were offset by volume growth and price increases, but earnings were held back by start-up costs for facilities, temporary production interruptions and expenses for expanding the sales organization in the Asian growth market. The underlying EBITDA margin was 16.5 percent.

Strong growth in Europe

In regional terms, Bayer achieved its largest absolute sales increase in Europe, where sales climbed by about EUR 1.9 billion, or 17.5 percent, in 2006 to EUR 12,652 million. Sales in Germany grew 17.7 percent to EUR 4,525 million. Business expanded by 19.8 percent to EUR 7,779 million in North America and by 13.2 percent to EUR 4,610 million in Asia/Pacific. Sales in Greater China advanced by a substantial 24.1 percent from the previous year, to EUR 1.5 billion. Business in the Latin America/Africa/Middle East region grew 16.5 percent to EUR 3,915 million.

Group net income rose to nearly EUR 1.7 billion

Earnings in 2006 were diminished by net special charges of EUR 717 million (2005: EUR 533 million). Included in the 2006 figure are special charges of EUR 273 million (net) related to the acquisition and integration of Schering AG, Berlin, Germany, EUR 200 million (2005: EUR 109 million) in restructuring expenses, EUR 172 million (2005: EUR 451 million) (net) in litigation-related charges and minus EUR 72 million (2005: plus EUR 27 million) (net) in other special items. EBIT after special items improved by 9.9 percent to EUR 2,762 million (2005: EUR 2,514 million). The non-operating result of minus EUR 782 million (2005: minus EUR 602 million) included an increase in interest expense related to the Schering acquisition. After deducting income taxes, adding income from discontinued operations and adjusting for minority interest, net income of the Bayer Group improved by 5.4 percent to EUR 1,683 million (2005: EUR 1,597 million).

Gross cash flow increased to EUR 3,913 million (2005: EUR 3,114 million) due to the gratifying growth in business and the inclusion of Schering. Net cash flow advanced to EUR 3,928 million, compared with EUR 3,227 million in the prior year.

Significant reduction in net debt planned for 2007

Net debt amounted to EUR 17,473 million at December 31, 2006, compared to EUR 5,494 million at the end of 2005. “This already includes the approximately EUR 710 million required to pay compensation to the remaining minority shareholders of Schering under the squeeze-out resolution,” explained CFO Klaus Kühn. “We succeeded in limiting the net debt increase to EUR 12 billion, despite the EUR 17 billion paid to acquire Schering.” Just the proceeds of the divestments of the Diagnostics business and H.C. Starck, received at the beginning of 2007, along with the expected proceeds from the sale of Wolff Walsrode, will lead to a further substantial reduction in net debt of approximately EUR 4.5 billion during 2007, said Kühn.

Gratifying fourth-quarter business performance

Also contributing to the successful business year was a positive performance in the fourth quarter. Thanks to strong business gains in HealthCare, Group sales moved ahead 25.1 percent to EUR 7,970 million (Q4 2005: EUR 6,371 million). Underlying EBITDA climbed by 34.3 percent year on year, to EUR 1,258 million (Q4 2005: EUR 937 million), while underlying EBIT rose by 12.5 percent to EUR 622 million (Q4 2005: EUR 553 million). Bayer has thus improved year-on-year earnings before special items in 16 consecutive quarters. Including extraordinary tax income, Group net income jumped to EUR 311 million (Q4 2005: EUR 46 million).

Successful start to 2007

All signs point to further growth in 2007 as well: “Our sales and earnings performance in the first two months of this year gives us confidence,” said Wenning. Bayer expects to further improve its earning power over the full year. The company is anticipating a more than 10 percent increase in Group sales, equivalent to about 5 percent after adjusting for currency and portfolio effects. “We plan to increase underlying EBITDA by more than 10 percent and slightly improve our EBITDA margin,” Wenning explained. To safeguard future growth, Bayer is planning capital expenditures of EUR 1.7 billion during 2007, including EUR 1.6 billion for property, plant and equipment. Research and development expenditures are likely to total about EUR 2.8 billion. “Thus in 2007 alone, we plan to invest a total of about EUR 4.5 billion in the future of our company,” Wenning announced.

