



**Science For A Better Life**



**Investor Handout**

Q1 | 2007

# Important Information



This presentation contains forward-looking statements based on current assumptions and forecasts made by Bayer Group management. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in our public reports filed with the Frankfurt Stock Exchange and with the U.S. Securities and Exchange Commission (including our Form 20-F). The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.



- We are delivering growth and performance
- We are driving the HealthCare focus
- We are developing new growth opportunities
- We are optimistic about future developments

## Bayer's Transformation Has Paid Off Achievements Between 2002 and 2006



### Delivering growth and performance

- Returns over cost of capital on record levels
- Quadrupled underlying EBIT (from €828m to €3.5bn)
- 19% EBITDA margin target achieved (12% in 2002)

### Driving the HealthCare focus

- Portfolio balance shifted towards HealthCare (from 32% to pro-forma 46%)
- Doubled the size of our Rx and OTC pharmaceuticals
- Exited all our mature chemicals activities in several stages

### Developing new growth opportunities

- Pharma pipeline value significantly increased
- CropScience achieved targeted sales of €1bn with new products
- Successful start of polycarbonate production in China

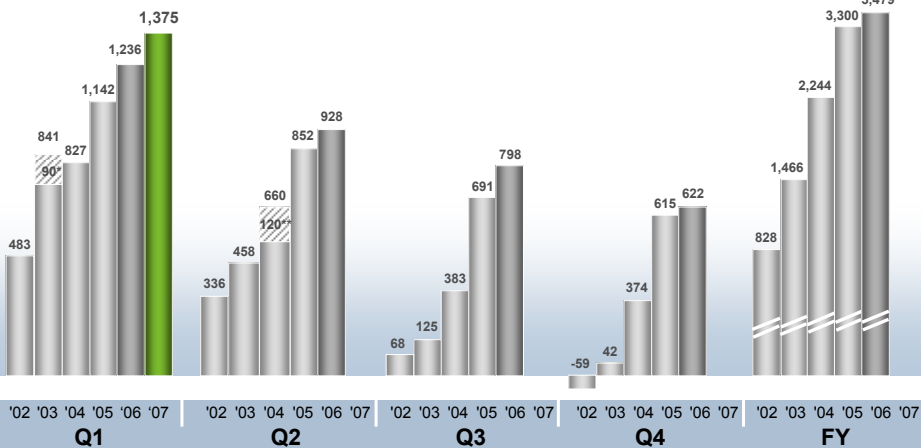


■ Delivering growth and performance

We Are Delivering Performance – 17 Consecutive Quarters With Y-o-Y Underlying EBIT Improvement



Underlying EBIT in € million



2002 underlying EBIT as reported in FY 2003  
 2003 underlying EBIT as restated in 2004  
 2004 underlying EBIT as reported in 2004  
 2005 underlying EBIT as reported in 2005  
 2006 underlying EBIT as reported in 2006

\* Including €90m EBIT from divested products  
 \*\* Including €120m reversal of pension provisions

## 2006 Results Compare Favorably Against Objectives



	FY '06 Objectives	FY '06 Actual	Δ %
■ Sales	> €28 bn	€28,956 m	+ 17%
■ EBITDA (underlying)	Slight improvement	€5,584 m	+ 21%
■ EBITDA margin	Approx. 19%	19.3%	+ 70 bp
■ EBIT (underlying)	Slight improvement	€3,479 m	+ 14%
■ Value generation	Premium over cost of capital and asset reproduction	CFRoi at 12.1% or 2.1% premium	- 40 bp

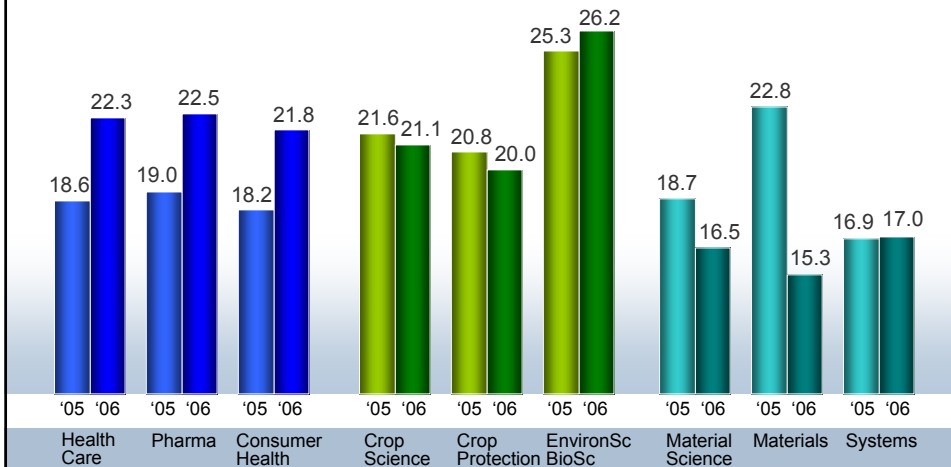
\* Guidance minus H.C. Starck and Wolf Walsrode