Bayer HealthCare aims to grow with or faster than the market in all divisions in 2007, and to improve its underlying EBITDA margin toward 24 percent. Wenning said he currently takes a positive view of the general market environment for CropScience this year, although it remains to be seen how market conditions will develop in the various regions: “We want to expand our position as an innovation leader in chemical crop protection and therefore aim to grow slightly faster than the market.” The subgroup intends to improve its underlying EBITDA margin toward 22 percent.

Bayer MaterialScience is planning further volume increases in 2007, with earnings at a good, value-creating level, and intends to considerably improve its underlying EBITDA margin in the first quarter of 2007 compared with the fourth quarter of 2006. Given the high volatility of raw material prices, a reliable longer-term forecast for this subgroup is not possible at present.

New order of magnitude for Bayer Group earnings

“Our planning for 2007 shows that the measures we have implemented in recent years are working,” Wenning continued, outlining the company’s longer-term perspectives. In 2009 the Bayer Group aims to achieve an underlying EBITDA margin in the region of 22 percent. In 2002, the margin was 12 percent. “This shows we are headed toward a new order of magnitude in terms of earnings,” he announced.

In this connection, Bayer sees a very positive future trend for its HealthCare business in particular. For 2009 this subgroup is aiming for an underlying EBITDA margin of about 27 percent. CropScience, too, plans to further increase the underlying EBITDA margin through 2009, anticipating a level of approximately 25 percent under normal market conditions. In years with favorable business conditions, the underlying EBITDA margin for Bayer MaterialScience is expected to exceed 18 percent.

Solid foundation for the future of Bayer Schering Pharma

“We can undoubtedly say that 2006 has been one of the most significant years in Bayer’s history,” Wenning said, referring particularly to the Schering acquisition. The Management Board Chairman explained that the new Bayer Schering Pharma is among the world’s leading suppliers of specialty pharmaceuticals, adding that with its attractive product portfolio and highly promising research and development projects, the company is on track to further expand this position.

Wenning reminded his audience that it was less than a year ago that Bayer published its offer to Schering AG stockholders. “We have come a long way since then,” he said. For example, Bayer now holds more than 96 percent of the outstanding shares of Schering, and the squeeze-out of the minority stockholders has been initiated. Furthermore, the timely entry of the domination and profit and loss transfer agreement into the commercial register is enabling Bayer to rapidly integrate the acquisition. Important decisions were made at an early stage on matters such as the common business model, organizational structure and site-related issues. In addition, plans have been announced to eliminate about 6,100 positions worldwide – out of the total number at Bayer HealthCare and Schering – by 2009. “We will implement these measures fairly and in a socially responsible manner,” Wenning stressed.

With these measures, the company’s management is establishing a solid foundation for the future of Bayer Schering Pharma, he explained. “We are convinced that the expansion of our HealthCare business will strengthen the entire Bayer Group for the long term.”

Leverkusen, March 15, 2007

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Bayer key data: full year and fourth quarter 2006

(2005 figures partially restated)

Bayer Group € million	FY 2005	**FY 2006**	Change in %	Q4 2005	**Q4 2006**	Change in %
Sales	24,701	**28,956**	+ 17.2	6,371	**7,970**	+ 25.1
EBITDA	4,122	**4,675**	+ 13.4	539	**846**	+ 57.0
Special items	*- 480*	***- 909***	-	*- 398*	***-412***	-
EBITDA before special items	4,602	**5,584**	+ 21.3	937	**1,258**	+ 34.3
EBIT	2,514	**2,762**	+ 9.9	129	**206**	+ 59.7
Special items	*- 533*	***- 717***	-	*- 424*	***- 416***	-
EBIT before special items	3,047	**3,479**	+ 14.2	553	**622**	+ 12.5
Net income	1,597	**1,683**	+ 5.4	46	**311**	-

Bayer HealthCare € million	FY 2005	**FY 2006**	Change in %	Q4 2005	**Q4 2006**	Change in %
Sales	7,996	**11,724**	+ 46.6	2,157	**3,782**	+ 75.3
EBITDA	1,280	**1,947**	+ 52.1	269	**469**	+ 74.3
Special items	*- 207*	***- 666***	-	*- 70*	***- 327***	-
EBITDA before special items	1,487	**2,613**	+ 75.7	339	**796**	+ 134.8
EBIT	923	**1,313**	+ 42.3	186	**187**	+ 0.5
Special items	*- 254*	***- 402***	-	*- 90*	***- 274***	-
EBIT before special items	1,177	**1,715**	+ 45.7	276	**461**	+ 67.0

Bayer CropScience € million	FY 2005	**FY 2006**	Change in %	Q4 2005	**Q4 2006**	Change in %
Sales	5,896	**5,700**	- 3.3	1,377	**1,302**	- 5.4
EBITDA	1,284	**1,166**	- 9.2	194	**107**	- 44.8
Special items	*11*	***- 38***	-	*- 8*	***- 35***	-
EBITDA before special items	1,273	**1,204**	- 5.4	202	**142**	- 29.7
EBIT	690	**584**	- 15.4	44	**- 42**	-
Special items	*5*	***- 57***	-	*- 14*	***- 42***	-
EBIT before special items	685	**641**	- 6.4	58	**0**	-

Bayer MaterialScience € million	FY 2005	**FY 2006**	Change in %	Q4 2005	**Q4 2006**	Change in %
Sales	9,446	**10,161**	+ 7.6	2,448	**2,532**	+ 3.4
EBITDA	1,721	**1,499**	- 12.9	339	**288**	- 15.0
Special items	*- 43*	***- 178***	-	*- 65*	***- 19***	-
EBITDA before special items	1,764	**1,677**	- 4.9	404	**307**	- 24.0
EBIT	1,250	**992**	- 20.6	215	**131**	- 39.1
Special items	*- 43*	***- 218***	-	*- 65*	***- 56***	-
EBIT before special items	1,293	**1,210**	- 6.4	280	**187**	- 33.2

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

Bayer Group Consolidated Statements of Income

€ million	Note	2005	2006
Net sales	[8]	**24,701**	**28,956**
Cost of goods sold		(13,412)	(15,275)
Gross profit		**11,289**	**13,681**
Selling expenses	[9]	(5,247)	(6,534)
Research and development expenses		(1,729)	(2,297)
General administration expenses		(1,307)	(1,599)
Other operating income	[10]	775	730
Other operating expenses	[11]	(1,267)	(1,219)
Operating result [EBIT]		**2,514**	**2,762**
Equity-method loss	[13.1]	(10)	(25)
Non-operating income		632	931
Non-operating expenses		(1,224)	(1,688)
Non-operating result	[13]	**(602)**	**(782)**
Income before income taxes		**1,912**	**1,980**
Income taxes	[14]	(538)	(454)
Income from continuing operations after taxes		**1,374**	**1,526**
Income from discontinued operations after taxes	[7.2]	**221**	**169**
Income after taxes		**1,595**	**1,695**
of which attributable to minority interest	[15]	(2)	12
of which attributable to Bayer AG stockholders (net income)		**1,597**	**1,683**
Earnings per share (€)			
From continuing operations	[16]		
Basic*		1.88	2.00
Diluted*		1.88	2.00
From continuing and discontinued operations	[16]		
Basic*		2.19	2.22
Diluted*		2.19	2.22

2005 figures restated
* The ordinary shares to be issued upon conversion of the mandatory convertible bond are treated as already issued shares.

Bayer Group Consolidated Balance Sheets

€ million	Note	Dec. 31, 2005	Dec. 31, 2006
Noncurrent assets			
Goodwill	[17]	2,623	8,227
Other intangible assets	[17]	5,065	15,807
Property, plant and equipment	[18]	8,321	8,867
Investments in associates	[19]	795	532
Other financial assets	[20]	1,429	1,094
Other receivables	[21]	199	165
Deferred taxes	[14]	1,698	1,205
		20,130	**35,897**
Current assets			
Inventories	[22]	5,504	6,153
Trade accounts receivable	[23]	5,204	5,802
Other financial assets	[20]	447	401
Other receivables	[21]	1,421	1,217
Claims for tax refunds		726	581
Cash and cash equivalents	[36]	3,290	2,915
Assets held for sale and discontinued operations	[7.2]	-	2,925
		16,592	**19,994**
Total assets		**36,722**	**55,891**
Stockholders' equity	[24]		
Capital stock of Bayer AG		1,870	1,957
Capital reserves of Bayer AG		2,942	4,028
Other reserves		6,265	6,782
		11,077	**12,767**
Equity attributable to minority interest		80	84
		11,157	**12,851**
Noncurrent liabilities			
Provisions for pensions and other post-employment benefits	[25]	7,174	6,543
Other provisions	[26]	1,340	1,464
Financial liabilities	[27]	7,185	14,723
Other liabilities	[29]	516	449
Deferred taxes	[14]	280	4,346
		16,495	**27,525**
Current liabilities			
Other provisions	[26]	3,009	3,765
Financial liabilities	[27]	1,767	5,078
Trade accounts payable	[28]	1,974	2,369
Tax liabilities		304	400
Other liabilities	[29]	2,016	3,055
Liabilities directly related to assets held for sale and discontinued operations	[7.2]	-	848
		9,070	**15,515**
Total stockholders' equity and liabilities		**36,722**	**55,891**