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## Majority of Portfolio Performed Strongly in 2006



Underlying EBITDA margins in %

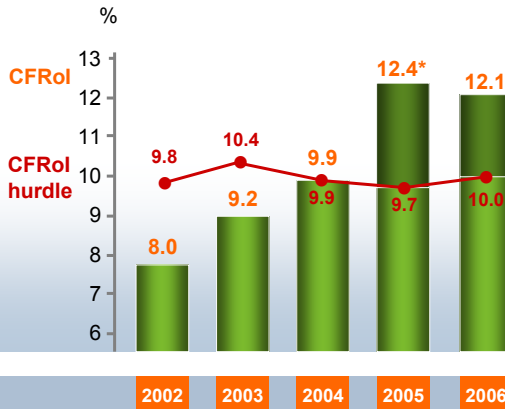


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# Profitable Growth – Attractive Premium Over Capital and Asset Reproduction Costs



## Value Generation in 2006



- CVA of €725m
- HealthCare and MaterialScience exceeded their target returns including asset reproduction
- CFRoI is the ratio of gross cash flow to capital invested (€32.3bn)
- CFRoI-hurdle (10.0%) is the minimum return required to cover cost of capital and reproduction of depletable assets
- Group WACC at 7.0%

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\*CFRoI as reported in 2005, 12.5% if portfolio adjusted

# Q1 – Excellent Start to 2007

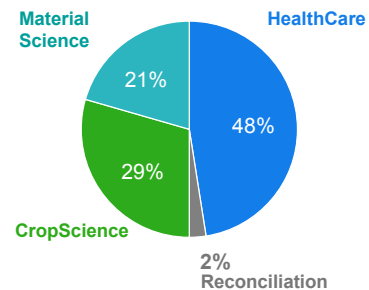


## Key Figures

## Underlying EBITDA by Subgroup

In € million, Δ% y-o-y

	Sales	EBITDA*	EBIT*	Core EPS
	8,335	1,990	1,375	€1.26
Δ%	+ 23%	+ 27%	+ 17%	+ 25%
Δ% Adj. **	+ 8%			

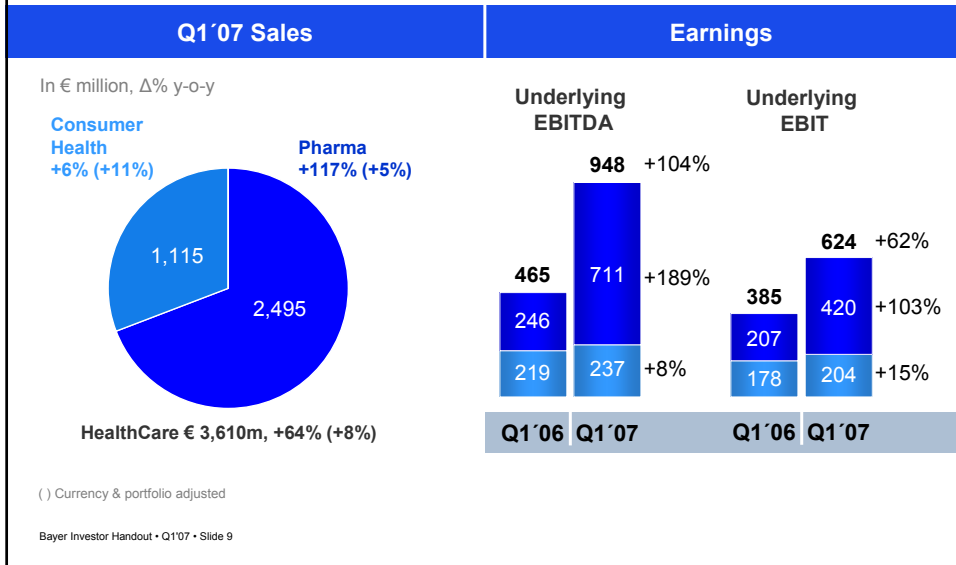


\* Before special items

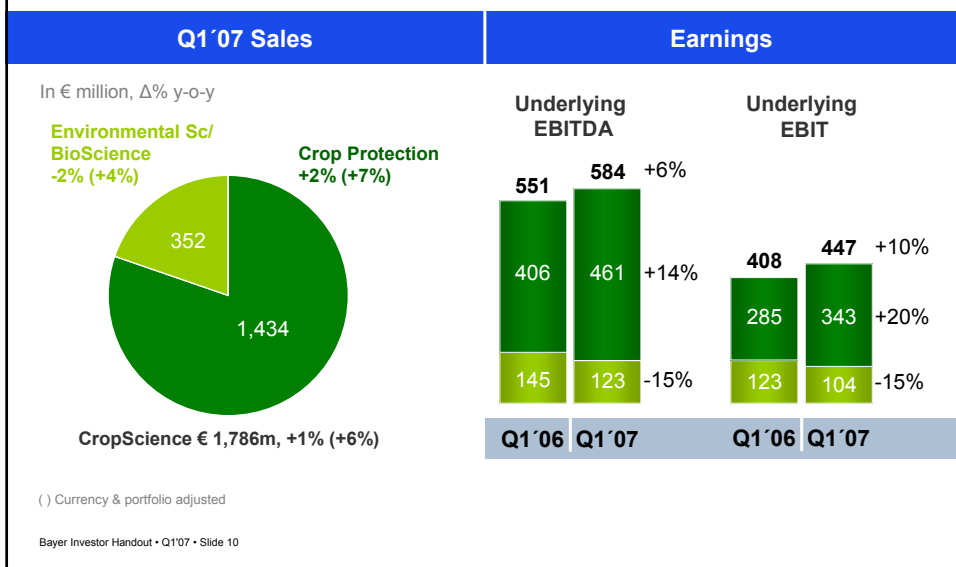
\*\* Currency & portfolio adjusted

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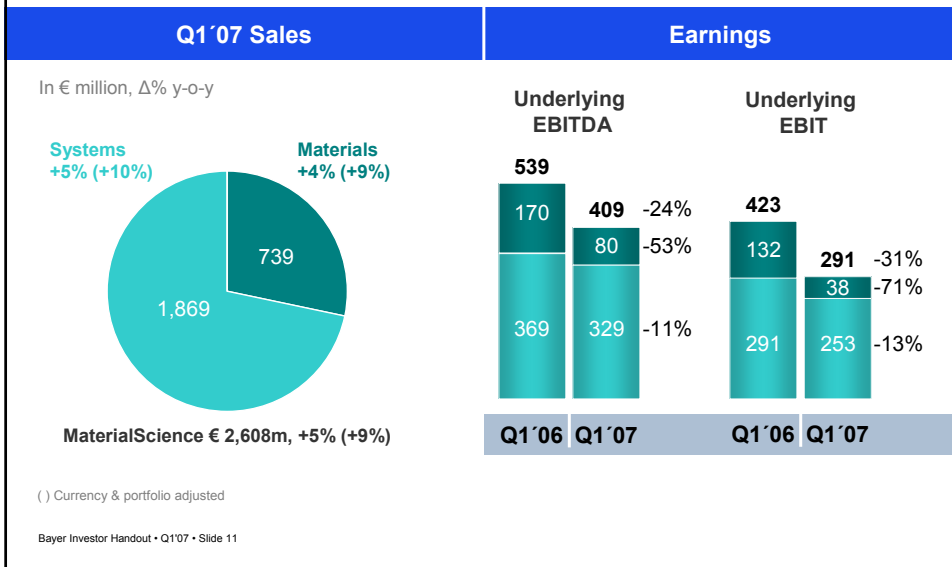
## HealthCare – Earnings Jump Thanks to Schering Acquisition and Consumer Health Performance