Bayer Group Consolidated Statements of Cash Flows

€ million	Note	2005	2006
Income after taxes from continuing operations		1,374	1,526
Income taxes		538	454
Non-operating result		602	782
Income taxes paid		(463)	(763)
Depreciation and amortization		1,608	1,913
Change in pension provisions		(501)	(295)
(Gains) losses on retirements of noncurrent assets		(44)	(133)
Non-cash effects of the remeasurement of acquired assets (inventory work-down)		-	429
Gross cash flow		**3,114**	**3,913**
Decrease (increase) in inventories		(130)	(155)
Decrease (increase) in trade accounts receivable		211	(201)
(Decrease) increase in trade accounts payable		(117)	130
Changes in other working capital, other non-cash items		149	241
Net cash provided by (used in) operating activities (net cash flow), continuing operations	[33]	**3,227**	**3,928**
Net cash provided by (used in) operating activities (net cash flow), discontinued operations	[7.2]	275	275
Net cash provided by (used in) operating activities (net cash flow), total		**3,502**	**4,203**
Cash outflows for additions to property, plant, equipment and intangible assets		(1,389)	(1,876)
Cash inflows from sales of property, plant, equipment and other assets		105	185
Cash inflows from divestitures		293	489
Cash inflows from noncurrent financial assets		1,189	850
Cash outflows for acquisitions less acquired cash		(2,188)	(15,351)
Interest and dividends received		451	686
Cash inflows (outflows) from current financial assets		(202)	287
Net cash provided by (used in) investing activities (total)	[34]	**(1,741)**	**(14,730)**
Capital contributions		0	1,174
Bayer AG dividend, dividend payments to minority stockholders, reimbursements of advance capital gains tax payments		(440)	(535)
Issuances of debt		2,005	13,931
Retirements of debt		(2,659)	(3,216)
Interest paid		(787)	(1,155)
Net cash provided by (used in) financing activities (total)	[35]	**(1,881)**	**10,199**
Change in cash and cash equivalents due to business activities (total)		**(120)**	**(328)**
Cash and cash equivalents at beginning of year		**3,570**	**3,290**
Change in cash and cash equivalents due to changes in scope of consolidation		(196)	(2)
Change in cash and cash equivalents due to exchange rate movements		36	(45)
Cash and cash equivalents at end of year	[36]	**3,290**	**2,915**

2005 figures restated

Notes to the Consolidated Financial Statements of the Bayer Group

1. Key Data by Segment and Region

Segments	HealthCare			
	Pharmaceuticals		Consumer Health	
€ million	2005	**2006**	2005	**2006**
Net sales (external)	4,067	7,478	3,929	4,246
Change in €	2.7 %	83.9 %	41.6 %	8.1 %
Change in local currencies	1.7 %	84.5 %	40.3 %	8.5 %
Intersegment sales	58	51	21	7
Other operating income	48	224	48	39
Operating result [EBIT]	475	563	448	750
Gross cash flow	449	1,086	474	634
Capital invested	2,501	18,253	3,498	3,477
CFROI	18.7 %	10.5 %	13.3 %	18.2 %
Net cash flow	481	1,053	606	473
Equity-method income (loss)	0	0	0	0
Equity-method investments	4	0	0	0
Assets	3,489	25,860	4,622	4,372
Capital expenditures	142	476	83	100
Depreciation and amortization	188	488	169	146
Liabilities	2,086	3,451	1,366	1,154
Research and development expenses	680	1,257	154	169
Number of employees (as of Dec. 31)	16,800	40,000	11,400	11,400