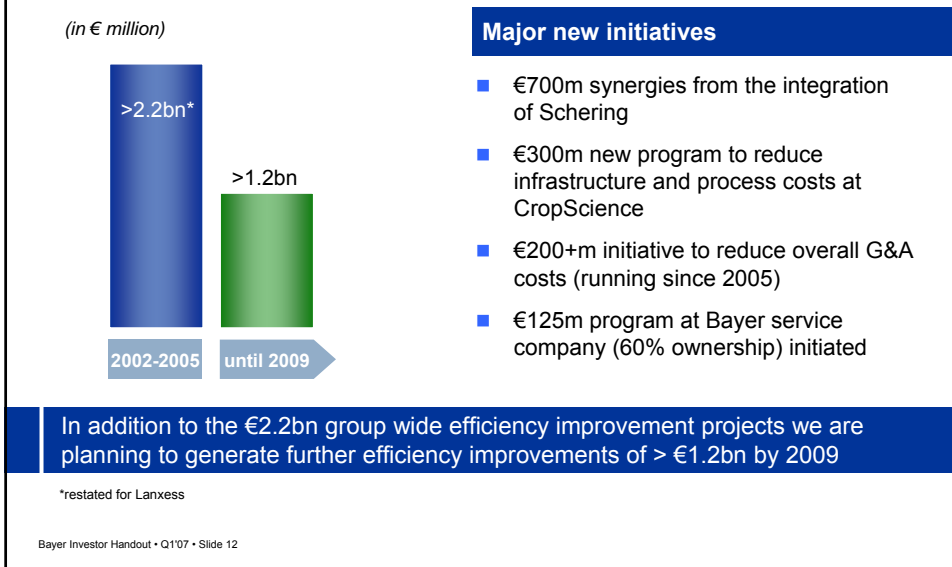
## CropScience – Gratifying Performance in Positive Market Environment



## MaterialScience – Continued Strong Volume Growth



## Restructuring Actions Will Continue to Improve Our Cost Base



## Underlying EBITDA Margin – Medium-term Targets



**Bayer HealthCare**



approximately 27% in 2009

**Bayer CropScience**



approximately 25% in 2009

**Bayer MaterialScience**



>18% under favorable  
economic conditions



**Group approximately 22% in 2009**

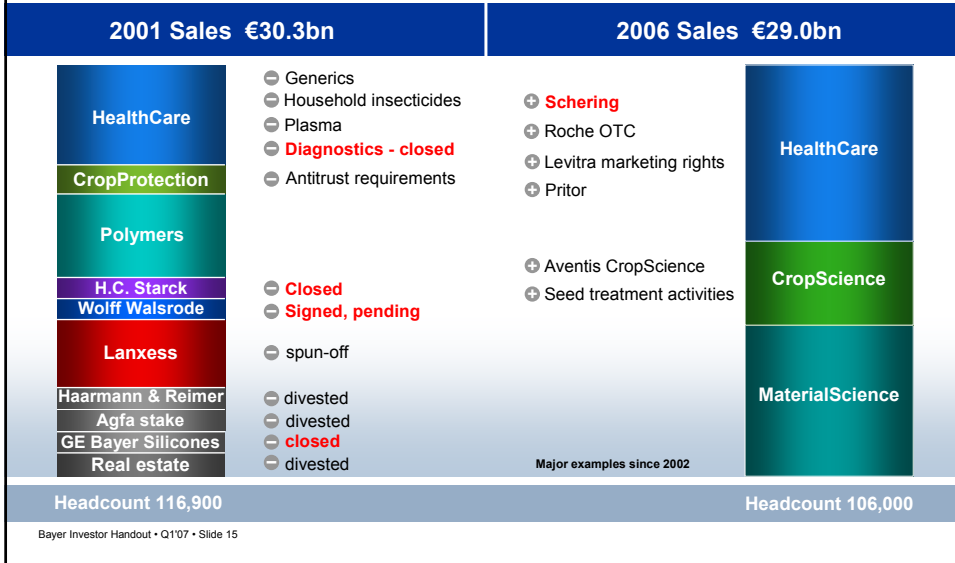
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■ Driving the HealthCare focus

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## Five Years of Increasing Focus for Growth Transaction Volume >€41bn Since 2002



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## The Integration of Roche's OTC Business Was Successfully Managed



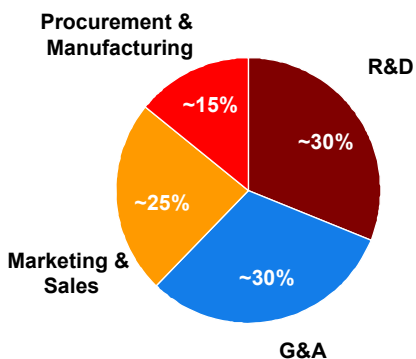
OTC sales in €m	2006	2005	Δ%
Aspirin	465	453	+3
Aleve	227	178	+28
Canesten	162	145	+12
Bepanthen	131	114	+15
Supradyn	130	125	+4
One-A-Day	124	118	+5
Alka-Seltzer	101	95	+6
<b>Consumer Care (total)</b>	<b>2,531</b>	<b>2,355</b>	<b>+8</b>

- Synergies realized ahead of schedule at lower than expected costs
- No business disruption during integration phase
- Strong top and bottom-line momentum
- Consistent market growth outperformance

**Strengthening Consumer OTC remains strategic priority, focus is on fast growing regions in Asia, Eastern Europe and in North America**

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## Integration of Schering Progressing Well



■ Net integration costs\* of approx. €1bn expected. Majority in 2006 and 2007:

2006a:	€179m
2007e:	€650-700m
2008/09:	remaining costs

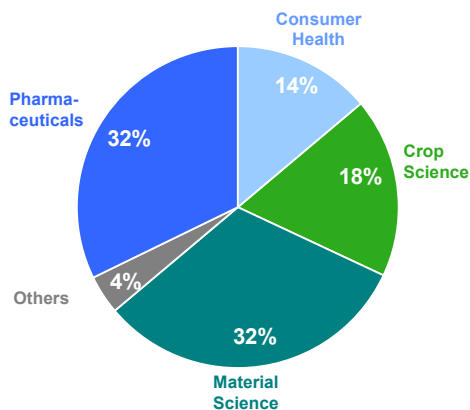
■ Expect to generate €250+m synergies in 2007 and to fully realize synergy target by 2009

**€700m synergy target will be up-dated at Bayer HealthCare Investor Day on June 18-19, 2007**

## The New Bayer – A Leader in its Markets



### 2006 pro-forma Sales breakdown



### Market rank

**Pharmaceuticals** # 6 in Specialty

A world-class specialty pharma business

**Consumer Health** # 2/3 - 4

World-leading businesses in OTC, Diabetes Care and Animal Health

**CropScience** # 1/2

The market leader in agrochemicals

**MaterialScience** # 1

A genuine world-market leader

## Bayer's Portfolio Management Strategy



Direction

- World-leading businesses capable of achieving benchmark performance
- Drive the HealthCare focus, concentrating on Rx and OTC pharmaceuticals
- Stay in CropScience, possibly some opportunities in seeds
- Stay in MaterialScience, organic growth as the top priority
- Retain strict investment criteria



Financing

- Balanced mix of debt, equity and portfolio if needed
- Maintaining "single A" credit rating target



Timing

- Constant monitoring and active management. Acquisitions and disposals are therefore part of our regular business activities

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- Developing new growth opportunities

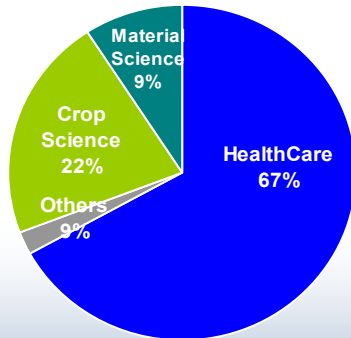
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## R&D and CapEx Budget 2007

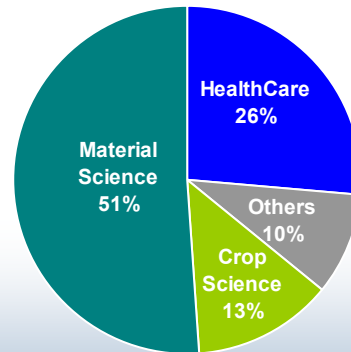


### R&D

### CapEx



Group €2.8bn (+47% yoy)



Group €1.7bn (+/- 0% yoy)

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## During 2006 we Significantly Increased the Value of Our Pharmaceutical Pipeline



<b>Nexavar</b>	<ul style="list-style-type: none"> <li>• Encouraging start in the kidney cancer market</li> <li>• HCC (SHARP) trial stopped early on positive outcome, preparation for rapid submission underway</li> <li>• Clinical programs in NSCLC, melanoma, breast and other cancer types ongoing</li> </ul>
<b>Rivaroxaban</b>	<ul style="list-style-type: none"> <li>• Phase III program for stroke prevention in atrial fibrillation and treatment of venous thromboembolism on track (submission planned for 2010).</li> <li>• Phase III program for VTE prevention - submission planned for late 2007 in EU and 2008 in the US</li> </ul>
<b>Life cycle research</b>	<ul style="list-style-type: none"> <li>• Approval for Betaferon in early MS and for YAZ in PMDD and Acne</li> <li>• Campath achieved milestone for further label expansion in chronic lymphocytic leukemia</li> </ul>
<b>Collaborations</b>	<ul style="list-style-type: none"> <li>• Pipeline strengthened through collaboration with Regeneron for VEGF-Trap</li> <li>• Collaboration with Nuvelo on Alfimeprase – phase III halted</li> </ul>