Regions	Europe		North America	
€ million	2005	**2006**	2005	**2006**
Net sales (external) – by market	10,771	12,652	6,496	7,779
Change in €	23.1 %	17.5 %	12.2 %	19.8 %
Change in local currencies	22.9 %	17.4 %	11.3 %	19.9 %
Net sales (external) – by point of origin	11,655	13,696	6,492	7,776
Change in €	22.3 %	17.5 %	11.8 %	19.8 %
Change in local currencies	22.1 %	17.5 %	10.9 %	19.9 %
Interregional sales	3,536	4,315	1,485	1,795
Other operating income	397	474	227	98
Operating result [EBIT]	1,167	1,581	767	821
Gross cash flow	1,557	2,495	978	1,016
Equity-method income (loss)	6	1	(17)	(27)
Equity-method investments	440	232	345	297
Assets	18,939	37,255	7,145	7,881
Capital expenditures	497	777	244	398
Depreciation and amortization	980	1,201	419	459
Liabilities	17,091	29,985	4,779	4,928
Research and development expenses	1,193	1,639	445	551
Number of employees (as of Dec. 31)	45,700	57,800	13,100	17,200

CropScience				MaterialScience							
Crop Protection		Environmental Science, BioScience		Materials		Systems		Reconciliation		Continuing Operations	
2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**
4,874	4,644	1,022	1,056	2,837	2,925	6,609	7,236	1,363	1,371	24,701	28,956
-1.7 %	-4.7 %	3.3 %	3.3 %	28.0 %	3.1 %	23.6 %	9.5 %			18.0 %	17.2 %
-4.3 %	-5.2 %	2.1 %	3.7 %	27.4 %	3.4 %	22.8 %	9.7 %			16.7%	17.4 %
70	59	13	6	14	25	142	138	(318)	(286)		
226	186	35	20	14	17	41	66	363	178	775	730
532	384	158	200	514	289	736	703	(349)	(127)	2,514	2,762
762	691	202	209	473	364	781	802	(27)	127	3,114	3,913
7,372	7,203	1,477	1,403	2,706	2,789	4,791	4,691	2,848	1,541	25,193	39,357
10.7 %	9.5 %	13.8 %	14.5 %	19.0 %	13.2 %	17.1 %	16.9 %			12.5 %	12.1 %
699	748	205	150	466	324	871	957	(101)	223	3,227	3,928
0	0	0	0	37	29	(47)	(54)	0	0	(10)	(25)
0	0	0	0	208	28	580	504	0	0	792	532
8,836	7,712	1,591	1,444	2,770	2,742	5,125	4,745	7,493	6,091	33,926	52,966
175	156	26	41	304	282	338	471	142	213	1,210	1,739
494	505	100	77	151	159	320	348	186	190	1,608	1,913
2,668	2,088	369	311	610	597	1,632	1,681	15,970	32,910	24,701	42,192
548	500	116	114	70	76	144	151	17	30	1,729	2,297
15,800	15,000	2,700	2,900	4,700	5,000	9,400	9,900	21,800	21,800	82,600	106,000

Asia/Pacific		Latin America/ Africa/Middle East		Reconciliation		Continuing Operations	
2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**
4,073	4,610	3,361	3,915			24,701	28,956
16.1 %	13.2 %	16.9 %	16.5 %			18.0 %	17.2 %
15.2 %	15.0 %	10.5 %	16.0 %			16.7 %	17.4 %
3,931	4,410	2,623	3,074			24,701	28,956
18.9 %	12.2 %	15.0 %	17.2 %			18.0 %	17.2 %
18.0 %	14.0 %	6.9 %	16.5 %			16.7 %	17.4 %
176	210	172	228	(5,369)	(6,548)		
49	46	102	112			775	730
436	296	310	204	(166)	(140)	2,514	2,762
431	335	265	183	(117)	(116)	3,114	3,913
1	1	0	0			(10)	(25)
3	3	4	0			792	532
3,589	3,965	2,351	2,500	1,902	1,365	33,926	52,966
380	472	89	92			1,210	1,739
99	138	56	68	54	47	1,608	1,913
1,047	1,463	992	1,049	792	4,767	24,701	42,192
66	80	25	27			1,729	2,297
13,200	17,300	10,600	13,700			82,600	106,000