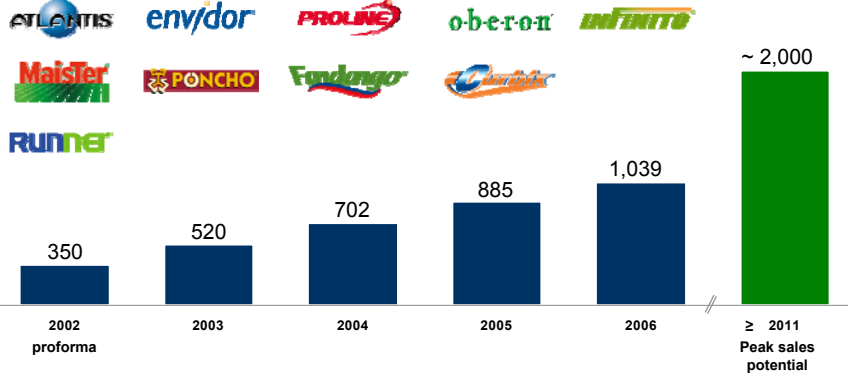
Review of Schering's pipeline assets underway –  
Up-date at Bayer HealthCare Investor Day on June 18-19, 2007

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## Targeted €1bn Sales From New Active Ingredients in CropScience Achieved



Sales contribution of new active ingredients launched since 2000 (in € million)



26 new active ingredients to be launched between 2000 and 2011 with a combined peak sales potential of about €2bn

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## Exploiting Growth Opportunities of Our Businesses



Strengthen our regional competitiveness through local production in China



PUR: Polyurethanes  
 PCS: Polycarbonates  
 CAS: Coatings, Adhesives, Sealants

PUR	PCS	CAS
<b>MDI</b> 80 kt in 2006 (crude MDI splitter) <b>350 kt in 2008*</b>	<b>PCS</b> 40 kt in 2005 (PC compounding)	<b>HDI</b> 30 kt in 2006 +20 kt thereafter**
<b>TDI</b> 300 kt in 2009**	<b>PCS</b> 100 kt in 2006 <b>+100 kt in 2008*</b>	<b>PUD</b> 20 kt in 2008** <b>Desmodur® N</b> 12 kt in 2003 Expansion in 2008**
*under construction **planned All numbers are name plate capacities Dates refer to mechanical completion		
		<b>Desmodur® L</b> 11 kt in 2004 +10 kt in 2007**

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## ■ Optimistic about future developments

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## Priorities 2007: Consolidate and Get Ready For Continued Transformation As Soon As Possible



- Drive performance and exploit potential of significantly improved portfolio
- Maintain strong growth momentum
  - ▶ Presentation of combined pharma pipeline at Bayer HealthCare Investor Day on June 18-19, 2007, in Leverkusen, Germany
- Successfully integrate Schering and realize targeted synergies
  - ▶ Up-date on synergies and HealthCare targets during HealthCare Investor Day
- Continue to optimize business portfolio
- Reduce net debt



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## Positive Outlook For FY 2007 Confirmed



### Group

- Increase sales by >10%.
- Underlying EBITDA by >10%.
- Margin\* slightly up.

### Subgroups

- **HealthCare**  
Growth in all divisions at or above market.  
Margin\* improvement toward 24%.
- **CropScience**  
Growth slightly above market.  
Margin\* increase toward 22%.
- **MaterialScience**  
Higher volumes and good, value-creating earnings level. Q2 underlying EBITDA roughly on par with Q1.

\* Underlying EBITDA margin

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## ■ Calendar & Contacts

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## Calendar of Events



Date	Event	Publication
Tuesday, May 08, 2007	Investor Conference Call	First Quarter Results Stockholders' Newsletter
Monday / Tuesday, June 18-19, 2007	Bayer HealthCare Investor Day in Leverkusen	
Tuesday, August 07, 2007	Investor Conference Call	Second Quarter Results Stockholders' Newsletter
Tuesday, November 06, 2007	Investor Conference Call	Third Quarter Results Stockholders' Newsletter
Friday, April 25, 2008	Annual General Meeting	

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